

JULY 1991

**PART II - BULLETIN NO. 5 - LOCAL CURRENCY TRUST FUNDS-72FT800
(Host Country Owned Funds)**

JUL 30 1991

MEMORANDUM FOR USAID CONTROLLERS

FROM: FM/C, Michael G. Usnick

SUBJECT: Part II, Bulletin No. 5 Local Currency Trust Funds - 72FT800,
(Host Country Owned Funds)

The enclosed USAID Financial Management bulletin replaces the sections of Chapter 10 in the Field Controller Guidebook pertaining to the above subject. These new guidelines are consistent with the recently issued "Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency", STATE 204855, dated June 21, 1991. FM is presently reviewing Chapter 5 of Handbook 19 for appropriate revision or disposition.

Enclosure: A/S

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I. Objectives for Management Control over Trust Funds

This bulletin sets forth the management control systems and techniques designed to achieve the following objectives:

- Funds used in accordance with the trust fund agreement and in compliance with applicable U. S. laws and regulations.
- Limit use of trust funds to amounts on deposit.
- Acceptable accounting procedures to assure accuracy of amounts and classification of trust fund expenditures.
- Timely and accurate reporting on status of trust funds.
- Measures in place to avoid loss and unauthorized use of funds and physical assets procured with trust funds.
- In meeting the above objectives, the Mission fulfills its fiduciary responsibilities inherent in the trust fund agreement.

II. Authority

Sections 607(a), 625(h) and 636(h) of the Foreign Assistance Act (FAA) of 1961, as amended, authorize A.I.D. to enter into arrangements with foreign countries for reimbursements to the U.S. Government or for other sharing of the cost of performing functions authorized by the FAA. For A.I.D. policy guidance refer to Section 8.0 on Local Currency in STATE 204855, dated June 21, 1991. The trust fund provides a means for - a Host Government (HG) to make a contribution of its own currency to the economic assistance program where it is more convenient for the Mission, rather than the HG, to administer the contribution.

If A.I.D. manages local currency funds owned by the HG for any reason, this can be done only pursuant to a Trust Fund agreement. Model trust fund agreements are presented in Appendices A and B. The Trust Fund agreement entered into between A.I.D. and the HG defines the uses to which the trust funds may be put. The uses must also be consistent with any specific U. S. statutory requirement. Trust funds are subject to Section 1311 of the Supplemental Appropriation Act, 1955, i.e., federal requirements for the review and certification of un-liquidated obligations amounts as valid obligations. However, funds in the trust account are not subject to Section 1415 of the Supplemental Appropriation Act, 1953, which requires charges to dollar appropriations for use of foreign currencies. Likewise, contract commitments made clearly and solely with trust funds are

not subject to the Anti-deficiency Act", 31 U.S.C. 1341, restricting obligations and expenditures against each appropriation or fund to the available amount of the obligation or fund. Nevertheless, Missions are not at any time to incur obligations in excess of the amount available in the trust fund.

Since these local currencies are administered by A.I.D. as a trustee, A.I.D. has a fiduciary duty to the HG to account for and report periodically to the HG on the uses of the trust funds. In addition, as a matter of policy, A.I.D. applies the Federal Acquisition Regulations (FAR) and A.I.D. Acquisition Regulations (USAIDAR) to any contract action performed by A.I.D. with such funds. (See Section VIII A below.) Further, the Fly American Act, 49 USC 1517, as amended, is applicable if the Trust Fund agreement is silent on use of HG airlines. (See Section VIII C below.)

To minimize the potential for disrupting economic assistance activities, Missions should attempt, where feasible, to complete negotiations for and secure trust fund advance deposits well in advance of obligation needs. A trust fund advance deposit balance of estimated requirements for eighteen months is the minimum objective. Local circumstances and availability of appropriated dollar operating expense (OE) funds must be weighed to determine the minimum amount needed for continuing support of the Mission.

III. Nature of the Trust Fund Account (72FT800)

The general characteristics of trust funds follow:

- Primarily trust funds are used by A.I.D. to help meet the administrative costs of its overseas Missions. In addition, they have proven to be a useful tool, for example, when used like Program Development and Support (PD&S) funds to facilitate project design and implementation of projects. Another major use of trust funds in certain countries is to fund the audit of local currency programs. It is expected that trust funds will continue to be made available primarily for these purposes.
- Trust funds are not used for program activities where disbursement is made by the HG.
- Trust funds utilized to finance discrete new projects or activities are generally not favored but it is recognized that under exceptional circumstances their use for this purpose may be warranted. However, given the significant burden on limited Mission staffs associated with such trust fund projects, trust funds may be utilized for this purpose only with the approval of the highest A.I.D. official at post prior to processing separate project agreements. Further, use of trust

funds to finance projects must be permissible under the terms of the trust fund agreement.

- Trust funds come from HG budgetary sources, local currencies deposited as required under A.I.D. assistance programs such as; cash transfers, sector programs, commodity import programs, etc. Local currencies generated under PL 480 programs may not be used as Trust Funds for operating expenses. However, there is no prohibition to the HG entrusting these funds to the Mission for use in programs consistent with the PL 480 agreement. One example of the use of trust funds generated under PL 480 agreements is the funding of the external audit of the PL 480 programs.
- Funds are deposited directly to the U.S. Disbursing Officer's (USDO) regular local currency bank account, or to a special interest bearing account in the name of the USDO and credited to A.I.D. foreign currency account, 72FT800. Funds so deposited are available under existing allotment authority of the Mission. Treasury approved a waiver to their cash management procedures on local currency based on the programmatic justification presented by A.I.D. and granted A.I.D. authority to establish interest bearing accounts for trust fund monies. Missions should insure that the host country's request or concurrence for the Mission to open an interest bearing account and use the interest accruing thereon is contained in bilateral assistance documents, annually negotiated trust fund budgets or other agreements. In some instances, it may be more beneficial or required by the host government to invest trust funds in other interest bearing instruments, e.g., certificates of deposits, or HG stabilization bonds. Since the amounts to be deposited in interest bearing accounts is usually substantial, some banks will agree to opening an interest bearing account and invest the proceeds as directed in the agreement between the USDO and the Bank. All actions regarding interest bearing accounts must be coordinated with the USDO and any instruments purchased must be in the name of the USDO. In addition, the host governments should be given periodic reports showing the amount of interest generated and the uses made of the trust funds.
- Costs to be financed from the trust account should be stated in the trust agreement. Costs are generally defined by general category of expense or budget category.
- Funds in the trust account revert to the HG when the A.I.D. program is terminated, subject to an agreement between the parties on uses which is entered into at that time. However, if the termination of the A.I.D. program occurs under unfriendly circumstances, then approval for the transfer and use must be secured from the Bureau Assistant Administrator.

- In addition to periodic reports to the HG, the Missions report monthly to appropriate offices in USAID/W on trust fund receipts, disbursements, obligations, reconciliations with USDO, etc., on trust fund transactions for Mission operations and programs.

IV. Controller Responsibilities for Local Currency Trust Funds-Operating Expenses and Program Costs

General

The Mission serves as trustee over funds in the trust account. Under the Trust Fund Agreement, the Mission has stewardship accountability for the funds in the bank account in the name of the USDO and held in trust for the HG. The Controller reports to the HG on the use of the trust fund as set forth in the agreement and related arrangements thereunder. In addition, the standard trust fund agreement permits access to trust fund accounts and supporting records to designated representatives of the HG country at reasonable times.

The preponderance of trust funds are used for administrative expenses of Mission operations. Therefore, this guidance focuses primarily on the financial management of local currency trust funds for operating expenses. Funding of projects from Trust Funds requires specific approval of the highest A.I.D. official at post and the project approval process applies as H the funding is from appropriated dollars. When trust funds are used for PD&S Purposes they should be accounted for in the periodic reports to the host government as required by the Trust Fund agreement.

In general trust funds are subject to the same operating controls as appropriated funds.

B. Mission Operating Procedures

Each year an annual trust fund level is agreed upon between the Mission and the HG for the financing of certain local currency costs of Mission operations. The annual Mission Operating Expense Budget (MOB) submitted to USAID/W should be based on the annual level agreed to with the host government and the out-year levels that are anticipated to be made available.

The Annual Budget Submission (ABS) is the annual budget call for workforce and operating expense data, including activities financed by trust funds, covering the prior or actual year operations, a projection of current or operational year plans, and an estimate of proposed requirements for the subsequent or budget year.

The Mission periodically requests the HG to make the agreed upon contribution to the trust fund to meet anticipated requirements under the annual budget to which the country has agreed. The funds are deposited to USAID trust fund account 72FT800. Payments from the trust account are effected by the USDO in accordance with standard disbursing and accounting procedures.

Trust funds are allotted to the Mission Director, or officer acting in that capacity, as the funds are country specific. However, the allotments are treated similarly to budget allowances for accounting and reporting purposes, i.e., in the reports to USAID/W. Trust funds are no year funds for purposes of Mission obligations.

Missions may not at any time incur obligations in excess of the amount available in the trust fund. Detailed documentation and accounting procedures for dollar appropriated funds apply also to trust fund accounting. Disbursements from the trust fund are made to cover the costs in the HG in accordance with the provisions of the trust agreement. Severance payments for Foreign Service National employees are appropriate disbursements from the trust fund account.

C. Accounting

1. General

The plan of controls for Trust Fund accounts includes funding and obligating processes comparable to methods and techniques which apply to use of funds in U.S.-appropriated dollar accounts, monetary control over trust property, allotment and budgetary accounting for contributions of the HG to the trust fund, and systematic recording of transactions within the Mission Accounting and Control System (MACS). The objective is the establishment of generally accepted management controls over the funds and other resources available for trust fund operations within the Mission.

2. System of Integrated Accounts

MACS provides an integrated and automated system of accounting for local currency trust funds.

a. MACS Trust Fund Accounting

The Trust Fund Accounting portion of MACS is designed to assist Missions in accounting for trust funds and foreign currencies. MACS release 15 provides a subsystem that performs the following functions:

- Reports dollar equivalent information for Trust Fund Obligations on the Mission Cumulative Operating Expenses report (W04) for integrated data bases; and

- Reports amounts refunded to cooperating country on the Status of Cash Report(s) (W11).

(1) Inputs

Trust fund transactions are posted in the MACS system in the same manner as other MACS transactions. However, the trust fund subsystem provides a different account structure for the foreign currency account Budget Plan Codes (BPC).

Information for Monthly Average Daily Exchange Rate and Refunds is entered through the Table Maintenance Menu. The Monthly Average Daily Exchange Rate information is used to convert foreign currency amounts to U.S. Dollar amounts on the W04 report. Information will be converted one for one when there is no information in the Monthly Average Daily Exchange Rate (AXR) file.

(2) Reports

The Washington Reports Menu contains the two new trust fund reports - Reconciliation with Disbursing Officer's (U 106), and the combined Status of Cash Reports (U 111).

The enhanced Mission Cumulative Operating Expenses report (W04) now gives Trust Fund and Operating Expense information on the same detail line in a cable-adaptable format. The W04 report uses the monthly average daily exchange rate table to convert trust fund amounts to U.S. dollar amounts.

D. Documents and Files

Original documents supporting entries to MACS will be systematically maintained and retained in accordance with the A.I.D. official files maintenance system.

E. Reporting

1. Internal

Mission management exercises control over total Mission operating expenses, whether funded from Mission dollar allowances, local currency trust funds, or USAID/W. Mission Controllers are responsible for keeping Mission management informed throughout the year on the status of operating expense activity. Significant variations between actual and planned levels of activity are analyzed and brought to Mission management attention on a timely basis so that remedial action can be taken internally or, if the circumstances dictate, needed changes in the planned level of operating expenses can be justified to and approved by USAID/W.

Formal reports to Mission management are not prescribed. From the accounting records and procedures described herein, internal reports and analyses are developed to the extent required by each Mission's management to achieve effective and continuing control on a more frequent and/or detailed basis than is required in reports to USAID/W.

2. USAID//W (Mission reporting will include local currency trust funds.)

The following monthly "U" reports from the Mission to USAID/W are required:

<u>Report No.</u>	<u>MACS No.</u>	<u>Title</u>
U-104	W04	Mission Cumulative Operating Expenses Report
U-106	W06	Reconciliation with Disbursing Officer's Accounts
U-111	W11	Status of Cash Report

3. Instructions for Reporting - Operating Expenses

a. USAID/W issues specific instructions to the Missions annually by cable citing changes in the format and other revisions required by A.I.D. management, Office of Management and Budget, or Congress for reporting operating expense obligations monthly. Trust fund activity should be included as applicable. An example of such instructions follows:

(1) THE INFORMATION REQUIRED BY THESE INSTRUCTIONS IS TO BE REPORTED MONTHLY BY CABLE NO LATER THAN THE FOURTH WORKDAY OF EACH MONTH. The subject in the reporting MOB cable header is MISSION REPORTING: OPERATING EXPENSES AS OF _____, 19__ . The FOR line is to be addressed to the appropriate USAID/W offices. Trade and Development Program (TDP) reports are to be sent directly to TDP.

(2) The monthly MOB report also requires information on the average exchange rate and the reservation of funds as specified in the USAID/W budget office annual guidance.

(3) Once the OYB for the FY has been established, Missions will be requested to provide detailed operational year budgets and for the succeeding year showing budgeted units, both trust funds and dollars.

(4) Actual unit information should not be cabled each month, although it must be compiled and included in the end of year report.

4. Operating Expense Input

Operating expense trust funds cumulative obligations are to be reported by detailed function code the same as for dollar appropriated operating expense funds as described in Handbook 19 and subsequent Financial Management (FM) guidance papers.

F. INTERNAL CONTROLS

The procedures for trust fund budgeting, accounting and reporting, as prescribed in this paper generally replicate the controls over appropriated funds. They establish a system of internal controls, comprising the methods, techniques and procedures for assuring the integrity of the USAID trust fund accounts and compliance with statutory, regulatory and USAID management and policy requirements for the fiscal and financial administration of trust fund accounts as outlined below.

1. Funds Control

The procedures assure utilization of trust funds within the amounts deposited and for uses in accordance with bilateral agreements and annual budget plans. Periodic reports to the HG, as agreed to, show the funds deposited or contributed by the HG, the budget line item for which funds were disbursed and balances available. Variances between budgeted amounts and actual disbursements are reported and, as required, corrective action taken.

2. Separation of Functions

Financial administration of trust funds is consistent with the functional alignment of Mission Controller Office elements for the conduct of financial management of all A.I.D. programs. Disbursing control is achieved by separating administrative approval of charges against the Mission trust fund account from the function of voucher preparation and certification. Mission officials having knowledge of the substantive transaction act independently in approving, on an administrative basis, the propriety of a payment, thereby giving the authorized certifying officer a basis for attesting to the accuracy and legality of a voucher certified for payment.

3. Recording Transactions

The internal control system requires the maintenance of current information in the USAID/W and Mission accounts on the status of funds as a basis for accurate, timely and meaningful reports to A.I.D. management. All funds held in A.I.D. FT accounts are recorded and reported on under MACS. Un-liquidated obligation documents are required to be verified monthly by comparison with the related balances in the accounts and the un-liquidated obligation files are reviewed periodically for cancellation or reduction of amounts no longer required or incompatible with Section 1311 criteria.

4. Voucher Scheduling Cut-off

As feasible and practical, Missions assure that amounts approved for payment are paid in the same month in which the certified disbursement documents are forwarded to the disbursing officer. Vouchers are scheduled for payment so as to effect a common cut-off of monthly expenditure transactions between the Mission and the disbursing officer. The result is a ready reconciliation of expenditures shown in the Mission ledgers with the amounts shown in the disbursing officer's account current.

5. Reconciliation

With respect to trust funds held in A.I.D. designated FT accounts, Mission Controllers assure that the reconciliation of the Mission accounts with the disbursing officer's account current on FS-488, Foreign Currency Statement of Transactions and Account Current, is accomplished monthly on a timely basis. Differences should be reviewed promptly and any un-reconciled items are to be maintained on a cumulative basis and resolved as expeditiously as possible.

6. Monthly and Year-End Closing

Procedures prescribed for reconciliations and reviews with respect to dollar accounts apply in principle to the trust funds held in A.I.D. designated FT accounts. Un-liquidated obligations in A.I.D. FT accounts are certified as of year-end in accordance with Section 1311.

7. Report Preparation, Review, and Approval

Mission reports are prepared by responsible staff personnel in accordance with organizational structure of the Mission Controller Office. The review and approval functions are the responsibility of supervisory personnel.

V. Reverse Accommodation Exchange

A.I.D.'s policy is not to increase use of reverse accommodation exchange to purchase dollars with trust funded local currency. Therefore, each Mission is responsible for not exceeding its prior year dollar level of reverse accommodation exchange. However, USAID/W recognizes that situations arise where increased purchases may be necessary. In such cases the Mission must obtain the written authorization of the appropriate regional Assistant Administrator.

Reverse accommodation exchange is a method whereby a Mission purchases dollars with local currency from the trust fund to pay the Mission's operating expenses in dollars. The practice of using local currency trust funds to buy dollars which are in turn

used to pay foreign exchange costs of comparable goods and services, other than personal, that are available on the local economy, frequently results in reduced costs and/or superior quality. Buying goods or services, other than personal, with dollars using reverse accommodation exchange may result in a demonstrable savings to future trust fund outlays.

In October 1985 the Department of Treasury granted the Department of State the authority to handle U.S. dollar disbursements from FT trust funds by using "reverse accommodation exchanges", provided that (1) A.I.D. certifies that these transactions are authorized uses of the Trust Funds and (2) the amounts are commensurate with the U.S. Government's immediate disbursing needs as defined by U.S. Treasury procedures (1 TFM 9050.10).

If the Mission finds it necessary to use reverse accommodation exchange for a category of local costs, the Mission should prepare an analysis for the Mission Director's approval covering the following:

- Certification that proposed transactions are authorized uses of the trust funds (HG current exchange laws do not prevent such use of their currency) and reverse accommodation exchange transactions are not precluded by the trust fund agreement;
- A computation indicating the local currency amounts are historically commensurate with the USG's immediate disbursing needs (the results of this analysis need not necessarily override the other rationale in this analysis);
- Category of expenses to be paid in dollars purchased with local currency trust funds;
- Rationale supporting this action, including benefit to the USG; and
- Estimate of annual amount of reverse accommodation exchange to be used in dollars.

This analysis should be retained in the active files pursuant to A.I.D.'s official files maintenance system.

VI. Purchase or Construction of Real Property

Section 636 (c) of the FAA of 1961, as amended, applies only to real property purchased or constructed with dollars appropriated by Congress and not to purchases or construction using trust funds. Therefore, the Trust Fund provisions and A.I.D. policies govern these transactions. Real property purchased or constructed with

trust funds is the property of the HG held in trust by the U.S. Government. The title to such property, the disposition of the property when it is no longer needed, or if U.S. assistance is terminated, the proceeds from any sale of the property and similar matters, should be precisely covered by the trust fund agreement, or side agreements concerning purchase or construction of real property. Language in Trust Fund agreements relating to title of real property purchased with trust funds must be cleared by the Regional Legal Advisor, or the A.I.D. Office of General Counsel, and approved by the HG.

- Missions contemplating purchase or construction of real property with local currency trust funds must:
- Obtain Regional and Management Bureaus' written approvals;
- Use the services of the Regional Legal Advisor in pursuing this procurement and related the documentation;
- Use similar forms and procedures as if obtaining approval for real property under Section 636 (c);
- Notify the USAID/AN OE budget office; and
- Obtain the HG's written approval prior to the purchase or start of construction of real property.

VII. Purchase of Non-Expendable Property (NXP)

If not precluded by the Trust Fund Agreement and if included in the OE trust fund budget, non-expendable property may be purchased using trust funds. The following guidelines are pertinent:

- NXP procurement with trust funds is subject to the same accountability and disposition standards as property purchased with appropriated funds, or to the standards of the HG if more stringent;
- NXP must be returned to HG upon completion of use unless the HG has informed the Mission that it does not want the NXP. In the latter case, the NXP may be disposed of under the same guidelines as NXP purchased with bilaterally obligated program funds and the proceeds deposited to the trust fund account; and
- Recording of transactions in the property ledger should be in local currency units.

VIII. Application of Appropriated Funds Regulations

A. Contract Regulations

A.I.D. applies the Federal Acquisition Regulations (FAR) and A.I.D. Acquisition Regulations (USAIDAR) for all contracting action performed by A.I.D. using trust funds (A.I.D. Handbook 14, 701.372, p.14-6). Standard A.I.D. documents should be used in obligating funds for contractual commitments.

B. Cash Management

The procedures applicable to appropriated funds with respect to cash management, prompt payment of vouchers, billings and collections are generally applicable to handling of trust fund transactions. In the instance of payment of trust fund vouchers, a local decision to pay promptly rather than schedule payment 30 days after receipt of voucher may be appropriate due to the cash economy in most developing countries. There may be other local circumstances that dictate exceptions to regulations and policy governing appropriated fund cash management. The Mission written policy and procedures on cash management should include any specific requirements or deviations from normal A.I.D. policy for the payment of trust vouchers.

C. Fly America

Handbook 22, Appendix 9A, 135.6 provides for two types of exceptions in application of the Fly America Act when payment is in foreign currency as follows:

1. Legislative authority for certain programs and activities prohibit the expenditure of U.S. dollars for travel or other official purposes. In such instances, where foreign currency (either excess, near-excess, or non-excess) necessarily must be used for travel and where U.S. air carriers do not accept such currency, travel may be performed to the extent required on carriers which do accept such currency since under these circumstances the travel could not otherwise be performed."

2. In a few cases, the Trust Fund agreements specify conditions under which travel financed by trust funds must be performed on national airlines of the host country. In such cases, travel on the foreign air carrier is authorized to the extent specified in the agreement."

IX. Interest Earned on Trust Fund Advances

Missions must have written authorization from the HG before placing trust funds in interest bearing accounts (or interest earning financial instruments) and to use the earned

interest for the same purposes as the principal. This authorization may be contained in the trust fund agreement, side agreement, or the dollar agreement generating the local currency.

The Office of Chief Counsel, Department of the Treasury issued a written opinion in April 1987 that interest can permissibly accrue on local currency trust funds with the interest used for trust purposes, when the local currency is placed in a local bank or financial institution pursuant to the terms of a trust fund agreement. Accordingly, Missions with trust funds are authorized to request their USDOs to place local currency trust funds in interest bearing accounts. Interest bearing account may be interpreted to include an account with a local bank or financial institution containing certificates of deposit, bonds, or bank notes that are subject to acceptable physical safeguards and internal control measures. The controls would include physical safekeeping of any financial document in a safe vault, the division of duties with respect to authority to establish an account, deposit of the funds and withdrawal from the account as the responsibility of the USDO and the responsibility for accountability and reporting resting with the Mission Controller.

Missions will continue to follow the Trust Fund operating and accounting procedures. In no case will Missions be authorized to make disbursements or withdraw funds from the interest bearing trust fund account. Missions are not authorized to open bank accounts with official funds, dollars or local currencies; only the USDO has such authority. Consistent with USG regulations, bank accounts with official funds can only be opened and maintained by a disbursing officer representing the U.S. Department of Treasury. Recommendation of the bank or other financial institutions may be made by the Mission but this banking institution is subject to approval by the USDO. Unless the selected institution has been previously designated as a depository by the Department of the Treasury, such a designation will be required before any funds are deposited. Missions desiring an interest bearing trust fund bank account should coordinate closely with their USDO. The USDO and the Mission Controller should agree on all aspects of managing the separate account including the bank to be used, type of account, handling of deposits, reporting of interest earnings, procedures for identification of amount and timing of transfers from the interest bearing account to the operating account, bank reconciliations, etc.

The Mission Controller should conduct the initial analysis and make a determination that the establishment of a separate interest bearing trust fund account is desirable and that circumstances are such that it is feasible and practical to maintain the account without undue restrictions or other constraints. Mission Controllers will be responsible for estimating cash disbursements from the trust funds and periodically advising the USDO of amounts to be transferred into the operating account. It is recommended that transfers be limited to one per month or one per quarter if there is a low volume of activity in order to minimize administrative workload.

The process outlined above requires the USDO to place all local currency trust funds in a separate account and leave that account fully funded, thus exempting the USDO from their normal cash management procedures. (Authorized by STATE 315237, October 8, 1987, M/COMP/FO/FC) Mission Controllers will also be responsible for determining if and when the interest bearing account should be closed or to transfer all or substantially all of the local currency to the USDO operating account for any reason. A Mission having trust funds in a country that has a volatile currency or is experiencing frequent de-valuations may decide that USG cash management considerations outweigh potential Mission interest earning and decide not to open an interest bearing account. If an account is already open, the Mission in consultation with the USDO may opt to transfer the local currencies to the USDO operating account. Missions are advised to coordinate closely with USDOs in such situations.

Irrespective of the foregoing cash management objectives the basis of the legal opinion on interest bearing trust fund accounts is that these funds are owned by the HG and managed under a trust fund agreement by A.I.D. Thus, if the HG and the Mission wish to fund the account with interest accruing to the trust fund, then legally they may do so.

APPENDIX A

ILLUSTRATIVE TRUST FUND AGREEMENT

between

The United States Agency for International Development
and
The Government of the Republic of OZ

1. Background. This Agreement formalizes the requirements of the Parties' Memorandum of Understanding regarding a Special Account, that a separate Trust Fund Agreement shall be executed. The USAID Trust Account was established on (date) pursuant to the Memorandum of Understanding dated _____. As new Program Agreements are executed, and the Memorandum of Understanding regarding the Special Account is amended to provide for distribution of amounts deposited into the Special Account, the provisions of such amendments that apply to the USAID Trust Account shall be incorporated herein as if fully set out without the need for subsequent amendments to this Agreement. (NOT ALL COUNTRIES WILL HAVE A MEMORANDUM OF UNDERSTANDING, SO THIS REFERENCE WOULD BE DELETED.)
2. Revocation of Other Trust Fund Agreements. All previous agreements, including the Trust Fund Agreement dated _____, are hereby revoked and replaced by this Trust Fund Agreement between the United States Agency for International Development and the Government of OZ, represented by the Ministry of Planning.
3. Establishment of the Trust Account. Pursuant to the provisions of the Memorandum, a Special Account has been established, to be known as the "USAID Trust Account", also known as "72FT800". The account has been opened in the name of the U.S. Disbursing Officer (USDO).

The Trust Account has been established at a bank acceptable to both parties. Such Trust Account shall be the depository for the three activities mentioned in paragraph 4. Each activity shall have a separate sub-account.

Funds provided under this Agreement, shall be allocated in accordance with the provisions of the Memorandum of Understanding, issued from time to time, and shall be held in trust for the GOO. The GOO agrees that local currency funds may be deposited into an interest bearing account, or other interest bearing instrument subject to acceptable safeguards and controls. The use of the interest earned from such transactions shall be subject to the terms and conditions of this agreement.

4. Allowable Costs.

A. Administrative Costs of USAID. The Trust Account shall be used for the following local administrative costs limited to the amounts agreed to annually by the parties to this agreement:

- (1) Operating expenses of USAID in the Republic of OZ including, but not limited to purchase of supplies and equipment, leasing of office and residential space, and cost of utilities and miscellaneous services; and
- (2) A portion of the salaries and other expenses of USAID personnel payable in OZ schekles.

B. Project Development and Support Activities. Except as otherwise provided below, after obtaining approval from the Ministry of Planning, USAID shall disburse the OZ Scheckle cost of project development and support activities from this Trust Account. Such costs shall include technical and feasibility studies; technology transfer; workforce development; non-project participant training costs, including but not limited to travel, medical examinations, and pre-departure English language training; and such similar activities agreed upon by the parties.

Notwithstanding the approval requirement set forth above USAID may, without prior GOO concurrence, disburse funds not to exceed twenty five percent (25%) above the amount approved for allocation or Twenty Five Thousand OZ Scheckles (SO 25,000), whichever is smaller, for activities set forth in this paragraph B.

C. Other Developmental Purposes. Trust Account funds may be used for such other developmental purposes, e.g., small scale development activities (including grants to private voluntary organizations), as may be agreed upon by the parties, by exchange of letters. (Discrete new projects, or activities receive the prior approval of the regional Assistant Administrator.)

5. Disbursement Procedures. USAID shall disburse Trust Account funds hereunder in accordance with standard disbursement procedures. Copies of all procurement documents prepared by USAID shall be made available to the GOO upon request.

6. Records and Inspection. The allocations to and disbursement from the Trust Account shall be accounted for by USAID under separate books and records apart from all other USAID activities. Such records shall be maintained for a period of five years following the last disbursement for activities financed hereunder and may be inspected by GOO representatives at any reasonable time.

7. Reports. USAID shall prepare and furnish reports to the GOO as follows:

A. Annual reports on disbursement of the funds for local administrative costs, comparing the actual and budgeted expense of USAID with the GOO contribution; and

B. Quarterly reports indicating the status of disbursements, by ministerial sector, for project support and development activities, anticipated future requirements, and any problems that may have arisen in the administration of this Agreement.

8. Source and Origin of Goods and Services. Unless otherwise agreed to by the parties, all goods and services procured or financed with funds made available under this Agreement shall have their source in the Republic of OZ and their origin in countries included in A.I.D. Geographic code 935.

To the extent available, air travel shall be on OZ Air; if not available on OZ Air, to the extent available, international air travel shall be on U.S. flag carrier, provided that such carriers accept payment for such travel in OZ currency.

9. Duration of the Trust Account Agreement. Funds allocated hereunder shall remain available until expended.

10. Termination. This agreement shall terminate in the event of termination of the U.S. assistance program to the Republic of OZ. Any un-encumbered funds remaining in the Trust Account at that time shall be disbursed for such purposes as may be agreed upon by the parties at that time.

11. Communications. Any notice, request, document, or other communication submitted by the GOO or USAID to the other under this Agreement shall be in writing or by telegram, cable, or telex and shall be deemed given or sent when delivered to the other party at the following addresses:

<u>To the GOO</u>	<u>To A.I.D.</u>
Minister of Planning	Director
No. 13 Circle Street	USAID/OZ
Wichita, OZ	U.S. Embassy
	No. 31 Square Circle
	Wichita, OZ

All such communications shall be in English unless the parties otherwise agree in writing. Other addresses may be substituted for the above upon giving written notice to the other party.

12. Representatives. For all purposes relevant to this Agreement, the GOO shall be represented by the Deputy Prime Minister and the Minister of Planning and the

Administrator of the Department for Economic Cooperation with the United States, and USAID shall be represented by the individual holding or acting in the office of the USAID Director. Either of the representatives may designate additional representatives for all purposes hereunder. Each party shall provide the names of such additional person(s) by written notice to the other along with specimen signatures. The parties may not accept as duly authorized any instrument signed by such representatives in implementation of this Agreement until receipt of written notice of their authority.

13. Entire Agreement and Amendment. This agreement, including any attachments hereto, shall constitute the entire Trust Account Agreement between the parties, and the provisions of this Agreement shall supersede any and all prior negotiations, understandings, or agreements relating to the same subject matter.

This Agreement may be amended only by written agreement signed by both parties.

Accepted on this _____ day of _____, _____ .

Republic of OZ United States Agency for
International Development

By: _____ By: _____
Name: _____ Name: _____
Title: _____ Title: _____

NOTE: This illustrative agreement may be revised to reflect situations at each Mission, for example:

- a. The agreement was written to include elements of O.E., PD and S and other project uses. Such combined application might not be suitable for other Missions.
- b. Certain limitations were included in the agreement which took away some flexibility of the usage of trust funds by the Mission. On the other hand, there were areas of application which were not clearly defined, giving the Mission the ability to use wider interpretation as to the allowable uses of the trust funds.
- c. The agreement is not clear about the timing of replenishment of trust funds both for OE and for projects. This could lead to shortage of fund during an operational year.
- d. There is no provision in the agreement to increase the contributions to the trust fund as a result of future de-valuations of the local currency leading to unanticipated shortages of trust funds.

APPENDIX B

ILLUSTRATIVE TRUST FUND AGREEMENT
between
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
and
THE GOVERNMENT OF

TRUST ACCOUNT AGREEMENT dated _____ between the Governments of _____ and the United States of America, acting through the Agency for International Development.

ARTICLE I - Introduction to Trust Account Agreement

In accordance with the General Agreement for Economic, Technical and related assistance between the Governments of the United States and _____ dated _____ (_____ U.S.T. _____), in which the United States of America (U.S.), acting through the Agency for International Development ("USAID ") has expressed the desire to assist _____ in its efforts to stabilize its economy, the Government of _____ (GO) and the Agency for International Development hereby agree to the following arrangements in establishing and implementing a Trust Account Agreement ("Agreement").

ARTICLE II - Trust Account

There is established a Trust Account (the "Account") in the name of the U.S. Disbursing Officer, whose use is subject to the terms and conditions of this Agreement. The Account shall consist of local currency funds which may be deposited into the Account by the GO__ subsequent to the signing of this Agreement.

ARTICLE III - Interest Bearing Account

The GO agrees that local currency funds may be deposited into an interest bearing account, or other interest bearing instrument subject to acceptable safeguards and controls. The use of the interest earned from such transactions shall be subject to the terms and conditions of this agreement.

ARTICLE IV - Use of Funds

The USAID and the GO agree that funds deposited into the Account will be used for purposes in furtherance of the economic assistance programs in _____, including

administrative and operating costs of the American Mission in to carry out these programs.

ARTICLE V - Disbursement of Funds

The USAID may disburse funds deposited into the Account for the purposes as specified in Article IV in a manner deemed appropriate by the Director of the A.I.D. Mission or his or her designee. USAID will disburse funds hereunder in accordance with normal USAID disbursement procedures and practices.

ARTICLE VI - Effectiveness of Agreement and Termination

The Agreement will remain in effect until terminated by mutual written agreement of USAID and the GO__ or upon termination of the United States assistance program in _____, whichever is earlier. Termination of the Agreement will terminate the obligations of the parties hereunder, except with regard to disbursement of obligations which may have arisen pursuant to non-canceled commitments entered into with third parties prior to the termination of the Agreement, and subject to the procedures contained in Article XI.

ARTICLE VII - Records and Inspections

USAID will maintain records on all disbursements from the Account. Such records will be maintained for a period of three years following the last disbursement from the Account and may be inspected by representatives of the GO_ at any reasonable time.

ARTICLE VIII - Title of Property

The USAID will maintain records on non-expendable property directly utilized by the USAID and procured from funds supplied under this Agreement. These records may be inspected by representatives of the GO_ at any reasonable time. All non- expendable property so purchased shall be transferred to the GO_ when no longer required for the support of United States assistance programs in _____. Proceeds of sale of such non-expendable property during the life of this Agreement shall be deposited into the Account.

ARTICLE IX - Reports

USAID will prepare and furnish an annual report to the GO_ stating the amount and timing of deposits into the Account, the amount disbursed from the Account during the reporting period, and the balance remaining in the Account at the end of the reporting period.

ARTICLE X - Consultations and Amendments

USAID and the GO_ will cooperate to assure that the purpose of the Agreement is carried out and will, at the request of either, exchange views on the Agreement and the activities financed under the Agreement. The Agreement may be amended by any form of written agreement between USAID and the GO_.

ARTICLE XI - Availability of Funds

Funds made available under the Agreement will remain available until expended. In the event of termination of the Agreement pursuant to Article VI, funds which have not been committed pursuant to non-cancelable commitments entered into with third parties prior to termination will be disbursed from the Account for purposes mutually agreed upon by USAID and the GO_ at the time of termination of this agreement.

ARTICLE XII - Communications

Any notice, request, document, or other official communication submitted by the GO or USAID to the other pursuant to this Agreement will be in writing. Notices will be deemed effective when delivered to USAID or the GO_ at the following addresses:

GO
Minister of Finance
Ministry of Finance
_____, _____

Executive President
Central Bank of____
_____, _____

USAID
USAID Director
c/o U.S. Embassy
_____, _____

ARTICLE XIII - Representatives

For all purposes relevant to this Agreement, the GO_ will be represented by the individual holding or acting in the office of the Minister of Finance and the Individual holding or acting in the office of the Executive President of the Central Bank, and USAID will be represented by the individual holding or acting in the Office of USAID Director, each of whom, by written notice, may designate additional representatives for all purposes related to this Agreement other than amending this Agreement. The USAID and the GO will provide to each other the names of the representatives and duplicate copies of specimen signatures. The USAID and the GO__ may accept as duly authorized any instrument signed by such representatives in implementing this Agreement until receipt of written notice of revocation of a representative's authority.

ARTICLE XIV - Language of Agreement

JULY 1991
PART II - BULLETIN NO. 5 - LOCAL CURRENCY TRUST FUNDS-72FT800
(Host Country Owned Funds)

This agreement is prepared in both English and Spanish. In the event of ambiguity or conflict between the two versions, the English language version will control.

IN WITNESS WHEREOF, the GO and the United States of America, each acting through
As duly authorized representatives, have caused this Agreement to be signed in their
names and delivered as of the day and year first above written.

Government of _____ United States of America

_____, Minister _____, Director
Minister of Finance United States Agency for
International Development

Executive President
Central Bank of _____

Date _

USAID
U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM FOR USAID CONTROLLERS

From: FM/Controller, Michael Usnick

Subject: Transmittal of Part III - Bulletin No. 3, Arrival Accounting

The subject financial management bulletin on arrival accounting is forwarded to you herewith. Only a few Missions presently include commodity import programs (CIP) in their portfolio. However, FM considered it important to codify these procedures for existing and possible future CIP.

Mission Controller book cases should now include the following FM bulletins:

Part II -	Bulletin No. 3	-	Project Accounting
	Bulletin No. 5	-	L/C Trust Funds
	Bulletin No. 10	-	Cashier Operations
Part III-	Bulletin No. 1	-	Financial Analysis, Design
	Bulletin No. 2	-	Financial Analysis, Implementation
	Bulletin No. 3	-	Arrival Accounting
Part IV	-	-	OMB Circulars

Please advise FA/FM/FPS if you are missing any of the above bulletins. Thank you.

320 TWENTY-FIRST STREET, N.W.,
WASHINGTON, D.C. 20523