Office of Inspector General

January 31, 2013

MEMORANDUM

TO: USAID/Jordan Mission Director, Beth Paige

FROM: Regional Inspector General, Catherine Trujillo /s/

SUBJECT: Review of USAID/Jordan's Cash Transfer Activities (Report No. 6-278-13-001-S)

This memorandum transmits our final report on the subject review. The report includes 11 recommendations for USAID/Jordan. Management's comments on the draft report were considered and have been included as Appendix II. We acknowledge that management decisions have been reached for all recommendations. Final action has been taken on Recommendations 1, 3, 5, 7, and 9, and these are closed upon issuance of this report. The mission should provide USAID's Audit Performance and Compliance Division (M/CFO/APC) with evidence of final action to close the other recommendations.

Thank you for the cooperation and courtesy extended to the audit team during this review.

U.S. Agency for International Development
USAID Office Building
1/A Nady El-Etisalat St., off El-Laselki St.
New Maadi
Cairo, Egypt
http://oig.usaid.gov

SUMMARY OF RESULTS

USAID/Jordan has complemented its country development efforts with an annual cash transfer program since 1997. According to the program, the United States transfers U.S. dollars to the Jordanian Government to help pay down its external, nonmilitary debt to the United States and eligible multilateral institutions. In return, Jordan provides local currency (*dinars*) in an amount equivalent to the cash transfer for development priorities that it has defined with USAID. Reform benchmarks—referred to in the agreement as "conditions precedent"—that are linked to the cash transfer program help Jordan and USAID make improvements in development sectors such as agriculture, education, and health.

In September 2007 USAID signed a follow-on assistance agreement with the Jordanian Government providing $600 million in cash transfers to be paid in increments through September 2011. The agreement seeks economic growth by providing cash for payment of qualified debt—primarily debt owed to the U.S. Government or multilateral financial institutions like the International Monetary Fund (IMF)—and by encouraging policy reform through meeting benchmarks before transferring cash to the Jordanian Government.

Periodically, USAID and Jordan have amended the agreement to provide additional money associated with a new set of benchmarks that must be met before USAID authorizes a cash disbursement. The amendments also include specific time frames for qualified loan payments. In September 2010 the Agency and Jordan amended the agreement and increased the total cash transfer to $1.2 billion through September 2014.

The 2007 agreement also required Jordan to set aside dinars in an amount equal to the cash transfer for development objectives identified by USAID/Jordan and the Jordanian Government. A 1997 memorandum of understanding established how the parties would manage the local currency process.

According to USAID policy, the mission has discretion over whether to require Jordan to set aside local currency as a condition for the assistance agreement. Once the local currency is set aside, however, the mission must program it for development objectives and must monitor the implementation of activities paid for from the local currency account.

USAID/Jordan can program funds in two ways. The first is at the general level, in which the mission gives the funds to government ministries to administer; this option requires the mission to assess the ministries first because they will be responsible for most of the monitoring. The second is at a project level. In these cases, the mission and the Jordanian Government agree on specific types of projects to fund and the mission must be more involved in monitoring all activities and spending.

The Regional Inspector General/Cairo (RIG/Cairo) conducted this review at the request of USAID/Jordan to determine whether the mission managed the cash transfer program in accordance with the agreement and statutory requirements. The review found that while the agreement was helping the Jordanian Government pay its external debt to foreign lenders, USAID/Jordan generally did not manage the agreement in accordance with the agreement and statutory requirements in all respects. The review found the following compliance problems.

- The mission did not fully document its local currency needs assessment (page 4). Such an assessment would have helped the mission confirm whether Jordan had the financial resources to contribute its share to the program.

- The mission did not monitor funds spent on specified activities (page 5). Therefore it cannot be sure that the funds reached the intended beneficiaries. Additionally the mission did not assess the ministries' capacity for receiving funds supporting their general budgets.

- About $1.2 million in local currency funds were used for prohibited activities (page 6). The funds were spent on military and police activities and goods.

- The Jordanian Government withdrew funds before qualified debt payments were reimbursed (page 7). It spent only $85 million out of $159.5 million on such debts late in 2009 while withdrawing the full amount and comingling the funds with its general budget.

- Jordan deposited funds into noninterest-bearing accounts (page 8). According to the agreement, all accounts were supposed to bear interest.

- Audits were not conducted in accordance with the agreement (page 9). The accounting firm the mission hired did not complete audits for 2008 and 2009 until 2010.

- The mission and the Jordanian Government did not create performance indicators and monitoring reports that the agreement required (page 10). Without these, the mission cannot assess whether it has made progress on any development objectives.

This report contains 11 recommendations for USAID/Jordan.

1. Document its analysis already performed, complete a needs assessment, and, based on the assessment, implement an action plan for how and when to require the Jordanian Government to contribute to the local currency account (page 5).

2. Document Jordan's capacity to carry out development projects to provide reasonable assurance under the requirements for general-sector support (page 6).

3. Issue a mission order establishing a practice of obtaining and documenting reasonable assurance of the technical capacity of implementers and the technical, financial, and environmental soundness of any projects or activities funded by the local currency account, and implement this practice for projects identified in the August 2012 implementation letter (page 6).

4. Require Jordan to reimburse the local currency account for 850,000 dinars ($1.2 million) spent on prohibited uses (page 7).

5. Include audit procedures in its statement of work for calendar years 2010 through 2012 to test for prohibited activities (page 7).

6. Document a formal decision regarding what alternative forms of budget assistance the cash transfer can be applied to, and amend the agreement accordingly (page 8).

7. Establish written procedures that the Financial Management Office obtains a positive declaration, in writing, before each cash transfer from the Central Bank of Jordan that all separate dollar accounts will bear interest (page 9).

8. Contract for annual audits as required by the agreement (page 10).

9. Include language in the scope of work clarifying that the accounting firm should trace sector support funds, on a test basis, to specific projects in the implementation letter (page 10).

10. Negotiate performance indicators for the local currency account program with the Jordanian Government and incorporate them into the agreement (page 11).

11. Work with the Jordanian Government to prepare semiannual impact summaries beginning with the most recently completed year (page 11).

Detailed findings follow. The audit scope and methodology are described in Appendix I. Our evaluation of management comments is included on page 12, and the full text of management comments is included in Appendix II.

REVIEW FINDINGS

Mission Did Not Document Local Currency Needs

USAID policy[1] states that missions can require governments that are receiving cash transfers to set aside a certain amount of local currency as a condition of the assistance agreement, regardless of how the funds are used. However, before missions exercise this option, they should assess local currency needs to verify that the governments have the resources available to meet the requirement. If a government does not, it would need to (1) reduce expenditures for activities that have been included in the budget, (2) increase revenues from taxation or borrowing, or (3) print money.

USAID/Jordan has not fully documented its assessment of Jordan's ability to continue contributing to the local currency account, and it is not clear whether Jordan can match the cash transfer with an equivalent amount of local currency. Jordan's economy has changed significantly since 2007 when it signed the agreement with USAID. The nation's general gross debt[2] increased from about $7.75 billion in 1997 to about $17.81 billion in 2010. The IMF estimates that by the end of 2012, Jordan's gross debt will reach $22.72 billion.

According to multiple sources, Jordan has insufficient supplies of water and other natural resources underlying the government's heavy reliance on foreign assistance, tourism, and expatriate remittances to sustain economic growth. Other economic challenges include high poverty, unemployment, inflation, and a large government budget deficit. The nation has been hurt by external forces also, such as the global economic slowdown, regional turmoil, and attacks on natural gas pipelines from Egypt, which forced Jordan to substitute more expensive fuel oil to generate electricity.

Because of these problems, Jordan's ability to continue funding the local currency account has come into question. In 2011 Saudi Arabia gave Jordan $1.2 billion, and in 2012 the IMF provided $2 billion. Some members of the mission's staff questioned the sustainability of a local currency fund contribution, given recent economic events within the country. They have discussed the possibility of reducing Jordan's contribution to the fund and recently provided a cash transfer without requiring an associated contribution.

Nevertheless, the mission did not document its formal assessment of Jordan's overall fiscal capacity nor has it decided how to proceed because it is still gathering information.

Requiring Jordan to contribute to the local currency fund when it might not be able to could force the Government to reduce spending in higher priority areas, increase taxes, or create inflationary pressure by printing money. Therefore, we make the following recommendation.

[1] Policy Determination 18, "Local Currency," outlines USAID's cash transfer policy with respect to local currency accounts.
[2] Gross debt consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor by a certain date or dates.

__Recommendation 1.__ USAID/Jordan should document its analysis already performed, complete a needs assessment, and, based on the assessment, implement an action plan for how and when to require Jordan to make a local currency contribution.

Mission Did Not Monitor Funds

According to USAID policy, when a host government is required to set aside local currency as part of a cash transfer agreement, the mission and the host government must jointly program the use of the funds. They can do so either at the general- or specific-sector levels. The Automated Directives System (ADS) 624.3.6.3.b, "Budget Support," addresses general-sector support, which is when USAID and the host country decide to have a ministry or government agency oversee how the funds are programmed. According to Policy Directive 18, the mission generally should assess the ministry or agency to be sure it is capable and that it selects activities that are appropriate to the project goals.

ADS 624.3.6.3.c addresses specific-sector support, which is when USAID and the host country decide to program the funds at the project level for specific activities. When providing this kind of support, the mission should have reasonable assurance that the activities have been designed in accordance with sound technical, financial, and administrative practices, and that the implementer has the capacity to carry them out. How the local currency funds are programmed is documented in implementation letters signed by the host country and USAID.

In the case of Jordan, while implementation letters describing the joint programming of local currency stated that the mission and the Jordanian Government intended to program funds for general-sector support (e.g. the Ministry of Education), the attached annexes and "Illustrative Lists" accompanying the letters identified specific activities and projects that the funds were intended to support. Mission officials included budgets for each activity and project, which is specific-sector support, not general-sector support. For example, the November 2011 implementation letter states that the parties agree to program $64.4 million for general-sector support to five ministries—yet it identifies 20 specific projects including $3.8 million for "Sewerage Project of West Jerash" and $10.8 million for "Primary School Classrooms."

Since USAID/Jordan programmed funds for specific activities, it should have reasonable assurance of the technical, financial, and administrative soundness of the projects and of the implementer's capacity. When projects funded by local currency complemented ongoing USAID projects, the mission had that assurance. However, for activities that did not, the mission did not. In several cases, mission officials said they had never heard of the project listed or the implementer that the Jordanian Government used.

Furthermore, even when funds were not associated with specific activities, the mission was still responsible for obtaining assurance of the overall capacity and quality of activities conducted by the responsible ministry. However, USAID/Jordan has not done formal assessments of all the ministries to determine whether they were capable of receiving general-sector support.

This lack of oversight happened partly because the mission was attempting to use local currency funds while limiting how much project monitoring its staff would have to perform. Mission officials said they were confused about policies regarding the level of oversight of local currency funded programs; for example, ADS gives very broad guidance, while Policy Determination 18 is more specific. Furthermore, the mission does not have a policy clarifying how it implements ADS 624 and Policy Determination 18 to monitor general- or specific-sector support funded through local currency accounts.

Because the mission has not monitored the projects, it has little assurance that the money reached the intended recipients. The audit team visited a sample of implementers and found discrepancies between what the implementation letter said they should receive and what they actually received. In one case, the implementation letter had two separate allocations to the same organization, but the organization was only aware of one. Meanwhile, another organization asked for and was allocated 1.1 million dinars; it received 2.5 million.

To help the mission gain reasonable assurance that funds are being used properly, we make the following recommendations.

> ***Recommendation 2.*** *We recommend that USAID/Jordan document the capacity of Jordanian Government ministries to carry out development projects to provide reasonable assurance under the requirements for general-sector support.*

> ***Recommendation 3.*** *We recommend that USAID/Jordan issue a mission order establishing a practice of obtaining and documenting reasonable assurance of the technical capacity of implementers and the technical, financial, and environmental soundness of any projects or activities funded by the local currency account, and implement this practice for projects identified in the August 2012 implementation letter.*

Mission Used Local Currency Funds for Prohibited Activities

Section 8.1.b of the cash transfer agreement addresses prohibited uses, which are military, paramilitary, or police activities, goods, and services of any kind. Section III of the memorandum of understanding states that local currency account funds are not to be used for police or military expenses.

While reviewing cash transfer financial documents, the mission found that 850,000 dinars ($1.2 million) in local currency account funds were used to support law enforcement activities. These expenses are summarized in Table 1 below.

Table 1. Suspected Prohibited Uses (Unaudited, in Dinars)

Project	Description	2011	2010
Public Security Directorate/Fighting Terrorism and Family Protection	Bullet-proof vests, simulation shooting ranges, pick-up truck, operations vehicles, and SWAT ladders	400,000	
Trafficking in Persons Victims Safe House	Intended to establish safe houses.		200,000
Anti E-Crimes	Paid to the police department. Equipment for criminal investigations unit.		200,000
Royal Injured Militant Commission	Paid for rehabilitation of militants who were forced to retire because of injuries.		50,000*

* This amount was audited.

The mission director said she presented these items to the minister of planning, who was amenable to repaying these funds. The mission's chief financial analyst said officials in the Ministry of Finance told him that the funded activities were prohibited. Auditors independently confirmed that the Royal Injured Militant Commission received 50,000 dinars and that it used the money to support injured militants.[3]

The mission's technical office included all these projects as part of the implementation letters for the USAID mission director's signature, though descriptions were vague. Mission officials explained that these letters often arrive at the director's desk with dozens of line items, and they need to be signed quickly. Thus, the director did not have time to scrutinize each item.

To the mission's credit, it started inspecting the funded activities to identify prohibited uses. In September 2012 the mission's Office of Financial Management noticed that one recipient of a local currency distribution seemed unusual. Upon further inquiries, the mission discovered that the recipient was seeking to use these funds as a de facto salary supplement—a potential violation of USAID policy.

Spending money from local currency accounts on prohibited uses violates USAID regulations and takes money away from other development priorities. Therefore, we make the following recommendations.

> ***Recommendation 4**. We recommend that USAID/Jordan require Jordan, in writing, to reimburse the local currency fund for 850,000 dinars ($1.2 million) spent on prohibited uses.*

> ***Recommendation 5**. We recommend USAID/Jordan include audit procedures in its statement of work for calendar years 2010 through 2012 to test for prohibited activities.*

Government of Jordan Withdrew Funds Before Debts Were Reimbursed

According to the agreement, the Jordanian Government should use cash transfer funds to cover payments or reimburse payments of "qualified debt," which the agreement defines as funds owed to the United States, to multilateral financial institutions (like the IMF), and other debt as agreed. In addition, Jordan cannot deposit cash transfer funds in the same account with funds from other sources.

Subsequent amendments that added more cash transfer funds further limited qualified debt payments to payments made within specific periods. For example, a February 2009 amendment provided $70 million to pay for or reimburse qualified debt payments occurring between November 1, 2008, and April 30, 2009.

The 2007 agreement initially provided $116 million to reimburse Jordan or pay down qualified debt payments made after September 1, 2006. At that time, USAID/Jordan confirmed that Jordan had paid more than $218 million toward the payments and approved Jordan's request to

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[3] The audit team was not able to arrange meetings during the fieldwork to confirm the remaining amounts.

transfer the U.S. dollars from the separate dollar account into the government's general budget immediately as a reimbursement.

However, in September 2009 USAID authorized an additional $159.5 million for debt payments that USAID estimated would cover debt payments from May 2009 through July 2010. From October to December 2009, Jordan transferred that amount into its general budget; however, it used only $85 million for qualified debt payments. As a result, the Jordanian Government prematurely transferred $74.5 million to its general budget—effectively commingling U.S. funds with government funds. Jordan transferred the cash disbursements in this manner with each subsequent amendment.

This improper commingling occurred essentially by default. The cash transfer program started in 1997. Mission officials explained that, to their knowledge, the practice of automatic withdrawal from the separate account has always been in place and was generally accepted. When the cash transfer amounts were smaller and the backlog of qualified debt payments was higher, the practice did not result in questionable commingling of funds. However, as the cash transfers increased and exceeded the amount of reimbursable qualified debt payments, the automatic withdrawals continued, thereby violating the agreement. The mission noticed this problem and has been discussing potential responses since February 2012, including alternatives to debt repayment like financing imports from the U.S.; however, a final decision has not been reached because the mission is still gathering additional information.

The potential detriment of advance withdrawal is significant should Jordan default on a debt payment for which it was already reimbursed. In addition, premature withdrawal resulted in approximately $1.2 million of lost interest that should have accrued in the account while funds waited for qualified debt to come due. Therefore, we make the following recommendation.

> ***Recommendation 6.*** *We recommend that USAID/Jordan document a formal decision regarding what alternative forms of budget assistance the cash transfer can be applied to and amend the agreement accordingly.*

Jordan Used Noninterest-Bearing Accounts

The agreement requires Jordan to open an interest-bearing separate dollar account in a U.S. bank to deposit the cash transfers. The agreement allows Jordan, for its convenience in managing funds, to establish an interest-bearing separate dollar account at the Central Bank of Jordan (CBJ). Finally, the agreement requires that a local currency account also bear interest. The agreement requires Jordan to establish these three interest-bearing accounts before any cash transfer.

While the local currency account was interest-bearing since it was created, the U.S. dollar accounts have not. In addition to establishing the account in the United States to receive program funds from the Department of Treasury, CBJ established another separate dollar account in Jordan to receive the cash transfer from the U.S. account. Until 2009, the U.S. account never earned interest even though it was an interest bearing account, because Jordan was able to transfer the funds the same day to the CBJ account. According to a CBJ representative, in 2009 the bank made the U.S. account noninterest-bearing because it determined that the account balances were earning insignificant amounts of interest; bank statements confirm that money left overnight did not earn interest after the change.

Since the program began, the CBJ account was not interest-bearing. Even though it and the U.S. account were not set up according to the agreement, the mission certified the requirements as fulfilled and disbursed the funds. It did not take corrective action to make the accounts interest-bearing in part because mission officials relied on external audits to identify this type of agreement violation, and those audits (conducted by local accounting firms) did not identify lack of interest-bearing accounts as noncompliance with the agreement terms. In addition, CBJ made the decision to change the U.S. separate dollar account to one that did not generate interest without getting the mission's approval. Since funds were never intended to remain in the accounts for a long time, the mission did not place high priority on confirming whether the accounts remained interest bearing before disbursing funds.

However, now that it may be appropriate for money to remain in the CBJ account, this is a significant issue. Because of this lack of oversight, the account lost interest on funds. For example, the average overnight interest rate on funds that should have remained in the CBJ account would have yielded approximately $1.2 million, which could have been used to further promote the cash transfer objectives. Therefore, we make the following recommendation.

> ***Recommendation 7.*** *We recommend the mission establish written procedures that the Financial Management Office obtains a positive declaration, in writing, before each cash transfer from the Central Bank of Jordan that all separate dollar accounts bear interest.*

Audits Not Conducted in Accordance With Agreement

The agreement states that USAID and Jordan were to arrange for annual audits of the local currency and separate dollar accounts. In the case of the latter, the audits would include tests to determine whether Jordan received the funds and used them in compliance with the terms of the agreement. The audits of the separate dollar accounts must include tracking and direct confirmation that a selection of installment payments made under the program went to foreign creditors.

Similarly, in the case of the local currency account, the audits would include tests to determine whether the deposits and transfers of local currency complied with the agreement terms and that the parties used the funds properly. These audits would be executed according to generally accepted international auditing standards and accounting principles. The agreement is flexible and allows either the Jordanian Audit Bureau or a private chartered accounting firm to conduct the audit. The mission contracted with a local chartered accounting firm to conduct audits of calendar years 2007, 2008, and 2009 cash transfers, including corresponding local currency accounts.

However, the firm did not complete audits for the 2008 and 2009 separate dollar and local currency accounts until 2010. Nor had it started the audits of the accounts for 2010 and 2011. Therefore, the mission will not have completed audits within the requisite annual period. (However, the mission is in the process of preparing the statements of work for these audits.)

Furthermore, it appears the scope of work used to contract for the audits may not have been adequate for the firm to evaluate full compliance with the agreement. For example, the firm did not validate that the dollar accounts were interest-bearing. The audit firm did not report any violations of the agreement in either 2008 or 2009. However, as discussed above, the CBJ account was not interest-bearing and the U.S. separate dollar account was interest-bearing only through 2008. The firm should have reported these noncompliance violations.

Finally, the audit firm appeared to trace disbursements only to the Jordanian Government sector level and not individual project level. So there is no assurance on the part of the audit that Jordan used the funds in accordance with the signed implementation letters.

Mission officials said they considered these audits very straightforward and decided to perform them in accordance with ADS 624.3.6.5, which did not mandate annual audits. They said they did not realize the agreement required annual audits. They contended that performing multiyear audits saves time and money. Furthermore, the officials said that including specific projects related to the general-sector support in the implementation letters probably added confusion about how far to trace transactions in the local currency account. Mission officials said they did not know why the separate dollar accounts audits did not identify or report that accounts did not generate interest.

The purpose of performing annual audits is to give the mission timely feedback on compliance with the terms of the agreement, including assurances that funds are being used properly. Without feedback, the mission's task of managing the agreement becomes more difficult. Therefore, we make the following recommendations.

> ***Recommendation 8.*** *We recommend that USAID/Jordan contract for annual audits as required by the agreement.*
>
> ***Recommendation 9.*** *We recommend that USAID/Jordan include language in the scopes of work clarifying that the accounting firms should trace sector support funds, on a test basis, to specific projects in the implementation letter.*

Mission and Jordan Did Not Create Required Performance Indicators and Reports

According to the memorandum of understanding that USAID and Jordan signed, USAID and the Ministry of Planning and International Coordination would prepare joint, semiannual impact summaries. In addition, according to ADS 624.3.6.7, "Program Results," missions must develop, in collaboration with the host country, performance indicators to guide their use of local currency by measuring the tangible results of the program. Agreements must identify specific performance indicators and discuss how missions would measure and evaluate the indicators.

USAID/Jordan and Jordan did not develop summaries or performance indicators for the local currency account program. Because the mission's intent was for local currency account funds to be general sector support, it did not expect to dedicate a high level of resources for monitoring as discussed in the local currency guidance (including ADS 624.3.6.2). As well, the mission did not understand that performance indicators were required and therefore did not include any in the agreement. This in turn contributed to the mission overlooking impact summaries.

Without performance indicators and periodic impact summaries, the mission cannot assess whether development objectives are being achieved. Neither the mission nor the Jordanian Government can evaluate whether program funds are used efficiently and effectively toward

USAID strategic objectives. Furthermore, had the mission been monitoring a set of program indicators and preparing annual impact reports, it might have detected some of the problems described in this review.

Therefore, we make the following recommendations.

> ***Recommendation 10.*** *We recommend that USAID/Jordan negotiate with the Jordanian Government performance indicators for the local currency account program and incorporate them into the agreement.*
>
> ***Recommendation 11****. We recommend that USAID/Jordan work with the Jordanian Government to prepare semiannual impact summaries beginning with the most recently completed year.*

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Jordan officials agreed with all recommendations. As a result, management decisions have been reached for all recommendations. Final action has been taken on Recommendations 1, 3, 5, 7, and 9, and these are closed upon issuance of this report. The mission should provide USAID's Audit Performance and Compliance Division (M/CFO/APC) with evidence of final action to close the other recommendations.

Recommendation 1. The mission documented analysis of and a decision regarding how and when to require Jordan to make a local currency contribution. Accordingly, Recommendation 1 is closed at issuance.

Recommendation 2. The mission decided not to require local currency contributions for development programming, documented in conjunction with Recommendation 1, thus changing the context of this recommendation. The mission will conduct a general assessment of Jordan's budget management process. The mission anticipates completion of this assessment in June 2013. As a result, we acknowledge that a management decision has been reached on Recommendation 2.

Recommendation 3. The mission decided not to require local currency contributions for development programming, documented in conjunction with Recommendation 1, thus changing the context of this recommendation. For local currency funds already programmed, the mission issued a monitoring checklist. The level of assurance indicated in the recommendation will not be required if local currency is not generated. Accordingly, Recommendation 3 is closed at issuance.

Recommendation 4. The mission requested reimbursement of 850,000 dinars ($1.2 million) with a target date of March 31, 2013. As a result, we acknowledge that a management decision has been reached on Recommendation 4.

Recommendation 5. The mission issued an audit statement of work on December 10, 2012, that included procedures to test for prohibited activities. Accordingly, Recommendation 5 is closed at issuance.

Recommendation 6. The mission will document a formal decision as part of the new cash transfer agreement to be signed in September 2013. As a result, we acknowledge that a management decision has been reached on Recommendation 6.

Recommendation 7. The mission issued an implementation letter on October 24, 2012, requesting a declaration that all relevant accounts bear interest. Accordingly, Recommendation 7 is closed at issuance.

Recommendation 8. The mission anticipates finalizing a contract for annual audits on January 31, 2013. As a result, we acknowledge that a management decision has been reached on Recommendation 8.

Recommendation 9. The mission issued an audit statement of work on December 10, 2012, that included language to trace sector support funds, on a test basis, to specific projects in the implementation letter. Accordingly, Recommendation 9 is closed at issuance.

Recommendation 10. The mission decided not to require local currency contributions for development programming, documented in conjunction with Recommendation 1, thus changing the context of this recommendation. For local currency funds already programmed, the mission will request closure of this recommendation when Jordan and the mission finalize programming of any local currency amounts that have yet to be programmed and the mission issues an implementation letter by April 15, 2013, that includes performance indicators to measure impact of the agreed-upon uses of the local currency. As a result, we acknowledge that a management decision has been reached on Recommendation 10.

Recommendation 11. The mission decided not to require local currency contributions for development programming, documented in conjunction with Recommendation 1, thus changing the context of this recommendation. For any residual local currency funds to be programmed, the mission will work with the Ministry of Planning to outline a requirement to prepare an impact summary. This requirement will be captured in an implementation letter, which the mission plans to issue by April 15, 2013. As a result, we acknowledge that a management decision has been reached on Recommendation 11.

SCOPE AND METHODOLOGY

Scope

RIG/Cairo conducted this review of USAID/Jordan's cash transfer agreement in accordance with generally accepted government auditing standards. This review was conducted in accordance with Government Auditing Standards—specifically, with the general standards in Chapter 3, the evidence standards in Sections 6.56 through 6.59, the documentation standards in Sections 6.79 through 6.83, and the standards for developing elements of a finding in Sections 6.74 through 6.77. These standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with the review objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this review was to determine whether USAID/Jordan managed the cash transfer agreement in accordance with the agreement and statutory requirements. In September 2007 USAID signed an assistance agreement with Jordan for $600 million in cash transfers through September 2011. They subsequently amended the agreement to increase the total cash transfer to $1.2 billion through September 2014. As of September 2012, USAID has transferred $1.1 billion under the agreement.

We performed this review from September 17 through October 11, 2012, conducting fieldwork at USAID/Jordan and Jordan's Ministry of Planning and International Coordination in Amman.

As part of the review, we assessed the significant internal controls USAID/Jordan used to monitor compliance with the cash transfer agreement. Our assessment included controls to determine whether the mission (1) verified that cash transfer accounts were established in accordance with the agreement, (2) monitored the debt paid by the cash transfer, (3) determined whether Jordan complied with reform benchmarks before approving cash disbursements, and (4) monitored the programs identified in signed implementation letters with Jordan for use of local currency funds.

Methodology

To answer the review objective, we interviewed officials from USAID/Jordan and the Jordanian Government. We also reviewed and analyzed relevant documents and data at the mission and at government offices. Documents included portions of ADS, agreement amendments, and implementation letters. Furthermore, we traced a judgmental sample of cash disbursements from the U.S. Treasury to the U.S. dollar account, the U.S. dollar account established at CBJ, and ultimately to the Jordanian Ministry of Finance account. We verified that Jordan properly funded the local currency account.

Based on mission concerns, we selected a judgmental sample of recipients receiving distributions from the local currency account, and we conducted site visits, interviews, and inspected supporting documents.

MANAGEMENT COMMENTS

USAID | JORDAN
FROM THE AMERICAN PEOPLE

OFFICE OF THE DIRECTOR

TO: Catherine Trujillo, Regional Inspector General

FROM: Beth S. Paige, Mission Director /s/

SUBJECT: Mission Response to OIG Review of Cash Transfer/Local Currency Program

The Mission is grateful for the Office of Inspector General's (OIG) timely and insightful review of USAID/Jordan's cash transfer and local currency programs. For many years, both programs have been important tools for the U.S. Government to use in pursuing development goals and promoting economic and political stability in Jordan. This review has given the Mission and the Government of Jordan (GOJ) an opportunity to pause and reflect on how conditions have changed since the activities began in 1997 and how suitable they are now.

The Mission welcomes the OIG's recommendations and recognizes their importance to inform the design of both programs and to ensure that they are being managed in compliance with Agency policy. Below, the Mission has responded to each of the recommendations presented in the OIG's draft review report. The Mission agrees with all of the recommendations and has provided a response on actions that have been taken or that will be taken in the near future to address each respective recommendation.

Recommendation 1: *USAID/Jordan should document its analysis already performed, complete a needs assessment, and based on the assessment implement an action plan for how and when to require Jordan to make a local currency contribution.*

The Mission agrees with the recommendation. Jordan faces serious fiscal difficulties as the region has seen slow economic growth and as the GOJ has seen dramatically higher budget deficits exacerbated by unsustainable subsidies, the disruption in the supply of cheap natural gas from Egypt, and the increased financial burden caused by the influx of Syrian refugees. The Mission has documented its analysis in a memo to the activity file. (See attachment 1.) Considering the causes and the depth of the challenges outlined in the GOJ document, the Mission and the GOJ have jointly decided that the local currency activity will be discontinued because the GOJ can no longer afford to fund it at current levels. Rather than requiring the GOJ to contribute the Jordanian Dinar equivalent of $184 million to the local currency program, the GOJ will provide only the Dinar equivalent of $4 million in local currency to help fund Mission operating expenses. Providing the Dinar equivalent of $4 million can be tolerated as the amount will not have a measurable effect on the GOJ's financial condition. The Mission will discontinue programming local currency at the specific sector support (project or activity) level. The Mission requests that this recommendation be closed upon issuance of the Regional Inspector General's (RIG) review report.

Recommendation 2: *We recommend that USAID/Jordan document the capacity of Jordanian Government ministries to carry out development projects to provide reasonable assurance under the requirements for general sector support.*

The Mission agrees with recommendation 2. However, as the Mission has considered issues identified in the review and contemplated resource and political considerations related to programming at the specific sector support level or even at the general sector support level, the Mission has decided that future cash transfer monies will be programmed first for repayment of any eligible, non-military debt and second for general budget support. Programming at the general budget support level should enhance the Mission's relationship with the GOJ as it acknowledges capabilities of the GOJ to manage external resources. The Mission will conduct a general assessment of the GOJ's overall ability to manage its budget process, as led by the Ministry of Finance and the General Budget Department following guidance from ADS 220 for financial assessments of public financial management systems. Ministry level assessments would be required for general sector support but are not required for general budget support. A general assessment is currently underway, and will be completed by June 30, 2013. The Mission will request closure of this recommendation upon completion of the general assessment. If in the future there is a need to provide general sector support, then the Mission will conduct the appropriate Ministry level assessment.

Recommendation 3: *We recommend that USAID/Jordan issue a mission order establishing a practice of obtaining and documenting reasonable assurance of the* *technical capacity of implementers and the technical, financial, and environmental soundness of any projects or activities funded by the local currency account, and implement this practice for projects identified in the August 2012 implementation letter.*

The Mission agrees with the recommendation. However, the Mission has subsequently decided and confirmed with MOPIC that the local currency activity will be discontinued. Local currency will continue to be provided to fund Mission operating expenses, but the Mission will not provide local currency at the specific sector support (project or activity) level in the future. Accordingly, this recommendation is no longer applicable.

To obtain reasonable assurance of the technical capacity of implementers and the technical, financial, and environmental soundness of projects identified in the August 2012 implementation letter for the Local Currency Program, the Mission developed a standard checklist that was completed by technical office subject matter experts for each specific project to receive funds in order to document reasonable assurance. A review of these checklists by the Mission's Program Office and Office of Financial Management did not raise any concerns to prohibit the transfer of funds. An action memorandum signed by the Mission Director on November 14, 2012 approved the use of the checklist to guide and document the technical capacity of implementers and the technical, financial, and environmental soundness of projects. (See attachment 2.) The Mission requests that this recommendation be closed upon issuance of the RIG's review report.

Recommendation 4: *We recommend that USAID/Jordan require Jordan, in writing, to reimburse the local currency fund for 850,000 Dinars ($1.2 million) spent on prohibited uses.*

The Mission agrees with the recommendation. A letter was sent to MOPIC on December 13, 2012 requesting reimbursement to the local currency fund for the 850,000 Dinars programmed for prohibited uses. (See attachment 3.) The Mission will request closure of this recommendation upon confirming that the funds have been re-deposited in the local currency account. The Mission has set a target date of March 31, 2013 to confirm receipt.

Recommendation 5: *We recommend USAID/Jordan include audit procedures in its statement of work for calendar years 2010 through 2012 to test for prohibited activities.*

The Mission agrees with the recommendation. On December 10, 2012 the Mission sent a statement of work for the audit of calendar years 2010 to 2012 to a local auditing firm. The statement of work included audit procedures to test for prohibited activities. (See attachment 4.) The Mission requests that this recommendation be closed upon issuance of the RIG's review report.

Recommendation 6: *We recommend that USAID/Jordan document a formal decision regarding what alternative forms of budget assistance the cash transfer can be applied to and amend the agreement accordingly.*

The Mission Director has determined that presently, the most appropriate use of cash transfer monies will be first for repayment of any eligible, non-military debt and second for general budget support purposes. Programming for other purposes while potentially an option depending on circumstances should remain as an option but is not envisioned under current conditions. A new Cash Transfer Assistance Agreement will be drafted during FY 2013 to reflect a redesign of the Cash Transfer Program under the Mission's new five year strategy period. The new agreement will clearly articulate prioritized uses of the cash transfer. The new agreement will be finalized by September 30, 2013. The Mission will request closure of this recommendation when the new agreement is signed.

Recommendation 7: *We recommend the mission establish written procedures that the Financial Management Office obtains a positive declaration, in writing, before each cash transfer from the Central Bank of Jordan that all separate dollar accounts bear interest.*

The Mission agrees with the recommendation. In an implementation letter dated October 24, 2012, the Mission documented the procedures needed to be performed for each cash transfer. Procedures include obtaining confirmation from the Central Bank of Jordan that all separate dollar accounts bear interest. The procedures resulted in the Mission receiving certification from the Central Bank of Jordan that each of the dollar and local currency accounts were interest bearing prior to the disbursement of the FY 2012 cash transfer of $184 million in November 2012. (See attachment 5.) The Mission requests that this recommendation be closed upon issuance of the RIG's review report.

Recommendation 8: *We recommend that USAID/Jordan contract for annual audits as required by the agreement.*

The Mission agrees with the recommendation. On December 10, 2012, the

Mission sent a statement of work for the audit of calendar years 2010 to 2012 to a local auditing firm. The Mission expects that the contract for the audit will be finalized by January 31, 2013. The Mission will request closure of this recommendation upon issuance of the contract for the audit covering calendar years 2010 to 2012. In the future, the Mission will contract for audits annually.

Recommendation 9: *We recommend that USAID/Jordan include language in the scopes of work, clarifying that the accounting firms should trace sector support funds, on a test basis, to specific projects in the implementation letter*.

The Mission agrees with the recommendation. On December 10, 2012 the Mission sent a statement of work for the audit of calendar years 2010 to 2012 to a local auditing firm. The statement of work included audit procedures to trace sector support funds, on a test basis, to specific projects in the implementation letter. (See attachment 4.) The Mission requests that this recommendation be closed upon issuance of the RIG's review report.

Recommendation 10: *We recommend that USAID/Jordan negotiate with the Jordanian Government performance indicators for the local currency account program and incorporate them into the agreement.*

The Mission agrees with the recommendation. However, because the Mission will discontinue the requirement of the GOJ to contribute local currency for specific sector support, this recommendation is no longer applicable. Nonetheless, for any residual local currency funds to be programmed, the Mission will work with MOPIC to identify appropriate performance indicators to measure impact. The Mission plans to negotiate the use of the residual local currency by January 31, 2013 and identify impact indicators for these funds by April 15, 2013. The impact indicators will be specified in an implementation letter. The Mission will request closure of this recommendation when the GOJ and the Mission finalize programming of any local currency amounts that have yet to be programmed and the Mission issues an implementation letter that includes performance indicators to measure impact of the agreed upon uses of the local currency.

Recommendation 11: *We recommend that USAID/Jordan work with the Jordanian Government to prepare semiannual impact summaries beginning with the most recently completed year*.

The Mission agrees with the recommendation. However, because the

Mission will discontinue the requirement for the GOJ to generate local currency for specific sector support purposes, this recommendation is no longer applicable. Because 2012 was the final year of local currency programming, and most of the funds have been disbursed already, the Mission has determined that it does not make sense at this late date in the process to require an impact summary for use of these funds. Furthermore, since a large number of the specific sector support level uses reflect additive funding for ongoing Mission-funded projects and activities, implementing partners will report program impact as a matter of routine reporting that is already required. However, for any residual local currency funds to be programmed, the Mission will work with MOPIC to outline a requirement to prepare an impact summary. This requirement will be captured in an implementation letter, which the Mission plans to issue by April 15, 2013. The Mission will request closure of this recommendation when the GOJ and the Mission finalize programming of any local currency amounts that have yet to be programmed and the Mission issues an implementation letter that includes the requirement for an impact summary for the agreed upon uses of the local currency.