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AUDIT  
OF AID/BELIZE'S COMPLIANCE WITH  
AID'S REVISED PAYMENT VERIFICATION  
GUIDELINES

Audit Report No. 1-505-87-27  
April 28, 1987

004348

# AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY  
TEGUCIGALPA - HONDURAS

April 28, 1987

## MEMORANDUM

TO : AID Representative to Belize, Neboysa Brashich  
FROM : RIG/A/T, *Coinage N. Gothard* Coinage N. Gothard, Jr.  
SUBJECT: Audit of AID/Belize's Compliance with AID's Revised Payment Verification Guidelines, Report No. 1-505-87-27

This report presents the results of audit of your office's compliance with AID's Revised Payment Verification Guidelines. The Office of the Regional Inspector General for Audit/Tegucigalpa made a limited financial and compliance audit at AID/Belize. The specific audit objectives were to determine whether your office had submitted timely general assessments and updates required by the payment verification guidance, test the accuracy of these self-assessments and determine reasons for any inaccuracies, analyze areas where responsible entities were not in compliance and determine the effects, assess whether justifications for noncompliance were reasonable at the time they were made, and determine whether subsequent actions had been taken to conform to AID payment verification policies.

During its short period of existence, AID/Belize had realized only limited success in implementing AID's Revised Payment Verification Guidelines. However, some of the Policy Statements, for example Statement No. 15 on Commodity Import Programs (CIP), were not applicable. Others, such as Statement No. 13 on host country contracts, were not actionable because the Government of Belize had yet to demonstrate that it had developed minimally adequate accounting and management expertise. One of three AID/Belize general assessments was not furnished to AID/Washington within the required time. The assessments were generally complete but were not supported by evidence of tests of random samples, and AID/Belize was not in compliance with the Policy Statements in four instances. AID/Belize did not justify the use of a bank letter of commitment during 1985. Subsequent AID/Belize actions to comply with the Policy Statements included the use of random sampling techniques to support future assessments, and the dissemination of Policy Statement reminders to responsible project management.

On two occasions AID/Belize did not comply with AID fund control procedures. First, AID/Belize had not deobligated \$20,000 in funding for Project No. 505-0010, a participating agency service agreement (PASA) with the local Peace Corps office. Secondly, AID/Belize committed \$20,000 in funding for Project No. 598-0625, another PASA with the local Peace Corps office, without prevalidation (formal assurance that funds are in fact available) by responsible Mission controllers or by AID/Washington. At AID/Belize, voucher examination and approval procedures needed improvement, and assessments of its voucher approval and examination procedures were not supported by evidence of random samples of vouchers. While project officers' checklists were generally appended to vouchers processed by the AID/Belize Controller, some of the checklists were not filled in and thus did not provide the basis for administrative approval, and there was no support, such as a trip report, to substantiate the basis for approval.

We have recommended that AID/Belize and USAID/Honduras Controllers notify AID/Washington of the \$20,000 administrative irregularity in accordance with Agency procedure, and that AID/Belize deobligate another \$20,000. We have also recommended that AID/Belize improve voucher examination and voucher approval procedures through the provision of adequate staffing, contract review and the establishment of controls over outstanding advances. Finally, it is recommended that AID/Belize make and test random samples, and reiterate certain of the policies to ensure compliance.

Although you did not concur with most of the report findings, your office should be complimented on completing certain of the recommended actions prior to issuance of this report. Your full response is attached as Appendix 1 to this report.

Please provide written notice within 30 days of any additional information related to actions planned or taken to implement the recommendations.

## EXECUTIVE SUMMARY

Consistent with the Agency for International Development (AID) Administrator's emphasis on implementation of AID programs and for consistency with the Federal Managers' Financial Integrity Act and Office of Management and Budget Circular A-123 on internal controls, the AID Administrator approved 16 policy statements on financial and administrative management, intended to complement efforts to improve AID's system of internal controls. The Office of the AID Representative in Belize (AID/Belize) was one of the AID offices responsible for implementing the Revised Payment Verification Guidelines. As of September 30, 1986 AID/Belize's program portfolio consisted of 24 projects totaling \$52.2 million in obligations.

The Office of the Regional Inspector General for Audit/Tegucigalpa made a limited financial and compliance audit at AID/Belize. The specific audit objectives were to determine whether responsible AID Offices had submitted timely general assessments and updates required by the payment verification guidance, test the accuracy of these self-assessments and determine reasons for any inaccuracies, analyze areas where responsible offices were not in compliance with AID policies and determine the effect of the noncompliance, assess whether the justifications for noncompliance were reasonable at the time they were made, and determine whether subsequent actions had been taken by responsible offices to conform to AID payment verification policies.

AID/Belize had realized limited success in implementing AID's Revised Payment Verification Guidelines. One of three general assessments was not furnished to AID/Washington within the required time. The assessments were generally complete but were not supported by evidence of randomly selected tests of transactions, and AID/Belize was not in compliance with the Policy Statements in four instances. AID/Belize did not justify the use of a bank letter of commitment during 1985. Subsequent AID/Belize actions to comply with the Policy Statements included the use of random sampling techniques to support later assessments and the dissemination of Policy Statement reminders to responsible project management.

In March 1985 AID/Belize first filled its Controller's position. From that time, AID/Belize's success in implementing the Policy Statements had improved. Nonetheless, the audit identified conditions requiring AID/Belize's immediate attention and correction. AID/Belize committed \$20,000 in funding without prevalidation by responsible Mission Controllers or by AID/Washington, and another \$20,000 in funding needed to be deobligated; voucher examination and approval procedures needed improvement and were not supported by evidence of random samples; and project officers' checklists were not properly used. These conditions hindered AID/Belize's efforts to effectively implement the Revised Payment Verification Guidelines.

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On two occasions AID/Belize did not comply with AID fund control procedures. First, AID/Belize had not deobligated \$20,000 in funding for Project No. 505-0010, a participating agency service agreement with the local Peace Corps office. AID/Belize had not recognized that these monies were lying idle during quarterly portfolio reviews. Secondly, AID/Belize committed another \$20,000 in funding for Project No. 598-0625, another agreement with the local Peace Corps office, without prevalidation by Mission Controller personnel or by AID/Washington. AID/Belize thought that an AID/Washington authorization for one project with the Peace Corps was equally applicable to another project with the same organization. The responsible project officer who committed \$20,000 in funding without authorization may be subject to administrative discipline, and may be personally liable for repayment of these monies. We have recommended that the Controllers at AID/Belize, USAID/Honduras and AID/Washington coordinate a review of the administrative violation, and that AID/Belize deobligate \$20,000 in funding.

Voucher examination and approval procedures needed improvement. The voucher examiner advised us that in addition to other factors, she had not received clear instructions. Actually, requirements had been established in the Controller's Guidebook as well as in the voucher examiner's personal services contract but a high rate of turnover in the position hindered the effective implementation of the provisions. Because these requirements were not effectively implemented, vendors received payment from AID/Belize on the basis of insufficient support and advances remained outstanding far beyond prescribed time limits. Due to the latter, the U.S. Treasury has lost over \$14,000 annually in interest costs. We recommended that AID/Belize achieve stability in the voucher examiner's position, and improve its oversight of voucher submissions and control of advances.

AID's Administrator issued Payment Verification Policy No. 8 requiring Mission Controllers to provide annual assessments of Missions' voucher approval and examination procedures. The reviews were to involve a random sample of vouchers large enough to provide reasonable assurance that procedures in place were adequately represented by the assessment. The AID/Belize Controller's assessments of the voucher approval and examination procedures were not supported by evidence of random samples of vouchers because: 1) the USAID/Honduras Controller was responsible for AID/Belize accounting matters during reporting years 1983 and 1984 and assigned low priority to the assessments; and 2) the AID/Belize project portfolio was considered by the AID/Belize Controller to be so small that he did not select and test a random sample during reporting year 1985. Consequently, AID/Belize was not in compliance, and evidence of random samples supporting the integrity of the \$52.2 million in obligations was absent. We recommended that random sampling of vouchers be initiated in support of annual assessments.

The AID Administrator's Policy Statement No. 7 required project officers to provide to Controllers a statement describing the basis upon which administrative approval of vouchers was given. While checklists were generally appended to vouchers processed by the AID/Belize Controller, the checklists were not appropriately employed because: some were not

filled in and thus did not provide the basis for administrative approval, and there was no support, such as a trip report, to substantiate the basis of approval. Consequently, AID/Belize was not in compliance. We recommended that the use of project officers' checklists be fully understood and supported.

*Office of the Inspector General*

AUDIT  
OF AID/BELIZE'S COMPLIANCE WITH  
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GUIDELINES

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PART I - INTRODUCTION

A. Background

Consistent with the Agency for International Development (AID) Administrator's emphasis on implementation of AID programs and for consistency with the Federal Managers Financial Integrity Act and Office of Management and Budget (OMB) Circular A-123 on internal control, the AID Administrator approved 16 policy statements on financial and administrative management, intended to complement efforts in improving AID's system of internal controls. On December 30, 1983 AID's Assistant to the Administrator for Management (AA/M) published these statements for implementation by responsible AID offices effective January 1, 1984. Accordingly, applicable AID Handbook and policy guidelines were to be revised within calendar year 1984.

The Office of the AID Representative in Belize (AID/Belize) was one of the AID offices responsible for implementing the Revised Payment Verification Guidelines. AID/Belize was administered by six direct-hire employees, augmented by 16 personal services contractors and a small staff of foreign service nationals. As of September 30, 1986 AID/Belize's program portfolio consisted of 24 projects totaling \$52.2 million in obligations. The AID/Belize Controller's Office functioned as a secondary accounting station; the primary accounting station was USAID/Honduras.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa made a limited financial and compliance audit at AID/Belize. This audit was conducted in conjunction with an Inspector General worldwide audit of compliance with the AID Administrator's Revised Payment Verification Guidelines. The purpose of the audit was to determine whether AID/Belize was in compliance with AID's Revised Payment Verification Guidelines. The specific audit objectives were to determine whether responsible AID Offices had submitted timely general assessments and updates required by the payment verification guidance, test the accuracy of these self-assessments and determine reasons for any inaccuracies, analyze areas where responsible offices were not in compliance with AID policies and determine the effect of the noncompliance, assess whether the justifications for noncompliance were reasonable at the time they were made, and determine whether subsequent actions had been taken by responsible officials to conform procedures to AID payment verification policies.

Audit work was performed at the Office of the AID Representative located in Belize City and at USAID/Honduras' accounting station located in Tegucigalpa, Honduras. Audit verification included reviews of records and files, interviews with responsible officials, and tests of vouchers received and about \$550,000 in cost claims made by certain AID-funded recipients. The audit was made during the period September 30, 1986 through December 19, 1986 and covered the period from the date of issuance of the Payment Verification Guidelines (December 30, 1983) through November 1986. Tests of internal control systems were not made; internal control practices were tested as they related to the guidelines. (See Part II, B.) An exit conference was held on December 19, 1986 at which time AID/Belize provided written comments to five preliminary finding statements. On April 10, 1987 AID/Belize formally responded to our draft audit report. Their comments were considered in the preparation of this report and are included as Appendix 1. Other than our limited tests of internal control, the audit was made in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

During its short period of existence (AID/Belize was established in January 1983), AID/Belize had realized only limited success in implementing AID's Revised Payment Verification Guidelines. However, some of the Policy Statements, for example Statement No. 15 on Commodity Import Programs (CIP), were not applicable. Others, such as Statement No. 13 on host country contracts, were not actionable because the Government of Belize had yet to demonstrate that it had developed minimally adequate accounting and management expertise. One of three general assessments was not furnished to AID/Washington (AID/W) within the required time. The assessments were generally complete but were not supported by evidence of tests of random samples, and AID/Belize was not in compliance with the Policy Statements in four instances. AID/Belize did not justify the use of a bank letter of commitment during 1985. Subsequent AID/Belize actions to comply with the Policy Statements included the use of random sampling techniques to support future assessments, and the dissemination of Policy Statement reminders to responsible project management.

AID/Belize emphasized that it officially began operations in January 1983 with one U.S. direct-hire employee, and did not become fully operational until early calendar year 1986, although they were responsible for implementing 24 active projects. Also, AID/Belize pointed out that implementation of the Payment Verification Policy Guidance had been hampered because: the Policy Guidance was not incorporated into the AID Handbooks nor was it stated in the Agency's Policy Determination format, AID/Belize had functioned without a resident Controller for more than two years, and AID/Washington did not provide feedback regarding AID/Belize's assessments of its compliance with the Policy Guidance.

The audit identified conditions requiring AID/Belize's immediate attention and correction. AID/Belize committed \$20,000 in funding without prevalidation by responsible Mission Controllers or by AID/W, another \$20,000 in funding needed to be deobligated; voucher examination and approval procedures needed improvement and were not supported by evidence of random samples; and project officers' checklists were not properly used. These conditions hindered AID/Belize's efforts to effectively implement the Revised Payment Verification Guidelines.

We have recommended that the Controllers at AID/Belize, USAID/Honduras and AID/W take action to review, coordinate and report the administrative violation arising from the failure to prevalidate, and that AID/Belize deobligate \$20,000 in funding. We also recommended that AID/Belize improve stability in the voucher examiner's position, and improve its oversight of voucher submissions and controls over advances. Moreover, it is recommended that random sampling of vouchers be initiated in support of annual assessments, and finally, that the use of project officers' checklists be fully understood and supportable.

## A. Findings and Recommendations

### 1. Fund Control Procedures Were Not Followed

On two occasions AID/Belize did not comply with AID fund control procedures. First, AID/Belize had not deobligated \$20,000 in funding for Project No. 505-0010, an all but defunct participating agency service agreement (PASA) with the local Peace Corps office. AID/Belize had not flagged and acted upon the PASA during their quarterly portfolio reviews. Secondly, AID/Belize committed another \$20,000 in funding for Project No. 598-0625, another PASA with the local Peace Corps office, without prevalidation (formal assurance that funds are in fact available) by responsible Mission controllers or by AID/Washington. An Agency fund control policy is that funds must be prevalidated before being committed for use in program-desired activities. AID/Belize thought that an AID/W authorization for one project with the Peace Corps was equally applicable to another project with the same organization. The responsible project officer who committed \$20,000 in funding without authorization may be subject to administrative discipline, and may be personally liable for repayment of these monies. The prevalidation and the need to deobligate idle funds remained to be resolved.

#### Recommendation No. 1

We recommend that:

- a) the AID/Belize and USAID/Honduras Controllers coordinate and notify AID/Washington's Office of the Controller (M/FM) that a \$20,000 commitment was incurred under the Small Project Assistance Program (Project No. 598-0625) without appropriate prevalidation of funds;
- b) they request the AID/Washington Controller to review the circumstances, determine if an Agency administrative violation occurred, and inform the AID Administrator in accordance with Section A9, C of AID Handbook 19, Chapter I; and
- c) AID/Belize immediately deobligate \$20,000 in funding under the Special Development Activities Project No. 505-0010.

#### Discussion

AID/Belize had two participating Agency Service Agreements (PASAs) with the local U.S. Peace Corps office, Projects No. 505-0010 and 598-0625.

Project No. 505-0010 was entitled Special Development Activities Fund. Based on the USAID/Honduras Controller's records, the project started on October 1, 1982 and was to be completed on June 15, 1986. Total obligations were listed as \$150,000 on USAID/Honduras Controller records but this was in error. During the audit we demonstrated to the USAID/Honduras Controller that the executing instrument and amendment for the project accounted for obligations of only \$75,000. USAID/Honduras' Controller agreed and changed the record to reflect true obligations of \$75,000 for the project. The second PASA with the Peace Corps was

executed under Project No. 598-0625 entitled Small Project Assistance Programs. This project started on March 22, 1983 and was to be completed on March 22, 1987. USAID/Honduras Controller's records listed total obligations as \$170,000 but this, too, was in error. Again we demonstrated to the USAID/Honduras Controller that the executing instrument and six amendments for this project accounted for obligations of \$215,000 rather than \$170,000. USAID/Honduras' Controller agreed and changed the record to reflect true obligations of \$215,000 for this project. As stated earlier, USAID/Honduras was the authorized accounting station for AID/Belize.

The purpose of Project No. 505-0010 was to finance small, self-help, community-based development activities. For fiscal year 1984, funding was to be provided for the Belize Junior School of Agriculture (BJSA) to be undertaken jointly by Peace Corps/Belize, the Government's Ministry of Natural Resources and the Orange Walk District communities of San Lazaro and Trinidad. The purpose of Project No. 598-0625 was to finance small village level activities by Peace Corps volunteers as selected by the Peace Corps' principal country representative in Belize.

Project No. 505-0010 - Implemented in October 1982, this \$75,000 PASA had seen no disbursements since September 13, 1985, leaving \$20,000 in obligated funds unused. Since there had been no movement since September 13, 1985 the funds should have been deobligated.

Project No. 598-0625 - This project was initiated in March 1983 with funding of \$40,000 and was due to be completed in March 1987. Subsequent amendments had increased funding to \$215,000. The sixth amendment, dated September 19, 1986, increased project funding by \$20,000. However, this commitment had not been prevalidated by either the AID/Washington nor the AID/Belize Controllers.

AID/Belize officials stated that an Advice of Budget Allowance for the Special Development Activities Project (No. 505-0010) was authorized by AID/Washington on February 25, 1986, and the AID/Belize Controller's office formally validated to the AID Representative that the Budget Allowance for Project 505-0010 had been received and funds were available. They thought that this Budget Allowance was sufficient to make a commitment of funds for the second Peace Corps PASA. However, this authorization did not apply to Project No. 598-0625. The two PASAs (505-0010 and 598-0625) were separate executing agreements with the local Peace Corps office requiring separate and distinct obligating and accountability documents. Therefore, the AID/W Budget Allowance for Project No. 505-0010 should not have been used to justify the commitment of funds for regionally funded Project No. 598-0625.

As a result of this action, the project officer may have committed an administrative violation. In addition, should the commitment prove to have been invalid, he could be personally liable for the \$20,000.

These situations occurred despite the fact that on August 13, 1985 and again on October 11, 1985, employees and contractors of AID/Belize were reminded by the Principal Officer that failures in fund control procedures could lead to serious consequences, including holding the officer, employee or contractor personally liable for implied or incurred obligations and commitments without prior validation of funds.

#### Management Comments

AID/Belize did not agree with the audit findings and recommendation and requested that they be deleted from the final audit report. They said that the \$20,000 commitment for the Small Project Assistance Program Project No. 598-0625 was part of a \$50,000 approval for the Special Development Activities Fund Project No. 505-0010. They noted that monies provided for the latter project (505-0010) had, in fact, been used to fund activities under the other (598-0625). AID/Belize said that the arrangement was in conformity with their "understanding and interpretation" that the purpose of both projects was the same, that is, to finance small, self-help community development and village-level activities. They added that the sixth amendment for Project No. 598-0625 (executed in September 1986) was not prevalidated for funding availability due to an oversight. AID/Belize also stated that the "policy" of applying Project 505-0010 funds to Project No. 598-0625 was clearly reconfirmed on a IAC Bureau-wide basis in STATE 382253 (dated December 10, 1986). This telegram instructed that "The Small Project Fund for Peace Corps activities will henceforth be covered from Mission bilateral budgets" and "...Project 0010 includes \$35,000 for Peace Corps Small Projects..." the latter interpreted by AID/Belize to mean Project No. 598-0625. AID/Belize concluded that since \$20,000 was used to fund one of the projects there was no idle funding available for deobligation under the other project. The full text of AID/Belize's presentation is included as Appendix 1.

#### Office of Inspector General Comments

There was no established "policy" of applying Project No. 505-0010 funds to Project No. 598-0625. The ad hoc nature of having to obtain frequent AID/Washington approvals has been demonstrated in AID/Belize's own response. The cited telegram (Belize 3150) requested ad hoc authorities for fiscal year 1985 obligations. The December 10, 1986 cable (STATE 382253) was not Bureau-wide but AID/Belize specific. It merely set forth the parameters for AID/Belize's fiscal year 1987 operating year budget. The Controller's Reports of Funding Activity for 1986 merely listed a \$50,000 budget allowance for the Special Development Activities Project No. 505-0010, it did not state that funds were available for obligation for the Small Project Assistance Project No. 598-0625. To sum up, AID/Belize's discussion of what they perceive to be a policy relationship between two separate obligating documents is not supported by facts, AID policy, contracting regulation or fund control criteria. Moreover, AID/Belize's discussion of 1985 and 1987 funding is not germane. In fact, the responsible AID/Belize Project Officer made a \$20,000 commitment of fiscal year 1986 funds on September 19, 1986 for Project No. 598-0625 without prevalidation by an authorized Controller, and even

without an Advice of Budget Allowance from AID/Washington. Therefore, parts a) and b) of Recommendation No. 1 remain open.

AID/Belize also has demonstrated some confusion over its own portfolio. Perhaps the practice of using Project No. 505-0010 as a conduit instead of a project implementation source has loosened management control. Only \$55,000 has been disbursed of the \$75,000 obligated under the Special Development Activities Fund Project No. 505-0010. The project started in October 1982 and the Peace Corps/Belize had not found ways to spend \$20,000 in support of project-related activities. Part c) of Recommendation No. 1 is therefore appropriate and also remains open.

## 2. Voucher Examination and Voucher Approval Procedures Needed Improvement

AID policy and Prompt Payment Act provisions require that vouchers be adequately reviewed and paid in an accurate timely fashion. Voucher examination and approval procedures at AID/Belize needed improvement. The voucher examiner advised us that in addition to other factors, she had not received clear instructions. Actually, requirements had been established in the Controller's Guidebook as well as in the voucher examiner's personal services contract but a high rate of turnover in the position hindered the effective implementation of the provisions. Because these requirements were not effectively implemented, vendors received payment from AID/Belize on the basis of insufficient support and advances remained outstanding far beyond the allotted time. Due to the latter, the U.S. Treasury has lost an estimated \$14,290 annually in interest costs.

### Recommendation No. 2

We recommend that the Office of the AID Representative/Belize take action to:

- a) hire a local citizen to fill the position of voucher examiner;
- b) review contractual agreements and ensure that vendors submit sufficient supporting documentation with vouchers for effective voucher review; and
- c) review, justify, liquidate or recuperate (including interest earnings) \$261,885 in advances that have been outstanding for more than 90 days.

### Discussion

The voucher examiner was responsible for implementing requirements established in the Controller's guidebook as well as in the personal services contract for the position. However, as shown below, these requirements were not being effectively implemented in terms of ensuring adequate support for expenditures or controls over outstanding advances.

Support for Expenditures - The examiner pointed out that several vendors submitted vouchers for payment with little support for expenditures claimed. We sampled vouchers and evaluated the requirements of contractual agreements to determine the cause(s), if any, for inadequacies in supporting documents submitted with vendor invoices.

- A PASA with the local Peace Corps office required only the submission of an itemized statement of disbursements for vouchers submitted. Even though receipts or other details were not required to support the statement, the Peace Corps had recently begun to submit more detail based on an informal agreement. AID/Belize pointed out that this case proved that it was vigilant in monitoring its funds.

- For one voucher submitted by the Pragma Corporation (Project 505-0018) there was no support for \$8,254 in claims. To illustrate, \$4,096 in travel and transportation were not supported by airplane coupons and the like; \$4,931 in per diem claims were not supported by dates and times of departure and arrival; and \$286 in other direct costs were not identified. Also, a \$159 "advance" for travel was claimed as an expenditure on the voucher. The total voucher, including the advance, was reimbursed by AID. AID/Belize said that one of the contract clauses exempted the contractor from submitting supporting documentation for expenses such as travel and transportation, per diem, or other direct costs. In our opinion, effective voucher examination should have at least raised concern about the validity of these costs, prompting a review of support maintained by the contractor, and should have flagged the advance that was billed as an expense.
- CARE/Belize (Project 505-0024) was required to submit only summary statements of expenditures without any supporting detail. These vouchers, too, continued to be processed for advances or liquidations. At a minimum, spot checks should have been made of the CARE/Belize accounting records. Although CARE was a certified U.S. private voluntary organization, AID/Belize agreed that a spot check of CARE/Belize accounting records was in order.
- Payments to one of the contractors under Commercialization of Alternative Crops (Project 505-0008) were covered under clause 752.7003 of the AID Acquisition Regulations (AIDAR). Accordingly, the contractor should have submitted vendors' invoices detailing quantity, description and price for each item of expendable property valued at more than \$2,500 and for non-expendable property which had a unit cost of more than \$500. A certified financial statement submitted by the contractor with the voucher for payment contained requests for payment for such items as travel and transportation in the amount of \$8,074 and computer equipment and office furniture valued at \$7,972. There was no evidence of vendors' receipts to support the contractor's claims of payment for these items. Thus, the contractor was not in compliance, but nevertheless received payment for amounts claimed. AID/Belize subsequently obtained from the contractor supporting documentation for the \$7,972 in computer equipment and office furniture. However, AID/Belize pointed out that the contractor was not required to submit supporting documentation for travel and transportation. Again in our opinion, effective voucher review should have prompted a review of support maintained by the contractor.

Outstanding Advances - We noted a lapse in controls over outstanding advances because effective voucher examinations had not been made. For example, vouchers submitted by CARE/Belize for advances were approved by AID/Belize without showing that there was a need for the advances; that is, CARE did not furnish cost projections. Reporting was required under OMB Circular A-110 on the use of Federal funds. But the forms submitted by CARE were both inordinately late and inaccurate. CARE submitted its first Quarterly Federal Cash Transactions Report (Form SF-272) showing

excessive cash balances on-hand to AID/Belize on November 20, 1985, or 15 months after the project's inception. By that time five quarterly reports should have been submitted. The Forms SF-272 submitted by CARE were also erroneous. In one case, the SF-272 indicated that CARE/Belize's cash balance was a negative \$11,867 while this same report demonstrated that actual cash on-hand should have been at least \$8,283. Such errors could have been detected easily through effective voucher review practices.

PRIDE, another PVO, had received \$104,321 in advances from AID/Belize. PRIDE had not submitted Forms SF-270 on a quarterly basis, and those that were submitted were not summarized or certified by a responsible official. No entries were made in the cash on-hand and cash requirements columns. Moreover, seven vouchers totaling \$111,565 in payments (including advance requests) were not justified by the submission of supporting documentation.

As of December 11, 1986, AID/Belize's portfolio of outstanding advances was:

<u>ADVANCES OUTSTANDING</u>		
<u>No.</u>	<u>Amount</u>	<u>Days</u>
35	\$149,909	361 or more
20	105,477	181 to 360
4	6,499	121 to 180
<u>29</u>	<u>150,119</u>	0 to 120
88	\$412,004	
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Using a conservative interest rate of 7 percent, the cost of borrowings to the U.S. Treasury in order to fund the outstanding advances was estimated at over \$14,000 annually.

To sum up, basic features inherent in the Agency's voucher examination and cash management policies had not been effectively implemented by AID/Belize, resulting in unwarranted benefits to recipients and losses to the U.S. Treasury.

On October 4, 1986 we interviewed the voucher examiner who claimed that there was an overall lack of written instruction provided by which to carry out assigned duties, that she had a heavy workload, including other duties, and that the contracts themselves did not require adequate support or were violated by vendors.

AID/Belize did not agree that the U.S. dependent voucher examiner had not received written instructions to carry out the assigned duties. In support of its position, AID/Belize referred to the scope of work contained in the voucher examiner's personal services contract, Chapter 5 of the Controller's Guidebook, appropriate professional materials furnished, meetings held from time to time, and peer review. However, high turnover in the position may be behind difficulties in implementation. The present voucher examiner, a U.S. dependent, was scheduled to leave by May 1987. The previous voucher examiner, also a U.S. dependent, had served for a short period of time. In order to obtain stability in the position, the hiring of a local citizen should be considered.

AID/Belize demonstrated that it was implementing the Agency's worldwide policy on contractual arrangements, but the audit revealed that vendors generally were not complying with the terms of their executing agreements in support of their cost claims to AID/Belize. In addition, the support specified in the contracts was not adequate. In response to the audit finding, AID/Belize sent letters to those vendors surveyed through audit reiterating the need to make voucher submissions in accordance with their various contractual agreements.

AID/Belize agreed that the voucher examination and approval procedures needed improvement. They pointed out that the office was new, and cited the difficulties in retaining dependent Americans and in finding qualified foreign nationals to fill the voucher examiner's position. Subsequently, the AID/Belize Controller requested and successfully attracted a foreign national to fill the position.

#### Management Comments

After receipt of the draft report, AID/Belize reversed its posture concerning Finding and Recommendation No. 2. They requested that any language suggesting that the voucher examiner did not receive clear instructions be deleted from the published audit report. They also considered part b) of Recommendation No. 2 inappropriate. Regarding the outstanding advances and part c) of Recommendation No. 2, AID/Belize questioned the integrity and source(s) of the advance figures. Also, AID/Belize stated that the advances did not provide unwarranted benefits to recipients; rather recipients either did not liquidate advances on time, or posting (of liquidations) was not timely since the authorized accounting station was not at post. AID/Belize therefore believed that the estimated cost to the U.S. Treasury was incorrect. In spite of this, AID/Belize had taken effective actions subsequent to audit to reduce the outstanding advances by 66 percent.

#### Office of Inspector General Comments

The portion of Finding No. 2, including the October 4, 1986 interview with the voucher examiner, remains unchanged so that the reader is fully apprised of the reasons for AID/Belize's need to improve its voucher examination and voucher approval procedures. In any event, AID/Belize has taken effective action to attract a foreign national to fill the

voucher examiner's position. Moreover, AID/Belize's objection to part b) of Recommendation No. 2 notwithstanding, letters were sent by AID/Belize to certain of the recipients reiterating the need to make voucher submissions in accordance with their various contractual agreements. While it was indeed unusual for USAID/Honduras to furnish different figures on total outstanding balances for the same date, AID/Belize was in no position to question the integrity and source of the advance figures used by audit because AID/Belize had not implemented controls over its own fiscal portfolio administered by USAID/Honduras. Although AID/Belize had not been cognizant of the status of unliquidated advances, AID/Belize has since taken effective action subsequent to audit to reduce the outstanding advances to less than \$140,000. Therefore, all parts of Recommendation No. 2 are closed effective the date of issuance of this report. Part b) of the Recommendation has been noted for future audit follow-up.

### 3. Voucher Examination and Approval Procedures Were Not Tested

AID's Administrator issued Payment Verification Policy No. 8 requiring Mission Controllers to provide annual assessments of Missions' voucher approval and examination procedures. The reviews were to involve a random sample of vouchers large enough to provide reasonable assurance that procedures in place were adequately represented by the assessment. The AID/Belize Controller's assessments of the voucher approval and examination procedures were not supported by evidence of random samples of vouchers because: 1) the USAID/Honduras Controller was responsible for AID/Belize accounting matters for reporting years 1983 and 1984 and assigned low priority to the assessments; and 2) the AID/Belize project portfolio was considered by the AID/Belize Controller to be so small that he did not select and test a random sample during reporting year 1985. Consequently, AID/Belize was not in compliance, and evidence of random samples supporting the integrity of the \$52.2 million in obligations was absent. The recommendation refers to the AID/Belize Controller's next reporting cycle in December 1986.

#### Recommendation No. 3

We recommend that AID/Belize:

- a) select and review a randomly selected sample of vouchers; and
- b) document the random selection and analysis as part of the official file.

#### Discussion

The implementing guidelines for Payment Verification Policy Statement No. 8 stated: "The annual review called for under this policy directive is designed to formalize a process which should already be in place. The review should involve a randomly selected sample of vouchers large enough to provide reasonable assurance that the voucher approval and examination procedures in place are adequately represented by the assessment."

AID/Belize's general assessments for 1983, 1984 and 1985 did not represent a true picture of its voucher approval and examination process because AID/Belize did not make random samples of vouchers for testing in order to provide reasonable assurance that the voucher approval and examination procedures already in place were adequately represented by the assessments.

For reporting years 1983 and 1984 the USAID/Honduras Controller was responsible for AID/Belize accounting. But the USAID/Honduras Controller relied on the personal knowledge of local supervisory personnel to ensure that the system in place was adequate. Because all vouchers were reviewed upon receipt, and voucher examiners were knowledgeable about their functions, supervisory personnel assumed that the system in place was adequate to provide reasonable assurance that it was working properly. Consequently, evidence of tests, that is reexamination of random samples of vouchers, supporting the integrity of the \$52.2 million in obligations was absent.

For reporting year 1985, the AID/Belize Controller informed us that he was familiar with all of the projects, and deemed that a test based on a random sample was not necessary. As a result, weaknesses with project officers' checklists and lack of support for costs claimed by the Peace Corps, Pragma Corporation, CARE and others did not surface. (See Finding No. 2.)

The AID/Washington Controller's payment verification summary ranked the AID/Belize vouchering procedure "adequate" for reporting years 1983 and 1984. Without supporting random samples, we question the validity of the ranking. The payment verification summary ranked the AID/Belize vouchering procedure "incomplete" for reporting year 1985.

In response to this audit finding and recommendation, the AID/Belize Controller made a random sample and tested nine vouchers processed by AID/Belize during fiscal year 1986, totaling \$58,248 in claims from vendors. Results of the review disclosed that: project officers' checklists were missing or incomplete for two vouchers, there was insufficient supporting documentation for four vouchers, and certifications were missing for three vouchers. The discovery of these deficiencies illustrates the value of testing random samples in implementing the AID Administrator's Revised Payment Verification Policy No. 8.

#### Management Comments

AID/Belize did not agree with the audit conclusion that evidence of tests supporting their \$52.2 million portfolio was absent. They responded that prior to issuance of the policy guidance other tests were and still are being used throughout the Agency. Thus, there was evidence of tests to support the integrity of AID obligations. AID/Belize also responded that the actual number of vouchers tested in its random sample was fifty, not nine.

#### Office of Inspector General Comments

We have modified the report narrative to specify that the absence of evidence of tests refers to the absence of random samples. The random sample of fifty vouchers was discussed subsequent to, not prior to issuance of the draft report. At that time AID/Belize's Controller was advised that supporting information should be included in AID/Belize's official response. This was not done. Nonetheless, information previously provided was sufficient to demonstrate that AID/Belize met the intent of the finding and recommendation. Therefore, Recommendation No. 3 is closed the date of issuance of this report.

#### 4. Project Officers' Checklists Were Not Properly Used

The AID Administrator's Policy Statement No. 7 required project officers to provide to Controllers a statement describing the basis upon which administrative approval of vouchers was given. Effective January 1, 1984 the project officer was to use a clarifying addendum entitled Project Officers' Checklist of Administrative Approval of Vouchers that contained five parts to denote the basis for administrative approval. While checklists were generally appended to vouchers processed by the AID/Belize Controller, the checklists were not adequately used because: some were not filled in and thus did not provide the basis for administrative approval; there was no support, such as a trip report, to substantiate the basis of approval; and still others were photocopies of apparent originals also used on other vouchers, evidencing a lack of attention and carelessness in preparing the checklists. Consequently, AID/Belize was not in compliance.

#### Recommendation No. 4

We recommend that AID/Belize:

- a) formally reiterate to project officers the provisions and intent of the AID Administrator's Payment Implementation Guideline No. 7; and,
- b) ensure that project officers' approvals are supported in the official project file by memoranda, trip reports or other evidence documenting their contacts with payees.

#### Discussion

The implementing guidelines for Policy Statement No. 7 advised that the purpose of the administrative approval of any voucher was to provide the authorized certifying officer with notice that the officer responsible for charges billed to the Government for services, commodities or other costs considered that these charges represented actual performance, delivery or other benefits received. In order to provide a more complete documentary tracking of project payments, the project officer was to complete and attach to vouchers the Project Officers' Checklist for Administrative Approval of Vouchers, in addition to providing the already-in-force project officer administrative approval of vouchers. The checklist contained five standard justifications to be checked by project officers in order to readily identify the bases upon which their administrative approvals were given. The standard entries were: number of field visits to the project site; number of visits to the main office of the recipient within the last three months; number of meetings with counterparts; information available resulting from visits to project sites; and other reasons.

AID Handbook criteria on required documentation for field visits was already in effect. According to AID Handbook 3, Chapter 11, the primary responsibility for monitoring a project lies with the project officer to whom the project has been assigned. The Handbook adds that the purpose and coverage of site inspection is best illustrated by the report which

should be prepared and filed by AID staff conducting the site visit. AID/Belize was not in compliance with these AID policies; there were no Mission orders or other directives on minimum documentation for visits and field trips.

Examples of non-compliance with these criteria due to lack of attention, carelessness or other reasons are discussed below.

Project 505-0024 - a project officer's checklist dated February 12, 1986 noted that administrative approval for a voucher for payment was based on one field visit to the project site, two visits to the recipient's main office and nine meetings with counterparts. There were no trip reports or memoranda in the project files to support these claims.

Project 505-0008 - a project officer's checklist dated August 25, 1986 noted that administrative approval was based on five field visits and nine meetings with counterparts. This checklist, too, was not supported by trip reports or memoranda documenting the meetings.

Project 505-0625 - a checklist dated September 4, 1986 was certified by the project officer but the basis upon which administrative approval was given was not given.

AID/Belize was therefore not in compliance with the guidelines. However, in response to the audit finding and recommendation, AID/Belize issued two Administrative Notices reiterating the requirements called for in implementing administrative approvals of vouchers and site visit reports.

#### Management Comments

AID/Belize objected to one of the examples used in the draft audit report regarding a project officer's checklist.

#### Office of Inspector General Comments

The example has been deleted from this report. The issuance of the two Administrative Notices in response to the audit finding is sufficient to resolve the recommendation. Recommendation No. 4 is closed the date of issuance of this report.

## B. Compliance and Internal Control

### Compliance

The audit disclosed four compliance exceptions:

- AID/Belize committed \$20,000 in funding without prevalidation by responsible Mission Controllers or by AID/W. (Finding 1.)
- \$20,000 in obligations under a PASA was not used because AID/Belize had not closed out the agreement in accordance with Agency policy. (Finding 1.)
- AID/Belize did not make random samples of vouchers in support of assessments of voucher approval and examination procedures. (Finding 2.)
- Some AID/Belize project officers' checklists were not filled in and did not provide the basis for administrative approval, or there was no support for the approval. (Finding 4.)

Other than these conditions, nothing came to our attention as a result of specified procedures that caused us to believe that untested items were not in compliance with applicable laws and regulations.

### Internal Controls

There were three internal control exceptions:

- Over 63 percent (\$261,885) of the \$412,000 in advances made by AID/Belize had been outstanding for more than 90 days. AID/Belize management controls, through effective examinations of these vouchered requests, should have flagged the excess amounts outstanding. (Finding 1.)
- Vendors received payments from AID/Belize on the basis of insufficient support. (Finding 3.)
- Controls over advances to PVOs needed to be improved. (Finding 3 and Other Pertinent Matters.)

Other than these internal control exceptions, nothing came to our attention to indicate that the integrity of internal control systems and practices had been compromised.

**AUDIT  
OF AID/BELIZE'S COMPLIANCE WITH  
AID'S REVISED PAYMENT VERIFICATION  
GUIDELINES**

**PART III - EXHIBITS AND APPENDICES**

STATUS  
OF AID/BELIZE'S COMPLIANCE WITH  
AID'S REVISED PAYMENT VERIFICATION  
GUIDELINES

<u>POLICY STATEMENT (NO.)</u>	<u>STATUS</u>
1. A comprehensive general assessment of methods of implementation and financing, reviewed from the standpoint of accountability, is to be presented on a regular basis and more specific assessments are to be included in the Project Papers.	AID/Belize provided comprehensive general assessments of methods of implementation and financing covering reporting years 1983, 1984 and 1985. The assessment for reporting year 1984 was sent to AID/W three and one-half months late because USAID/Honduras, responsible for its preparation at that time, gave priority to its own assessment which was submitted two and one-half months late. Specific assessments were not complete for three of six project papers reviewed.
2. AID/W Controller concurrence on the implementation and financing aspects are to be included in the general assessment and the more specific PP assessments requiring AID/W review.	It could not be determined at AID/Belize if the AID/W Controller concurred with the implementation and financing aspects included in the AID/Belize general assessments. It was assumed that there was tacit concurrence in that there was no feedback to the contrary. Two of the six PPs, while not requiring AID/W Controller's concurrence, did not have AID/Belize Controller's concurrence.
3. As a part of the assessments under 1. above, a justification is to be submitted whenever the Mission proposes to depart from any of the following general policies:	AID/Belize's 1985 general assessment listed one deviation (Bank L/Comm) that was not adequately justified nor discussed in the assessment.
(a) The use of Fixed Amount Reimbursement (or modified Fixed Amount Reimbursement) as the preferred method in financing multiple unit construction.	AID/Belize had not used Fixed Amount Reimbursement.

POLICY STATEMENT (NO.)	STATUS
(b) Use of the Federal Reserve Letter of Credit (FRLC) procedure. (Note that FRLCs may be used only in the case of non-profit organizations. They cannot be used in any case for host country contracts or loan-financed contracts.)	There was no evidence that AID/Belize had departed from this financing method.
(c) The use of the direct reimbursement procedure (reimbursing the host country, contractors and others) instead of other methods of payment which entail AID financial credit instruments to direct payments for contractors and suppliers.	This was the preferred method of financing at AID/Belize.
4. As part of the assessments under 1. above, a justification is to be provided whenever the Mission proposes use of the bank letter of commitment rather than the direct letter of commitment except for CIP and project commodity financing for which the Mission anticipates a proliferation of invoices.	AID/Belize used, but did not justify, the use of one bank letter of commitment during calendar year 1985. The AID/Belize Controller said that this deviation was used for several small procurement actions that were fulfilled within a short time and prior to assessment preparation.
5. Where host country contracting is proposed as a means of implementation, the assessments required under 1. above must set forth a realistic appraisal of the prospective contracting agency's ability to (a) advertise, award and negotiate contracts, (b) monitor contract implementation, (c) examine invoices and (d) audit contractor records and reports. If local currency is to be made available to an ICI or to any other organization responsible for controlling and reporting on the use of such funds, the mission should first assess the organization's financial management procedures and related internal controls. Such an assessment should also be performed	Host country assessments were not made because AID/Belize determined that the Government of Belize was not yet capable of effectively implementing host country contracting, commodity procurement and payment verification. AID/Belize also had attempted to coach a host country entity in issuing nine purchase orders (\$2.6 million worth) without success.

POLICY STATEMENT (NO.)	STATUS
5. (Cont'd) as a prerequisite for providing grants to indigenous PVOs. Subsequent audit or evaluation reporting on the project should measure performance in reference to the assessments made under 1, above, as well as other appropriate factors.	
6. PPs are to include an evaluation of the need for audit coverage in light of potential risks and are to describe planned contract and project audit coverage by the host government, AID, and/or independent public accountants. Project funds should be budgeted for independent audits unless adequate audit coverage by the host country is reasonably assured or audits by third parties are not warranted as, for example, in the case of direct AID contracts or direct placement of participants by AID.	Three (\$26 million) of the six PPs/PAADS reviewed did not contain an evaluation of the need for audit. They were the \$14 million ISF PAAD for Project No. 505-0012, the \$7 million PP for Project No. 505-0018, and the \$5 million PP for Project No. 505-0005. The latter PP in support of Project No. 505-0005 was implemented in March 1983 and therefore was in effect prior to the time of policy issuance.
7. In lieu of the current negative statement, the project officer is to provide to the Controller a statement advising the basis upon which administrative approval is given.	Statement No. 7 was to be implemented in accordance with a newly designed project officers' checklist. The validity of checklists used at AID/Belize was found to be questionable in more than reasonable instances. For example, one checklist had been certified by the project officer with an October 1, 1986 certification date. This project officer could not possibly have certified the checklist on October 1, 1986 because he had not been present at Post as physically verified by the audit team that arrived a day earlier. None of the project officers interviewed was able to support claimed contacts, as indicated on tested checklists, by trip reports, memoranda to the file or calendar annotations.

POLICY STATEMENT (NO.)	STATUS
8. Mission Controllers are responsible for providing annual assessments of the Mission voucher approval and voucher examination procedures. Such assessments should indicate the adequacy of supporting documents submitted with contractor invoices and the ability of project officers and authorized certifying officers to relate contractor performance with contractor invoices.	The implementing guidelines called for the assessments to be supported by tests of random samples of vouchers. AID/Belize did not make random samples of vouchers for reporting years 1983 through 1985. In response to the audit finding and recommendation contained in this report, AID/Belize made a random sample of nine vouchers in the amount of \$58,300 in claims to support its 1986 annual assessment.
9. Mission Controllers are to provide annual assessments of the adequacy of the monitoring and invoice examination procedures followed by host country contracting agencies. Such assessments should serve as the basis for reliance on host country performance certificates and voucher review.	As shown for Policy Statement No. 5, host country agencies had not been used. Thus, AID/Belize did not include assessments of the monitoring and invoice examination procedures followed by host country contracting agencies.
10. (a) USAID Controllers are encouraged to utilize the services of competent public accounting firms to a greater degree in providing accounting and financial management consulting services within the project design as a part of program funding and in auditing host country contracts. Auditing services will be conducted on the basis of pre-approval by the Inspector General staff.	There was only one competent public accounting firm (Price Waterhouse) located in Belize. However, the non-Federal component of RIG/A/T had initiated negotiations to attract qualified accounting firms to be used on a regional basis and to include Belize. At the time of audit, the paperwork lay with USAID/Honduras' contracting Officer.
(b) In their areas of responsibility, USAID Controllers are encouraged to use contract personnel to supplement direct-hire foreign nationals for voucher examinations.	AID/Belize hired a foreign national in response to our audit finding and recommendation.
11. The agency's commodity price analysis function should be strengthened to permit more adequate pre- or post-payment audit of commodity costs.	The Policy Statement called for AID/Washington rather than field implementation.

POLICY STATEMENT (NO.)	STATUS
12. Where suitable and subject to Federal and AID control guidelines, the Agency should place greater reliance upon incentive contract approaches, where contractors share in savings or receive extra benefits for timely completion.	The Policy Statement called for AID/Washington implementation and requested examples from the field. AID/Belize had not furnished examples to AID/Washington because its priorities were more basic, that is, start-up of the AID/Belize Office and gaining familiarity with available contractors.
13. Host country contracts should include definitive requirements for submission of invoices and supporting documents.	AID/Belize had yet to initiate host country contracting.
14. Models for use of the Fixed Amount Reimbursement concept for non-construction projects should be developed for consideration.	The implementing instructions called for AID/Washington action and requested examples from field stations. AID/Belize had not implemented fixed amount reimbursement concepts for non-construction projects, and could not furnish to AID/Washington its experience in this area.
15. Definitive requirements for arrival accounting should be developed and published for CIP programs. Assessments of arrival accounting systems should be included in all CIP approval documents (PAADs).	There was no Commodity Import Program (CIP) in effect at AID/Belize.
16. The agency will explore resuming use of formal two-step loan agreements given the increased emphasis on private sector participation.	The implementing guidance called for AID/Washington action.

## memorandum

DATE: April 10, 1987

REPLY TO  
ATTN OF: Neboysa R. Brashich, A.I.D. Representative, USAID/BelizeSUBJECT: Draft Audit Report, USAID/Belize Compliance with AID's Revised  
Payment Verification Guidance

TO: Mr. Coinage N. Gothard, RIG/A/T

APPENDIX 1  
Page 1 of 8

Herewith please find USAID/Belize response to the subject Draft Audit Report which was reviewed by the Mission. In summary, we are requesting that Recommendation No. 1, in its entirety, be eliminated from the final report, and that Recommendation No. 2, parts (b) and (c) be closed. We are pleased that RIG/A/T took information and remedial actions into consideration in order to close Recommendation 2, part (a) and Recommendations Nos. 3 and 4.

Our response also provides corrections regarding a number of errors and misconceptions in the Draft Audit Report. One example of a fundamental misconception is that the Special Development Activities Fund Project 505-0010 is funded by, or is equivalent to PD&S, 505-0000. This is simply not the case. Another misconception is that unliquidated advances represent excess cash held by grantees. This is not accurate when funds have been expended but not liquidated. Some of these errors and misconceptions could have been avoided if information provided by USAID during the audit had been given fuller consideration. We hope that the information provided in this response will be given the fullest consideration.

We are making the following clarifications and comments which, hopefully, will result in a more-balanced final report.

1. More than once, the Draft Audit Report incorrectly states that USAID/Belize is headed by the "A.I.D. Affairs Officer." We reiterate that USAID/Belize is headed by the "A.I.D. Representative." This fact can easily be verified by inspecting official A.I.D. records.

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II. It is imperative that the Executive Summary states the Mission was officially opened in January, 1983, with one USDH employee. The following represents the staffing status of the Mission from inception:

- From 1/83 - 12/83:- 1 USDH, 1 US PSC
- From 12/83 - 4/85:- 2 USDH, 2 TCNDH, 1 USPSC
- From 4/85 - early CY-1986:- 6 USDH, 5 TCNDH,  
8 US PSC, and 11 FSN PSC
- Mission became fully operational only in early CY-1986.
- Since inception, official accounting station has been USAID/Tegucigalpa.

Hence, it becomes clear the Mission was always short-staffed during the first two-to-three years of its operation. Indeed, the Draft Audit Report does not mention the singular efforts which were made to start the Mission from scratch nor to implement an important program of 24 active projects with LOPs of \$70.0 million, Obligations of \$53.0 million, and Pipeline of only \$19.7 million, facing these staff constraints.

III. The Draft Audit Report fails to mention that the implementation of the Payment Verification Policy Guidance has been hampered by the following facts:

- The Guidance is not part of AID Handbooks nor is it stated in the Agency Policy Determination (PD) format. Such status will give the policy more recognition and sharper teeth.
- USAID/Belize functioned without a resident Controller for more than two years.
- AID/W did not provide feedback regarding Mission Assessments of its compliance with the policy.

IV. USAID/Belize did not commit PD&S funds to fund the Peace Corps PASA, as stated throughout the Draft Audit Report.

V. Regarding specific recommendations and related discussions, USAID/Belize provides the following:

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A. RECOMMENDATION NO. 1:

1) USAID/Belize disagrees with RIG/A/T that \$20,000 under Project 598-0625 was committed without appropriate prevalidation of funds. The \$20,000 in question was part of the \$50,000 under the Special Development Activities Fund Project (505-0010). In fact, monies provided under this project were used to fund special development activities under both Projects 505-0010 and 598-0625. This is in conformance with our understanding and interpretation that the purpose of both projects is the same, i.e., to finance small, self-help community development and village-level activities.

This understanding was confirmed with LAC/DP by telcon prior to utilizing 505-0010 funds to fund additional activities under the Peace Corps Small Project Assistance Program (598-0625), for the first time in September 1985. This telcon was followed up with 85 Belize 3150 (attached as Annex I), for LAC/GC and LAC/DR, dated 9/9/85. Belize 3150 requested ad hoc authority to approve new assistance or amendments. Paragraph 4B of that cable contained the following statement: "505-0010 SPECIAL DEVELOPMENT ACTIVITIES FUND FOR BELIZE JUNIOR SCHOOL OF AGRICULTURE (BJSA): U.S. DOLS 50,000 PROVIDED WITH ADVICE OF BUDGET ALLOWANCE DATED 12/19/84. MISSION PLANS TO ADD U.S. DOLS 25,000 TO CURRENT PASA WITH PEACE CORPS FOR BJSA. MISSION PLANS TO ADD REMAINING U.S. DOLS 25,000 TO SEPARATE SMALL PROJECT ASSISTANCE PROGRAM 598-0625 PASA WITH PEACE CORPS. UNLESS AID/W ADVISES AGAINST ADDING MISSION FUNDS TO PROJECT WHICH BEGAN AS A CENTRALLY FUNDED PROJECT." AID/W provided the requested redelegations in 85 STATE 295248 (Annex II). STATE 295248 contained no advice against adding 505-0010 funds to 598-0625, nor did subsequent telcons regarding end of year FY 85 obligations.

It is important to note that the USAID/Belize Controller's Office cleared Belize 3150. This demonstrates that the Controller's Office approved and was aware of the policy of using 505-0010 funds for 598-0625. Therefore, in the Report of Funding Activity for 1986 (see Annex III), the Controller's Office advised the Project Officer that Project 505-0010 funds were available for obligation -- for projects 505-0010 and/or 598-0625. Due to an oversight, the sixth amendment under 598-0625 was not stamped by the Controller's Office for funding availability. Nevertheless, funds were available to the Mission, a fact which was known to the Project Officer and Mission Management through the above-cited periodic report issued by the Controller's Office.

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The policy of applying Project 505-0010 funds to Project 598-0625 was clearly reconfirmed on a LAC Bureau-wide basis by AID/w in 86 STATE 382253 (Annex IV), which instructs that "The Small Project Fund for Peace Corps activities will henceforth be covered from Mission bilateral budgets, and funds under Project 505-0010 include \$35,000 for Peace Corps Small Projects," i.e., activities under Project 598-0625.

2) Since the Mission disagrees with Section (a) of the Recommendation, Section (b) is invalid and, therefore, should also be deleted.

Moreover, a review of the definition of Funds Control as used in this context refers to Management Control over the use of fund authorization to ensure that:

- a) Funds are used only for authorized purposes.
- b) Funds are economically and efficiently used.
- c) Obligations and expenditures do not exceed the amount authorized.
- d) Obligation or expenditure of amounts authorized is not reserved or otherwise deferred without Congressional knowledge and approval.

An analysis of the above reconfirms that USAID/Belize has not committed an Administrative Violation of Fund Control Principles per AID Handbook 19. However, in order to avoid potential violations of Internal Mission Clearance, USAID/Belize has issued a new Administrative Notice (Annex V) reminding the staff of the importance of obtaining Controller's clearance on obligating and commitment documents, in the form of a validation stamp, before issuance of the final document.

3) Concerning section (c) of the recommendation, USAID/Belize stands firm regarding the above analysis that \$20,000 was properly used to fund Project 598-0625. Therefore, there are no idle \$20,000 in PD&S funds available for immediate deobligation as the draft suggests. USAID/Belize takes exception to the Draft Audit Report's use of the term "PD&S" throughout the text of Recommendation 1 and its discussion. Several USAID/Belize officers repeatedly explained during the audit that the funds under review were from Special Development Activities Fund Project 505-0010, and not from USAID's PD&S funds, 505-0000. Given this, the discussion under A. Findings and Recommendations, 1. Fund control proceedings were not followed, is quite irrelevant. That discussion states that

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"Agency Program Development and Support funds were involved in both instances. PD&S appropriations are treated by AID as operating expenses for accounting purposes, and deobligated or idle funds revert to the Treasury at the end of the fiscal year."

Again, USAID/Belize makes a special note: Project 505-0010 constitutes normal project funding and not PD&S, 505-0000 funds. As such, obligated, but unexpended Project 505-0010 funds do not revert to Treasury at the end of the fiscal year.

In view of the above and action taken by USAID/Belize, we request that Recommendation No. 1 be deleted in its entirety from the final report.

B. RECOMMENDATION NO. 2

1) A Foreign National Voucher Examiner has been hired as suggested in part a) of Recommendation 2 of the Draft Audit Report. Nevertheless, there are some incorrect statements relevant to this part of the recommendation. For example, evidence was given to the RIG/A/T that the Voucher Examiner was given written materials to help her fulfill her job responsibilities. We, therefore, request that RIG/A/T delete from the Draft Audit Report any language that suggests that the Voucher Examiner did not receive clear instructions. We believe that RIG/A/T failed to substantiate inaccurate information in spite of the fact that documentation was available. In addition, the Draft Audit Report states that a "high rate of turnover in the position hindered the effective implementation of the provisions." Once again, this statement is incorrect. USAID/Belize had previously provided RIG/A/T with written material stating that the American Voucher Examiner is still on board. The Voucher Examiner who resigned was an additional Voucher Examiner who was hired to meet an increased workload but, because of family reasons beyond her control, resigned after two months on the job.

2) USAID/Belize disagrees with part (b) of the Recommendation and considers it inappropriate. USAID/Belize is following the Agency Contractual Arrangements with approved Standard Payment Provisions. As a rule, USAID insists that Contractors and Vendors submit the required documentation for disbursement as stipulated in the contract or purchase order. In addition, the USAID/Belize Certifying Officer has used his discretion in the past to request additional supporting documentation beyond that required, when he felt this was appropriate. Examples are the

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Peace Corps and the National Development Foundation Project 505-0011. As far as specific cases, listed under this section at the expense of repeating ourselves, we offer the following:

-- PASA with the Peace Corps:

This case, as discussed above, proves that the Mission is vigilant in monitoring its funds.

-- PRAGMA Corporation Voucher under Project 505-0018:

Please review Standard Contract Provisions, especially clause 752.7003 of the AIDAR and alternate 70 and 71. This clause does not require the contractor to submit supporting documentation for expenses such as travel and transportation, per diem, or other direct costs.

-- CARE/Belize, Project 505-0024:

CARE is an American certified PVO. The Accounting System and other pertinent financial records were reviewed prior to the certification at the AID/W level. However, we agree with the RIG/A/T suggestion and a spot check will be scheduled by USAID/Belize as suggested.

-- CHEMONICS Voucher under Project 505-0008:

The Contractor furnished to the Mission Vendor's invoices detailing quantity, description, and price for computer equipment and office furniture valued at \$7,972. (See Annex VI.)

However, as stated above under PRAGMA, the Contractor is not required to submit supporting documentation for travel and transportation as suggested by the Draft Audit Report.

Hence, Mission requests that part (b) of the Recommendation be closed.

3) In response to part (c) of Recommendation No. 2, USAID/Belize questions the integrity and the source(s) for the advance figures contained in this part of the recommendation as well as subsequent discussion. Mission records received from the Accounting Station in Tegucigalpa indicate that as of 12/11/86 (same date as mentioned in the Draft Audit Report) the total outstanding advances were \$405,015.65 and not \$412,004. While the difference is not large, conclusions based on incorrect data are questionable. (See Annex VII.)

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Furthermore, the Draft Audit Report states that "PRIDE had received \$368,739 in payment from AID/Belize". This is quite impossible since PRIDE has a grant totaling only \$350,000.

USAID/Belize challenges the statement in the Draft Audit Report under Outstanding Advances that Mission outstanding advances represent "unwarranted benefits to recipients and losses to the U.S. Treasury." The Mission has an established advance policy in conformity with Treasury regulations and AID implementation of those regulations as stated in Handbooks 1 and 19. USAID/Belize provides advances to implementing agencies to meet their immediate cash needs for thirty days. Any deviation from this policy must be justified in writing and approved by the A.I.D. Representative. (See Annex VIII.)

In general, USAID/Belize believes that the stated outstanding advance figures provided by RIG/A/T are somewhat misleading. Almost all the advances were used for implementing AID's program in Belize, not for providing "unwarranted benefits to recipients." Liquidation was slow due to the fact that Implementing Agencies did not liquidate advances on time (i.e., report expenditures made) and/or posting was not up-to-date given that the Accounting Station is not at post. We, therefore, believe the RIG/A/T conclusion that some of the outstanding advances cost the Treasury \$14,290 is incorrect. This is based on a false assumption that outstanding advances have been in excess of Implementing Agencies' needs, which is not the case at all. For the most part, expenditures were made for the designated period of the advance.

Finally, we are pleased to report that the long-awaited liquidation of many advances has been taking place since the audit was conducted. As of March 20, 1987, USAID's outstanding advances total \$169,373.09, a decrease of 59%. (Annex IX.)

Hence, we request that part (a) of Recommendation 2 also be closed.

C. RECOMMENDATION NO. 3

Although this Recommendation will be closed as of the date the Audit Report is issued, USAID/Belize would like to underscore the following:

1) Based on the fact that USAID/Belize did not select and review a randomly selected sample of vouchers in 1983 and 1984, the following inaccurate and potentially damaging statement was

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made "evidence of tests supporting the integrity of the \$52.2 million in obligations was absent." This statement should be deleted from the final report. The reasoning in the statement, when applied to the entire portfolio of the Agency, implies that prior to the Payment Verification policy, Agency evidence of tests supporting the integrity of billions of dollars (i.e., A.I.D.'s entire portfolio) in obligations was absent. The point is that prior to the issuance of Policy Statement No. 8, which recommended that the annual review should involve a randomly selected sample, other tests were and still are being utilized. In fact, AID systems of Internal Control, including those of USAID/Belize, contain many evidences of tests to support the integrity of AID obligations.

2) The Draft Audit Report incorrectly states that USAID/Belize made a random sample and tested nine vouchers processed during FY-86. The actual number of vouchers tested was fifty, not nine. Again, evidence provided to RIG/A/T was ignored in the Draft Audit Report.

D. RECOMMENDATION NO. 4:

In the discussion on Project 505-0018, regarding the PRAGMA Corporation voucher for \$37,896, the following statement is made: "The problem here was that the checklist was a xerox of an original apparently used to support another voucher for payment, implying that the project officer did not perform the required procedures." The information and implication contained in the statement are incorrect and not substantiated. The copy of the checklist attached to the PRAGMA voucher is a copy of the original that was sent to the Accounting Station/Tegucigalpa for forwarding to AID/W. (See Annex X.) It should be noted that this voucher was the very first voucher submitted by PRAGMA under Project 505-0018 and there were no other previous vouchers or checklist from which to copy.

It is unfortunate that RIG/A/T concluded with the unsubstantiated and extreme implication "that the project officer did not actually perform the required procedures."

List of Recommendations

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<u>Recommendation No. 1</u>	4
We recommend that:	
a) the AID/Belize and USAID/Honduras Controllers coordinate and notify AID/Washington's Office of the Controller (M/IM) that a \$20,000 commitment was incurred under the Small Project Assistance Program (Project No. 598-0625) without appropriate prevalidation of funds;	
b) they request the AID/Washington Controller to review the circumstances, determine if an Agency administrative violation occurred, and inform the AID Administrator in accordance with Section A9, C of AID Handbook 19, Chapter 1; and	
c) AID/Belize immediately deobligate \$20,000 in funding under the Special Development Activities Project No. 505-0010.	
 <u>Recommendation No. 2</u>	 8
We recommend that the Office of the AID Representative/Belize take action to:	
a) hire a local citizen to fill the position of voucher examiner;	
b) review contractual agreements and ensure that vendors submit sufficient supporting documentation with vouchers for effective voucher review; and	
c) review, justify, liquidate or recuperate (including interest earnings) \$261,885 in advances that have been outstanding for more than 90 days.	

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<u>Recommendation No. 3</u>	13
We recommend that AID/Belize:	
a) select and review a randomly selected sample of vouchers; and	
b) document the random selection and analysis as part of the official file.	

<u>Recommendation No. 4</u>	15
We recommend that AID/Belize:	
a) formally reiterate to project officers the provisions and intent of the AID Administrator's Payment Implementation Guideline No. 7; and,	
b) ensure that project officers' approvals are supported in the official project file by memoranda, trip reports or other evidence documenting their contacts with payees.	

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