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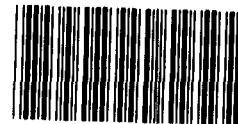
United States General Accounting Office

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

January 1993

AID TO KENYA

Accountability for Economic and Military Assistance Can Be Improved



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United States
General Accounting Office
Washington, D.C. 20548

**National Security and
International Affairs Division**

B-250021

January 25, 1993

The Honorable Edward M. Kennedy
United States Senate

Dear Senator Kennedy:

This report responds to your request that we review the effectiveness of the accountability and control procedures exercised over the economic and military assistance programs in Kenya by the Agency for International Development (AID) and the Department of Defense. This report contains recommendations to the Administrator of AID and to the Secretary of Defense that are intended to help these agencies improve their accountability procedures.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from its issue date. At that time, we will send copies to the Chairmen, Senate and House Committees on Appropriations, Senate Committee on Foreign Relations, and House Committee on Foreign Affairs; the Secretary of Defense; the Administrator of AID; and the Director, Office of Management and Budget. We will also make copies available to others on request.

Please contact me at (202) 275-5790 if you or your staff have any questions concerning this report. Other major contributors to this report are listed in appendix III.

Sincerely yours,

Harold J. Johnson
Director, Foreign Economic
Assistance Issues

Executive Summary

Purpose

The United States has provided more than \$258 million in economic assistance and \$47 million in military assistance to Kenya since 1987—a period during which allegations of Kenyan government misuse of foreign aid increased. Senator Edward M. Kennedy requested that GAO review accountability and controls over U.S. economic and military aid provided to Kenya during this period. GAO's objectives were to determine how U.S. aid has been controlled and used, whether controls over aid are adequate, and whether aid has been diverted or misused.

The Agency for International Development (AID) mission in Kenya plans, monitors, and controls economic assistance projects and activities. The U.S. Defense Security Assistance Agency administers military aid and the Security Assistance Office in Kenya monitors the day-to-day activities.

Background

U.S. assistance programs for Kenya have served four basic purposes: balance-of-payments support, economic policy reform, development and food assistance, and military aid. The United States has funded cash and commodity transfers generating local currency to encourage various economic policy reforms and ease Kenya's budget deficit. The U.S. private sector has provided long-term financing, guaranteed by the U.S. government, for low-income shelter and community development. Military assistance has provided major end items such as fighter aircraft, helicopters, trucks, engineering equipment, and computers.

Allegations of diversion and lack of accountability of foreign aid by Kenya have caused much concern among donor countries. The United States joined other donors in suspending cash aid to Kenya in fiscal year 1992 due to concerns over lack of progress on economic reform and reports of misuse of foreign aid. U.S. assistance has also been reduced due to concern over the Kenyan government's wavering commitment to human rights and democracy. More than \$17 million in military aid has been frozen pending progress in protecting human rights and improving its judicial system.

Results in Brief

Inadequate controls and other problems make some U.S. assistance vulnerable to Kenyan government diversion or ineffective use. GAO did not identify specific instances of diversion of U.S. funds or equipment; however, the United States cannot be fully assured that all assistance is being used for its intended purposes. For example:

- Local currency policy guidance for AID accountability was strengthened in 1991, but agreements now in effect are governed by less strict controls.
- The AID mission does not adequately monitor local currency withdrawals, expenditures, and end use, thereby rendering such assistance more vulnerable to misuse and reducing the likelihood that such misuse can be promptly detected.
- AID mission officials did not always know whether local currency funds were programmed or used in accordance with purposes set forth in grant agreements due to inadequate documentation and lack of familiarity with past programming decisions.
- The Kenyan government had failed to make payments on housing loans in a timely manner, which subjected other U.S. assistance programs in Kenya to funding delays, and one major housing project was over budget and not generating the revenue needed for sustainability.
- Inventory controls over U.S. military equipment were weak in some locations and U.S. Defense Department inventory data provided to U.S. military officials in Kenya were in some cases inadequate.
- Uncertainty exists about the potential use of U.S.-supplied helicopters, and Kenya is not making full use of a U.S. military training program due to funding constraints.

Principal Findings

Accountability for Local Currency Is Inadequate

Between 1986 and 1991, the United States transferred about \$125 million in cash and commodities to Kenya that generate local currency. Although GAO did not identify specific instances of diversion, local currency funds are vulnerable to misuse due to weaknesses in monitoring and documenting how they are programmed, withdrawn, and ultimately used. For example, the AID mission's current system for reconciling local currency withdrawals with programming documents relies primarily on oral agreements with the Kenyan government on how the funds are to be spent. These agreements are then reflected in Kenya budget estimates that are approved by mission officials for those line items in which the mission has an interest; the approved budget constitutes authority to withdraw funds. Except for one program, the mission does not monitor end use of expenditures. Grant agreements signed by AID and Kenya require extensive reporting about the disbursement and use of local currency; however, the mission does not routinely collect and use such reports. Similar accountability problems had been noted in a 1987 Price Waterhouse

review but remain uncorrected. AID strengthened its policy guidance for local currency accountability in 1991 but did not apply the new standards to existing agreements.

**Housing Guaranty
Repayments Are in Trouble**

Since 1969, the United States has guaranteed about \$50 million in loans to improve the level of housing available to low income households. GAO found that the Kenyan government has missed housing guaranty loan payment deadlines three times in the past 1-1/2 years, and the financial position of the organizations responsible for repaying these loans continues to deteriorate. Delinquent payments have delayed funding for other ongoing U.S. programs. The government organizations managing the housing projects are unable to assume the foreign exchange risk associated with U.S. dollar denominated loans. In addition, long-standing sustainability problems at one housing project, including delinquent payments and low interest rates, demonstrate the difficulties these organizations will have in the future unless these problems are addressed.

**Food Aid Distribution Is
Sometimes Delayed**

The Emergency and Private Assistance Program (title II of the Public Law 480 food aid program), totaling about \$7.7 million between 1987 and 1991, appears to operate under adequate controls. However, a Kenyan government board responsible for the exchange and distribution of imported cereals commodities often causes program delays. Although the board eventually meets its commitments, some delays have affected the ability of local participating agencies to receive beans and maize when requested.

**Military Aid Monitoring
Could Be Strengthened**

Major items of military equipment provided by the United States, such as fighter aircraft, helicopters, and construction equipment, are located at the five military installations visited by GAO. The Kenyan military could generally account for U.S.-provided equipment and supplies; however, its inventory records were at times in error and it was not performing full inventories at all military installations. While the U.S. Security Assistance Office in Kenya is performing tasks required by Defense Department guidelines, GAO could not verify the total amount of U.S. military equipment provided to Kenya because the lists provided to GAO were in some cases incomplete or inaccurate—a particular problem for munitions and other sensitive items. Based on GAO's review, the Defense Department has taken action to provide more updated and meaningful equipment

information to the Kenya security assistance office. A prior GAO report¹ discusses the lack of emphasis placed on accountability and control in the Defense Department's monitoring guidelines for U.S. military assistance and suggests that Congress revise the Arms Export Control Act to impose a statutory requirement for greater U.S. oversight.

Questions Exist About Integration of U.S.-Supplied Helicopters

The equipment provided by the United States is intended primarily to support Kenya's efforts to deter and counter external threats. According to a Defense Department official, the Kenyan army helicopter unit conducts joint exercises with the General Services Unit—a paramilitary arm of the Kenyan police department—and does not have an integrated role with the Kenyan army. State Department officials were told by the Kenyan military that the U.S.-supplied helicopters could be used in coordination with the General Services Unit along Kenya's borders to counter bandits, rustlers, or poachers from neighboring countries. However, State officials have no indication that these helicopters have been used against civilians in connection with the General Services Unit's internal security mandates, such as riot control, and the Kenyan military has denied improper use of the helicopters.

Recommendations

Control weaknesses and other problems make some U.S. assistance programs in Kenya vulnerable to diversion or ineffective use. AID and the Department of Defense can take some actions to help ensure that U.S. assistance is used to help its intended beneficiaries, and GAO makes several recommendations to the AID Administrator and the Secretary of Defense to address these concerns.

Agency Comments and GAO's Evaluation

AID said it was inaccurate to say that the United States cannot be fully assured that its assistance in Kenya is used for intended purposes. AID noted that it generally conforms with the requirements of its pre-1991 guidance, which do not require end-use monitoring, and that no audits have identified specific instances of diversion of U.S. funds or equipment. GAO notes that the mission has generally complied with AID's pre-1991 guidance and the mission has funded various audits and taken other steps to strengthen controls. However, AID's pre-1991 guidelines do not provide adequate assurance of accountability because they lack a requirement for end-use monitoring.

¹Military Aid: Stronger Oversight Can Improve Accountability (GAO/NSIAD-92-41, Dec. 16, 1991).

AID agreed that documentation and reporting procedures regarding local currency programs in Kenya need strengthening and has taken steps to do so, but AID disagreed with GAO's recommendation that the 1991 guidance be applied to agreements currently in effect. AID described steps it is taking to strengthen local currency controls and GAO modified its recommendation accordingly.

AID generally agreed with the findings regarding repayment problems of housing guarantee loans but noted the complex interplay of the agents responsible for payments. AID said that raising rents or mortgage payments is a volatile political issue at this time, but GAO believes AID should continue to look for opportunities to enhance loan repayments.

The Defense Department generally agreed with the findings and recommendations regarding controls over U.S. military assistance provided to Kenya. Based on a recommendation contained in GAO's draft report, Defense has provided more useful equipment delivery information to its office in Kenya and has placed the Kenya office on the distribution lists for relevant equipment delivery information.

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Abbreviations

AID	Agency for International Development
CRS	Catholic Relief Services
DSAA	Defense Security Assistance Agency
GAO	General Accounting Office
IMET	International Military Education and Training
NCC	Nairobi City Commission
NHC	National Housing Corporation
RHUDO	Regional Housing and Urban Development Office
SAO	Security Assistance Office

Introduction

Since 1954, the United States has provided nearly \$1 billion in economic and military aid to Kenya due to its strategic location near the Horn of Africa, moderate pro-Western policies, relative political stability, and potential for economic growth. Our review examined U.S. funds provided to Kenya since 1987. As shown in table 1.1, the United States has provided about \$282 million to Kenya from 1987 through 1991.¹ Estimated economic aid obligations for fiscal year 1992 total about \$21.9 million and military aid has been suspended pending democratic and human rights reform. The Agency for International Development (AID) estimates that about \$65 million in economic assistance² will remain available for expenditure at the end of fiscal year 1992.

Table 1.1: Amounts and Types of U.S. Economic Aid Obligated for Kenya (Fiscal Years 1987-91)

Dollars in millions

	Fiscal year					Total
	1987	1988	1989	1990	1991	
Development Assistance/ Development Fund for Africa	\$20.1	\$31.1	\$44.7	\$34.2	\$24.1	\$154.2
Economic Support Fund	15.0	10.0	10.0	0	0	35.0
Public Law 480 title I	8.0	10.0	5.0	6.7	0	29.7
Public Law 480 title II	1.3	1.1	1.7	1.8	1.5	7.4
Public Law 480 title III	0	0	0	0	10.0	10.0
Subtotal Economic Aid	44.4	52.2	61.4	42.7	35.6	236.3
Foreign Military Financing	10.5	5.1	15.0	10.0	0	40.6
International Military Education and Training	1.5	1.2	1.0	1.1	0.7	5.5
Subtotal Military Aid	12.0	6.3	16.0	11.1	0.7	46.1
Total Aid	\$56.4	\$58.4	\$77.4	\$53.8	\$36.3	\$282.3

Source: AID and the Department of Defense.

Note: Public Law 480 is the Agricultural Trade Development and Assistance Act of 1954, as amended, and is commonly referred to as the "Food for Peace" program.

U.S. assistance to Kenya has supported four basic programs: balance-of-payments support, economic policy reform, development and food assistance, and military aid. The United States has funded nonproject assistance through cash grants and local currency programs to encourage various economic policy reforms and ease Kenya's budget deficit.

¹Excludes Peace Corps and includes more than \$17 million in suspended military aid.

²Excludes Public Law 480 food assistance.

Development assistance has focused primarily on the health and family planning, agriculture, and private enterprise sectors. The U.S. private sector has provided long-term financing for low-income housing and community development projects that are guaranteed by the U.S. government. Military assistance has provided major equipment such as fighter aircraft, helicopters, trucks, engineering equipment, and computers. Since 1987, military aid has mostly funded consumable items such as spare parts, training, fuel, and ammunition, although some major items ordered under previous years' programs continue to be delivered.

The United States is one of many bilateral and multilateral donors providing assistance to Kenya. In its budget estimates for 1991, the Kenyan government estimated that U.S. resources for development projects amounted to about 42 million Kenyan pounds, or 11 percent of bilateral development resources totaling about 386 million Kenyan pounds. These figures include revenue from grants and loans as well as appropriations. Estimated resources from multilateral donors, such as development banks and the United Nations Development Program, totaled about 183 million Kenyan pounds. AID estimates that in fiscal year 1991 U.S. economic assistance comprised about 4 percent of total bilateral and multilateral aid to Kenya.

U.S. officials believe that U.S. aid to developing countries is less susceptible to mismanagement or diversion than aid from other donors due to the considerably larger U.S. mission presence in most countries, which in Kenya also includes the AID Regional Inspector General Offices for Audits and Investigations. Also, most U.S. economic assistance is now delivered through organizations outside the Kenyan government. The AID mission in Kenya estimates that about 14 percent of its total fiscal year 1991 disbursements went to the Kenyan government and government-owned businesses. The remaining funds were disbursed mostly (1) for U.S. procurement under commodity import programs and rural private enterprise projects, (2) to U.S. and Kenyan private voluntary agencies and nongovernmental organizations, and (3) to U.S. private firms for technical assistance.

Donor countries have become more concerned about Kenya's commitment to economic and political reform as well as recent allegations of Kenyan government misuse and corruption of foreign aid. For example, the Danish government suspended economic aid in October 1991 after its Auditor General reported major problems in the use of funds provided to the Kenya Rural Development Fund, which is administered, implemented,

and partially funded by the Kenyan government. Denmark was the lead donor for the program, which has also been funded by Norway, Sweden, and the Netherlands. According to the Danish Auditor General's report, the irregularities ranged from procedural errors to using funds for unapproved project activities. While the audit found adequate internal controls in place, it noted that Kenyan officials' compliance with procedures was often lacking. It also noted that field reports have pointed out major problems and weaknesses in financial administration at federal and local levels since 1977. A 1990 field report by the Danish auditors concluded that "fraudulent conversion of the project funds and application of funds for non-approved objectives was an increasing problem." According to AID, three district officials were arrested and brought to trial in early 1992 and their cases are still pending in court; a fourth district official was arrested and relieved of his duties. The Permanent Secretary for the Ministry of Planning and National Development was investigated and cleared.

In November 1991, bilateral donors and multilateral institutions involved in Kenya's economic development agreed to withhold cash disbursements and limit other types of aid pending Kenyan government progress in implementing various economic and political reforms. According to the World Bank press release regarding the November meeting, the officials acknowledged Kenya's success in implementing important structural reforms and sustaining economic growth in the second half of the 1980s. However, they remained concerned about the deteriorating macroeconomic situation, high unemployment, and flight of capital from the country. They emphasized the need for greater transparency and accountability and expressed frustration over misuse of public funds in certain instances.

In December 1991, the Kenyan government yielded to opposition demands and international pressure for a multiparty political system. Elections were held in December 1992. Progress on economic reforms required by the November 1991 consultative group is not complete but some major reforms have been made, according to AID. These include (1) progress in reducing the budget deficit from 6.3 percent of the gross domestic product in November 1991 to about 3.6 percent by the end of fiscal year 1992, (2) partial liberalization of the trade and exchange regime, (3) price liberalization—prices of 48 commodities have been decontrolled, and (4) institution of cost sharing for health care and university education. Kenya has made little progress in reforming its parastatal and civil service structure.

U.S. assistance has also been reduced due to concern over human rights abuses and a wavering commitment to democracy. In 1990, the United States responded to a government crackdown on opposition figures by freezing \$9.9 million in military aid approved for fiscal year 1990 and subsequent appropriations have also been suspended. In fiscal years 1991 and 1992, AID limited Development Fund for Africa assistance to \$24.1 million and \$19.1 million, respectively, and the fiscal year 1993 request for Kenya is \$17.2 million. Prior to the economic and political concerns raised in 1991, AID had been considering \$40 million to \$50 million for fiscal year 1992 based on various indicators measuring Kenya's performance and need, according to the mission director.

Objectives, Scope, and Methodology

Citing concerns over alleged corruption of foreign aid by the Kenyan government and the deteriorating political and economic situation in Kenya, Senator Edward M. Kennedy requested that we review accountability and controls over U.S. economic and military aid provided to Kenya over the last 5 years. Our objectives were to determine how U.S. aid has been controlled and used over this period, whether controls over U.S. aid are adequate, and whether any diversion or misuse of funds or equipment has occurred. We focused our review on those areas most vulnerable to Kenyan government diversion or misuse, such as local currency programs and military equipment and supplies.

To review controls over economic assistance, we conducted work at the Department of State and AID in Washington, D.C. We reviewed pertinent legislation, agency criteria governing oversight of economic aid, and data gathered during our October 1991 fieldwork in Kenya in connection with a general management study of AID. We also reviewed AID audits, grant agreements, evaluations, and other reports on AID oversight and control of funds and discussed accountability issues with AID managers at the Bureau for Africa and the Bureau for Food and Humanitarian Assistance.³ In Kenya, we met with government officials at the Ministries of Finance and the Auditor General. We conducted site visits at three agencies⁴ that receive local currency funding. We interviewed representatives from the certified public accounting firms of Price Waterhouse and Peat Marwick to discuss their audits of AID programs and review their workpapers. At the AID mission, we met with U.S. and Kenyan staff responsible for monitoring

³As a result of AID's October 1991 reorganization, the Bureau for Food for Peace and Voluntary Assistance and the Office of Foreign Disaster Assistance were merged into the Bureau for Food and Humanitarian Assistance.

⁴Egerton University, Kenya National Hospital, and the National Cooperative Housing Union.

and controlling assistance activities and reviewed various program documents, including financial data on local currency deposits and withdrawals. We traced the deposit and withdrawal data to the appropriate authorizing program documents. We also met with the Regional Inspectors General for Audits and Investigations regarding their reviews of Kenya aid programs and reviewed workpapers on their audit of the commodity import program.

To review controls over housing guaranty programs, we interviewed U.S. and Kenyan officials at AID's Regional Housing and Urban Development Office and visited five projects. At the U.S. embassy, we discussed Kenya's economic situation with the economic and political officers and discussed controls over the Ambassador's Self-Help Fund with embassy staff. We also discussed accountability for the foreign service national pension plan funded by the United States with embassy personnel staff. We met with the World Bank representative to Kenya to discuss a multilateral perspective on Kenya's economy. We met with staff from Catholic Relief Services to discuss controls over Public Law 480 title II food aid programs in Kenya and reviewed title II documents at the AID mission.

To review the adequacy of accountability for military assistance, we conducted work at the Department of State and the Department of Defense's Defense Security Assistance Agency in Washington, D.C., and the U.S. Central Command at MacDill Air Force Base, Florida. We examined the amounts and types of military aid provided to Kenya and the criteria governing the use and controls over this equipment. In Kenya, we interviewed U.S. officials from the Security Assistance Office. We examined their records and reports on Kenyan accountability procedures and discussed the level of U.S. program oversight and knowledge of potential misuse of assistance. We also met with Kenyan military officers at all levels and visited five military installations. We reviewed Kenya's policies and procedures for receipt, issuance, and delivery of military supplies and equipment and performed spot checks of warehouse inventories to verify the accuracy of records and adequacy of controls.

We conducted our review from January to July 1992 in accordance with generally accepted government auditing standards. We provided a draft of this report to AID, the State Department, and the Defense Department. AID and the Department of Defense provided official comments, which we have incorporated into the appropriate chapters and reprinted in full in appendixes I and II. The State Department did not comment.

Local Currency Is Vulnerable to Misuse

Some U.S. assistance programs are designed to generate local currencies that are owned by the recipient government. The local currency can then be used to finance the general budget, provide budgetary support for specific economic sectors, and support development activities as agreed upon with the United States. AID's previous policy guidance on accounting for local currency generated by U.S. assistance programs was vague and, although more stringent guidance has been written, the guidance was not made to apply to local currency generated under agreements signed before July 1991. All grant agreements currently generating local currency in Kenya were signed before that date. U.S.-generated local currency funds in Kenya are vulnerable to mismanagement or diversion because the AID mission has not consistently monitored and documented the programming, withdrawal, expenditure, and end use of these funds. Furthermore, the Kenyan government and the mission have not resolved several local currency accountability weaknesses noted in a 1987 review.

Local Currency Program

AID entered into eight grant agreements with Kenya between 1986 and 1991 that generated local currency, and we examined withdrawals made from the local currency accounts from July 1987 through February 1992.¹ When the United States makes a cash grant, it provides dollars as assistance and the Kenya government agrees to make available local currency in an amount equal to the value of the U.S. dollars. Under commodity programs, the Kenyan government sells the commodities and deposits the proceeds in local currency accounts; these proceeds are resources the government would not otherwise have had. Under the terms of such programs, the United States transferred about \$125 million in cash and commodities to Kenya between 1986 and 1991. (See table 2.1.)

Table 2.1: Kenya Local Currency Program

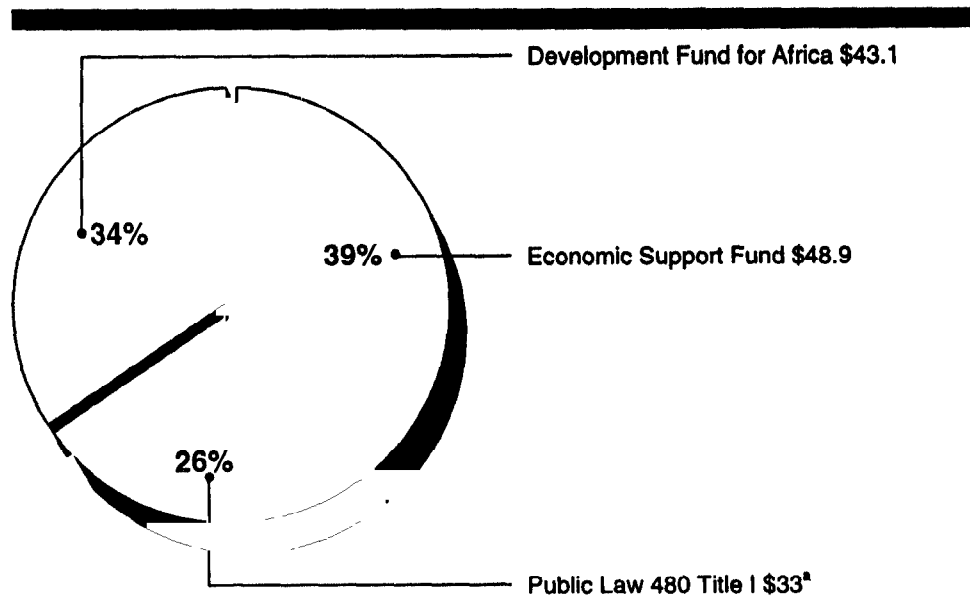
Dollars in millions

Fund Source	Fiscal year						Total
	1986	1987	1988	1989	1990	1991	
Food	\$10.0	\$8.0	\$10.0	\$5.0	\$0	\$0	\$33.0
Cash	0	0	0	9.7	0	0	9.7
Commodities	14.4	14.5	17.5	15.0	12.5	8.4	82.3
Total	\$24.4	\$22.5	\$27.5	\$29.7	\$12.5	\$8.4	\$125.0

¹Data on withdrawals made before July 1987 were unavailable; however, we included in our review an agreement signed in 1986 to expand our coverage of withdrawals made in 1987 and later years.

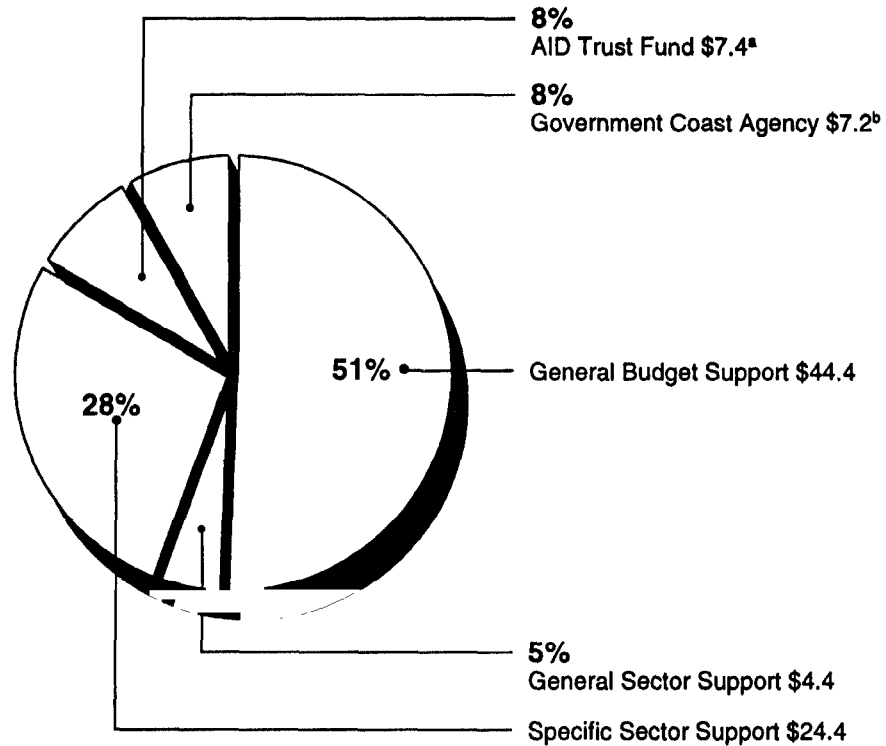
The local currency agreements with Kenya have been financed under the Economic Support Fund, the Development Fund for Africa, and title I of Public Law 480—Trade and Development Assistance. (See fig. 2.1.) Between July 1987 and February 1992, over 1.8 billion Kenyan shillings, or about \$88 million, were withdrawn primarily for general budget support and for specific sector support for development programs and projects. (See fig. 2.2.)

Figure 2.1: Funding Sources for Local Currency Program in Kenya, Fiscal Years 1986-91



*Although a concessionary food sales program, in 1991 the United States forgave Kenya's total title 1 debt, amounting to about \$102 million since 1980.

Figure 2.2: Distribution of Local Currency Withdrawals, July 1987-February 1992



^aThe AID Trust Fund is used to help defray the mission's operating expenses.

^bThe Government Coast Agency is a Kenyan parastatal responsible for the receipt, transportation, bagging, and storage of imported fertilizer.

Program Objectives

AID considers cash and commodity transfer programs as tools for helping recipient countries achieve an overall budget that represents a sound, development-oriented allocation of resources. Local currency and cash transfer agreements often incorporate economic policy reforms as program goals. Missions track progress toward reforms as conditions for delivering assistance.

Joint programming is designed to provide AID an opportunity to influence host country development decisions by negotiating and mutually agreeing on local currency use with host government officials. The agreements transferring cash and commodities to Kenya require that local currency generated from the transfers be used for mutually agreed upon purposes. Some agreements state that funds may be used to support sectors of the

Kenyan budget, such as health or agriculture. Other agreements allow funds to be used for general budget support to reduce Kenya's budget deficit. One agreement requires funds to be allocated for budget line items to support specific development activities. Most agreements indicate that substantive program changes must be documented with an exchange of letters, often called program implementation letters, which allow the mission and the government to postpone deadlines and rewrite conditions for assistance without rewriting entire agreements.

More Stringent Policy Guidance Does Not Apply to Agreements in Effect

Local currency agreements with the Kenyan government were written under vague AID policy guidance issued in 1983. Guidance written in 1991 clearly defines mission responsibilities for assuming accountability of funds, but the new guidance was not made to apply to agreements already in effect.

Applicable AID Policy Guidance for Accountability Is Vague

The eight local currency agreements that we reviewed are governed by AID policy guidance issued in 1983, which is vague in terms of AID's programming and monitoring responsibilities. Under this guidance, local currency programming is considered a tool for helping host countries develop a sound development-oriented budget, but little emphasis is placed on the actual use of local currency funds. The guidance does not specifically require end use accountability nor does it clearly indicate the level of accountability required. However, it does note that more accountability is required for funds allocated to specific sector projects, which are more easily monitored, than for general budget and sector support. AID missions are encouraged to rely upon host government accounting structures for monitoring projects and receiving reports on how money is spent. The policy guidance states that host government programming and budgeting systems should provide "reasonable assurance" that mutually agreed upon objectives will be achieved. If these systems need improvement, missions are encouraged to jointly program local currencies or other resources toward strengthening these systems.

New Guidance Defines Monitoring Responsibilities

Policy guidance issued by AID in July 1991 requires a much stricter level of AID mission accountability at each local currency programming level. The new guidance replaces the standard of reasonable assurance that the host government can carry out program objectives with a requirement for specific assessments of host government capability to account for and monitor local currency expenditures. The new guidance also requires less

documentation at the level of general budget support, where accounting for specific U.S.-generated funds is more difficult, and more documentation at the level of specific project support. However, it links assistance through general budget support or general sector support to high levels of confidence in the host country's budget system and the "assumption"—based on the required assessment of host government capabilities—that the funds will be used appropriately and have the intended development impact. If the mission cannot make this assumption, it is not to program funds for general budget or sector support. The mission can take steps to strengthen host government capabilities or program the funds for specific projects that can be monitored.

The new policy guidance requires that the mission and the host country agree on the format and frequency of reports to be submitted. The full responsibility for documenting the use of the funds is with the host country agency managing the local currency account. Nongovernmental organizations receiving U.S.-generated local currency funds through the host country budget are required to report to the host government on performance indicators and funds disbursed each quarter. The new guidance also requires audits of local currency funds and encourages missions to use local currency to finance independent audits if the government's audit abilities are inadequate. Missions are also required to retain the right to independently review supporting documentation to verify that local currency agreements have not been violated.

The new guidance was made to apply to agreements signed after July 31, 1991, and missions were not required to apply the stricter provisions to agreements signed prior to that time. The Kenya mission has not signed any local currency agreements since the new guidance became effective and is consequently still applying the previous guidance.

Mission Does Not Adequately Monitor the Use of Local Currency

The controller's office at the AID mission in Nairobi, Kenya, is responsible for ensuring that U.S.-generated local currencies are withdrawn for authorized purposes. Until the controller's office was established at the mission in 1988, the AID Regional Financial Management Center in Nairobi was responsible for budget and accounting support for the mission and the mission's program office was responsible for monitoring local currency accounts. The mission program office reviewed the Kenyan government budget at the beginning of each fiscal year and received a year end expenditure report but did not verify the report's accuracy.

Inadequate Documentation Raises Questions About Appropriate Local Currency Use

Throughout our fieldwork, we, along with mission staff, had difficulty locating all documentation to support programming decisions. The local currency agreements specified some uses for the currency and established procedures for jointly programming remaining funds. While there is evidence that the mission initially attempted to document that funds were programmed consistently with the agreements, the mission no longer documents its programming decisions. Therefore, the mission could not always demonstrate that local currency funds were used for purposes set forth in the grant agreements.

Programming and expenditure documentation has declined since 1989. Until that time, the Kenyan government submitted short project descriptions with proposed budgets that allowed the mission to rank its local currency spending priorities. The mission also approved agreements between the Kenyan government and nongovernmental organizations receiving local currency funds to finance development projects. After reviewing proposals, the mission sent formal letters approving the use of funds and maintained extensive and detailed records of discussions with Kenyan government officials regarding local currency use.

The process changed in 1989 with the automation of the Kenyan government budget process and the establishment of a forward budgeting system. Prior to the publication of the forward budget, Kenyan government and mission officials discuss and agree on programming requirements. The forward budget then becomes current fiscal year estimates and the Ministry of Finance submits for mission verification estimated budget figures for those line items in which the mission has an interest. The Ministry no longer routinely provides descriptions of proposed projects and budgets and the mission no longer formally approves government agreements with nongovernmental organizations. Mission and Kenyan officials then negotiate to achieve the desired figure in the final Kenyan budget on which the Kenyan Parliament votes. Authorization to withdraw funds is automatic with the approval of the jointly programmed budget.

According to mission officials responsible for implementing the local currency programs, the mission stopped (1) requiring specific proposals on the Kenyan government's use of local currency, (2) documenting meetings between the government and the mission that discussed local currency uses, and (3) formally authorizing local currency withdrawals through implementation letters. According to mission officials, if programming decisions were put into writing, the mission would then be

responsible for monitoring the end use of local currency funds and it did not want this responsibility. Mission officials now reach an oral understanding with the Kenyan government on how local currency will be spent. Mission officials said that they review the government's budget to ensure adherence to these understandings, but because there is no documentation, this cannot be verified.

Although programming decisions from 1986 through 1988 had been relatively well documented, the mission maintained no central file to track these decisions and implementing actions. As a result, these documents were spread throughout numerous mission files. Some documents that we sought were never located while others were found with difficulty. Not documenting recent decisions and the lack of orderly files on past decisions resulted in many mission officials having little or no knowledge of the rationale for past programming and implementing actions.

The mission's lack of readily available knowledge about some past programming decisions was illustrated by our review of general budget support. We noted that about \$44.4 million had been withdrawn to reduce Kenya's budget deficit between July 1987 and July 1991. We asked mission officials to clarify when and why funds had been jointly programmed for general budget support and whether such use of local currency funds was consistent with the programming agreements. Mission officials were unable to provide the requested clarifications. However, the files revealed that, during 1987 and 1988, mission officials stated that the economic conditions in Kenya warranted this use of local currency but stipulated that various economic reform conditions be met. Mission officials certified compliance with these conditions in 1989 and 1990, and authorized the release of local currency for general budget support in accordance with agreements related to the mission's structural adjustment program. In commenting on this report, AID emphasized that the programming decisions were documented and the \$44.4 million accounted for. We agree but note that program officials were initially unfamiliar with the rationale for a major local currency decision.

Poor documentation led the AID Regional Inspector General to question the appropriateness of many withdrawals from local currency accounts. In a 1991 report on the commodity import program in Kenya, the auditors examined withdrawals from three local currency accounts between August 1986 and August 1990 and compared these withdrawals to available programming documents provided by the mission. According to the report, the mission could provide documents authorizing only

\$9.2 million, or about 15 percent of withdrawals totaling \$64.2 million. Our review of mission files indicated that most of the remaining withdrawals of \$55 million had been authorized. However, due to the mission's decision to use the approved budget as authorization for withdrawals rather than program implementation letters, the mission had been unable to provide the Regional Inspector General's office the authorizing documents required by the auditors.

During our review and in commenting on our draft report, mission officials disagreed with the Regional Inspector General's conclusion that the withdrawals of \$55 million were unauthorized because program implementation letters were lacking and reiterated the mission position that the jointly programmed and approved budget constitutes authorization for withdrawal. Our conclusion that most withdrawals were in fact authorized was based on a review of other documents provided by mission officials as well as interviews with program personnel. However, this disagreement between the mission and the auditors points to a need for a clear audit trail.

Mission officials also attribute the decreasing documentation to a staff reduction at the mission in 1991 when the office administering the Public Law 480 food concessional sales program was consolidated with other offices and its staff reassigned either within the mission or to other missions. Mission officials stated that fewer people are doing the same work that a larger staff had previously done.

The Mission Does Not Always Reconcile Withdrawals With Programming Documents

Our review noted that the Government Coast Agency had made 72 withdrawals between July 1988² and February 1992; however, neither we nor mission officials could find documentation authorizing these withdrawals. The Agency, a Kenyan parastatal that receives, transports, bags, and stores imported fertilizer, withdrew almost 159 million shillings, or about \$7.2 million, representing about 8 percent of funds withdrawn from the local currency accounts during this period.

Unauthorized withdrawals by the Agency were cited in a 1987 local currency review by Price Waterhouse, and these costs were also questioned by AID's Regional Inspector General in 1991. Mission officials responded to the 1987 report that, while charges for services such as those rendered by the Agency were legitimate uses of local currency funds, the Kenyan government decision to pay these charges was in violation of the

²Complete withdrawal data for these local currency accounts before July 1988 were unavailable.

project agreement because these funds had not been jointly programmed. Price Waterhouse recommended that withdrawn funds be redeposited and that no reimbursement be made until the mission and the Kenyan government formally agreed that local currency generations could be used for such payments and the Kenyan government provided adequate documentation to support the claimed amounts. Mission officials responded that they would address the matter with the Kenyan government. However, we found no evidence that the mission did anything to resolve this matter and the withdrawals continued.

The lack of reconciliation of withdrawals to authorizing documents is partly due to limited communication within the AID mission between the program office and the controller's office. In April 1991, the controller's office instituted a system for checking the withdrawals from the special accounts against programming documents. Under this system, an employee of the controller's office visits the Ministry of Finance once a month to review the withdrawals from the special accounts and then checks with the program office regarding withdrawals for programs or purposes of which the controller's office is not aware. A controller's office staff member stated that he notifies the program office if he finds irregularities in the accounts; for example, if more money was withdrawn by a ministry than was approved in the Kenyan budget. However, the mission has not developed a system whereby the program office routinely informs the controller's office on programming changes affecting local currency authorizations.

**Mission Often Lacks
Required Reports on Local
Currency Expenditures
and Use**

Although local currency agreements require that recipient agencies submit documentation on expenditures, the mission has not systematically collected or retained such reports. All local currency agreements since 1986 require the Kenyan government to provide the mission with statements of deposits and withdrawals from the local currency accounts and descriptions of how the money was spent. Most agreements required annual reports; some required them on a quarterly basis. Mission files contained bank statements that quantify the funds deposited and withdrawn from the accounts. However, we found no reports from the Kenyan government on how the money was spent.

Of all local currency withdrawn, the AID mission and the Kenyan government jointly programmed about 29 percent for use by nongovernmental organizations receiving money through line items in the Kenyan government budget. The Kenyan government was to monitor and

report on the use of local currency by these nongovernmental organizations by requiring from these recipients annual reports on project progress and quarterly descriptions detailing how local currency was spent. These documents were to be available to the AID mission on request along with regular audit reports. We found no evidence that the mission had requested such reports or that the Kenyan government had reported to the mission on its monitoring of nongovernmental organizations. Furthermore, officials at nongovernmental organizations that we visited indicated that the Kenyan government did not require such reports.

Even if the mission received all required reports, it still would not know with certainty that all local currency had been spent as intended because it does not routinely monitor the end use of local currency funds. An official at one of the three projects we visited stated that no one from the mission had come to the project site to compare specifically what the project management claimed it spent with what was visible on site. We found no documents comparing claimed expenditures with vouchers or actual items purchased. Mission officials said that, in their opinion, the project officers have an adequate sense of how a project is using funds through their regular project monitoring activities.

Mission Monitors Progress Toward Policy Reforms

The mission monitors required policy reforms stipulated in local currency agreements. For example, the mission tracks progress toward reducing the Kenyan budget deficit by consulting International Monetary Fund and World Bank statistics. A mission official stated that he also reviewed annual government reports on implementation of self-help measures and progress toward milestones, although he was unable to locate these reports. Economic policy reforms are set up in an often complex series of conditions and milestones that the Kenyan government is to meet before withdrawing funds from the local currency accounts. When the Kenyan government fails to fulfill a condition or meet a milestone, the mission has the authority through program implementation letters to change agreement deadlines or redefine conditions.

Some agreements moved the Kenyan government toward policy reforms. For example, the Public Law 480 title I goal of privatizing the Kenyan grain market was refined under the Kenya Market Development Program, which successfully lifted most transportation controls on grains. Also, the Fertilizer Pricing and Marketing Reform Program moved the Kenyan Ministry of Agriculture away from allocating fertilizer imports to distributors. It encouraged the institution of the Kenya National Fertilizer

Association, a group of private distributors who decide among themselves how to allocate imported fertilizer.

As noted earlier, AID states that the Kenyan government has made some progress in some areas required by the November 1991 donor consultative group. For example, Kenya reduced its budget deficit from 6.3 percent of gross domestic product to about 3.6 percent by the end of fiscal year 1992. The 3.6 percent includes pending bills for expenditures during fiscal year 1992 but not yet paid. According to AID, this is a tougher measure than the usual cash basis that the International Monetary Fund uses for many other countries. In addition, as a measure to improve the policy environment for the private sector, the Kenyan government has partially liberalized the trade and exchange regime, with the establishment of an export retention scheme for nontraditional exports and with a market-based foreign exchange auction system.

Two Programs Are Controlled and Documented

The Health Care Financing Program and the Kenya Market Development Program, which are financed by U.S. cash grants and commodity programs, displayed the mission's ability to manage complex projects while providing a documented program history to benefit future program managers. The Health Care Financing Program agreement contains specific language about recordkeeping and reporting standards. The agreement specifies that AID, the Kenyan government, and the recipient agencies must meet at least annually to program in writing how local currency funds available to the program are to be spent. A mission project officer reviews the budget areas for planned expenditures of local currency. Furthermore, the recipient agencies are required to provide expenditure reports on the activities and items funded with local currency. Each release of funds is linked to specific conditions or actions to be performed by the recipient agencies; disbursements are made as conditions are met. Mission officials responsible for the Health Care Financing Program stated that such thoroughness was not an excessive burden on the mission or the recipient agencies and that good resource management demanded such controls.

The Kenya Market Development Program, which specifically defines expected policy reforms and links these to deliveries of U.S. commodities, is the first U.S. local currency program in Kenya to include provisions for end use monitoring. The accounting firm that audits the arrival of project commodities at the port has been contracted to audit the funds generated by the commodities through the various agencies of the Kenyan

government to the final product—market roads in remote parts of Kenya. The mission project officer for this program stated that he has made initial visits to all project sites and plans to continue extensive on-site monitoring.

These two programs illustrate that the mission can monitor complex programs and provide documentation to support decisions made throughout the program and to help maintain program expertise as officials rotate through the mission. According to mission officials, these two programs are high priority activities because they have had success in achieving desired reforms, and therefore they have been subject to more stringent standards. However, it could also be argued that these two activities have been a success precisely because they were subject to tighter controls. Mission project officers and officials of recipient agencies who are most affected by increased accountability told us that increased oversight would not cause undue hardship for staff.

Accountability Problems Noted in 1987 Have Not Been Addressed

Price Waterhouse conducted a comprehensive local currency review in 1987 that noted several internal control problems that have not been resolved by the mission or the Kenyan government. For example, the review noted that the mission had not developed a system to monitor local currency end use and recommended that mission officials write provisions into program agreements that would allow for end use monitoring of generated funds. We found that only one program—the Kenya Market Development Program—had included provisions for end-use monitoring. Price Waterhouse concluded that the Kenyan government's ability to account for local currency generations and related activities needed improvement and suggested that mission officials meet with Kenyan government officials to ensure that program agreements related to local currency use were understood and followed. Despite the accountability weaknesses found in the Kenyan government's management of local currency programs, the mission did not know if an assessment of the government's capabilities had been conducted since the 1987 review. However, according to a controller's office official, the mission began negotiations with the Kenyan government for such a review in August 1992.

The 1987 review noted that a lack of communication between the Regional Financial Management Center³ and the mission program office had

³The Regional Financial Management Center provided accounting support for the Kenya AID mission until 1988 when the mission controller's office was established.

contributed to a lack of agreement on responsibilities for reporting information about changes in agreements and authorizations. Even though these functions are now performed within AID's Kenya mission, we found that communication between program managers and accountants still needs improvement.

Price Waterhouse also noted the absence of required reports and recommended that the mission not sign new agreements until all reporting requirements for the old agreements had been fulfilled. Mission officials were unable to locate these reports in mission files. Since the 1987 review, four local currency agreements and seven amendments have been signed. The review also noted a concern about unauthorized withdrawals from local currency accounts and recommended that the mission use local currency to finance end-use monitoring.

In its formal response to the Price Waterhouse review, the mission accepted the findings and agreed it was thorough and accurate. The mission said, however, that the concerns about unauthorized withdrawals should be addressed with the Kenyan government and that the recommendation that local currency be used to finance end use monitoring was "premature" because no programming of the most recent local currency agreement had yet occurred and the mission did not know what level of monitoring would be necessary.

In commenting on this report, AID stated that the mission chose not to require end-use monitoring and emphasized that this was not a requirement of the local currency accountability policy guidance. The mission also noted that, although no formal assessment of the Kenyan government's capabilities had been conducted since 1987, a 1990 general assessment by the mission led mission officials to a high degree of confidence in Kenya's budgeting and financial management for bilateral programs. AID also stated that reporting problems have been corrected by the production of Kenyan government budget reports and the tracking system used by the controller's office.

Conclusions

Although some U.S.-generated local currency had been withdrawn by a Kenyan parastatal without written authorization, we found no specific instances of improper diversion of funds. However, in our opinion, the internal controls and management oversight for most of these funds are weak, the mission's programming and authorizing documentation inadequate, and, as a result, fraud and abuse could occur undetected.

Allegations of financial mismanagement by the Kenyan government and Kenya's deteriorating political and economic condition point to a need for good controls over assistance provided directly to the Kenyan government. Weak controls over such assistance reduce the likelihood that U.S. officials responsible for monitoring these funds could promptly detect evidence of misuse or diversion. The more stringent local currency policy guidance issued in July 1991 requires tighter controls to ensure such funds are properly programmed and spent.

Although weak controls existed over most local currency programs in Kenya, two programs that the mission views as high priority activities illustrate that the mission can monitor complex cash and commodity transfer programs and provide documentation needed to support program decisions and the use of funds. Although local currency funding in Kenya has decreased in recent years, agreements currently in effect and future agreements will continue providing resources that should be monitored to assure proper use by recipient agencies.

Recommendation

We recommend that the AID Administrator direct the AID mission in Nairobi to determine which provisions of the 1991 policy guidance on local currency accountability could be applied to agreements currently in effect without renegotiation with the Kenyan government and apply these accordingly.

Agency Comments and Our Evaluation

In a draft of this report, we recommended that the mission apply the 1991 guidance on local currency to agreements currently in effect. In commenting on the draft report, AID said it did not believe it would be useful or realistic to renegotiate agreements dating back to 1986 to retroactively apply the 1991 guidance. AID acknowledged that the documentation for some of the programming, disbursing, and monitoring of local currency was not what it should be, but said that the problems we identified could be resolved by better enforcing the current agreements and revising internal mission procedures. These procedures would (1) strengthen the system of reconciling local currency withdrawals with authorizing documents, (2) establish a monitoring system to ensure that reports are submitted in a timely manner, and (3) require that capability assessments be performed when the mission believes that the Kenyan government accounting systems are no longer able to produce timely and accurate reports. However, we remain concerned that the pre-1991 guidelines do not require end-use monitoring and believe AID should, at a

minimum, seek to apply those provisions of the 1991 policy guidance that do not require renegotiating existing agreements. We have modified our recommendation accordingly.

AID commented that it is funding an audit to examine whether (1) all local currency generated under the commodity import programs was deposited to the special accounts, (2) local currency was properly used, and (3) Kenya has the capability to manage local currencies generated, and that it is auditing all Kenyan government agencies which receive dollar funding.

AID stated that although local currency agreements now in effect are governed by less strict controls, neither U.S. nor Kenyan audits of the program have identified specific instances of diversion. Despite this, our review showed that internal controls and management oversight did not always provide such assurance.

Controls Over Housing and Food Aid Programs

Since 1969, the United States has provided approximately \$50 million in loans to Kenya to improve the housing available to those with low incomes. In the past 2 years, the Kenyan government has missed housing guaranty loan payment deadlines three times, and the financial position of the organizations responsible for repaying these loans continues to deteriorate. Long-standing problems at one housing project demonstrate the difficulties these organizations will have in the future unless needed changes are instituted.

Controls over the Public Law 480 title II food assistance program appeared adequate. However, we note that the Kenyan government agency responsible for the exchange and distribution of imported grain commodities often causes program delays and is involved in litigation determining responsibility for a loss of U.S.-supplied wheat in 1989.

Housing Guaranty Programs

The Housing Guaranty Program is the primary capital resource AID provides for long-term financing of low-income shelter and neighborhood upgrading programs in developing countries. These loans, provided by the U.S. private sector, are guaranteed by the U.S. government, which is reflected in the favorable interest rate on the loans. The loans are denominated in U.S. dollars.

The Housing Guaranty Programs are implemented through Regional Housing and Urban Development Offices (RHUDO). AID maintains RHUDOs in seven countries, including the RHUDO for east and southern Africa in Kenya.

Since 1969, seven housing guaranty projects have been authorized for Kenya. Of these, RHUDO has implemented four projects with an aggregate value of over \$35 million through the Nairobi City Commission (NCC) and the National Housing Corporation (NHC). Another \$14.5 million in authorized housing guaranty financing is currently being used in implementing the Small Towns Shelter and Community Development project through the government of Kenya. Two housing guaranties were not implemented.¹ RHUDO has also provided grant funds for two housing projects. The work on one grant project has already been completed while the other is still being implemented.

¹One project was deauthorized after three failed attempts to consummate a borrowing. The second project was delayed pending the negotiations and implementation of the first project and has now been suspended due to the economic and political factors that preclude a new housing guaranty loan for Kenya.

The host government and AID sign a guaranty agreement with every new housing guaranty loan. The guaranty agreement is a contractual agreement under which the host government provides a full faith and credit guaranty to indemnify AID in the event of default under the original loan agreement. This means that the Kenyan government is responsible for repayment of all housing guaranties signed between the United States and a Kenyan implementing agency.

Loan agreements require payment on interest immediately and payment on principal begins after a 10-year grace period. The failure of borrowers to meet loan payments within 6 months of their due date initiates sanctions against the host country. Section 620(q) of the Foreign Assistance Act states that "no assistance shall be furnished under this Act to any country which is in default, during a period in excess of six calendar months, in payment to the United States of principal or interest on any loan made to such country under this Act. . ."

Kenya Cannot Meet Loan Payment Deadlines

Section 620(q) sanctions have been used three times in the last 2 years, the first default occurring in March 1991. The U.S. assistance program was also suspended under 620(q) sanctions in January and July 1992, when the Kenyan Ministry of Finance failed to meet the 6-month deadlines on housing guaranty loan payments. The January sanctions were in effect for more than 2 months while the July sanctions were in place for a week. NCC and NHC were unable to meet both these payment deadlines on loans related to their RHUDO projects. As a result, all U.S. economic and military assistance to Kenya was under 620(q) sanctions.

The sanctions imposed in January did not affect the RHUDO program because all housing project disbursements had already been made or were in escrow, but they did affect the economic and security assistance programs. A population officer at the AID mission said that a health project was suspended until the housing guaranty loan payment was made. In addition, officials at the U.S. Security Assistance Office (SAO) said that two Kenyan military candidates to the International Military Education and Training (IMET) program were dropped from their classes because funding was not available for their travel to the United States.

According to one RHUDO official, in the past NCC and NHC were usually about 3 months late in making loan payments. Only in the past 2 years have payments been an average of 6 months late. The official said late payments are expected to be a continuing problem.

RHUDO officials noted several reasons for Kenya's late payment problem, including NCC and NHC's increasing inability to assume the foreign exchange risk involved in the U.S. dollar denominated loans. The value of the Kenya shilling has dropped against the U.S. dollar since the date of the original loans, causing the value of the loans to rise to more than three times their original shilling amount. Management problems at some housing sites have also caused delayed loan payments. For example, the Umoja I and II housing projects, both large housing projects paid for with RHUDO loans, have not generated expected revenues due to (1) tenant/owner delinquency on mortgage payments and (2) interest rates on mortgages that remain below the average market rate.

To avoid further sanctions, the Ministry of Finance repaid NCC and NHC's outstanding RHUDO loan amounts. However, a Ministry official stated that both NCC and NHC must reimburse the government for any payments made on their behalf.

AID loan officials in Washington said the housing loans in question are guaranteed by the Kenyan government. Therefore, while the Ministry of Finance may ask for reimbursement from NCC and NHC, the government is ultimately responsible for keeping the loan payments current. RHUDO officials have suggested to the Ministry of Finance that the Ministry amend the current guaranty agreements and assume direct responsibility for the repayment of these outstanding loans.

RHUDO has avoided similar problems with its most recent housing guaranty project begun in 1985 by providing the loan directly to the Kenyan government. In this way, the government provides local currency loans to local ministries while keeping the foreign exchange risk at the Treasury level where it can be more readily absorbed.

In a March 1991 letter to the Ministry of Finance, the RHUDO director stated that both NCC and NHC are likely to continue to present repayment problems over the next several years. The director suggested that the Kenya Treasury not only clear all delinquent loan repayments under the Housing Guaranty Program, as is required under the guaranty arrangements, but also continue to keep them up to date. It would be up to the Treasury to make its own internal arrangements with NCC and NHC. Similar requests have been made over the past year. However, as of July 1992, the Ministry of Finance had not signed the amendments to assume direct responsibility.

RHUDO officials said that the office will continue to monitor existing housing projects, but no new housing loans are planned for Kenya. Factors such as the deteriorating Kenyan economy, past housing guaranty loan problems, and overall donor concerns have placed Kenya in a too high-risk category for new loan activity in Kenya. RHUDO is shifting new resources toward southern Africa and is planning new projects in South Africa and Zimbabwe.

The most recent RHUDO activity to be implemented in Kenya is the Kariobangi Community Development slum upgrading project funded through a grant rather than a loan. A RHUDO official in Nairobi said any future housing activity will occur on a grant basis until the Kenya economy improves. RHUDO is also studying other options to compensate for Kenya's inability to qualify for new housing guaranty loans, such as local currency housing guaranties.

A Major Housing Project Is Not Sustainable

The Umoja II housing project, originally scheduled for completion in 1988, has encountered cost overruns and lacks the necessary funds to complete the final component. In addition, while the completed components of the housing project are occupied, about one-third of the tenant/owners are in arrears on their mortgages. This further reduces the project's ability to complete the final component and pay outstanding housing guaranty loan amounts.

Umoja II is the second phase of a housing and community facilities project developed by NCC. The primary project goals were to produce affordable housing for owner-occupation while providing income and employment generating opportunities and to strengthen NCC's capacity to plan, develop, and manage low-income housing projects. The project was authorized in 1979, although actual construction did not begin until 1985. Work on Umoja II is continuing through NCC, although the project was scheduled for completion in 1988 and RHUDO closed out its role in the project in 1991. A total of 4,406 housing units were to be built, of which 3,584 have been completed. (See table 3.1.) Work is continuing on the remaining components but will likely not be completed.

**Chapter 3
Controls Over Housing and Food Aid
Programs**

**Table 3.1: Status of Construction at
Umoja II (as of May 13, 1992)**

	Planned	Completed
Housing units		
Condominium houses	4,048	3,281
Core houses	330	285
Core houses with utilities	15	9
Core houses with extensions	13	9
Total	4,406	3,584
Community facilities		
Nursery schools	10	3
Primary schools	4	4
Playing fields	4	4
Health center	1	0
Community center	1	0
Local markets	6	2
Small enterprises area	1	0
Shopping center	1	0
Post office	1	0
Community market	1	0
Special purpose areas	2	0
Community development office	1	1
Total	33	14

NCC implemented the Umoja II housing project through the Housing Development Department, an NCC component intended to be self-sustaining through projects such as Umoja II. One project goal was to improve the professional capacities of the department. A Housing Development Fund was established to finance additional low-income housing activities by the Department. Eleven percent of the deposit and monthly payments by the owners was to be deposited in this special fund. However, an evaluation of Umoja II stated that the required level of deposits was not being made into this account. This lack of seed funds, as well as other problems, has affected NCC's ability to begin new projects. As RHUDO stated in a 1990 project implementation review document, "the purpose of strengthening the NCC as a developer of large scale shelter projects is considered by RHUDO to be no longer valid."

Initially, Umoja II was expected to cost 212 million shillings and generate enough revenue to repay the housing loan. Actual costs, as reported in the last Umoja II evaluation in January 1989, were estimated at 410 million shillings. RHUDO provided an additional \$1.45 million in loans to the original

\$17 million loan to complete the project. Some cost overruns were due to abandonment of the site by the first contractor and the needed repairs and reconstruction to correct the earlier work. At the time of our visit, the Housing Development Department had already spent 14 million shillings more than it is able to repay; a total of 50 million shillings is needed to complete the project. The Department has tried unsuccessfully to obtain local financing for the remaining work.

Revenue generation problems at Umoja I and Umoja II have affected NCC's ability to repay U.S. housing guaranty loans. In early 1991, the RHUDO director wrote to the Ministry of Finance stating three basic reasons why NCC has been unable to keep up with its repayments:

- NCC has not been effective at collecting mortgage payments from tenant/owners at the Umoja I and II housing sites. Between 30 percent and 40 percent of amounts owed are in arrears.
- The monthly payment on units at the housing sites have not changed over the years. For example, the interest rate on Umoja I units has not changed in over 13 years although it is eight to nine points lower than current market rates.
- The amount of repayments in shillings by NCC to the Central Bank has grown steadily over the years because NCC bears the foreign exchange risk in connection with both Umoja loans.

RHUDO officials believe the revenues at Umoja II could be enhanced through more aggressive collection of mortgage payments as well as higher interest payments. They have recommended that NCC consider hiring a private firm to collect mortgage payments. An independent evaluation estimated that more than two-thirds of the unit owners are renting their units for income generating purposes, many at rates two to three times higher than the mortgage payment. As the RHUDO director stated in his letter, "I do not consider it unfair for the tenant/owner to be obliged to pay a higher interest rate in these circumstances."

Little progress has been made on the earlier RHUDO recommendations. A Department housing official said approximately 30 percent of the Umoja II tenant/owners are 2 to 3 years in arrears on their mortgage payments. In addition, interest rates on the mortgage payments have not been adjusted from the rates in effect when the units were first occupied.

Food Donations

Title II of Public Law 480, also known as the Emergency and Private Assistance Program, provides, among other things, agricultural commodities for nonemergency assistance to private voluntary organizations, cooperatives, or intergovernmental organizations. The Kenyan parastatal responsible for the exchange and distribution of imported cereal commodities often causes program delays and is involved in litigation with Catholic Relief Services (CRS) to determine responsibility for a significant loss of wheat in 1989.

Public Law 480 Title II Program

Between 1987 and 1991, the title II program shipped 25,335 metric tons of wheat and cooking oil totaling \$7.7 million in donations to Kenya. The primary agency implementing the program in Kenya is CRS, a U.S. private voluntary organization, which has managed \$7.3 million, or 95 percent of the total title II funding during this period.

CRS implements the program through two mechanisms—exchange and monetization. Under the exchange program, which began in 1987, U.S.-supplied commodities are exchanged with the National Cereals and Produce Board for locally produced beans and maize. CRS uses these commodities and U.S.-supplied cooking oil to promote maternal and child health, “food-for-work,” and general relief programs. The Board provides CRS and its counterpart agencies (local dioceses and nongovernmental organizations) a line of credit for beans and maize, and issues sales orders that allow the counterpart agencies to receive specified quantities from over 80 Board warehouses throughout Kenya.

Under the monetization component, which was implemented in 1989, CRS sells U.S.-donated wheat to the Board at an agreed-upon price. The Board deposits the funds into a CRS local currency account, which CRS uses to help cover operating expenses in Kenya.

Controls Appear Adequate but Problems With the Board Persist

We reviewed CRS procedures for monetization and distribution of commodities and these appeared adequate. However, CRS has experienced persistent delays with the Board in reaching acceptable exchange and monetization agreements, issuing sales orders, and depositing local currency funds in the CRS account. According to CRS officials in Kenya, the delays make program implementation more difficult but are not insurmountable problems. The most serious problem facing the CRS program is the current shortage of maize and beans throughout Kenya; the Board is often unable to honor sales orders because warehouses are

empty. According to CRS officials, the shortages are due to poor harvests in the past 2 years, depleted reserves, and poor prices paid to producers.

In October 1988, 250 metric tons of U.S. wheat provided to Kenya under the title II program were unaccounted for. The loss equated to about 838,100 shillings, or \$45,783 at the average exchange rate for that fiscal quarter. CRS claims that the loss occurred after the Board took title to the wheat at the Kenyan port of Mombasa. At that time, the Board transported the wheat several kilometers from the port for bagging. The Board claims that the loss occurred before it took title at the port. A legal settlement has not yet been reached, but CRS speculates that they may absorb part or all of the loss because they have not yet conclusively proved that the disputed amount actually passed into Board control at the port. CRS is negotiating with the Board to accept a loss of 121 metric tons. As a result of this incident, bagging now takes place at the port and CRS plans to propose in its next agreement that the Board take title to commodities as they leave U.S. ports.

Conclusions

The financial situation of the RHUDO program is not likely to improve because NCC and NHC are unable to absorb the increasing dollar cost associated with the U.S. housing guaranty loans. In addition, management problems at some housing project sites have reduced the projects' sustainability. RHUDO has acknowledged in its own review that NCC is no longer viable as a developer of large-scale shelter projects.

The Kenyan Ministry of Finance has made the necessary payments on the outstanding loan amounts, but these payments have been late, subjecting the entire U.S. assistance program to 620(q) sanctions. The Kenyan government is a cosignatory on the original loans and is ultimately required to maintain loan repayments. However, an amendment to the current guaranty agreements could clarify the responsibilities of the Ministry so that future payments can be made in a more timely manner, and U.S. assistance programs will be protected from unnecessary delays.

Furthermore, NCC's revenue problems will continue without a greater effort to collect housing mortgage payments from the tenant/owners. A review of these mortgage payments could also tell NCC whether an increase in interest rates is appropriate. However, NCC must also be watchful that the original intent of the housing project—providing affordable housing—is still being met.

Recommendation

We recommend that the AID Administrator direct RHUDO to follow up on its May 1991 recommendations to NCC designed to maintain the Umoja II housing project and to identify any further requirements to ensure continued viability. RHUDO should work with the Ministry of Finance to ensure prompt repayment of outstanding U.S. housing guaranty loans. RHUDO should also work with NCC to strengthen the collection policies at the Umoja II housing site and to review mortgage payments to determine the best interest rate for recovering costs while still meeting the goal of providing affordable housing.

Agency Comments and Our Evaluation

In commenting on this report, AID agreed that the repayment problems are due to the inability of NHC and NCC to assume the foreign exchange risk and to NCC's poor cost recovery record, but added that the sources of missed loan payments are more complex. AID noted that bureaucratic processing and internal politics usually delay by at least 1 month the Ministry's certification and request for payment to the Central Bank. Also, the Central Bank often delays payment to the United States because it lacks the required foreign exchange.

AID further commented that NCC still has not formally responded to RHUDO's May 1991 letter, although informal and intermittent interactions and dialogue are maintained. AID said that RHUDO is in continual contact with the Ministry of Finance and is taking steps to ensure loan payment. However, AID believes that raising rents or mortgage payments on NCC housing is an extremely volatile political issue and not one that NCC is willing to discuss at this time. Despite the political nature of the issue, we believe AID should continue to seek opportunities for enhancing loan repayments.

Controls Over Military Equipment Are Adequate but Could Be Strengthened

Since 1976, the United States has provided Kenya almost \$281 million in military aid, including \$47.3 million from 1987 through 1992. More than \$17 million of military assistance has been frozen due to concern over the Kenyan government's lack of commitment to democracy and human rights. While the controls over the use of the equipment were generally adequate, we found instances where strengthened inventory controls over U.S. military equipment would provide greater assurance of accountability. We located and inspected the major equipment items provided by the United States, but the Kenyan military inventory records that we used contained some errors and the military was not conducting full inventories at some sites. While U.S. security assistance officials in Kenya are performing all required tasks in accordance with Defense Department monitoring guidelines, they did not have complete information on U.S. equipment delivered to Kenya and this information could not be readily obtained from the Department of Defense in Washington.

Military AID Program

The \$47.3 million provided to Kenya since 1987 represents \$37.5 million in Foreign Military Financing grants, \$3 million in Foreign Military Sales credits, and \$6.8 million in IMET assistance. The Defense Security Assistance Agency (DSAA) administers U.S. military aid programs overall while SAO in Kenya, under the U.S. Central Command, manages in-country program operations.

Military Assistance Pipeline

Unexpended military funds for Kenya totaled \$38.6 million in July 1992. (See table 4.1.) This amount includes funds obligated through agreements with the Kenyan government that were (1) not committed for specific use, (2) committed to specific Kenyan purchases of military items that have not been ordered, and (3) related to items that have been ordered but not delivered to Kenya.

Table 4.1: U.S. Military Assistance Pipeline to Kenya (as of July 30, 1992)

Dollars in millions	
Status of funds	Amount
Obligated/uncommitted	\$18.9 ^a
Committed but not yet on order	8.3
On order but not yet delivered	10.3
IMET training	1.1
Total	\$38.6

^aIncludes about \$17.5 million in Foreign Military Financing funds and about \$1.4 million in Military Assistance Program funds.

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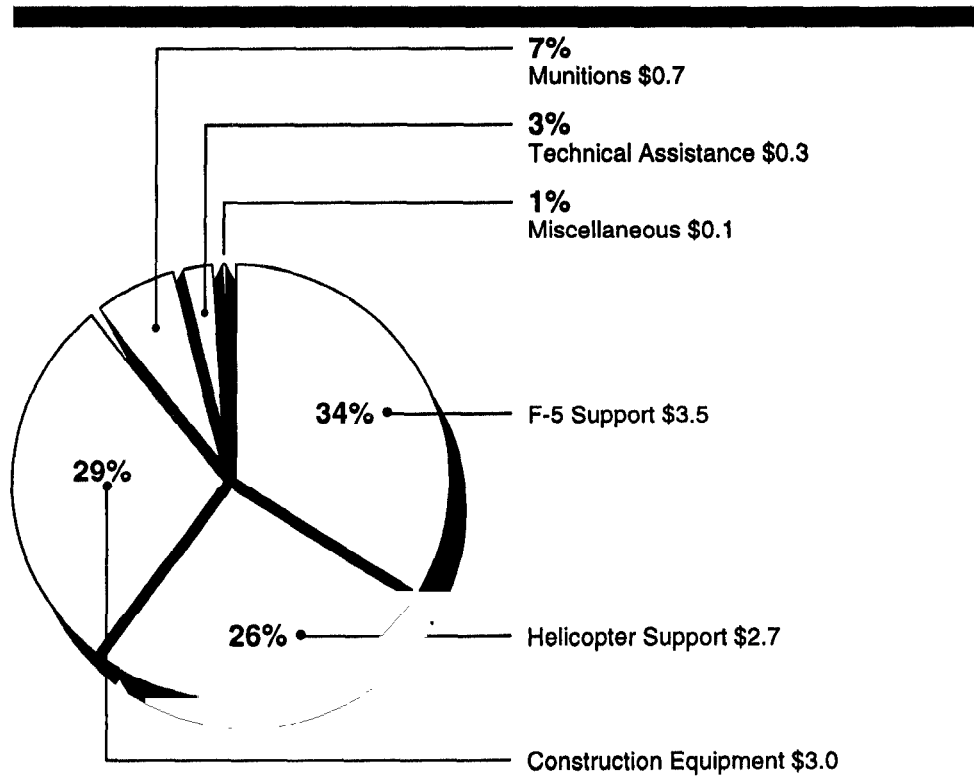
In December 1991, the President signed into law the Dire Emergency Supplemental Appropriations Act¹ which contains an amendment freezing the provision of fiscal year 1992 Foreign Military Financing funds for Kenya until specific steps toward reform are taken by the Kenyan government. The act also makes unavailable uncommitted prior year Foreign Military Financing funding (grants and loans) to Kenya. Although the foreign operations continuing resolution² in April 1992 lifted these restrictions, the State Department has maintained the suspension. This act reduces the actual funds available to the Kenya military to about \$18.9 million.

Purchases on order but not yet delivered amounted to \$10.3 million as of July 30, 1992. Because shipments may be made daily, the amount of undelivered orders may have changed since we obtained the data. The pipeline includes F-5 aircraft spare parts, construction equipment, technical assistance, munitions, and helicopter spare parts. Figure 4.1 shows the types of military supplies and equipment that have been ordered but not delivered.

¹Dire Emergency Supplemental Appropriations and Transfers for Relief from the Effects of Natural Disasters, for Other Urgent Needs, and for Incremental Costs of "Operation Desert Shield/Desert Storm" Act of 1992 (P.L. 102-229).

²Further Continuing Appropriations, Fiscal Year 1992 (P.L. 102-266), 106 Stat. 92.

Figure 4.1: Military Items Ordered but Not Delivered (as of July 30, 1992)



U.S. Program Objectives

U.S. military assistance to Kenya began in 1976 and was based upon U.S. concerns about the threat posed to Kenya by its neighbors. In 1980, the United States signed a military agreement with Kenya obtaining access to Kenyan ports and airfields. The agreement complemented U.S. security objectives for the Indian Ocean region, which were to contain Soviet influence in the region and ensure the continued flow of Persian Gulf oil. Since the 1990 Persian Gulf war, U.S. access to ports and airfields in Saudi Arabia and other Gulf countries has lessened U.S. dependence on Kenyan facilities. In commenting on a draft of this report, the Defense Department agreed but added that maintaining access to Kenya remains a high priority given the use of Kenyan facilities by the U.S. military to airlift humanitarian relief supplies into Somalia as well as continuing political and humanitarian challenges in the region.

According to the Department of Defense, U.S. security assistance objectives in Kenya include

- maintaining U.S. access to air and port facilities;

- supporting the Kenyan F-5 air defense aircraft, MD-500 helicopter, and engineer programs;
- encouraging an open society respecting human rights; and
- encouraging private sector economic development.

U.S. military assistance to Kenya has benefitted primarily the Kenyan air force and army. The air force assistance program started in 1976 with the delivery of F-5 aircraft. The program also supports F-5 spares, training, and computer equipment. The army assistance program started in 1979 and has provided funding for MD-500 helicopters, heavy equipment transporters, and engineering equipment. Also, since 1976, about 1,388 students have been trained under IMET at a cost of about \$15 million.

In a briefing on security concerns, a Kenyan Department of Defense intelligence official noted that the region surrounding Kenya is insecure. The governments of Ethiopia and Somalia have been overthrown while Uganda and Sudan continue to have internal problems. Relations with Sudan are deteriorating due to Sudanese suspicions that Kenya is harboring rebels hostile to that government. Refugees and armed bandits are a continual problem in northern Kenya. The officials added that U.S. military assistance is needed to maintain a credible deterrent against these outside forces. SAO stated that Kenya needs about \$48 million in future U.S. security assistance. These funds would be used for additional heavy equipment transporters, engineering equipment, missiles, computer systems, and upgrading the F-5 aircraft and helicopters.

Kenya Military Can Account for Equipment but Controls Can Be Strengthened

We inspected the U.S.-supplied equipment at two army and three air force installations in Kenya. Because U.S. officials in Kenya did not have complete information on U.S.-supplied equipment and supplies and DSAA had been unable to provide such a listing, we relied on Kenya military inventory records in making our inspections. Based on these records, we generally located the equipment we asked to see and both the equipment and related facilities generally appeared secure and well maintained. According to Kenyan military officials, the equipment has not been used in civilian affairs except in cases of law enforcement or civilian assistance, such as search and rescue. However, one U.S. official told us that a close relationship exists between the army helicopter battalion and the Kenyan General Security Unit, the paramilitary arm of the Kenyan police department.

Kenyan military officials at each installation provided inventory records that we used to locate U.S.-supplied equipment. However, this information was not always reliable. Some information was incorrect and other numbers had not been properly verified through regular inventories.

Equipment Located at Five Military Installations

Of the two army installations we visited, one unit maintains the MD-500 helicopters and the other operates U.S.-supplied construction equipment. The three air force locations we visited maintain the F-5 aircraft and its support equipment. One air force location also uses most of the computer equipment provided by the United States.

Since 1976, Kenya has received about \$281 million in U.S. military assistance, including major components and supplies such as

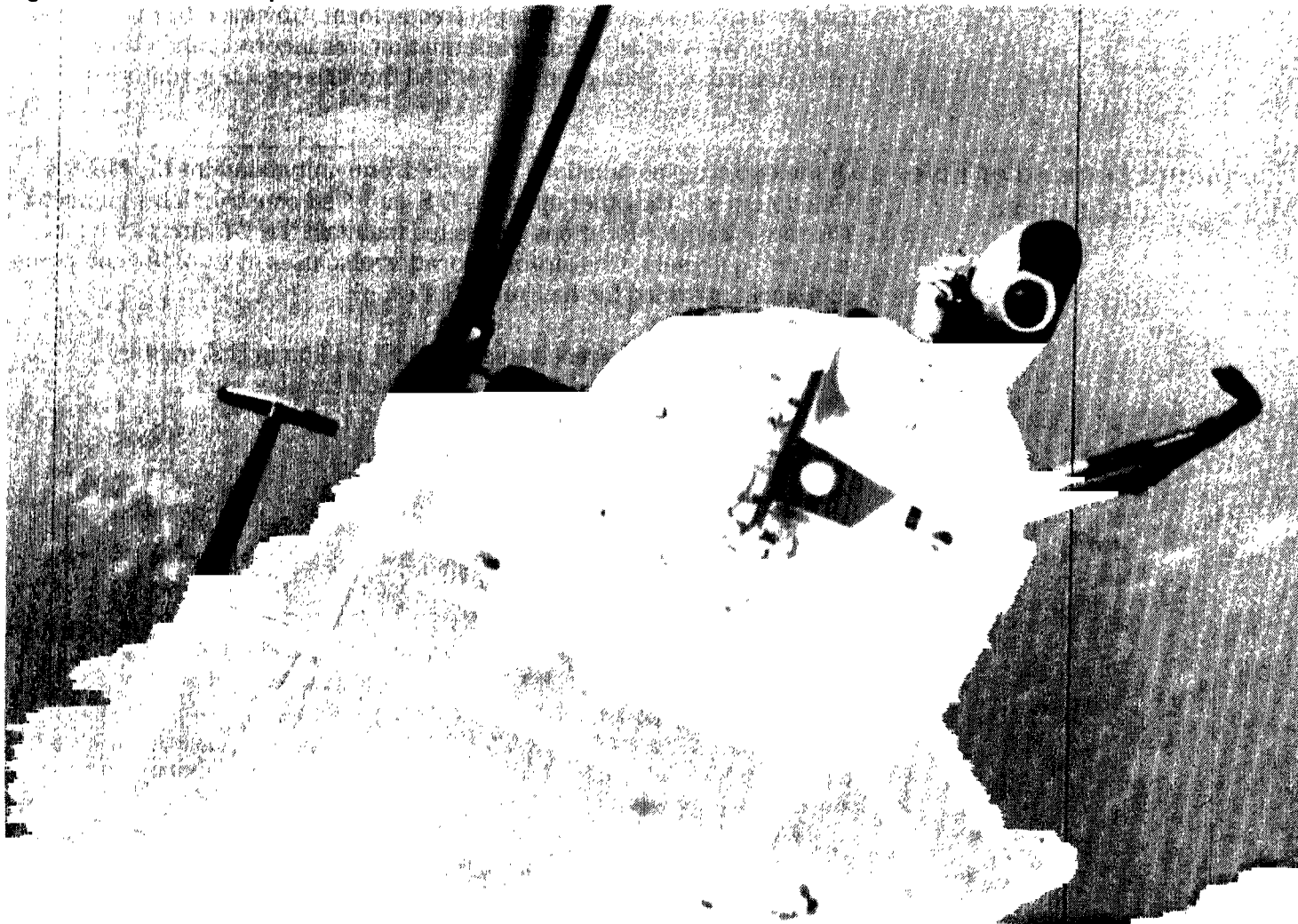
- 14 F-5 fighter aircraft (\$121 million),
- 44 MD-500 helicopters (\$73.5 million),³
- 54 construction vehicles (\$14.2 million),
- 40 heavy equipment transporters (\$7.3 million), and
- air force computer systems (\$2.89 million).

We inspected all five military installations and physically identified items listed on the inventory sheets. All the major equipment we asked to see was either physically located or could be accounted for through inventory records and other documents. We viewed a majority of the MD-500s (see fig. 4.2) and accounted for those temporarily located elsewhere or on flight status. We viewed all of the F-5 aircraft. (See fig. 4.3.) We also observed the construction equipment located at one engineer brigade and reviewed documents accounting for construction equipment based or being used elsewhere.

³Only 31 helicopters are operational. The other 13 were destroyed in accidents attributed to pilot error.

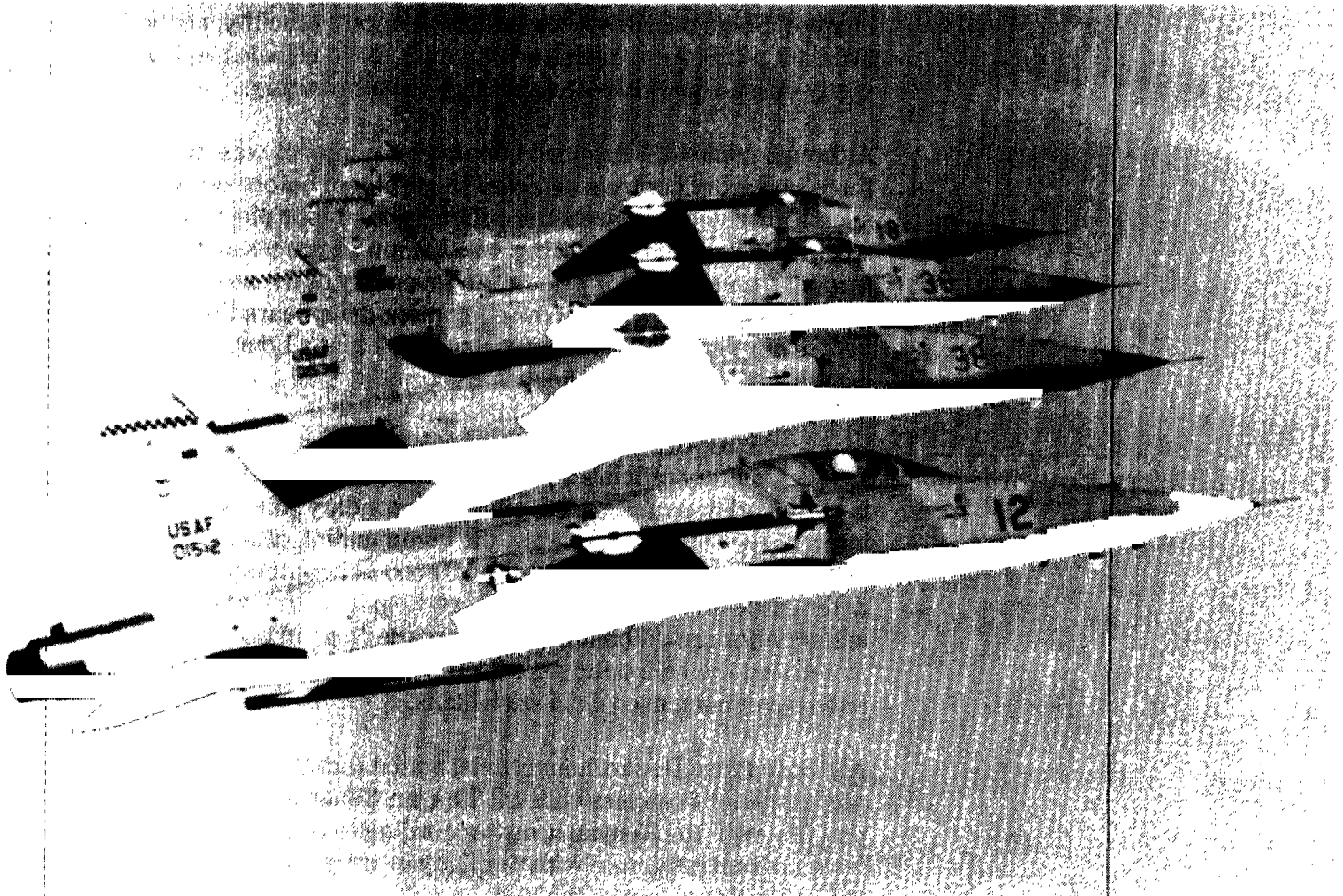
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Figure 4.2: MD-500 Helicopter



Source: Contractor photo released by U.S. Army.

Figure 4.3: F-5 Fighter Aircraft



Source: U.S. Air Force file photo.

At installation warehouses, we inspected aircraft spare parts and support equipment. In some instances, we inspected inventory cards, judgmentally selected items for testing, and located those items in the warehouses. The inventory cards we tested were accurate in the item amount and location.

We inspected munitions dumps and located U.S.-provided munitions using inventories provided by the Kenyan military. Most Kenya air force missiles and army and air force rockets were located at an air force installation we

visited, but we noted some inventory discrepancies discussed later in this chapter. Some missiles were located at another facility; according to SAO officials, a U.S. Army team recently refit these missiles and was able to verify missile quantities through their own inventory.

Although some U.S.-supplied computer equipment was missing, Kenya air force inventory controls detected the problem before our visit. Inventory sheets provided by warehouse officials listed four pieces of equipment worth about \$4,000 as missing: two computer processing units, one display terminal, and one color printer. An inventory of the storage warehouse is taken every 2 months, and the equipment disappeared within the 2 months before our visit. Air Force officials told us that a board of inquiry had been established to look into the matter.

Use of Military Equipment

Kenyan military officials stated the military has two roles: the primary role is to defend Kenya's borders and the secondary role is assisting with internal security. For example, the commanding officer of the army helicopter battalion said that the MD-500 helicopters have been used to deter cattle rustlers, chase poachers, help in search and rescue missions, and monitor armed bandits that cross the Kenyan border. However, he stated that the helicopters are used for training 90 percent of the time and have never been used against civilians.

A U.S. Defense Department official stated that the MD-500 helicopters perform joint exercises with the Kenyan General Services Unit but do not practice with the Kenyan army. According to this official, the helicopters have no integrated role with the Kenyan army. The General Services Unit, the paramilitary arm of the Kenyan police department, has traditionally focused on control of civil unrest, border disputes, and cattle rustling. However, as the General Services Unit has become increasingly engaged in riot control activities, its reputation for even-handedness has suffered. An SAO official acknowledged that the helicopter unit does not generally train with other army units but said he was unaware of joint exercises with the General Services Unit. He added that the helicopters should have an integrated role with other army units, but the United States cannot require joint exercises.

An SAO official stated that evidence of U.S.-supplied equipment used against civilian populations would end all security assistance to Kenya. A State Department official stated that the Kenyan military has told the U.S. embassy in Kenya that the MD-500 helicopters could be used in

coordination with the General Services Unit along Kenya's borders in operations to counter bandits, rustlers or poachers from Sudan, Uganda, or Tanzania. The helicopters and the General Services Unit have been jointly training in these areas. However, the State official said that the Department had no indication that the helicopters supplied to Kenya have been used in connection with the General Services Unit's internal security mandate, such as riot control, and the Kenyan Department of Defense has also denied such use of the helicopters. In commenting on this report, the Defense Department emphasized that the Kenyan army air battalion does not train with the General Services Unit on military or internal security exercises.

The Kenyan army has used U.S.-supplied construction equipment in civilian projects, some sponsored under Department of Defense's African Civic Action program, which assists African militaries to undertake activities to directly benefit their civilian populace. The Kenya army recently implemented the Tiwi Mtongwe Water Pipeline project designed to provide water to the Mtongwe naval installation in Mombasa while increasing the volume of water to the civilian community. We visited the Tiwi Mtongwe project, inspected an operational well, and observed people in the surrounding community drawing water from the pipeline. (See fig. 4.4.) The United States contributed \$398,000 to this water project.

Figure 4.4: Woman Drawing Water From Tiwi Mtongwe Water Pipeline



The engineer brigade commander provided a list of activities performed by his unit, for which the United States provided most of the construction equipment. The brigade, in addition to doing the work at Tiwi Mtongwe, also built local roads, an airstrip, primary schools, barracks, rifle ranges, and a parade ground. We visited one of the primary schools being constructed by the army and viewed the on-going construction. Classes were being conducted in a completed portion of the school. In 1990, the United States also provided the brigade four water drilling rigs, which have drilled new wells throughout Kenya for both military and civilian use. At the time of our visit, two rigs were in northern Kenya drilling wells at a United Nations refugee camp for Somalis.

An SAO official said the United States has not placed restrictions on the use of the construction equipment and the Kenyan army can contract out their services. One SAO official said civilian projects provide excellent training opportunities for the engineering brigade. The commanding officer of the engineering brigade said his brigade has assisted other ministries with construction projects, but he did not know how the brigade was reimbursed for this work.

Condition of Facilities

Military assistance agreements require Kenya to provide the same degree of security to U.S.-supplied military items as would be provided by the United States. Of the five military installations we visited, we noted adequate perimeter security at four of the installations. At one air force facility where the F-5 aircraft were temporarily based, we gained access to the F-5 aircraft on the airfield without going through a military checkpoint. Once on the tarmac, we did not encounter any Kenyan military personnel for more than 10 minutes. Although we were later told by an SAO official that minimal security is standard procedure with unarmed aircraft, the lack of any military presence at the gate and on the airfield appeared to provide less than minimal security.

We found that installation storage space for equipment was generally clean, well-organized, and secure. Each warehouse had ample floor space while equipment was neatly stored in crates or on marked shelving. In each case controls were in place to monitor equipment use. Monitoring systems varied from an honor-system card catalog to locked areas restricted to authorized personnel. These various systems appeared consistent with the nature of the item being controlled.

Kenya Inventory System Does Not Catch All Errors

Inventory records provided by the Kenyan military appeared to be complete and provided amounts and locations for U.S.-supplied equipment at each installation. However, we found errors in some of the inventories that Kenyan military officials agreed should have been caught by their own procedures. Errors varied from a wrong identification number to incorrect quantities. For example, during our inventory of the serviceable F-5 aircraft, we found the same serial number listed for two aircraft. In another case, an air force inventory listed two aircraft generators and five bomb-lifts when the actual numbers were three generators and three bomb-lifts. In both cases, Kenyan air force officers immediately corrected the discrepancies.

The Kenyan military's inventory of aircraft missiles received from the United States was accurate, but we found errors in the military's artillery rocket inventory. For example, during our inventory, we found that one stock card at the storage site recorded more rocket engines than were on the depot inventory record. The stock card also showed that this incorrect quantity had been on the card for more than 1 year. Another stock card for practice warheads showed 128 fewer warheads than the depot record. Depot officials said that the warheads were probably issued some time in the past 3 months but the action went unrecorded. We were later told that stock cards are not used as a check against the depot inventory.

Full Physical Inventories Are Not Consistently Performed

Inventory procedures varied at each military installation. Officers at the munitions depot said that they did not conduct annual wall-to-wall inventories. The depot inventory was compiled from delivery and issuance forms and not reconciled against a physical inventory. The stock cards at the storage sites are used for local recordkeeping but are not compared to the depot-wide inventory sheet. As we found, this procedure leaves the depot open to irregularities that can go unrecorded for long periods of time. Kenyan military officials agreed that the current inventory procedures at the depot need strengthening.

Other installations varied in their inventory procedures, seldom performing annual wall-to-wall inventories. For example, officials at one air force installation said that they inventory a portion of their stock every month, so that by year end 100 percent of the inventory has been verified. At another installation, a wall-to-wall inventory is performed only when a new commander is posted at the facility, an event, we were told, that may come only once every 5 years.

Since the Kenyan military did not provide any guidance on how often inventories are to be performed, we were unable to determine whether the varying inventory practices were consistent with the Kenyan military's criteria. According to Kenyan military officials, their internal Audit and Inspections Branch assures the quality of inventories at the different military installations. The legislative branch of government also has its own auditor, the Office of the Controller and Auditor General, that performs random audits and reports to the Kenyan military and the Parliament's Public Accounts Committee.

SAO Performing Required Tasks but Lacks Program Information

SAO is performing required tasks as mandated by the Security Assistance Management Manual, but some information that may be useful in monitoring the Kenya security assistance program is not readily available. Neither DSAA or SAO officials were able to provide updated equipment records. Although SAO stated that compiling this information is not required, an updated in-country equipment list could be used to provide information to monitor the program and detect diversions or misuse.

SAO Is Performing Required Tasks

SAO is generally performing the duties required by the Security Assistance Management Manual, which requires as a secondary duty the observing and reporting on the use of U.S.-funded equipment and supplies. The manual does not set accountability standards or prescribe how, when, and how much monitoring should be performed. Furthermore, the manual does not contain standards specifying the types and amounts of control and accountability mechanisms that a host country should apply to U.S.-funded military items.

DSAA applies the Arms Export Control Act eligibility criteria to purchases using military aid grant funds. The criteria require that a recipient country agree (1) not to transfer U.S.-provided equipment to a third party without U.S. consent, (2) not to use articles for unintended purposes, and (3) to maintain the security of articles and provide substantially the same degree of security protection afforded to such articles by the U.S. government. The act does not require that recipient countries permit U.S. officials to observe and review the use of the U.S.-supplied defense articles.

SAO officials told us that the Kenyan military limits U.S. monitoring of their military program. SAO officials said they can generally obtain access to a military facility if a written request is submitted to the Kenyan military and, to date, few requests have been denied. However, the Kenyan military continually delayed approval for access to installations.

In a March 1992 cable to the Secretary of Defense, SAO stated that it

maintains oversight and accountability of the major end items in Kenya's military assistance program through information from U.S. defense contractors, members of the International Defense Advisors and Attaches Group, local businesses which service Kenya's [Foreign Military Sales] equipment, and through occasional visits to Kenyan military installations by SAO personnel . . . These visits are infrequent because the Kenyans impose significant bureaucratic roadblocks to our military visiting their installations.

SAO officials usually monitor the receipt of large pieces of equipment, such as aircraft, and munitions. For example, SAO monitored the February 1992 arrival of MD-500 helicopters in Kenya. However, SAO officials stated that they lack the staff and travel funds to physically monitor all incoming military equipment deliveries.⁴

Accurate Equipment
Information Was Difficult
to Obtain

Prior to our fieldwork in Kenya, DSAA and the U.S. Central Command provided a listing of all major equipment sent to Kenya in the last 5 years but told us SAO in Kenya was the best source for this information. SAO subsequently stated that an inventory of all U.S.-funded major equipment and supplies would be provided to us upon our arrival.

SAO prepared a summary document for our visit, listing major equipment delivered to the Kenyan military. However, a consolidated in-country inventory of U.S.-supplied equipment was not available. In particular, munitions quantities were difficult to determine. Most of this information existed in Foreign Military Financing case documents in SAO's files, but SAO did not have a document that provided a detailed consolidated listing of delivered equipment. Overall, we found the Kenyan military's inventory to be a better source for information on U.S.-supplied equipment than the U.S. Department of Defense. DSAA provided us with the most complete U.S. listing of equipment, but this listing was outdated and did not clearly define the equipment listed or provide useful stock numbers.

SAO officials stated that they do not need a detailed listing of delivered equipment because they are not responsible for managing the Kenyan military's inventories. SAO also lacks information on the total number of items on order because the Kenyan military may have requisitioned items directly from U.S. material commands or through commercial contracts. The Kenyan military can requisition equipment directly from the material commands as long as it stays within the available funds. Although SAO usually receives copies of Kenyan military requisitions for equipment, documentation on actual delivery of equipment is difficult to interpret and often outdated.

⁴A prior GAO report, *Military Aid: Stronger Oversight Can Improve Accountability* (GAO/NSIAD-92-41, Dec. 16, 1991), discusses the lack of emphasis placed on accountability and control in the Department of Defense's monitoring guidelines for U.S. military assistance and suggests that Congress revise the Arms Export Control Act to impose a statutory requirement for greater U.S. oversight. A House Foreign Affairs Committee authorization bill (H.R. 5757) includes new authority for U.S. end-use monitoring of security assistance and directs the executive branch to develop accountability standards and assume responsibility for monitoring defense items in accordance with these standards. It would also require recipient countries to agree in writing to permit U.S. government observation and review of U.S. provided defense items.

An official with the DSAA comptroller's office said updated equipment lists are made available to the Unified Commands.⁵ This official said it is the responsibility of the Unified Commands to distribute this information to SAOs. An SAO official in Kenya said that this information was not being distributed to the office. The DSAA comptroller's office has developed an on-line system that displays Foreign Military Financing delivery information. This information is available to all SAOs able to participate, depending upon the telecommunications ability of the embassy. According to a DSAA official, the system provides aggregated financial data, equipment descriptions, and summary data. SAOs are to request this service from their Unified Commands; the Commands then determine which SAOs are to receive it. The SAO director in Kenya was not made aware of this service until our exit meeting with Defense officials in November 1992, and he has expressed his intention to follow up on this issue with the U.S. Central Command.

In commenting on this report, the Defense Department stated that accurate information was not difficult to obtain. It stated that SAO has access upon request to U.S. Army quarterly requisition and delivery reports and updated equipment listings of major defense articles provided by DSAA to the Unified Commands. However, as discussed elsewhere in this chapter, we found the DSAA list to be incomplete and the U.S. Army Security Assistance Command records sometimes inaccurate, as in the case of erroneous munitions data. Also, SAO was not aware of information available from the U.S. Central Command until our review. The quarterly requisition and delivery reports are of limited value in determining existing supplies because the time periods between ordering, delivery, and reporting vary.

IMET Program Not Fully Used by Kenyan Military

The IMET program provides instruction and training in military doctrine and skills to military personnel in allied and friendly countries. The program expands U.S. influence by exposing future military leaders in these countries to the United States and its values. Program levels are set through coordination between the State and Defense Departments. No funds are transferred to foreign governments; the U.S. government provides transportation, training, and a supplemental daily allowance. The foreign government provides all other financing of its personnel during training.

⁵Unified Commands are responsible for military planning and operations within a geographic area, including planning and administrating the military aspects of security assistance.

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Controls Over Military Equipment Are
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Since 1987, the United States has provided over \$6 million in IMET support to Kenya. SAO officials stated that the IMET program is highly valued by the Kenyans because it provides technical skills unavailable in Kenya and trains Kenyan officers in U.S. management and leadership skills. SAO officials stated that the IMET program has been successful in encouraging professionalism in the Kenyan military. For example, over 20 Kenyan officers in key positions have attended U.S. intermediate and senior service schools. In addition, two Kenyan graduates from the U.S. Air Force Academy and one graduate from West Point are on duty in the Kenyan military.

Until 1991, an average of about 100 students went through the IMET program annually; however, in 1991, the Kenyan military filled only 56 of 106 IMET positions. Of the 100 available positions for 1992, only 60 have been used or reserved. In addition, two students were canceled from IMET classes in March 1992 due to a temporary hold on U.S. assistance related to the Kenya government's inability to pay housing guaranty loans.

SAO officials said the Kenyan military lacked the funds to support all 106 students in 1991 due to budget problems. For example, an unexpectedly large training bill was submitted by the British military, reducing available funds and causing the Kenyans to cut the funding for IMET stipends. A senior Kenyan military official said the Kenya government has less funding due to recent reductions in donor assistance that have affected many programs, including military training.

The Kenyan military could increase available training funds and finance additional IMET students by lowering the student stipend. SAO and U.S. Defense Department officials stated that the Kenyan government provides a student stipend in excess of the amount recommended by the U.S. schools providing the training. The high stipend amounts reduce total funds to the point that only a portion of the allowed students can enter the IMET program.

Conclusions

Although we found no evidence of diversion of U.S. military assistance to unintended uses, some Kenyan controls over U.S.-supplied equipment could be strengthened. Inadequate inventory controls over munitions are of particular concern. At some installations, the Kenyan military lacks an integrated and systematic inventory that would provide greater accountability over U.S.-supplied equipment.

Although the Kenyan army helicopter unit trains with the General Service Unit and can join the Unit in border control activities, State Department officials have no indications that the helicopters supplied to Kenya by the United States have been used in connection with the General Services Unit's internal security mandate. The United States supplied helicopters and munitions to the Kenyan army based upon security threats noted in the late 1970s and Kenyan military officials told us that these external threats remain. Although U.S. officials said that they have no control over the use of U.S.-supplied equipment, we believe that joint exercises between the helicopter unit and the regular army aimed at external threats appear to be more consistent with U.S. purposes in providing helicopters than training aimed at internal threats.

SAO lacks a detailed inventory of U.S.-supplied equipment and is not always aware of what equipment has been delivered to Kenya, particularly the more recent deliveries. It does not have a detailed and updated inventory from DSAA that would provide SAO officers with the information they need to properly monitor U.S.-supplied equipment on hand and equipment deliveries to Kenya.

DSAA administers all U.S. military aid but does not provide updated equipment lists to each SAO. Although DSAA officials stated that they provide equipment data to the unified commands, this indirect routing has not worked, and SAO in Kenya is not well informed about equipment quantities.

Recommendation

We recommend that the Secretary of Defense direct SAO in Kenya to assist the Kenya military in strengthening controls over inventory, especially for munitions and other sensitive items. At a minimum, SAO should provide a training mechanism for sharing U.S. inventory techniques with appropriate Kenyan military personnel and encourage logistics training through the IMET program.

Agency Comments and Our Evaluation

In commenting on this report, the Defense Department generally agreed with our findings and conclusions regarding controls over U.S. military assistance provided to Kenya. Defense agreed with our recommendation that SAO assist Kenya in strengthening inventory practices but noted that this type of training would more appropriately be performed by special training teams. Due to the current suspension of military aid, only an IMET

related Mobile Training Team could be deployed to Kenya. SAO will assist the Kenyan military in identifying the types of training needed.

Our draft report also recommended that the Secretary of Defense direct DSAA to provide semi-annual combined service equipment lists that show recent deliveries as well as equipment delivered in the past. We recommended that particular attention be paid to sensitive and lethal items and items vulnerable to theft; that the lists show item quantities, national stock numbers, case numbers, and delivery dates for all major equipment and supplies; and that the lists be maintained by SAO. The Department of Defense agreed with our draft recommendation and took immediate steps to implement it. DSAA placed Kenya on the distribution list for all relevant equipment delivery listings and provided the Kenya office with a more updated and complete listing of major defense articles provided to Kenya. In addition, in October 1992, SAO was provided an equipment list of all major defense articles delivered to Kenya, and SAO was instructed to maintain these lists and the military service requisition/delivery listings for equipment end-use monitoring purposes. Because the Department of Defense has already implemented this recommendation, we deleted it from our final report.

Comments From the Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

NOV 18 1992

Associate
Administrator
for Finance and
Administration

Mr. Frank C. Conahan
Assistant Comptroller General
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

Pursuant to your letter of October 2, 1992, we present our final comments to your draft report on the accountability and controls over U.S. economic and military aid provided to Kenya from 1987 through 1992 (GAO Code 472277). The enclosed comments supplant our draft comments provided to you on November 5. Our comments are limited to the sections of your draft report regarding local currency and the housing guaranty program and some specific, page-by-page notes.

Sincerely,

A handwritten signature in cursive script, appearing to read "Richard A. Ames".

Richard A. Ames

Enclosure

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

Appendix I
Comments From the Agency for
International Development

USAID/KENYA Response to GAO Audit Report
Code 472277

Local Currency

The recommendation with regard to local currency is that "the AID Administrator direct the AID mission in Nairobi to apply the 1991 policy guidance on local currency accountability to agreements currently in effect." A.I.D. requests that the draft recommendation be reconsidered. Policy Determination (PD-18) clearly states that the new guidance applies only to generations from obligations made subsequent to July 1, 1991. A.I.D. does not believe it is useful or realistic to renegotiate the existing agreements (which date back to 1986) to retroactively apply the 1991 guidance. The Agency considered very carefully the question of when the guidance should be effective and took the position that it covered only those currencies that were generated by obligations made after the date of the guidance. Indeed, recognizing the sensitivity of negotiations, PD-18 allowed geographic bureaus to waive (for the remainder of FY 1991) the effective date for those missions unable to comply because they were in the midst of negotiating new agreements at the time the policy was made effective. We do not believe A.I.D.'s guidance should be changed.

In the Kenya context, we believe there are three reasons not to apply the guidance retroactively. One, the Kenyan Government has an adequate computerized budgeting system which clearly identifies all of the donor funds which are to be allocated and to which projects; two, the budget reporting system permits tracking of these sums which are applied to the projects; and, three, the most recent Audit Report by the Controller and Auditor General of the Government of Kenya evidences the determination and independence of that office to report objectively on the use of donor funds.

A.I.D. agrees that the amount and quality of documentation for some of the programming, disbursement and monitoring systems was not what it should be. However, we believe the problems identified by the GAO can be resolved by enforcing the current agreements and revising internal Mission procedures which will include strengthening the system of reconciling local currency withdrawals with authorizing documents (Page 4). The Kenya Mission will set up a monitoring system so that future reports are submitted when due. The Mission will conduct capability assessments when there is reason to believe that GOK accounting systems are no longer able to produce accurate and timely reports.

A.I.D. believes it is inaccurate to say (page 3) that the United States cannot be fully assured that its assistance is being used for its intended purposes because the agreements now

See comment 1.

Now on p. 3.
See comment 2.

Now on p. 2
See comment 1.

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in effect are governed by less strict controls. The report characterizes those controls as "weak" and "vague" although they were and are in conformity with Agency guidance for agreements signed prior to July 1, 1991. The GAO did not identify specific instances of diversion of U.S. funds or equipment. In addition, no such instances have been found in any USG-funded audits or audits by the host government.

Now on p. 2.

The Mission agrees (page 3) that monitoring of local currency withdrawals and expenditures has not always been adequate, but wants to emphasize that end use monitoring is not a requirement of the old guidance.

Now on pp. 3, 26, and 27.
See comment 2.

The GAO notes a number of unresolved accountability problems dating back to 1987 (pages 5, 38 and 39). One of them is the recommendation by Price Waterhouse that end use monitoring be instituted. It is not an unresolved problem. The Mission did not choose to require end use monitoring. The Mission would also like to clarify that, although no formal assessment of the Government's capabilities had been conducted since 1987, the 1990 general assessment done by the Mission concluded that the Mission had a high degree of confidence in the GOK's budgeting and financial management for bilateral programs. Reporting problems on the use of local currency were identified and have now been corrected by the production of GOK budget reports and the tracking system used by the Controller's office.

The Mission has funded an audit, by a U.S.-affiliated CPA firm, which will examine whether all local currency generated under the CIP programs was deposited to the special accounts, whether local currency was properly utilized and whether the host government has the capability to manage local currencies generated. This should affirm the "reasonable assurance" that the Mission has always had in the Ministry of Finance's abilities. In addition, the Mission is auditing all the GOK agencies which receive dollar funding. A number of these agencies also are recipients of local currency generations. Non-governmental local currency recipients, if they also receive dollar funding, will be reviewed under the recipient audit program.

Housing Guaranty Program

The GAO makes three recommendations regarding future RHUDO actions:

Now on p. 38.

1. "The AID Administrator direct RHUDO follow-up its May 1991 recommendations to the Nairobi City Commission (NCC)" regarding Umoja II. The NCC has not formally responded to RHUDO's letter of May 1991. Although informal interactions and dialogue with

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the NCC are still maintained, they are intermittent and low-key. Raising rents (or mortgage payments) on NCC housing is an extremely volatile political issue and not one NCC is willing to discuss at the moment. RHUDO will continue to try to maintain the dialogue, but is not optimistic about the NCC response.

Now on p. 38.

2. "RHUDO should work with the Ministry of Finance to insure prompt repayment of RHUDO [sic] loans." RHUDO, working in coordination with USAID, is in continual contact with the Ministry. Immediately as loan payment amounts and due dates are cabled to RHUDO, they are conveyed to the Ministry desk officer via telephone and then transmitted via letter. An AID/W financial management officer from the Office of Housing and Urban Programs just spent two weeks in Nairobi working with the Ministry of Finance, the National Housing Corporation (NHC), and the NCC, to reconcile payment records for each loan in order to assure that all parties agree on amounts due. Agreements were also reached on the accounts information that would be regularly transmitted to the Government by AID/W. RHUDO is hopeful that this will assist the Government to make timely payments.

Now on p. 38.

3. "RHUDO should also work with the NCC to strengthen collection policies at the Umoja II housing site . . ." This is a variation on recommendation 1. RHUDO will continue to try to create opportunities to maintain its dialogue with NCC.

Additional Page-by-Page Comments (Keyed to Page Numbers)

Now on p. 12.
See comment 2.

Page 16, last paragraph - the statement that "... no progress has been made on other reforms" is not accurate. There has been progress made in some areas that donors asked for during the November Consultative Group (CG). Major reforms include:

-- GOK progress in reducing its budget deficit from 6.3 percent of GDP at the time of the CG to about 3.6 percent by the end of fiscal 1992. The 3.6 percent includes pending bills for expenditures incurred during fiscal 1992, but not yet paid. (This is a tougher measure than the usual cash-basis that the IMF uses for many other countries.)

-- As a measure to improve policy environment for the private sector, the GOK has partially liberalized the trade and exchange regime, with the establishment of an export retention scheme for nontraditional exports and with a market-based foreign exchange auction system. This has made it possible for many foreign companies to repatriate dividends and profits which constituted a significant backlog prior to the November CG.

-- There has been price liberalization. Prices of 48 commodities have been decontrolled.

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-- Cost sharing for health care and university education has been instituted.

These are some of the policy reforms that the USAID program has attempted to address since the mid-1980s, and they were emphasized during the November CG last year.

Now on p. 12.
See comment 2.

Page 16 - Regarding the Danish project (Rural Development Fund) and its aftermath, the statement that "no cases have yet been brought to trial" is not accurate. Three District Commissioners (Kitui, Kirinyaga, Busia) were arrested and brought to trial in early 1992; their cases are still pending in court. Another District Development Officer (Kisumu) was arrested and relieved of his duties. The Permanent Secretary for the Ministry of Planning and National Development was investigated and cleared.

Now on p. 20.

Page 27 - The responsibility for follow up with the GOK when local currency is withdrawn for unauthorized purposes will be designated in the procedures now being formulated.

Now on p. 20.

Page 28 - The fact that the GAO failed to find withdrawal authorizations is not surprising. The Mission practice has been, for the most part, not to authorize individual withdrawals. Authorization to withdraw funds is automatic with the approval of the jointly programmed budget.

Now on pp. 20-22.
See comment 2.

Page 28 - As noted elsewhere, the Mission will document its programming decisions to provide a better audit trail. The Mission agrees, in general, that documentation has declined since 1989. A major reason for the declining documentation is because the Mission has increasingly relied on a much improved GOK budgeting process following the computerization of the budget process and establishment of a functioning Forward Budget mechanism. Prior to the publication of the GOK Forward Budget (one year before the current fiscal year), the GOK requests USAID officials to discuss programming requirements. Virtually the entire Mission senior staff (and through them project officers) takes part in local currency programming. What is published in the GOK Forward Budget becomes current fiscal year Budget Estimates. This is sent back to the Mission every fiscal year for verification.

Now on p. 21.

Page 30 - The statement that "The Mission's lack of knowledge about some past programming decisions as illustrated by the use of local currency for budget deficit reduction" (emphasis added) is inaccurate. The 1988 PAAD Amendment and Agreement, as well as memoranda and PILs in the files have detailed the local currency programming criteria, spelling out Conditions Precedent before the monies could be released, and authorizing the use of these funds for budget deficit reduction. During the period 1987-89 the Mission programmed \$44.4 million for budget deficit

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Comments From the Agency for
International Development**

Now on pp. 21-22.

Now on p. 23.
See comment 2.

Now on pp. 12 and 24.
See comment 2.

Now on p. 25.
See comment 3.

See comment 4.

See comment 5.

See comment 6.

reduction which has all been accounted for.

Page 31 - In the audit of the commodity import program, the Regional Inspector General took the position that because of the decision to stop using project implementation letters to confirm programming decisions, that any withdrawals after that time were unauthorized. This is an unwarranted conclusion since the approved budget constitutes authorization for withdrawal.

Page 33 - Communication between the program office and the Controller's office is good, but can always be improved. The procedures mentioned above will help clarify responsibilities. It is incorrect to say that an employee of the Controller's office searches within the mission for documents that authorize withdrawals. As mentioned on our comment to page 28, the Mission generally does not authorize withdrawals. We further note that, except for KHCF and KMDF, project officers do not program local currency. The Controller's office uses the published forward budget to ascertain program authorizations.

Page 35 - Progress on reforms has been substantial. Please see the discussion on the comments to page 16.

Page 37 - The project officer for the Health Care Financing Program believes that she was misquoted in saying that there is no excessive burden [placed] on the mission or the recipient agencies to carry out thorough monitoring of local currency.

Page 38 - The Mission Director believes his quote was taken out of context. He was discussing end use accountability as it applied to budget support, not projects.

Page 40 - The Mission concurs its documentation was weak for audit purposes, but that overall the Mission is pleased with the results of its local currency program. The Mission is funding an audit to review the internal controls of the host government and is writing procedures to ensure controls within the Mission are adequate.

Page 41 - The discussion of \$65 million in nonfood economic assistance in the same paragraph as agreements for local currency funding implies that amount of local currency will be generated. The \$65 million was the amount in the FY 1993 Annual Budget Submission (ABS) for estimated expenditures for FY 1992 for projects already, or to be, obligated and has no relationship to any local currency that might be generated. The ABS was prepared in June 1991. At that time the operational year budget (OYB) level was much higher. Subsequent to the November CG, the OYB level was reduced to \$19.1 million. Furthermore, out of the \$19.1 million, only \$600,000 under the Health Care Financing Project has local currency programming implications.

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Now on p. 30.
See comment 2.

Page 43, footnote - "One project was deauthorized after three failed attempts at finding a lender." It would be more accurate to state that there were "three failed attempts to consummate a borrowing." In two cases, after extended negotiation with RHUDO on project design issues, the Government decided not to advertise for offers. "The second project was suspended because it was linked to successful implementation of the first project." It would be more accurate to say that it was "delayed pending the negotiations and implementation of the first project and has now been suspended due to the economic and political factors that preclude a new HG loan for Kenya."

Now on p. 31.
See comment 2.

Page 44 - "Borrowers are expected to begin repayment . . ." The loan agreement requires payment on interest immediately. Payment on principal begins after a ten-year grace period.

See comment 7.

Page 44 (and elsewhere) - "RHUDO Loans." The loans are Housing Guaranty Loans (HGs) and the payment requirements are imposed by the Loan Agreements signed with the private sector lenders. They are not RHUDO loans.

Now on pp. 35 and 37.
See comment 2.

Page 45 and 50 - The report cites the repayment problems being that the NCC and NHC are unable to assume the foreign exchange risk, and that the NCC cost recovery record is poor. The statement is true as far as it goes. However, the sources of missed loan payments are more complex and should be clarified. There are three principal steps: 1. NCC (or NHC) transmits the shilling amount to the Ministry of Finance. 2. Finance certifies the payment and requests the Central Bank to make the foreign exchange payment. 3. Central Bank cables the payment to the US.

It is only with respect to step 1 that the problems the report identified are operative. Step 2 is almost always delayed by a month or more due to bureaucratic processing after NCC or NHC makes the shilling payment. Moreover, Step 2 can occur even without Step 1 having taken place, and in fact is required by the Government of Kenya Guaranty Agreement. This has often been delayed for internal political reasons between Finance and the NCC. Step 3 is often delayed because the required foreign exchange is not available for the payment to be made.

The following are GAO's supplemental comments on the letter dated November 16, 1992, from the Agency for International Development (AID).

GAO Comments

1. As noted in chapter 2, we recognize that it may be difficult for AID to renegotiate agreements with the government of Kenya to apply the 1991 policy guidance on local currency accountability, and we have revised our recommendation accordingly. However, it should be noted that inadequate accountability generated under U.S. aid programs had been a long-standing problem prior to AID's issuance of Policy Determination-18 in 1991, and had been the subject of several AID Inspector General and GAO reports prior to that time. Also, in its December 1989 report on compliance with the Federal Managers' Financial Integrity Act, AID identified inadequate procedures to track host country-owned local currency as a material weakness. Therefore, simply because the existing agreements with Kenya are in conformity with AID guidance for agreements signed prior to July 1, 1991, does not, as AID indicated, mean that accountability controls are adequate.
2. Clarifying information added to the final report.
3. Although we do not believe that we misstated the views expressed by the Health Care Financing Program project officer that proper accountability for her program was not unduly burdensome, we have modified the report to reflect the fact that this view was shared by other responsible officials with whom we spoke.
4. Our draft report indicated that the mission director believed that extending the same level of accountability for all local currency programs and projects as were applied to the two successful programs (the Health Care Financing and the Kenya Market Development programs) would overburden the mission and the nongovernmental organizations that receive the local currency funds. Because the mission director now indicates that he was referring to end-use accountability only as it applies to budget support, not projects, we have deleted his comment from the final report.
5. Comment accepted as is.
6. Reference to the \$65 million has been deleted.
7. Suggested word change has been made throughout the report.

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

23 NOV 1992

In reply refer to
I-004212/92

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

Dear Mr. Conahan:

This letter forwards Department of Defense (DoD) comments on the General Accounting Office draft report titled "Aid to Kenya: Weak Accountability for U.S. Economic and Military Assistance" (GAO Code: 472277), OSD Case 9221.

The GAO draft report contains two recommendations: (1) that the Secretary of Defense direct the Security Assistance Office in Nairobi to assist the Kenya Defense Force to strengthen its inventory control over U.S. provided equipment, particularly for munitions and other sensitive items, and (2) that the Secretary of Defense direct the Defense Security Assistance Agency to provide an equipment delivery list to the Security Assistance Office in Nairobi semi-annually.

The Department partially concurs with the first recommendation, and has already implemented the second. Detailed DoD comments on the findings and recommendations are provided in the enclosure.

Sincerely,

A handwritten signature in cursive script that reads "Teddy G. Allen".

Teddy G. Allen
Lieutenant General, USA
Director

Enclosure

Appendix II
Comments From the Department of Defense

GAO DRAFT REPORT - DATED OCTOBER 2, 1992
(GAO CODE 472277) OSD CASE 9221

"AID TO KENYA: WEAK ACCOUNTABILITY FOR U.S.
ECONOMIC AND MILITARY ASSISTANCE"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

- o FINDING A: U.S. Military and Economic Assistance To Kenya.
The GAO reported that the United States has provided about \$305 million to Kenya in economic and military assistance during the period from 1987 through 1992--a period during which allegations of Kenyan government misuse of foreign aid increased. The GAO noted that the aid included more than \$258 million in economic assistance and \$47 million in military assistance. The GAO explained that U.S. assistance programs for Kenya have served four basic purposes-- (1) balance-of-payments support, (2) economic policy reform, (3) development and food assistance, and (4) military aid. The GAO further reported that military assistance has provided major end items such as fighter aircraft, helicopters, trucks, engineering equipment, and computers. The GAO also noted that, since 1987, U.S. military aid has funded mostly consumable items--such as spare parts, training, fuel, and ammunition, although some major items ordered under previous year programs continue to be delivered.

In addition, the GAO reported that recent allegations of diversion and lack of accountability of foreign aid by the Kenyan government have caused much concern among donor countries. The GAO observed that, in FY 1992, the U.S. joined other donors in suspending cash aid to Kenya due to concern over lack of progress on economic reforms and reports of misuse of foreign aid. The GAO further indicated that U.S. assistance had also been reduced, due to concern in FY 1992 over the wavering Kenyan government commitment to human rights and democracy. The GAO reported that more than \$17 million in military aid has been frozen pending Kenyan government progress in protecting human rights and improving its judicial system. The GAO explained that the United States responded to a government crackdown on opposition figures by freezing \$9.9 million in military aid approved for FY 1990 and suspending subsequent appropriations. (pp. 1-2, pp. 6-8, p. 14/GAO Draft Report)

DoD Response: Concur.

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Page 1 of 13

Now on pp. 2, 4, and
12-13.

- o **FINDING B: Military Aid and Assistance.** The GAO reported that, since 1976, the United States has provided Kenya almost \$281 million in military aid, including \$47.3 million during the period from FY 1987 through FY 1992. The GAO explained that the \$47.4 million provided to Kenya since 1987 represents (1) \$37.5 million in Foreign Military Financing grants, (2) \$3 million in Foreign Military Sales credits, and (3) \$6.8 million in International Military Education and Training program assistance. The GAO noted that the Defense Security Assistance Agency administers U.S. military aid programs overall, while the Security Assistance Office in Kenya, under the U.S. Central Command, manages in-country program operations.

The GAO found that unexpended military funds for Kenya totaled \$38.6 million in February 1992--including obligated funds that were (1) not committed for specific use, (2) committed to specific Kenyan purchases of military items that have not been ordered, and (3) related to items that have been ordered but not yet delivered to Kenya. The GAO reported that, in December 1991, the President signed into law the Dire Emergency Supplemental Act, which contains an amendment freezing the provision of FY 1992 Foreign Military Financing funds for Kenya until specific steps toward reform are taken by the Kenyan government. The GAO also noted that, in addition, the Act makes unavailable uncommitted prior year Foreign Military Financing funding grants and loans to Kenya. The GAO explained that, while the foreign operations continuing resolution, in April 1992, lifted these restrictions, the State Department has maintained the suspension. The GAO observed that the Act reduces the actual funds available to the Kenya military to about \$19.1 million. The GAO reported that, as of July 30, 1992, purchases on order, but not yet delivered amounted to \$10.3 million and included F-5 aircraft spare parts, construction equipment, technical assistance, munitions, and helicopter spare parts. (pp. 56-58/GAO Draft Report)

DoD Response: Concur.

- o **FINDING C: U.S. Program Objectives.** The GAO reported that, in 1980, the United States signed a military agreement with Kenya obtaining access to Kenyan ports and airfields. The GAO explained that the agreement complemented U.S. security objectives for the Indian Ocean region, which were to constrain Soviet influence in the region and ensure the continued flow of Persian Gulf oil. The GAO noted that, since the 1990 Persian Gulf war, U.S. access to ports and air-

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Now on pp. 39-41.

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fields in Saudi Arabia and other Gulf countries has lessened U.S. dependence on Kenyan facilities.

The GAO reported that U.S. security assistance objectives in Kenya include the following:

- maintaining U.S. access to air and port facilities;
- supporting the Kenyan F-5 air defense aircraft, MD-500 helicopter, and engineer programs;
- encouraging an open society respecting human rights; and
- encouraging private sector economic development.

The GAO noted that U.S. military assistance to Kenya has benefitted primarily the Kenyan air force and army. The GAO also reported that, since 1976, about 1,388 students have been trained under the International Military Education and Training program at a cost of about \$15 million.

The GAO reported that, according to a Kenyan Department of Defense intelligence official, the region surrounding Kenya is insecure--(1) with the governments of Ethiopia and Somalia having been overthrown, (2) with Uganda struggling with internal problems, and (3) relations with the Sudan deteriorating due to Sudanese suspicion that Kenya is harboring rebels hostile to that government. The GAO explained the Kenyan official asserted that U.S. military assistance is needed to maintain a credible deterrent against the outside forces. The GAO reported the Security Assistance Officer indicated that Kenya needs about \$48 million in future U.S. security assistance for additional heavy equipment transporters, engineering equipment, missiles, and computer systems, as well as for upgrading the F-5 aircraft and helicopters. (pp. 59-61/ GAO Draft Report)

DoD Response: Concur. U.S. access to ports and airfields in other countries has lessened U.S. dependence on Kenyan facilities. However, given the use of Kenyan facilities by the DoD to airlift humanitarian relief supplies into Somalia, and the continuing political and humanitarian challenges in the region, maintaining access to Kenya remains a high priority.

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Page 3 of 13

Now on pp. 41-42.

See comment 1.

- o **FINDING D: Kenya Military Can Account For Equipment But Controls Can Be Strengthened.** The GAO reported that it had inspected the U.S.-supplied equipment of two army and three air force installations in Kenya. The GAO noted that it relied on Kenya military inventory records because U.S. officials in Kenya did not have complete information on U.S.-supplied equipment and supplies and the Defense Security Assistance Agency had been unable to provide such a listing. The GAO reported that it was generally able to locate all the equipment it asked to see. In addition, the GAO concluded that both the equipment and related facilities appeared secure and well-maintained. The GAO noted that, according to Kenyan military officials, the equipment has not been used in civilian affairs except in cases of law enforcement or civilian assistance--such as search and rescue. The GAO observed, however, that a very close relationship exists between the army helicopter battalion and the Kenyan General Security Unit which is the paramilitary arm of the Kenyan police department.

The GAO reported that, while Kenyan military officials at each installation provided inventory records, they were not always reliable. The GAO noted that some information was incorrect and other numbers had not been verified properly through regular inventories. In inspecting two army installations and three air force locations, the GAO found that all major equipment (such as MD-500 helicopters, the F-5 aircraft, and the construction equipment) was either physically located or could be accounted for. The GAO also found that the inventory cards it tested at installation warehouses were accurate in the item amount and location. The GAO reported that most Kenya air force missiles and army and air force rockets were located at an air force installation it visited, but some inventory discrepancies were noted. The GAO found that some U.S.-supplied computer equipment worth \$4,000 was missing. The GAO noted, however, that the Kenya air force inventory controls had detected the problem prior to the GAO visit, and a board of inquiry had been established to look into the matter. The GAO concluded that, although it found no evidence of diversion of U.S. military assistance to unintended uses, some Kenyan controls over U.S.-supplied equipment are inadequate. The GAO further concluded that inadequate inventory controls over munitions are of particular concern. (pp. 61-65, p. 78/GAO Draft Report)

DoD Response: Partially concur. While the Department does not have an inventory list of every defense article provided to the Government of Kenya, the Army does provide the

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Now on pp. 42-46.

Security Assistance Office an updated requisition/delivery list on a quarterly basis. (An example was provided to the GAO staff.)

The Defense Security Assistance Agency publishes and distributes to U.S. Central Command an updated equipment list of all major U.S. government defense articles to Kenya. That information is also available to the Security Assistance Office upon request. A Defense Security Assistance Agency Foreign Military Sales equipment delivery list was provided to the GAO, the U.S. Central Command, and the Security Assistance Office in Nairobi prior to the GAO Kenya visit in April 1992.

- o **FINDING E: Use of Military Equipment.** The GAO reported the Kenyan military has two roles--the primary role is to defend the Kenyan borders, and the secondary role is assisting with internal security. The GAO observed that, while the MD-500 helicopters are used for training 90 percent of the time and have never been used against civilians, they have been used to (1) deter cattle rustlers, (2) chase poachers, (3) help in search and rescue missions, and (4) monitor armed bandits that cross the Kenyan border. The GAO reported that, according to a DoD official, the MD-500 helicopters perform joint exercises with the Kenyan General Service Unit, but do not practice with the Kenyan army--and the helicopters have no integrated role with the Kenyan army. The GAO noted, however, that a Security Assistance Office official indicated the helicopter unit does not generally train with other army units, and he was unaware of joint exercises with the General Service Unit. The GAO observed that, according to the Security Assistance Office official, the United States cannot require joint exercises with the other army units.

The GAO reported that, according to a Security Assistance Office official, any evidence of U.S.-supplied equipment being used against civilian populations would end all security assistance to Kenya. The GAO noted that the Kenyan military has told the U.S. embassy in Kenya that the MD-500 helicopters could be used in coordination with the General Service Unit along the Kenyan borders in operations to counter bandits, rustlers, or poachers from Sudan, Uganda, or Tanzania. The GAO reported that the helicopters and the General Services Unit have been training jointly in those areas. The GAO observed that the State Department had no indication that the helicopters supplied to Kenya have been used in connection with the General Service Unit internal security mandate, such as riot control. The GAO reported that the Kenyan Department of Defense also denied such use

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of the helicopters. The GAO concluded that joint exercises between the helicopter unit and the regular army aimed at external threats appear to be more consistent with U.S. purposes in providing helicopters than training aimed at internal threats.

The GAO found that the Kenyan army has used U.S.-supplied construction equipment in civilian projects, some sponsored under the DoD African Civic Action program--an organization that assists African militaries to undertake activities to benefit directly their civilian populace. The GAO cited the example of the Tiwi Mtongwe Water Pipeline project, where the United States contributed \$398,000. The GAO further found that the engineer brigade also built (1) local roads, (2) an airstrip, (3) primary schools, (4) barracks, (5) rifle ranges, and (6) a parade ground for which the United States provided most of the construction equipment. The GAO noted that the United States has not placed restrictions on the use of construction equipment and the Kenyan army can contract out their services. (pp. 66-68/GAO Draft Report)

Now on pp. 46-49.

See comment 2.

DoD Response: Partially concur. The Tiwi Mtongwe Water Pipeline project was an example of an Africa Civic Action program which benefited both the military and the civilian sector. However, the Department nonconcur with the GAO statement concerning the activities of the Kenyan Army helicopter unit, the 50th Air Cavalry. The 50th Air Cavalry and the General Services Unit have not trained together on military or internal security exercises. However, some cross training with the General Services Unit has taken place in the past, but only in connection with anti-poaching and anti-cattle rustling purposes. Both the American Embassy Nairobi and the Security Assistance Office in country have attested to that information in addition to the State Department, the Defense Intelligence Agency, and U.S. Central Command.

The MD-500 helicopters are used by Kenyan Armed forces for joint operations against external threats. For example, the 50th Air Cavalry was deployed in May 1991 with the General Services Unit to assist in containing Somali rebel forces at the border. However, they are not used for internal defense or internal security operations against civilians.

- o **FINDING F: Condition of Facilities.** The GAO reported that military assistance agreements require Kenya to provide the same degree of security to U.S.-supplied military items as would be provided by the United States. The GAO found that, of the five military installations it visited, four had

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adequate perimeter security. The GAO reported, however, that at one air force facility, where the F-5 aircraft were based temporarily, it gained access to the F-5 aircraft on the airfield without going through a military checkpoint, and once on the tarmac did not encounter any Kenyan military personnel for more than 10 minutes. The GAO concluded that, although a Security assistance office official indicated that minimal security is standard procedure with unarmed aircraft, the lack of any military presence at the gate on the airfield appeared to provide less than minimal security.

The GAO reported that installation storage space for equipment generally was clean, well-organized, and secure. The GAO observed that, in each case, controls were in place to monitor equipment usage. The GAO noted that the various monitoring systems appeared consistent with the nature of the items being controlled. (p. 69/GAO Draft Report)

DoD Response: Concur.

- o FINDING G: Kenya Inventory System Does Not Catch All Errors. The GAO reported that inventory records provided by the Kenyan military appeared to be complete and provided amounts and locations for U.S.-supplied equipment at each installation. The GAO found errors, however, in some of the inventories that Kenyan military officials agreed should have been caught by their own procedures. The GAO noted, for example, that the same serial number was listed for two serviceable F-5 aircraft, and the air force inventory listed two aircraft generators and five bomblifts, when the actual numbers were three generators and three bomblifts. The GAO reported that, in each case, the Kenya air force officers immediately corrected the discrepancies.

The GAO found the Kenyan military inventory of aircraft missiles received from the United States was accurate, but there were errors in the military artillery rocket inventory. The GAO cited one stock card at the storage site that, for more than a year, showed more rocket engines than were on the inventory depot record. The GAO noted another example of a stock card for practice warheads that showed 128 fewer warheads than the depot record. The GAO reported that the depot officials indicated that the warheads probably were issued some time in the past three months but the action went unrecorded. The GAO noted that it was later told that the stock cards are not used as a check against the depot inventory. (pp. 69-70/GAO Draft Report)

DoD Response: Concur. The Department recognizes that the Kenyan inventory system can be strengthened. The Security

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Now on p. 49.

Now on p. 49-50.

Assistance Office will recommend to the Kenya Defense Force that a Mobile Training Team or a Technical Assistance Field Team be deployed in-country to provide inventory training and technical assistance.

- o **FINDING H: Full Physical Inventories Are Not Performed Consistently.** The GAO found that inventory procedures varied at each military installation. The GAO also found that, according to officers at the munitions depot, annual walls-to-wall inventories were not conducted. The GAO observed that, instead, the depot inventory was compiled from delivery and issuance forms--and not reconciled against a physical inventory. The GAO reported that the stock cards at the storage sites are used for local record keeping, but are not compared to the depot-wide inventory sheet. The GAO concluded that this procedure leaves the depot open to irregularities that can go unrecorded for long periods of time. The GAO noted that Kenyan military officials agreed that the current inventory procedures at the depot need strengthening.

The GAO reported that other installations varied in their inventory procedures, seldom performing annual wall-to-wall inventories. The GAO noted that, since the Kenyan military did not provide any guidance on how often inventories should be performed, it was unable to determine whether varying inventory practices were consistent with the Kenyan military criteria. The GAO explained that, according to Kenyan military officials, their internal Audit and Inspections Branch assures the quality of inventories at the different military installations. The GAO reported that the legislative branch of government also has its own auditor, the Office of the Controller and Auditor General, which performs random audits and reports to the Kenyan military and the Parliament Public Accounts Committee. (pp. 71-72/GAO Draft Report)

DoD Response: Concur. The Department recognizes that the Kenyan inventory system can be strengthened. The Security Assistance Office will recommend to the Kenya Defense Force that a Mobile Training Team or a Technical Assistance Field Team be deployed in-country to provide inventory training and technical assistance.

- o **FINDING I: Security Assistance Officer Performing Required Tasks But Lacks Program Information.** The GAO reported that, while the Security Assistance Officer generally is performing required tasks, as mandated by the Security Assistance Management Manual, observing and reporting on the use of

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Now on p. 50.

Appendix II
Comments From the Department of Defense

U.S.-funded equipment and supplies is a secondary duty. The GAO found that the manual does not set accountability standards or prescribe how, when, and how much monitoring should be performed. The GAO further found that the manual does not contain standards specifying the types and amounts of control and accountability mechanisms that a host country should apply to U.S.-funded military items. The GAO reported that the Defense Security Assistance Agency applies the Arms Export Control Act eligibility criteria to purchases using military grant funds. The GAO explained that the Act criteria require that a recipient country agree (1) not to transfer U.S.-provided equipment to a third party without U.S. consent, (2) not to use articles for unintended purposes, and (3) to maintain the security of articles and provide substantially the same degree of security protection afforded to such articles by the U.S. Government. The GAO pointed out, however, the Act does not require that recipient countries permit U.S. officials to observe and review the use of the U.S.-supplied defense articles.

The GAO reported that the Kenyan military limits U.S. monitoring of their military program, according to Security Assistance Office officials. The GAO explained that Security Assistance Office officials generally can obtain access to a military facility if a written request is submitted to the Kenyan military, and to date few have been denied, but the military continually delay approval for access ("impose significant bureaucratic roadblocks") to installations, according to the security assistance office. The GAO observed that, while Security Assistance Office officials usually monitor the receipt of large pieces of equipment, like aircraft and munitions, they lack the staff and travel funds to physically monitor all incoming military equipment. (pp. 72-74/GAO Draft Report)

DoD Response: Partially concur. The Department has already addressed the question of monitoring U.S.-origin defense articles in a previous GAO report titled--"MILITARY AID: Increased Oversight Needed" August 1991. It is the Department's position that the Security Assistance Management Manual already is clear in defining the responsibility to monitor country use of U.S.-funded equipment. Although the Department welcomes opportunities to improve its management of the U.S. security assistance programs, the Department cannot perform another country's inventory nor can the DoD specify the types and amounts of control and accountability mechanisms that the host country should apply to U.S.-funded military items.

Much of the Security Assistance Management Manual and the effort of agencies involved in transfer of U.S. articles are

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Now on pp. 51-52.

See comment 3.

directed toward ensuring that items are used in accordance with the Arms Export Control Act and pre-transfer agreements with recipient countries. Additionally, the Arms Export Control Act did not mandate how and when USG monitoring should be performed. How and to what extent such observations and reporting should and can be done will vary considerably from country to country, and thus no standard procedures are prescribed in the Security Assistance Management Manual.

- o FINDING J: Accurate Equipment Information Was Difficult to Obtain. The GAO found that a consolidated in-country inventory of U.S.-supplied equipment was not available in Kenya. The GAO further found that, in particular, munitions quantities were difficult to determine. The GAO explained that most of the information existed in Foreign Military Financing case documents in the files of the Security Assistance Office, but there was not a document that provided a detailed consolidated listing of delivered equipment. The GAO concluded that, overall, the Kenyan military inventory was a better source for information on U.S.-supplied equipment than the U.S. Department of Defense. The GAO noted that the Defense Security Assistance Agency provided the most complete U.S. listing of equipment, but it was outdated and did not define clearly the equipment listed or provide useful stock numbers.

The GAO reported that Security Assistance Office officials indicated that they do not need a detailed listing of delivered equipment because they are not responsible for managing the Kenyan military inventories. The GAO also found that the Security Assistance Office also lacks information on the total number of items on order because the Kenyan military may have requisitioned items directly from U.S. materiel commands or through commercial contracts. The GAO reported that, while the Security Assistance Office usually receives copies of Kenyan military requisitions directly, documentation on actual delivery of equipment is difficult to interpret and often outdated. The GAO observed that an official with the Defense Security Assistance Office Comptroller office indicated that updated equipment lists are made available to the Unified Commands and they are responsible for distributing the information to the Security Assistance Offices. The GAO noted that a Security Assistance Office official in Kenya indicated that the information was not being distributed to that office. The GAO concluded that such indirect routing has not worked, and the Security Assistance Office in Kenya is not well informed about equipment quantities.

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Now on pp. 52-53.

The GAO reported that the Defense Security Assistance Agency comptroller's office is developing an on-line system that will display Foreign Military Financing delivery information, including equipment descriptions and summary data. (pp. 74-76 and p. 79/GAO Draft Report)

DoD Response: Nonconcur. Information for the Defense Security Assistance Agency equipment delivery list came from the Services and therefore can be considered a consolidated list. Compiling receipts for delivery is slow; therefore, information on the Defense Security Assistance Agency list may be four to six weeks old. Although the Defense Security Assistance Agency distributes the equipment list to the Unified Command on a quarterly basis, this list is also available to the Security Assistance Office upon request. In addition, the Services, the U.S. Central Command, and the Defense Security Assistance Agency provided the Security Assistance Office in Nairobi with a list of major U.S. government equipment delivered to the country prior to the GAO visit. (Examples were previously provided to the GAO staff.)

- o **FINDING K: International Military Education and Training Program Not Fully Used By Kenyan Military.** The GAO reported that, since 1987, the United States has provided over \$6 million in International Military Education and Training program support to Kenya. The GAO noted that the program is valued highly by the Kenyans, according to Security Assistance Office officials because it provides technical skills unavailable in Kenya and trains Kenyan officers in U.S. management and leadership. The GAO reported that Security Assistance Office officials indicated that the program has been successful in encouraging professionalism in the Kenyan military. The GAO observed that over 20 Kenyan officers in key positions have attended U.S. intermediate and senior service schools, and two Kenyan graduates from the U.S. Air Force Academy and one graduate from West Point are on duty in the Kenyan military.

The GAO found, however, that in 1991, the Kenyan military filled only 56 of 106 International Military Education and Training program positions, and of the 100 available positions for FY 1992, only 60 have been used or reserved. The GAO contrasted those figures with an average of 100 students going through the program annually before 1991. The GAO also pointed out that two students were cancelled from the International Military Education and Training program classes, in March 1992 due to a temporary hold on U.S. assistance related to the Kenyan government inability to pay housing guaranty loans. The GAO noted, according to

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Security Assistance Office officials, the Kenyan military lacked the funds to support all 106 students in 1991 due to budget problems. The GAO reported that a senior Kenyan military official indicated that the Kenya government has less funding due to recent reductions in donor assistance that have affected many programs, including military training. The GAO concluded that the Kenyan military could increase available training funds and finance additional International Military Education and Training program students by lowering the student stipend, which is in excess of the amount recommended by the U.S. schools providing the training. The GAO further concluded that the high stipend amounts reduce total funds to the point where only a portion of the allowed students can enter the program. (pp. 76-79/ GAO Draft Report)

Now on pp. 53-54.

DoD Response: Concur.

* * * * *

RECOMMENDATIONS TO THE SECRETARY OF DEFENSE

- o **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct the Security Assistance Office in Kenya to work with the Kenya military to strengthen controls over inventory, especially for munitions and other sensitive items. The GAO further recommended that, at a minimum, the Security Assistance Office share U.S. inventory techniques with appropriate Kenyan military personnel and encourage logistics training through the International Military Education and Training program. (p. 27/GAO Draft Report)

Now on p. 55.

DoD Response: Partially concur. The Department has directed the Security Assistance Office in country to assist the Kenyan Government in strengthening their inventory control system to ensure more accurate accountability of defense articles within the limitations of Section 515(b) of the Foreign Assistance Act of 1961. However, the Security Assistance Office has neither the technical expertise nor the personnel to assist in such an endeavor. This training is more appropriately performed in-country by a USG Mobile Training Team or a Technical Assistance Field Team. At present, only an International Military Education Training program related Military Training Team can be deployed to country due to the current suspension of Kenya's security assistance program. The Security Assistance Office in country will assist the Kenyan Defense Force in identifying the types of training needed.

See comment 1.

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- o **RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct the Defense Security Assistance Agency to provide semi-annual combined Service equipment lists that show recent deliveries as well as equipment delivered in the past. The GAO further recommended that particular attention be paid to sensitive and lethal items, as well as items vulnerable to theft. The GAO specified that, at a minimum, the information should show item quantities, national stock numbers, case numbers, and delivery dates for all major equipment and supplies. The GAO also recommended that the lists be maintained by the Security Assistance Office to provide U.S.-supplied equipment levels on hand and information on recent deliveries. (pp. 8-9, p. 80/GAO Draft Report)

Now on p. 56.

DoD Response: Concur. The Department has already implemented GAO's recommendation. The Security Assistance Office in Kenya has been included in the Defense Security Assistance Agency distribution system for all relevant equipment delivery listings. The Security Assistance Office will begin receiving these listings on a quarterly basis. In addition, a copy of the Defense Security Assistance Agency equipment list on all major defense articles to Kenya was provided to the Chief, Security Assistance Office during his visit in October 1992. The Defense Security Assistance Agency also advised the Chief, Security Assistance Office to maintain a requisition/delivery list for equipment end-use monitoring purposes. (Examples of the delivery list were provided to the GAO.)

See comment 4.

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The following are GAO's supplemental comments on the letter dated November 23, 1992, from the Department of Defense.

GAO Comments

1. Clarifying information added to the final report.
2. The final report has been clarified on this point; however, it should be noted that several sources with whom we met expressed differing positions on the relationship between the military helicopter unit and General Services Unit as well as the integration of the helicopter unit within the regular army. It would appear that the joint exercises between the helicopter unit and the regular army aimed at external threats appear more consistent with U.S. purposes in providing helicopters than training aimed at internal threats.
3. The report notes several instances where SAO in Kenya was performing the tasks required by the Security in Assistance Management Manual and the Arms Export Control Act. As noted in our report and in Defense's comments, we have addressed this issue in a previous report with suggestions to Congress for stricter legislation and recommendations to the Secretary of Defense for improving accountability over U.S. security assistance. Defense responded that its current oversight practices were adequate and that additional legislation to improve assurance of compliance with existing laws was unnecessary. Our evaluation concluded that those practices were not sufficient to assure accountability and suggested Congress consider amending the legislation to ensure better oversight and controls over U.S.-supplied military items.
4. As discussed in chapter 4, because the Department of Defense has implemented this recommendation, we have deleted it from our final report.

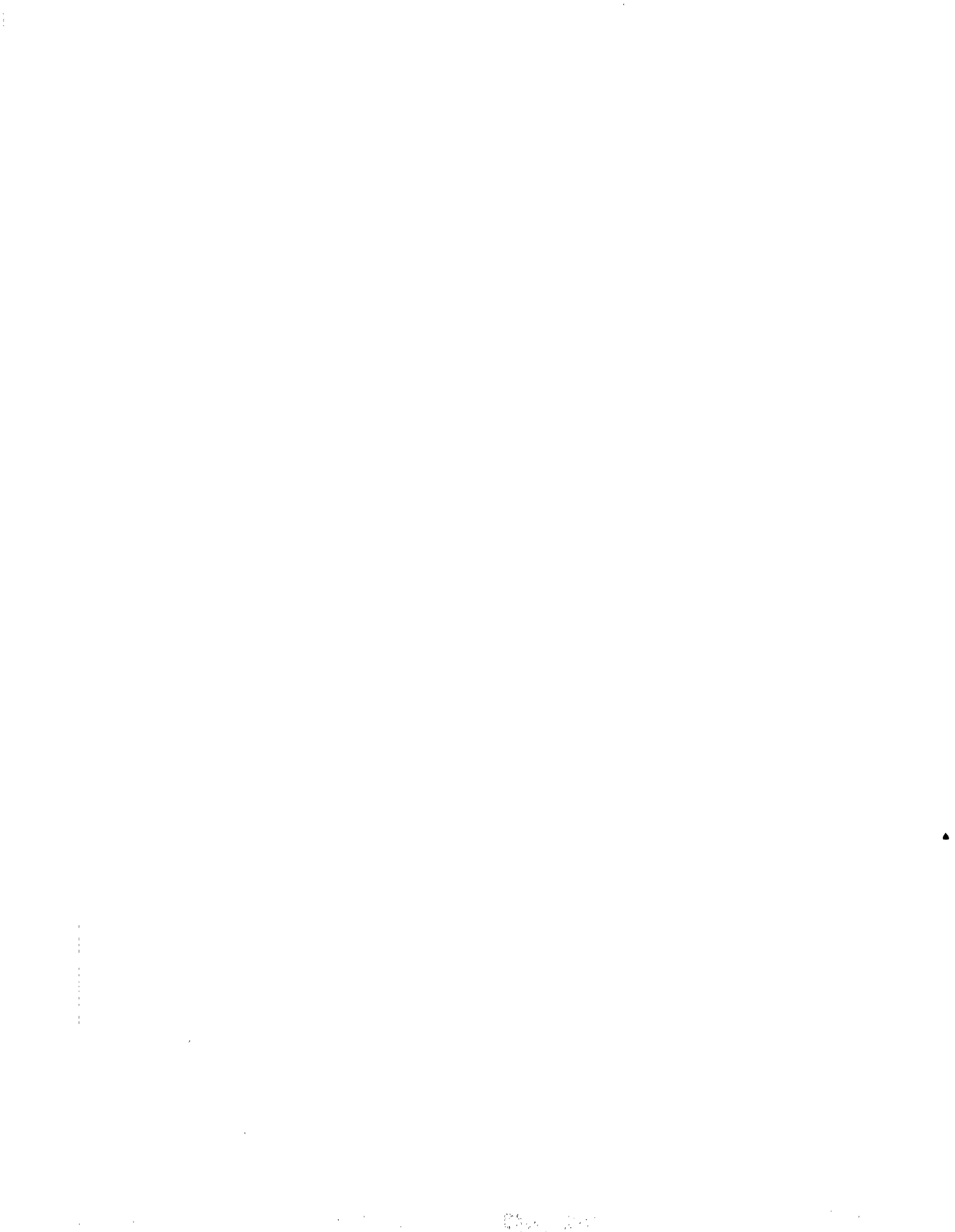
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