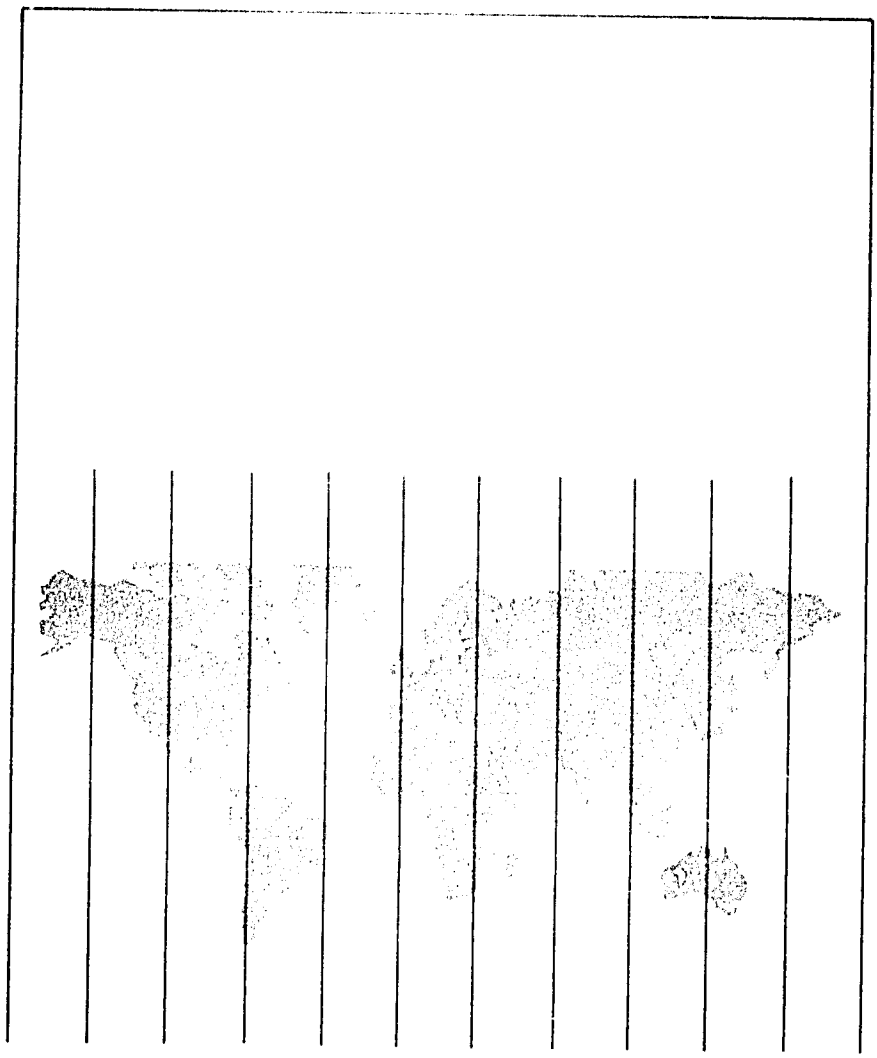
UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL



Regional Inspector General for Audit

TEGUCIGALPA

PD-AAZ-994

AUDIT OF THE HUMANITARIAN ASSISTANCE PROGRAM FOR THE NICARAGUAN RESISTANCE MANAGED BY THE TASK FORCE ON HUMANITARIAN ASSISTANCE

Audit Report No. 1-522-89-56-N
September 29, 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

September 29, 1989

MEMORANDUM

TO: Director, TFHA/Washington, Ted Morse

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

SUBJECT: Audit of the Humanitarian Assistance Program for the Nicaraguan Resistance Managed by the Task Force on Humanitarian Assistance, Audit Report No. 1-522-89-56-N

This report presents the results of a non-Federal financial and compliance audit, requested by the Task Force on Humanitarian Assistance (TFHA), of the Humanitarian Assistance Program (Program) for the Nicaraguan Resistance. The certified public accounting firm of Price Waterhouse prepared the report, which was transmitted to RIG/A/T on September 29, 1989.

The purpose of this audit was to report on (1) the fairness of the fund accountability statement of the Humanitarian Assistance Program for the Nicaraguan Resistance for the period from October 1, 1988 to March 31, 1989 (2) the internal control structure, and (3) compliance by the Task Force on Humanitarian Assistance (TFHA) and the Nicaraguan Resistance with Title 1X of Public Law 100-463 and other agreements and applicable laws and regulations.

In the opinion of Price Waterhouse, the fund accountability statement of the Humanitarian Assistance Program presents fairly the Program's obligations and accrued expenditures for the period from October 1, 1988 to March 31, 1989, in accordance with Public Law 100-463, except for (a) the effects of any findings that might have resulted if they could have audited certain expenditures totaling $768,605, (b) the effects of any findings that might have resulted from the observation of the delivery of the humanitarian assistance to the end users, and (c) the matters discussed in the compliance section of this report.

Price Waterhouse limited its evaluation of the internal control structure of the Program to a preliminary review to obtain an understanding of the control environment and the flow of transactions through the accounting system. As a result, Price Waterhouse did not express an opinion on the internal control structure of the Program taken as a whole. Instead of performing a complete evaluation of the internal control structure, Price Waterhouse had no choice but to rely on substantive audit testing of the uses of the funds and delivery of assistance because (a) the Sapoa Agreement required an external verification of the delivery of exclusively humanitarian assistance and no internal control structure can provide such a verification, (b) the level of acceptable risk for this audit was extremely low due to the Congressional intent to deliver exclusively humanitarian assistance, (c) the General Accounting Office reported that previous (non-A.I.D.) humanitarian assistance procedures were not adequate and that some funds had been used for unauthorized purposes, and (d) scope limitations caused by security restrictions did not allow Price Waterhouse to test certain internal controls of the Program. However, Price Waterhouse reported all identified weaknesses in the Program's internal control structure to the TFHA and RIG/A/T.

In the opinion of Price Waterhouse, the Task Force on Humanitarian Assistance and the Nicaraguan Resistance complied with Public Law 100-463 and other agreements and applicable laws and regulations for the items tested, except for the matters described in the section on Other Pertinent Matters of the Price Waterhouse report. Nothing came to the auditors' attention that caused them to believe that untested items were not in compliance with Public Law 100-463 and other agreements and applicable laws and regulations.

TFHA was generally in agreement with the Price Waterhouse report. Price Waterhouse considered the TFHA comments in its report and attached them as appendix I. The Price Waterhouse report contains no recommendations.

b

AGENCY FOR INTERNATIONAL DEVELOPMENT

AUDIT OF THE HUMANITARIAN ASSISTANCE PROGRAM FOR THE NICARAGUAN RESISTANCE MANAGED BY THE TASK FORCE ON HUMANITARIAN ASSISTANCE FOR CENTRAL AMERICA

C'

AGENCY FOR INTERNATIONAL DEVELOPMENT

AUDIT OF THE HUMANITARIAN ASSISTANCE PROGRAM
FOR THE NICARAGUAN RESISTANCE
MANAGED BY THE TASK FORCE ON HUMANITARIAN ASSISTANCE
FOR CENTRAL AMERICA

TABLE OF CONTENTS

	PAGE
Transmittal Letter and Summary	
Background	1
Audit objectives and scope	2
Results of audit	5
Summary of management comments	6
Report on the Fund Accountability Statement	
Report of independent accountants	8
Fund accountability statement	10
Notes to the fund accountability statement	13
Report on Internal Control Structure	
Report of independent accountants	17
Report on Compliance with Title IX of Public Law 100-463 and Applicable Laws, Regulations, and Agreements	
Report of independent accountants	19
Other pertinent matters	21
Management Comments	Appendix I

Representada por
R Rodriguez y Asociados

Apartado Postal 20541
Comayaguela, D.C
Honduras, C.A.
Telefono 31-1911
Telefax 31-1906

Apartado Postal 563
San Pedro Sula, Cortés
Honduras, C.A
Telefono 53-3060
Telefax 52-6723

Price Waterhouse

September 27, 1989

Mr. Coinage N. Gothard, Jr.
Regional Inspector General for Audit
Agency for International Development
Tegucigalpa, Honduras

Dear Mr. Gothard:

This document presents the results of our audit of the Humanitarian Assistance Program (the Program) for the Nicaraguan Resistance (NR), managed by the Task Force on Humanitarian Assistance for Central America (TFHA) of the Agency for International Development (A.I.D.) as authorized by Title IX of Public Law 100-463 (Law), for the period from October 1, 1988 to March 31, 1989. The NR is composed of the Nicaraguan Resistance Army and the Yatama Indians in Honduras, and the Southern Opposition in Costa Rica.

BACKGROUND

Title IX of Public Law 100-463 (Law) provides additional humanitarian assistance to the Nicaraguan Resistance to advance peace and democracy in Central American and to protect American security interests in the region. Under this Law, the Congress of the United States approved $27,140,000 for:

1) Food, clothing, and shelter,
2) Medical services, medical supplies, and nonmilitary training for health and sanitation,
3) Nonmilitary training of the recipients with respect to their treatment of civilians and other armed forces personnel, in accordance with internationally accepted standards of human rights,
4) Payment for such items, services, and training, and
5) Replacement batteries for existing communications equipment.

The TFHA requested the A.I.D. Regional Inspector General for Audit in Tegucigalpa, Honduras (RIG/A/T) to conduct a concurrent audit of the Humanitarian Assistance Program. The RIG/A/T recommended that the TFHA contract the audit services of a private accounting firm to assist in concurrently auditing the financial transactions and the delivery of the humanitarian assistance. The TFHA agreed and contracted Price Waterhouse to perform the concurrent audit.

AUDIT OBJECTIVES AND SCOPE

The overall objective of our audit work was to monitor and concurrently audit the Humanitarian Assistance Program for the Nicaraguan Resistance managed by the Task Force on Humanitarian Assistance for Central America for the period from October 1, 1988 to March 31, 1989.

Our audit was performed in accordance with generally accepted auditing standards and with the United States Comptroller General's "Government Auditing Standards" (1988 Revision) and accordingly included such tests as deemed necessary to determine whether:

1. The fund accountability statement of the Humanitarian Assistance Program for the Nicaraguan Resistance under Title IX of Public Law 100-463 presents the Program's obligations and accrued expenditures from October 1, 1988 to March 31, 1989, in accordance with the terms of the Law, identifying any costs which were not fully supported with adequate records or which were not allowable under the terms of the Law,

2. The internal control structure of the Program in Honduras and Costa Rica is adequate and functioning as intended, and

3. The participating entities of the Program complied with Title IX of Public Law 100-463 and other applicable laws, regulations, and agreements.

For security reasons, the following scope limitations were placed upon the audit which prevented us from determining the end use and reasonableness of the quantities of the commodities delivered to the NR by the TFHA:

1. Delivery of food, clothing, shelter, and medical supplies was observed only up to the primary NR delivery points,

2. Delivery of Nicaraguan cordobas (Nicaraguan currency) to the NR under the Cash-for-Food program was observed only up to the point that authorized NR personnel signed for the currency, and

3. At no point during the audit were we allowed to verify the number of beneficiaries being assisted under the program.

The following major audit procedures were conducted as necessary in Honduras, Costa Rica, and Miami in order to meet the stated audit objectives.

Honduras and Miami

1. We observed 886 of 1,246 deliveries (71 percent) of food for NR members in Danli, El Paraiso, Yamales, Capire, La Lodosa, El Aguacate, Choluteca, San

Marcos de Colon, El Jicarito, El Triunfo, San Andrés de Bocay, Río Hondo, El Jardín, and Tegucigalpa to determine that delivery procedures were adequate and that the deliveries contained only food and authorized materials.

2. We observed 18 of 22 (82 percent) of the parachute drops of food to the NR in the Bocay region.

3. We observed 91 percent of the Family Assistance Payments (FAP) to the NR in Honduras, and 100 percent of the payments to the NR in Miami. We reviewed the criteria for eligibility established by the TFHA according to telexes received from TFHA officials in Washington. We also reviewed the subsequent liquidation reports of the payments.

4. We observed 100 percent of the quartermaster goods received from the United States at the Toncontín airport. We observed 120 of 131 deliveries (92 percent) of deliveries of quartermaster goods to the NR in Yamales, Tegucigalpa, and El Aguacate.

5. We observed 100 percent of the medicines and medical supplies received from the United States at Toncontín airport, and observed 11 of 12 deliveries (92 percent) of these goods to various NR sites in Honduras.

6. We observed 100 percent of the purchases of medicines and medical supplies in Honduras, and observed 19 of 21 (90 percent) of the deliveries of these goods to various NR sites in Honduras.

7. We observed 100 percent of the purchases of Nicaraguan cordobas by TFHA/H officials for the Cash-For-Food program. We also observed 100 percent of the deliveries of the cordobas to the NR in Yamales.

8. We observed 100 percent of the deliveries of food, medical supplies, quartermaster goods, shelter materials, communications equipment, and program support materials to the Yatama units in the Mosquitia region.

9. We observed 97 percent of the Family Assistance payments to the Yatama units in the Mosquitia region.

10. We observed 100 percent of the deliveries of Nicaraguan cordobas for the Cash-For-Food program to the Yatama units in the Mosquitia region.

11. We conducted surveys of food prices in the cities of Tegucigalpa, Catacamas, La Ceiba and Danlí in Honduras.

12. We reviewed 100 percent of the payments for Program Support Assistance (indirect costs) to the Nicaraguan Resistance in Honduras and to the Yatama.

13. Periodically we conducted inventories of food, medical supplies, batteries, and quartermaster goods.

14. We observed distributions of food and hygiene supplies for the Family Food Assistance program in Tegucigalpa, Danlí, Capire, El Paraíso, Choluteca, San Marcos de Colón, El Jicarito, and El Triunfo in Honduras.

15. We performed selective reviews of the documentation, accounting records, and inventory controls of the Program.

16. We reviewed the procurement procedures and practices used to determine that sound commercial practices were used.

17. We reviewed the procedures used to control the funds, including their channelization to the implementing entities and the beneficiaries, when appropriate.

18. We examined the fund accountability statement through March 31, 1989.

19. On a limited basis we reviewed and evaluated the systems for accounting controls, conducting preliminary and compliance tests to determine the extent to which established procedures and controls were functioning as intended.

20. We reviewed the compliance with Title IX of Public Law 100-463 and other applicable laws, regulations, and agreements.

21. We monitored on a concurrent basis the field activities of the International Medical Corps, Creative Associates International, Inc., the Nicaraguan Association for Human Rights, and the Nicaraguan Resistance's Office of the Military Prosecutor. The above organizations received funds from the TFHA to provide training and services to the Nicaraguan Resistance. We also reviewed the contracts and disbursements as of March 31, 1989 of these organizations. Separate audit reports on the results of the audits of these organizations will be forthcoming shortly after the issuance of this report.

Costa Rica

1. We 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.

2. We conducted on-site inspections of hospitals and recuperation facilities and interviewed patients to determine the nature and extent of medical care received.

3. We 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.

4. We evaluated overall reasonableness of rental payments for the postoperation clinic and the recuperation center.

5. We observed Family Assistance Payments (FAP) and reviewed the procedures used for disbursing the payments to elegible beneficiaries and authorized intermediaries.

6. We determined the reasonableness of the disbursements charged to the Human Rights Training Program managed by the Nicaraguan Association of Human Rights and 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.

7. We conducted counts of Nicaraguan cordobas destined for delivery to the Southern Front of the NR, and were present at all cash deliveries made to the NR personnel in charge of the ultimate distribution to the troops.

8. We reviewed the compliance with Title IX of Public Law 100-463 and other applicable laws, regulations, and agreements.

RESULTS OF AUDIT

Fund Accountability Statement

In our opinion, except for (a) the effects of any findings that might have resulted if we could have audited certain expenditures totalling $768,605 from the Veterans Administration, (b) the effects of any findings that might have resulted from the observation of the delivery of the Humanitarian Assistance to the end users, and (c) the matters discussed in the compliance section of this report (page 19), the fund accountability statement of the Humanitarian Assistance Program presents fairly the Program's obligations and accrued expenditures for the period from October 1, 1988 to March 31, 1989, in accordance with Title IX of Public Law 100-463.

Internal Control Structure

Our evaluation was limited to a preliminary review of the internal control structure to obtain an understanding of the control environment and the flow of transactions through the accounting system. As a result, we do not express an opinion on the internal control structure of the Program taken as a whole. Because (a) the Sapoa agreement required an external verification of the delivery of exclusively humanitarian assistance and no internal control structure can provide such a verification, (b) the level of acceptable risk for this audit was extremely low due to the Congressional intent to deliver exclusively humanitarian assistance to the Nicaraguan Resistance, (c) the General Accounting Office (GAO) reported that previous (non-A.I.D.) humanitarian assistance procedures were not adequate and some of the funds had been used for unauthorized purposes, and (d) since the scope limitations referred to in the third and fourth paragraphs of our report on the fund accountability statement (page 8) of the Humanitarian Assistance Program for the Nicaraguan Resistance did not allow us to test

certain internal controls of the Program, we had no choice but to rely on substantive audit testing of the uses of the funds and delivery of the assistance. As a result of the above conditions, our evaluation of the internal control structure did not extend beyond this preliminary review. However, identified weaknesses in internal control structure were reported in writing upon identification to the RIG/A/T and the TFHA.

Compliance with Title IX of Public Law 100-463 and other Applicable Laws, Regulations and Agreement Terms

We tested transactions and records for the period from October 1, 1988 to March 31, 1989 which included obligations, disbursements, and reporting to determine the Program's compliance with Title IX of Public Law 100-463 and other applicable laws, regulations, and agreements except that, for security reasons (a) we were unable to extend our examination of deliveries of food, clothing, shelter, medical supplies, and Nicaraguan cordobas (Cash-for-Food program) beyond the primary delivery points of the Nicaraguan Resistance, and (b) we were not allowed to verify the numbers of recipients assisted under the Program. The results of our study indicated that for the items tested, the Program complied with Title IX of Public Law 100-463 and other applicable laws, regulations, and agreements except for the matters listed below, which are described in more detail in the section on Other Pertinent Matters of this report (page 21).

- The existence of prisoners detained by the NR in Honduras raised questions regarding the possible use of Humanitarian Assistance for detention materials.
- There was a failure to comply with Federal tax regulations for the Miami Family Assistance Payments.
- Certain members of the Nicaraguan Resistance were found to have committed human rights abuses.
- Inadequate procedures and controls over Family Assistance Payments (FAP) in Costa Rica led to transfers of funds to unauthorized intermediaries and an improper loan of FAP monies to a third party.
- Other nonmaterial matters in the execution of TFHA program activities have been documented in the progress reports we have issued to RIG/A/T over the course of the audit of the Humanitarian Assistance Program.

Nothing came to our attention that caused us to believe that untested items were not in compliance with Title IX of Public Law 100-463 and other applicable laws, regulations, and agreements.

SUMMARY OF MANAGEMENT COMMENTS

The TFHA reviewed the draft of this report and is generally in agreement with the contents of this report. The TFHA discussed their comments with Price Waterhouse and

the Regional Inspector General for Audit, and relevant changes were made to the final report. TFHA also expressed its appreciation for the assistance it has received from RIG/A/T and Price Waterhouse auditors in the implementation of the program. A summary of TFHA's comments follows:

1. Issue: Veteran's Administration billings for Phase II

   Comments: TFHA has received billings from the Veterans Administration for Phase II deliveries of medicines.

   Price Waterhouse Response: During Phase II, the Veterans Administration delivered $1,050,000 in medical supplies to TFHA. Of this amount, TFHA received billings totaling $281,395.

The entire text of management comments for all TFHA Phase II audit reports is included in Appendix I. See points 2, 3, and 4 which specifically makes reference to Humanitarian Assistance Program for the Nicaraguan Resistance.

Price Waterhouse

Price Waterhouse

Representada por
R. Rodríguez y Asociados

Apartado Postal 20541
Comayaguela, D.C
Honduras, C.A.
Telefono 31-1911
Telefax 31-1906

Apartado Postal 563
San Pedro Sula, Cortés
Honduras, C.A.
Telefono 53-3060
Telefax 52-6728

Price Waterhouse

AGENCY FOR INTERNATIONAL DEVELOPMENT

HUMANITARIAN ASSISTANCE PROGRAM
FOR THE NICARAGUAN RESISTANCE MANAGED BY THE
TASK FORCE ON HUMANITARIAN ASSISTANCE
FOR CENTRAL AMERICA

REPORT ON THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM OCTOBER 1, 1988 TO MARCH 31, 1989

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying fund accountability statement of the Humanitarian Assistance Program for the Nicaraguan Resistance, managed by the Task Force on Humanitarian Assistance for Central America (TFHA) of the Agency for International Development under Title IX of Public Law 100-463 for the period from October 1,1988 to March 31, 1989. This fund accountability statement is the responsibility of the Task Force on Humanitarian Assistance for Central America. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

Except as discussed in the following two paragraphs, we conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the fund accountability statement is free of material misstatement. Our audit included examining, on a concurrent basis, evidence supporting the amounts and disclosures in the fund accountability statement and the delivery of the assistance to the Nicaraguan Resistance. Our audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion.

Net accruals for medical supplies as reported in the fund accountability statement include medical supplies amounting to $1,050,000 received from the Veterans Administration. We were only able to audit $281,395 of this amount because the Veterans Administration did not bill A.I.D. for the total amount of supplies delivered to the Humanitarian Assistance Program.

For security reasons, (a) we were unable to extend our examination of deliveries of food, clothing, shelter, medical supplies, and Nicaraguan cordobas (Cash-for-Food program) beyond the primary delivery points of the Nicaraguan Resistance; and (b) we were not allowed to verify the numbers of recipients assisted under the Program.

In our opinion, except for (a) the effects of any findings that might have resulted if we could have audited the amounts referred to in the third paragraph, (b) the effects of any findings that might have resulted from observation of the delivery of the Humanitarian Assistance to the end users as discussed in the fourth paragraph, and (c)

the matters discussed in the compliance section of this report (page 19), the fund accountability statement of the Humanitarian Assistance Program for the Nicaraguan Resistance presents fairly the Program's obligations and accrued expenditures for the period from October 1, 1988 to March 31, 1989, in accordance with Title IX of Public Law 100-463.

This report is intended solely for the use of the Nicaraguan Resistance, and the Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse

June 30, 1989

FUND ACCOUNTABILITY STATEMENT
HUMANITARIAN ASSISTANCE TO THE NICARAGUAN RESISTANCE
OCTOBER 1, 1988 THROUGH MARCH 31, 1989

PROJECT ELEMENT	AMOUNT OBLIGATED	CUMULATIVE DISBURSEMENT	NET ACCRUALS	ACCRUED EXPENDITURES
Nicaraguan Resistance - North				
01 Food	$5,369,863	$4,177,083	$508,939	$4,686,022
10 Cash for Food	789,447	659,135	130,312	789,447
06 Quartermaster Goods	3,985,575	2,804,391	1,132,758	3,937,149
12 Shelter Goods & Material	371,935	138,534	118,922	257,456
04 Medical Supplies & Services	5,572,396	880,593	4,562,391	5,442,984
05 Program Support Assistance	497,378	273,471	135,173	408,644
03 Family Assistance Payments	1,903,051		1,633,180	1,633,180
02 Communications Equipment	55,397	35,482	19,916	55,398
Sub-Total	$18,545,042	$8,968,689	$8,241,591	$17,210,280
Yatama				
07 Food	$256,996	$179,756	$11,710	$191,466
10 Cash for Food	95,195	79,481	15,714	95,195
06 Quartermaster Goods	223,491	157,264	63,522	220,786
09 Shelter Goods & Material	6,480	6,480		6,480
08 Medical Supplies & Services	91,187	71,110	10,101	81,211
11 Program Support Assistance	49,748	26,000	9,672	35,672
03 Family Assistance Payments	230,000	49,325	147,175	196,500
Sub-Total	$953,097	$569,416	$257,894	$827,310
Southern Front				
03 Family Assistance Payments	$331,825	$91,445	$191,605	$283,050
04 Medical Supplies & Services	675,100	180,501	454,111	634,612
10 Cash for Food	30,000	25,049	4,951	30,000
Sub-Total	$1,036,925	$296,995	$650,667	$947,662
Training				
Training Contract	$1,500,000	$65,884	$925,961	$991,845
Human Rights Training	668,020	25,181	442,970	468,151
Sub-Total	$2,168,020	$91,065	$1,368,931	$1,459,996
Roads	$504,778	$27,159	$324,180	$351,339
Total	$23,207,862	$9,953,324	$10,843,263	$20,796,587
Total Amount Authorized	27,140,000			
Authorized Amount Unobligated	$3,932,138			

All Notes, Letters, Exhibits and Attachments are an integral part of this Fund Accountability Statement.

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
HUMANITARIAN ASSISTANCE TO THE NICARAGUAN RESISTANCE
OCTOBER 1, 1988 THROUGH MARCH 31, 1989

EXHIBIT A

Note 1: The Amount Obligated represents commitments by the Task Force for Humanitarian Assistance (TFHA) to pay for goods and services, as evidenced by valid obligating documents such as Purchase Orders, Grants and Contracts. In some cases obligated amounts represent estimates of the actual costs of the goods and services, the exact amount of which may not be known for a considerable time after the end of the accountability period. Obligations, and any subsequent adjustments which may be necessary, are made in accordance with Section 1311 of the Supplemental Appropriations Act, 1955 [31 U.S.C. 1501].

Note 2: Cumulative Disbursements represent actual cash payments against valid obligations made during the accountability period.

Note 3: Net Accruals represent costs incurred during the accountability period for goods and services received for which payment has not been rendered. Accruals are calculated in accordance with standard A.I.D. procedures and in some cases represent Project Officer's estimates of the percentage of goods or services received.

Note 4: Accrued Expenditures are the total of Cumulative Disbursements and Net Accruals.

Note 5: It is A.I.D. policy to fund Program or Project audit costs from the Program or Project budget, whenever possible. By agreement, in consultation with the Regional Inspector General for Audit in Tegucigalpa (RIG/A/T), the audit costs associated with the delivery of Humanitarian Assistance under this program have been charged to the Operating Expense budget of the Task Force. The TFHA Controller and Management have agreed to the Operating Expense funding since both the Program funds and the Operating Expense funds are provided under this specific legislation.

In order to comply with the agreed funding source certain program audit costs have been changed from Program funding to Operating Expense funding subsequent to the statement date.

All Notes, Letters, Exhibits and Attachements are an integral part of this Fund Accountability Statement.

Note 6: The Total Amount Authorized represents the total funds available for the delivery of Humanitarian Assistance under Public Law 100-463.

All Notes, Letters, Exhibits and Attachements are an integral part of this Fund Accountability Statement.

AGENCY FOR INTERNATIONAL DEVELOPMENT

HUMANITARIAN ASSISTANCE PROGRAM
FOR THE NICARAGUAN RESISTANCE MANAGED BY THE
TASK FORCE ON HUMANITARIAN ASSISTANCE
FOR CENTRAL AMERICA

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
MAY 31, 1989

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The significant accounting policies adopted by TFHA to manage the Program are summarized as follows:

Basis of Accounting

The accrual basis of accounting is used in recording the expenditures of the Program.

Exchange Rate

The records of the Program are kept in United States dollars. Transactions in Honduran lempiras, and Costa Rican colones are converted to dollars at the official rate of exchange prevailing at the transaction date. Transactions in Nicaraguan cordobas were converted at a negotiated rate paralleling the free market rate.

NOTE 2 - HISTORY AND OPERATIONS OF THE PROGRAM

The Task Force on Humanitarian Assistance for Central America (TFHA) started operations in April 1988 after the Congress of the United States of America passed and the President signed Public Law 100-276. Public Law 100-276 authorized $47.9 million additional assistance to the Nicaraguan Resistance (NR)to reinforce the Central American peace process by supporting negotiations leading to a permanent cease-fire agreement. The Law provided $17.7 million in funding for humanitarian assistance to the Nicaraguan Resistance (NR) for food, clothing, shelter, medical supplies and services, and payment for such items or services.

The Law assigned A.I.D. responsibility for administering this assistance. A.I.D. formed the TFHA to administer the Program. Also Public Law 100-276 required the General Accounting Office (GAO) to audit the expenditure of the funds provided under the Law. The GAO had audited in 1986 previous humanitarian assistance funds provided to the NR through the State Department. The GAO reported that the State Department procedures, under the previous (non-A.I.D.) humanitarian assistance program, were not adequate to ensure that the funds were used only for authorized purposes and that some of the funds had actually been used for unauthorized purposes.

In the context of this risk, the TFHA, the A.I.D. office responsible for administering the assistance, requested the A.I.D. Regional Inspector General for Audit in Tegucigalpa, Honduras (RIG/A/T) to conduct a concurrent audit of the Humanitarian Assistance Program. The RIG/A/T recommended that the TFHA contract the audit services of a private accounting firm to assist in concurrently auditing the financial transactions and the delivery of the humanitarian assistance. The TFHA agreed and contracted Price Waterhouse to perform the concurrent audit.

Upon completion of the Humanitarian Assistance Program as authorized by PL 100-276 on September 30, 1988, Congress passed and the President signed Public Law 100-463 of which Title IX authorized an extension of the Program for the period from October 1, 1988 to March 31, 1989. The Law provided $27.14 million in funding for humanitarian assistance to the Nicaraguan Resistance (NR) for:

1) Food, clothing, and shelter,
2) Medical services, medical supplies, and nonmilitary training for health and sanitation,
3) Nonmilitary training of the recipients with respect to their treatment of civilians and other armed forces personnel, in accordance with internationally accepted standards of human rights,
4) Payment for such items, services, and training, and
5) Replacement batteries for existing communications equipment.

The Law again assigned A.I.D. responsibility for administering this assistance and the TFHA continued to administer the Program which consisted of the following activities.

1) Food: The TFHA provided food rations to all registered beneficiaries of the NR in Honduras. The food orders were placed by the NR with the TFHA, and shipments of food purchased by the TFHA were sent on a continuous basis by truck, ship, and parachute drop to the various NR sites. On February 25, 1989, the DC-6 airplane under contract to A.I.D. crashed after a routine food drop in Eastern Honduras. The parachute drops have not been resumed, and the food and supplies for these areas are being ferried by helicopter to the drop sites. Commercial sea transport was used to deliver food and other humanitarian assistance to the Yatama in the Mosquitia region which is readily accessible by water.

2) Family Assistance Payments (FAP): The TFHA provided monthly cash payments in Honduran lempiras, Costa Rican colones, and U.S. dollars to selected senior NR members and specialists in Honduras, Costa Rica, and the United States. The intent of the FAP component was to assist the NR and their families in the purchase of food, clothing, shelter, and medical supplies and services. The criteria for selecting the beneficiaries to receive the payments was established by the NR and approved by the TFHA.

3) Quartermaster Goods: The TFHA provided a selected range of non-lethal quartermaster goods on a regular basis to NR beneficiaries in Honduras. This

quartermaster gear includes fatigues, boots, ponchos, field packs, canteens, and mess kits. The quartermaster goods are purchased through the U.S. Department of Defense. The intent of this component was to provide appropriate clothing to the NR which would aid them in maintaining themselves as a cohesive military force. Certain shelter materials were also provided under this component.

4) Batteries for Communications Equipment: The TFHA provided replacement batteries for the communications equipment the NR in Honduras uses to communicate between and within their remote camps.

5) Medical Supplies and Services: The TFHA and its contractors provided medical supplies and services to the NR in order to aid the NR in Honduras and Costa Rica in treating the combat-related wounds the combatants had suffered during the conflict and in treating the common, recurring illnesses typically affecting a population living under the same conditions as the NR. The TFHA contracted the International Medical Corps to support the medical services system established by the NR for its troops, support personnel, and dependents. TFHA funds support critical medical services and local procurement of urgently needed medical supplies and provide for specialized care in the United States. The TFHA also purchases pharmaceuticals and medical supplies from the U.S. Veterans Administration. An integral part of the medical program is technical assistance by the International Medical Corps to the NR Medical Corps physicians and paramedics to improve the delivery of medical services and the management of the medical system.

6) Cash-for-Food Program: The TFHA regularly provided the NR in Honduras with Nicaraguan cordobas which were sent with NR units into Nicaragua. The purpose of this component was to provide these units with a means of purchasing food and personal hygiene items while maintaining a presence in Nicaraguan territory. Payments do not exceed the equivalent of $1 per day per person for a 30-day period.

7) Program Support Assistance: The TFHA provided funds to help the NR meet administrative costs directly associated with the provision of food, clothing, shelter, and medical goods and services.

8) Shelter Goods and Materials: Basic shelter needs were met through provision of tents and cots from Department of Defense stocks (see "Quartermaster Goods" above) and through procurement of plastic sheeting and other building materials. Lodging costs in Tegucigalpa were funded through the Program Support Assistance component.

9) Training for Distribution Systems: TFHA experience as well as audits of the humanitarian assistance delivery system had indicated the need for improving the capability of the NR to receive, distribute, maintain, and account for food, clothing, medicines, equipment, and supplies provided under the Program. The

TFHA contracted Creative Associates International, Inc. to help the NR improve its management performance by providing training to the NR in areas such as accounting and bookkeeping, clerical skills, typing, warehouse management, computer use, radio operation and maintenance, and mule maintenance. Training was also provided to the Yatama and the NR in Costa Rica.

10) Human Rights Training: The TFHA approved a cooperative agreement with the Nicaraguan Association for Human Rights to provide human rights training to the NR. The Association is a nonprofit, independent group that has trained, monitored, investigated, and reported on the human rights record of the NR for two years. The A.I.D. grant funds instruction which includes a basic course for those without prior training and a more advanced class for officers, military police, and others who have attended previous human rights courses.

11) Military Justice Training: The TFHA signed a grant agreement with the NR to provide instruction on the NR Code of Conduct and to explain the operation of the military justice system. The instruction is provided by the NR Office of the Military Prosecutor.

NOTE 3 - COSTA RICA MEDICAL SUPPLIES AND SERVICES NET ACCRUALS

It should be noted that the accruals in the amount of $454,111 for the medical supplies and services provided to Costa Rica was determined based on the difference between accrued expenditures and cumulative disbursements for that line item.

Representada por
R. Rodriguez y Asociados

Apartado Postal 20541
Comayaguela, D C
Honduras, C A
Telefono 31-1911
Telefax 31-1906

Apartado Postal 563
San Pedro Sula, Cortés
Honduras, C A
Telefono 53-3060
Telefax 52-6728

Price Waterhouse

AGENCY FOR INTERNATIONAL DEVELOPMENT

HUMANITARIAN ASSISTANCE PROGRAM
FOR THE NICARAGUAN RESISTANCE MANAGED BY THE
TASK FORCE ON HUMANITARIAN ASSISTANCE
FOR CENTRAL AMERICA

REPORT ON INTERNAL CONTROL STRUCTURE

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the Humanitarian Assistance Program for the Nicaraguan Resistance, managed by the Task Force on Humanitarian Assistance for Central America (TFHA) of the Agency for International Development under Title IX of Public Law 100-463 for the period from October 1, 1988 to March 31, 1989 and have issued our report thereon dated June 30, 1989 in which we qualified our opinion due to limitations in the scope of our work. Our examination was performed in accordance with generally accepted auditing standards and the standards for financial audits contained in the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision).

In planning and performing the audit of the fund accountability statement of the Humanitarian Assistance Program for the Nicaraguan Resistance from October 1, 1988 to March 31, 1989, we considered the Program's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure. Our evaluation was limited to a preliminary review of the internal control structure to obtain an understanding of the control environment and the flow of transactions through the accounting system. As a result, we do not express an opinion on the internal control structure of the Program taken as a whole. Because (a) the Sapoa agreement required an external verification of the delivery of exclusively humanitarian assistance and no internal control structure can provide such a verification, (b) the level of acceptable risk for this audit was extremely low due to the Congressional intent to deliver exclusively humanitarian assistance to the Nicaraguan Resistance, (c) the GAO reported previous (non-A.I.D.) humanitarian assistance procedures were not adequate and some of the funds had been used for unauthorized purposes, and (d) the scope limitations referred to in the fourth paragraph of our report on the fund accountability statement (page 8) of the Humanitarian Assistance Program for the Nicaraguan Resistance did not allow us to test certain internal controls of the Program, we had no choice but to rely on substantive audit testing of the uses of the funds and delivery of the assistance. As a result of the above conditions, our evaluation of the internal control structure did not extend beyond this preliminary review. However, identified weaknesses in internal control structure were reported in writing upon identification to the RIG/A/T and the TFHA.

This report is intended solely for the use of the Nicaraguan Resistance, and the Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse

June 30, 1989

Representada por
R. Rodríguez y Asociados

Apartado Postal 20541
Comayaguela, D.C
Honduras, C.A
Telefono 31-1911
Telefax 31-1906

Apartado Postal 563
San Pedro Sula, Cortés
Honduras, C.A.
Telefono 53-3060
Telefax 52-6728

Price Waterhouse

AGENCY FOR INTERNATIONAL DEVELOPMENT

HUMANITARIAN ASSISTANCE PROGRAM
FOR THE NICARAGUAN RESISTANCE MANAGED BY THE
TASK FORCE ON HUMANITARIAN ASSISTANCE
FOR CENTRAL AMERICA

REPORT ON COMPLIANCE WITH TITLE IX OF PUBLIC LAW 100-463,
AND OTHER APPLICABLE LAWS, REGULATIONS, AND AGREEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the Humanitarian Assistance Program for the Nicaraguan Resistance (NR), managed by the Task Force on Humanitarian Assistance for Central America (TFHA) of the Agency for International Development, under Title IX of Public Law 100-463, for the period from October 1, 1988 to March 31, 1989, and have issued our report thereon dated June 30, 1989 in which we qualified our opinion due to limitations in the scope of our work. Our examination included tests of compliance with Title IX of Public Law 100-463 and other applicable laws, regulations, and agreements by the TFHA and NR as we considered necessary in the circumstances, and as required by the United States Comptroller General's "Government Auditing Standards" (1988 Revision).

The TFHA and the Nicaraguan Resistance are responsible for compliance with Title IX of Public Law 100-463 and other applicable laws, regulations and agreements. Such responsibility also extends to compliance with the laws and regulations of Honduras and Costa Rica, as they may be applicable to the Program.

We tested transactions and records for the period from October 1, 1988 to March 31, 1989, which included obligations, disbursements and reporting to determine the Program's compliance with Title IX of Public Law 100-463, and other applicable laws, regulations, and agreements except that, for security reasons, (a) we were unable to extend our examination of deliveries of food, clothing, shelter, medical supplies, and Nicaraguan cordobas (Cash-for-Food program) beyond the primary delivery points of the Nicaraguan Resistance; and (b) we were not allowed to verify the number of recipients assisted under the Program. The results of our study indicated that for the items tested, the Program complied with Title IX of Public Law 100-463 and other applicable laws, regulations, and agreements except as discussed in the following section on "Other Pertinent Matters". Nothing came to our attention that caused us to believe that untested items were not in compliance with Title IX of Public Law 100-463 and other applicable laws, regulations, and agreements.

This report is intended solely for the use of the Nicaraguan Resistance and the Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse

June 30, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT

HUMANITARIAN ASSISTANCE PROGRAM FOR THE NICARAGUAN RESISTANCE MANAGED BY THE TASK FORCE ON HUMANITARIAN ASSISTANCE FOR CENTRAL AMERICA

OTHER PERTINENT MATTERS

The following paragraphs describe certain exceptions which were disclosed during the course of the Humanitarian Assistance Program.

HONDURAS

1. The existence of prisoners detained by the NR in Honduras raised questions regarding the possible use of Humanitarian Assistance for detention materials.

   We investigated whether the TFHA was using humanitarian assistance funds to purchase materials to detain prisoners of war held by the NR. Through interviews, observations and examinations of purchase orders and other relevant documentation, we could find no evidence that humanitarian assistance funds had been used to purchase materials for detention purposes. Many of the prisoners of war were released in late December 1988; some returned to Nicaragua and some entered refugee camps in Honduras.

2. There was a failure to comply with Federal tax regulations for the Miami Family Assistance Payments.

   On June 2, 1988, we reported to the TFHA that the paymaster for the NR in Miami had not withheld Federal income or Social Security taxes from the April 1988 FAP. The Family Assistance Payments for May, June, July, and August were made without a justification for not withholding Federal income and Social Security taxes.

   In November 1988, the TFHA received a written opinion from the U.S. Internal Revenue Service on the subject of the past, present and future tax liability of NR personnel receiving FAP in Miami. Federal income and Social Security taxes were withheld from the September 1988 and subsequent payments. W-4 forms were collected from the appropriate individuals.

   The NR paymaster in Miami did not pay the taxes withheld for April 1988 through February 1989 until March 10, 1989. The Internal Revenue Code requires that these taxes be paid within 15 days after the end of each month of withholding. All taxes withheld are now being paid to the federal government on a monthly basis.

3. Certain members of the Nicaraguan Resistance were found to have committed human rights abuses.

A.I.D. is bound by law not to provide assistance "to any group that retains in its ranks any individual who has been found to engage in ... gross violations of internationally recognized human rights" [Sec. 204(b), Military Construction Act for FY 1987]. On March 24, 1989 a NR tribunal conducted by the NR Military Prosecutor's Office ("Fiscalía Militar") found four persons guilty of human rights abuses, one commander guilty of complicity in an abuse, and one commander guilty of concealing an abuse. The tribunal is continuing its inquiries regarding other cases of possible human rights abuses. The six persons found guilty of abuses were expelled from the NR. Of these six, two were receiving Family Assistance Payments. Upon conviction, and in conformity with A.I.D. policy, these two were removed from the Family Assistance Payments beneficiary list and are no longer receiving payments. A.I.D. has a policy that any person judged guilty of a gross violation of human rights (and who has exhausted the right to appeal) is barred from receiving any form of assistance through the U.S. humanitarian assistance program.

COSTA RICA

1. Inadequate procedures and controls over Family Assistance Payments (FAP) in Costa Rica led to transfers of funds to unauthorized intermediaries and an improper loan of FAP monies to a third party.

In May 1989 we reported that certain intermediaries received Family Assistance Payments in Costa Rica on behalf of other beneficiaries who were not able to receive their payments in person. TFHA policy requires that each intermediary possess a letter from the beneficiary authorizing him or her to receive payment on behalf of the beneficiary. A total of $55,250 was paid to an authorized intermediary who in turn transferred the funds to four other intermediaries not possessing the required authorization letters. In addition, the same authorized intermediary, in violation of TFHA policy, made a loan to a third party of $5,200 in FAP monies she had received for other beneficiaries. To correct these deficiencies, the TFHA in Costa Rica strengthened and enforced procedures and controls related to the FAP program in Costa Rica. The TFHA in Costa Rica is also in the process of recovering the monies improperly loaned to the third party.

OTHER ISSUES

Other nonmaterial matters in the execution of TFHA program activities have been documented in the progress reports we have issued to RIG/A/T over the course of the audit of the Humanitarian Assistance Program.

APPENDIX I

MANAGEMENT COMMENTS

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

TO: RIG/A/T, Coinage Gothard
TFHA/H, Ron Venezia

SEP 21 1989

FROM: D/TFHA, Ted D. Morse

REF: Gothard to Morse memorandum dated August 30, 1989 transmitting TFHA Phase II audit Reports.

SUBJECT: TFHA Comments on Ref Reports.

An exit conference to discuss the TFHA Phase II audit reports was held in AID/W on Monday September 11 between RIG/AT, TFHA/W, and auditors from Price Waterhouse. As requested Ref Memo the following are TFHA comments on the draft reports.

1. At the bottom of page 6 of the draft transmittal letter and summary please include the following under Summary Of Management Comments: "TFHA appreciates very much the very valuable assistance which it has received from RIG/AT and Price Waterhouse auditors in the implementation of this program. Specific comments on the five points listed above are included in Appendix I hereto on page 21."

2. In the third paragraph on page 7 of the Report on the Fund Accountability Statement there is a statement that the VA did not bill AID for supplies delivered for the program. While that was true under the Phase I program, AID has received those bills for Phase II deliveries.

3. On Page 19 of the document listing Other Pertinent Matters, the penultimate paragraph states that Social Security and Federal Income taxes are being withheld pursuant to the IRS legal opinion. In fact that opinion does not advise TFHA to withhold Social Security payments.

4. In Appendix I following the document entitled Other Pertinent Matters, please include the following under management comments.

a) In the fall of 1988, TFHA/W was informed by the human rights group ANPDH that some of the prisoners held by the Resistance were located in remote areas of Honduras. Because of the hard to reach locations, it was difficult to insure that the prisoners were properly sheltered, clothed, and fed; and that their treatment conformed to acceptable standards. In its

next regular consultation with Congressional oversight committees TFHA stated its intention to work with the Resistance to have the prisoners moved to more accessible areas and to have them supplied with humanitarian assistance, so that their well-being could be ascertained, and their eventual release facilitated. The Congressional staff agreed, and requested TFHA to work actively for the release of the prisoners. TFHA expressed its intention to do that, and the prisoners were a short time thereafter moved and subsequently released.

b) In November of 1988, TFHA received an opinion from the Internal Revenue Service that some members of the Resistance may be liable for federal income tax withholding on Family Assistance Payments. TFHA developed a Tax Status Certificate for each payee to sign to determine who might be subject to the withholding. Actual withholding was started from the September payment and was done on a retroactive basis. Of the more than 2,500 persons receiving Family Assistance Payments, approximately six are found subject to withholding each month.

c) TFHA relies on the Department of State to determine which individuals in the Resistance are not eligible to receive humanitarian assistance because of human rights abuses. Each month before Family Assistance Payments are made, TFHA checks with the State Department to ascertain that no designated payee is ineligible to receive assistance. If such an individual does appear on the list, that payment is not made.

d) TFHA has established procedures to insure that Family Assistance Payments made in Costa Rica to a designated recipient of a Resistance member, are to be delivered to that Resistance member or his family in a timely fashion.

5. On Page 4 of the draft transmittal letter for the audit of the Dooley Foundation, please include the following under Summary of Management Comments, "Task Force efforts through the Dooley Foundation to support the Resistance medical corps got off to a slow start. This was due in part to the lack of experience of the parties in working with each other, and a lack of established systems within the medical corps to track medicines and equipment previously supplied and to project and communicate future needs. Those difficulties have worked themselves out over time, and the Task Force has obtained the services of the International Medical Corps to work with the Resistance medical corps in place of the Dooley Foundation. Specific items are dealt with under Management Comments in Appendix I on page 16 hereof "

6. In Appendix I referred to above, please include the following Management Comments.

a) At the termination of the Dooley Foundation program in Honduras, there was some difficulty finding records as to the location of all of the property which had been supplied to the Resistance Medical Corps. Subsequently, Price Waterhouse auditors were able to find and account for all of this property by taking inventories at Resistance medical installations. Recently the International Medical Corps (IMC) completed an inventory of all property supplied to the Resistance during all three phases of the TFHA program. This was done in connection with the closing of the facility at Aguacate to determine what equipment could best be utilized elsewhere. This inventory will be kept up to date for the remainder of the program.

b) In order to better project requirements of medicines, TFHA requested IMC to provide a full-time pharmacist for the program. All medicines and medical supplies have been inventoried. Older expired medicines not supplied by the Task Force have been destroyed and where appropriate replaced. The medical facility at El Jardin has been renovated to include shelving, electricity, etc.; to facilitate storage and inventory of medicines and medical supplies. IMC is in the process of computerizing the movement of medicine to improve the management and control of its usage.

c) The recuperation center in Miami has been moved to a house in a rural area. The house is operated by a full time cook and housekeeper, and is now well managed. Access to the facility is strictly controlled to guard against overcrowding. Adequate food is provided according to the dietary needs of the patients.

7. In the audit section on the Training For Distribution Systems, please include in Appendix I on page 12, "It is the understanding of the Task Force from discussions with Creative Associates officials that all of the items of questioned costs listed on pages 7 and 8 of the audit have been resolved in discussions between that company and the Price Waterhouse auditors".

8. In Appendix I of the audit of the Human Rights Training Program managed by ANPDH on page 15 of that audit report please include the following statement under Management Comments. "It is the intention of the Task Force to extend this training program for the duration of the TFHA program, which will be until March 31, 1990". Thus insurance premiums for grantee employees working on the program until that date will be properly charged to the program.

cc: TFHA/C.R., Ray Baum

APPENDIX 2

REPORT DISTRIBUTION

	No. of Copies
Director, TFHA/W	5
Director, THFA/H	1
Director, TFHA/CR	1
AA/LAC	2
LAC/CAP/H	1
LAC/CAP/CR	1
LAC/DR	1
LAC/DP	1
LAC/CONT	1
LAC/GC	1
RLA	1
AA/M	2
AA/PFM	1
AA/XA	2
XA/PR	1
LEG	1
GC	1
PPC/CDIE	3
PFM/FM/CONT	2
IG	1
AIG/A	1
IG/PPO	2
IG/LC	1
IG/ADM/C&R	12
IG/I	1
RIG/I/T	1
Other RIG/As	1