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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
TEGUCIGALPA

**INTERIM AUDIT OF
THE HUMANITARIAN ASSISTANCE TO
THE NICARAGUAN RESISTANCE
IN COSTA RICA UNDER PUBLIC LAW 100-463**

**Report No. 1-515-89-28
August 23, 1989**

U. S. MAILING ADDRESS:
RIG/T
APO MIAMI 34022

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987
also 32-3120 EXT. 2701-2703

August 23, 1989

MEMORANDUM

TO: TFHA/Costa Rica, Program Manager, Raymond Baum

FROM: RIG/A/T, Coinage N. Gothard, Jr. *Coinage N. Gothard*

SUBJECT: Interim Audit Report of the Humanitarian Assistance to the Nicaraguan Resistance in Costa Rica Under Public Law 100-463

This interim report presents the interim results of the concurrent audit of phase II of the Humanitarian Assistance program for the Nicaraguan Resistance¹ (Resistance) in Costa Rica. Please advise us within 30 days of any additional information relating to actions planned or taken to implement the recommendation. We appreciate the cooperation and courtesy extended our staff during the audit.

BACKGROUND

On April 1, 1988, the President of the United States signed legislation authorizing \$47.9 million in assistance to the Resistance in Central America. In October 1988 the Congress authorized an additional \$27.1 million to continue the humanitarian assistance program through March 31, 1989 (phase II). These authorizations provided funding for food, clothing, shelter, medical supplies and services, health and sanitation training, and human rights training. A.I.D. was assigned the responsibility for administering this assistance. A.I.D. established a Task Force for Humanitarian Assistance (TFHA), with offices in Costa Rica and Honduras, to provide procurement

¹ Public Law 100-463 changed the name of this organization from the Nicaraguan Democratic Resistance (name used in Public Law 100-276) to the Nicaraguan Resistance.

and distribution services for the assistance program. Phase I of the program provided funding for these services through September 30, 1988. The Office of the Regional Inspector General for Audit, Tegucigalpa supervised a non-Federal concurrent audit of phase I-financed activities and issued separate reports covering the program's operations and activities in Costa Rica and Honduras.²

A.I.D. humanitarian assistance to the Southern Front of the Resistance in Costa Rica consists of medical assistance, family assistance, training and cash for food programs. The medical assistance program helps combatants to recover from wounds, illnesses, and malnutrition. The family assistance program consists of cash payments to Resistance members which help them and their families pay for food, shelter, medical supplies, and medical services. The training program provides instruction to the Resistance regarding internationally accepted standards of human rights. The cash for food program provides Nicaraguan currency to couriers for delivery to Southern Front personnel inside Nicaragua.

The previous audit on phase I activities in Costa Rica disclosed that contributions were being collected from the family assistance recipients to assist Resistance personnel inside Nicaragua. This was contrary to the legislative intent that the family assistance program payment be used for the recipient's family. (See Audit Report No. 1-515-89-03, December 9, 1988.) The TFHA in Costa Rica implemented the report's recommendation and the collection of contributions stopped.

This interim report discusses the results of audit of phase II activities in Costa Rica. The results of audit of phase II activities in Honduras are covered in a separate report.

AUDIT OBJECTIVES AND SCOPE

The Office of the Regional Inspector General for Audit, Tegucigalpa supervised the concurrent non-Federal financial audit of the humanitarian assistance provided as specified under Public Law 100-463 to the Nicaraguan Resistance (Resistance). This report covers \$1,036,925 obligated to the Southern Front for the Resistance in Costa Rica through March 31, 1989.

² Phase I program implementation is discussed in audit report Nos. 1-515-89-03, 1-522-89-02, and 1-522-89-29-N.

The specific audit objective was to determine if the \$1,036,925 in program funds obligated for the medical assistance, family assistance, training, and cash for food programs had been used for authorized purposes. To accomplish the objective, a total of 22 audit tests were made by the non-Federal auditor on expenditures of \$977,305 selected for review to determine if the medical assistance, family assistance, training, and cash for food programs met the legislative requirements for uses of those funds (see appendix 1 for a description of tests made). The Task Force for Humanitarian Assistance contracted the local auditing firm of Price Waterhouse to perform the audit. For security reasons, audit of the delivery of the humanitarian assistance within Nicaragua was not conducted. In the future, Price Waterhouse will issue its consolidated report regarding the assistance provided in both Honduras and Costa Rica under phase II and will give an opinion of the uses of those funds. In the interim, this report provides management with advanced information on the audit.

The audit covered the period October 1, 1988, to March 31, 1989. Audit field work for this report was completed on April 27, 1989. The review of internal controls and compliance was limited to the finding in this report. The audit was performed in accordance with generally accepted government auditing standards.

INTERIM RESULTS OF AUDIT

Since Price Waterhouse has not completed the audit of the Task Force for Humanitarian Assistance's financial records, they are not in a position, at this time, to provide positive assurance on the uses of the funds by the Task Force for Humanitarian Assistance in Costa Rica (TFHA/CR). However, nothing came to our attention during the course of their audit to indicate that the \$1,036,925 obligated under phase II (Public Law 100-463) as humanitarian assistance for the Southern Front of the Nicaraguan Resistance (Resistance) in Costa Rica was used in any material way other than for its intended purposes, except as discussed below.

The audit disclosed that funds from some family assistance program payments were used for an unauthorized purpose and that Resistance records did not show that some intended beneficiaries received payment.

Accountability Over Family Assistance Program Payments Held by Intermediaries Was Not Adequate

Legislation authorizes family assistance program payments but requires that the beneficiary use these payments to purchase only food, clothing, shelter, medical services, and medical supplies for himself and his family. Two intermediaries collecting family assistance payments on behalf of beneficiaries could not provide reasonable assurances that intended beneficiaries received payment and one intermediary used funds for an unauthorized purpose. These situations occurred because the TFHA had not adequately controlled the distribution of payments by intermediaries. As a result, humanitarian assistance funds have been used for other than authorized purposes.

Discussion

Legislation requires that the beneficiary use family assistance program payments to purchase only food, clothing, shelter, medical services, and medical supplies for himself and his family. Many family assistance beneficiaries not residing in Costa Rica have given written authorization to intermediaries to receive family assistance payments on their behalf. Of the 118 payments made in December 1988, 78 percent (92 payments representing \$33,750) were collected by intermediaries. Follow up review by the TFHA determined that some of these payments were traceable to the intended beneficiaries. However, as Price Waterhouse found, many family assistance payments were not always traced, nor were they traceable, from these intermediaries to the intended beneficiaries.³

For instance, one intermediary had received \$68,575 for up to 24 recipients during the period April 1988 through March 1989. Of this amount only \$8,125 was traceable from the intermediary's records to the intended beneficiaries. The remaining \$60,450 was provided as follows:

-- \$5,200 was loaned to a local businessman by the intermediary's husband, and

³ TFHA was first informed of this situation in February 1989 in a Price Waterhouse monthly report. In the "Scope Limitation" the report stated that Price was unable to review the ultimate payment for the 92 cases.

-- \$55,250 was given to four commandants who were subordinates to the intermediary's husband in the Resistance chain of command.

This intermediary had no written authorization from the beneficiaries to transfer their funds to these commandants and she was not able to describe how the funds were handled after they had been withdrawn. Also, her records did not always show which of the beneficiaries were to receive payments from these commandants and the amounts to be paid. We interviewed one of the four commandants, who was given approximately \$20,000. He stated that he purchased wrist watches, transistor radios, food, medicine, and clothing which would be taken to beneficiaries inside Nicaragua. However, he had no records (ledgers, receipts, or invoices) for items purchased or documentation showing receipt by the beneficiary.

Despite a conscientious monitoring effort by TFHA/CR, the lack of accountability and improper use of family assistance program payments made through intermediaries existed because the TFHA/CR did not have adequate control procedures covering the disposition of family assistance program payments made through intermediaries. As a result, humanitarian assistance funds have been used for other than authorized purposes.

This condition was communicated on May 22, 1989 to the TFHA with a suggestion that payments through intermediaries be discontinued. However, instead of discontinuing payments through intermediaries, the TFHA proposed the institution of new procedures designed to prevent recurrence of the condition reported. The proposed procedures will be the subject of continuing review during our concurrent audit of phase III of the humanitarian assistance program. Consequently, this report is being issued without a recommendation to discontinue payments through intermediaries. However, as of July 27, 1989 the \$5,200 loan referred to on page 4 of this report remained with the local businessman. Therefore, the following recommendation is necessary.

Recommendation No. 1

We recommend that the Task Force for Humanitarian Assistance/Costa Rica:

- a. recover the \$5,200 loan;

- b. identify which beneficiaries should receive those funds; and
- c. distribute those funds to the appropriate recipients. Otherwise, ensure their deposit into the Nicaraguan Resistance bank account.

Other Issues

Other nonmaterial matters noted during the execution of Humanitarian Assistance Program activities have been documented in progress reports issued by Price Waterhouse to RIG/A/T over the course of the program.

COMMENTS

The TFHA/CR reviewed and commented on the draft of this interim report. The entire text of the TFHA/CR management comments is presented in appendix 2. We carefully considered these comments and incorporated them, as appropriate, into this report. The comments are summarized below and followed by our response.

Management Comment - The TFHA/CR has been seriously monitoring the family assistance program to verify that designated beneficiaries are receiving their monthly allotments. This included follow-up reviews regarding control of funds by intermediaries. These periodic reviews did not reveal evidence that funds may have been used for other than intended purposes. Perhaps, therefore, the section which discussed the lack of adequate monitoring and control of payments through intermediaries could be modified to more accurately reflect the extent of monitoring which actually exists.

Office of the Inspector General Response - We agree that the TFHA/CR has monitored family assistance payments. Nevertheless, control procedures were not sufficient to prevent the reported misuse of funds or to provide reasonable assurances that beneficiaries received payment. Consequently, shortly after the initial reporting of this condition, the TFHA instituted additional procedures which should help in that regard.

Management Comment - Even though the intermediary (the wife of the NR commandant) stated that a "loan" was made, the local businessman never considered the funds he received as a loan. The funds were in his possession for "safekeeping" because the intermediary was not able to open a bank account and he would return the funds to the intermediary upon request.

Office of the Inspector General Response - The data obtained during the audit, besides statements made by the intermediary, do not suggest that the funds transfer was anything but a loan. The funds were loaned to and used by the local businessman. That notwithstanding, the funds were not properly protected against misuse, which is the crux of this condition. The fact is, the businessman had the funds in his desk rather than placed into his bank account or back into the Resistance's account or any other account where it could have been easily tracked and documented that the money was being properly used.

Management Comment - The figure pertaining to the number of beneficiaries receiving payments through intermediaries for the month of December 1988 is misleading. The paragraph implies that the funds received by the intermediaries may not have been traceable to the intended beneficiaries. At least 20 allotments were made to intermediaries who were family members and consequently these can be considered traceable. Additionally, 25 to 30 beneficiaries resided locally in Costa Rica but elected to have one person from their respective units pick up their allotment. These too could be considered traceable since Price Waterhouse could have located these beneficiaries. The remaining 40 to 45 corresponds to beneficiaries residing outside Costa Rica and efforts to trace payment to them would have been difficult.

Office of the Inspector General Response - The figure is presented not to mislead but rather to show the need for internal control improvements. Also, the fact remains that 92 allotments were received by persons other than the approved and intended beneficiary. Assuming the above TFHA statistics are correct ⁴ we agree that an additional 40-50 payments could have been traced. However, they were not traced, and we disagree with the implication that Price Waterhouse should have performed that particular follow-up activity. Ensuring the proper functioning of a program, which in this case pertains to the control and traceability of payments to the maximum extent possible, is a management responsibility.

Since May 22, 1989, when these figures were first reported, the TFHA/CR has acted decisively to correct this condition by

⁴ Price Waterhouse data differ from the TFHA estimates; given the arena in which this program operates, familial ties are difficult to ascertain since relationships are not well documented and may often be common-law.

implementing new procedures designed to improve traceability of payments from intermediaries to beneficiaries. Included in their new procedures is a requirement for a "return receipt" signed by the ultimate beneficiary. We understand this receipt will be delivered to and filed by the Resistance Controller General in Costa Rica and will thus be available for review by management (and auditors). We made no recommendation on this matter because of the corrective action taken to improve control over payments to beneficiaries.

**AUDIT TESTS PERFORMED ON PHASE II HUMANITARIAN
ASSISTANCE PROGRAM ACTIVITIES IN COSTA RICA**

Medical Assistance Program

During the period October 1, 1988, through March 31, 1989, the TFHA obligated \$675,100 to this program. Price Waterhouse reviewed the \$590,583 which the TFHA had disbursed for the October 1, 1988 to March 31, 1989 time frame. It utilized the following audit tests and procedures.

- Price Waterhouse reviewed supporting documentation from suppliers of medical and hospital services and from vendors of other goods and services, such as food, medicines, rentals, and fuel, to determine if these were proper and reasonable expenditures.
- Price Waterhouse visited the principal facilities under which the program operates in Costa Rica, including the private hospital and the recuperation center, to interview personnel and to review documentation relating to program activity and relating to residency at these facilities.
- Price Waterhouse obtained directly from the hospital samples of patient rosters for those persons who were subject to surgery and matched the respective invoices for hospital and medical services, which were billed separately, against such data. The results of these comparisons were used to draw conclusions about the propriety of these charges.
- Price Waterhouse interviewed patients who remained in program facilities. These interviews were made to verify the place and extent of medical care received, as well as to verify whether a patient's physical condition was that of a person apparently subjected to surgery.
- Price Waterhouse evaluated overall reasonableness of rental payments for the postoperation clinic and the recuperation center.
- Price Waterhouse visited the principal food suppliers for the program to confirm the genuineness of related invoices. Additionally, Price Waterhouse tested overall reasonableness of food expenses for the recuperation center and the postoperation clinic based upon the average occupancy shown in the records kept at those sites.

- Price Waterhouse obtained independent quotes for some purchases of medicines and foods and compared them to prices paid by the program to determine the reasonableness of the prices.
- Price Waterhouse reviewed expense allocations to determine that goods and services financed by the program were those associated with providing essential medical treatment for Resistance patients.
- Price Waterhouse reviewed checks issued by the program to determine whether such checks were issued in the name of suppliers and vendors of goods and services identified in the review. Also, the amounts of the checks issued by the Resistance were matched against vendor's invoices and with amounts disclosed as incurred.
- Price Waterhouse accompanied administrative personnel of the program in their delivery of the checks mentioned above to inspect and determine whether the checks were received by payees and accepted by them in settlement of outstanding invoices. Price Waterhouse verified that all invoices paid were properly "cancelled" or stamped as paid.

Family Assistance Program

During the period October 1, 1988, through March 31, 1989, the TFHA obligated \$331,825 to this program. Price Waterhouse reviewed the \$280,840 which the TFHA had disbursed for the October 1, 1988 to March 31, 1989 time frame. It utilized the following audit tests and procedures.

- Prior to payment, Price Waterhouse verified that identification, such as a driver's license or refugee card, from each payee or his designated representative was requested, except for those individuals lacking such documents. In this last instance, a personal identification of the payee by the respective commandant in charge was requested. Also, signatures of beneficiaries were compared with those shown in previous month's receipts for family assistance program payments. This information was used to determine eligibility.
- Prior to making payments for those eligible payees not living in Costa Rica, Price Waterhouse reviewed written authorizations issued by these beneficiaries to their designated representatives (intermediaries). Interviews were conducted to determine the procedures followed by selected intermediaries for custody of these funds and to

determine the nature of the documentation supporting and accounting for the transfer of these funds to family assistance beneficiaries. This documentation was, in turn, reviewed to determine the ultimate disposition of the funds received by intermediaries.

- Price Waterhouse reviewed support documentation concerning the deposit of funds provided by A.I.D. to cover family assistance payments to trace those funds to the Resistance's bank account.
- Price Waterhouse reviewed checks issued against this bank account to determine the amount cashed by the Resistance to cover scheduled family assistance payments.
- Price Waterhouse and RIG/A/T auditors were present at the time payments to eligible payees were made by the Resistance designated paying officer to verify that:
 - a. a receipt was issued for each payment made and duly signed by the payee as well as the paying officer,
 - b. cash was received by payee in the amounts set forth in the receipts,
 - c. each receipt contained a clear statement indicating that the funds were being provided only to assist payees in the purchase of food, clothing, shelter, medical supplies, and medical services for themselves and their families, and
 - d. each payment was made for the amount and in the name of the eligible payee, as set forth in lists provided to us by the Resistance controller.
- Price Waterhouse verified that excess funds resulting from unclaimed payments were redeposited in the Resistance controller's bank account.

Training Program

On December 30, 1988, the TFHA/Honduras obligated \$490,000 to this program of which \$151,248 was allocated to Costa Rica. Price Waterhouse reviewed \$45,880 which the TFHA had disbursed for the December 30, 1988 to March 31, 1989 time frame. In addition, Price Waterhouse reviewed \$30,002 in preproject, retroactive costs incurred by the training grantee for the October 1, 1988 to December 30, 1988 time frame. It utilized the following audit tests and procedures.

- Price Waterhouse determined the reasonableness of disbursements charged to the training program by the Nicaraguan Association of Human Rights (the Association).
- Price Waterhouse determined the eligibility of the disbursement to the training program.
- Price Waterhouse determined that costs, incurred and submitted for reimbursement, were in accordance with terms and conditions stated in the agreement signed between the Association and A.I.D.
- Price Waterhouse determined that tested expenses charged to the training program were directly related to training program activities.

Cash for Food Program

During the period October 1, 1988, through March 31, 1989, the TFHA obligated and expended \$30,000 for this program relating to the Southern Front of the Resistance. Nicaraguan cordobas were received by the TFHA for the cash for food program and were kept in safes at the U.S. Embassy in Honduras until delivery to the Resistance.

- Price Waterhouse auditors conducted counts of Nicaraguan cordobas, and
- Price Waterhouse auditors were present at all cash deliveries made to the Resistance commandants in charge of the ultimate distribution to the troops.

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APPENDIX 3

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