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ISN 10125

**Audit of
USAID/Panama's Economic Support Fund Program,
Funded by Public Law 101-302, for the Period
May 25, 1990 through November 30, 1990**

**Report No. 1-525-91-005
February 8, 1991**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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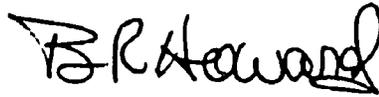
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February 8, 1991

MEMORANDUM

TO: IG, Herbert L. Beckington

FROM: RIG/A/T, Reginald Howard



Subject: Audit of USAID/Panama's Economic Support Fund Program
Funded By Public Law 101-302, for the Period May 25, 1990
through November 30, 1990

This memorandum report presents the results to date of our audit of USAID/Panama's Economic Support Fund program funded under the Public Law 101-302, "The Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act" (Act). This Act requires that we provide this report to the Congressional Committees on Appropriations, the Senate Committee on Foreign Relations, the House Committee on Foreign Affairs and the A.I.D. Administrator.

Background

In December 1990, with the help of the U.S. military invasion, Panama reestablished for the first time in many years, a democratic government free of military control. The new government confronted an economic crisis caused during the preceding two-year period by a nearly 20 percent drop in national income and the financing of public sector and balance of payments deficits through the nonpayment of external and domestic debt. This situation was mainly the result of a severe reduction in bank credit availability in the face of the country's political turmoil, but the economic sanctions imposed by the United States in April 1988 increased its severity.

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On May 25, 1990, President Bush signed into law "The Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act", Public Law 101-302, which included \$420 million in new economic assistance for Panama. The \$420 million was intended to:

- encourage and assist the Government of Panama in taking the necessary steps to enable the proper functioning of a market economy and a political democracy;
- encourage the Government of Panama to reach agreements on exchange of records on international currency transactions in connection with narcotics investigations, and towards signing a mutual legal assistance treaty; and
- fund projects in such areas as police services, environmental protection, child survival, health, education, private sector development and budget support.

The United States had previously provided about \$35.6 million in initial economic assistance transferred from other A.I.D. projects and programs to the new Government of Panama as follows:

- \$4.3 million from January to July 15, 1990, through A.I.D.'s Office of Foreign Disaster Assistance;
- \$1.2 million beginning in February 1990, through Department of Justice's International Criminal Investigative Training Program; and
- \$30.1 million beginning in late February 1990, through two projects for immediate recovery activities with A.I.D.'s new mission in Panama.

The Act requires the A.I.D. Inspector General to, "...at least semiannually, beginning six months from the date of enactment of this Act, audit the Economic Support Fund programs provided under this Act for Nicaragua and Panama to assess the financial management and administrative systems established by the Agency to control such programs...." This report presents the results of our first audit.

Audit Objectives

The Act prescribes audits of the Economic Support Fund programs funded under the Act to assess the financial management and administrative systems established to control the programs. However, we had to narrow the scope of our audit for the program in Panama (the Program) during this first six-month period because of time limitations due to the slow development of the Program and related controls during the early months of the period. We will expand our future work to audit all of A.I.D.'s financial management and administrative systems that control the Program.

To initiate our work to meet the Act's audit requirements, we audited the Program during the first six-month period to answer the following objectives:

1. What is A.I.D.'s main technique for controlling external organizations implementing the program in Panama?
2. What program activities are being funded under the Act and what is their reported (unaudited) financial status?
3. How do the program activities work and what apparent weaknesses exist?

Our discussion of the scope and methodology for this audit is in appendix I.

Audit Findings

What is A.I.D.'s main technique for controlling external organizations implementing the program in Panama?

A.I.D.'s main technique for controlling the implementation of the activities under Panama's program is the formal agreement between A.I.D. and the implementing entity. Due to the diversity and complexity of program delivery, many different types of agreements are being used and additional ones will be added as the Program becomes fully implemented. Appendix II lists and illustrates this diversity. For those program activities that were underway during this initial period the following agreement

instruments were used: grant agreement, cooperative agreement, contract, and memorandum of agreement. The agreement formally binds an implementing organization to carry out a program activity in the manner specified by A.I.D. The terms and conditions of an agreement can be classified into two broad control categories:

- the terms that are standard for agreements to carry out basic A.I.D. policies and procedures, and
- the terms that are unique to each agreement to carry out the specific objectives of the assistance.

For this reporting period the primary organizations implementing the program activities in Panama and their applicable control techniques are shown in the following table.

Implementing Organization	Control Technique
Government of Panama	Grant Agreement
Not-for-Profit Organizations	Grant Agreement or Cooperative Agreement
Other U.S. Government Organizations	Memorandum of Agreement
U.S. Educational Institution	Contract

What program activities are being funded under the Act and what is their reported (unaudited) financial status?

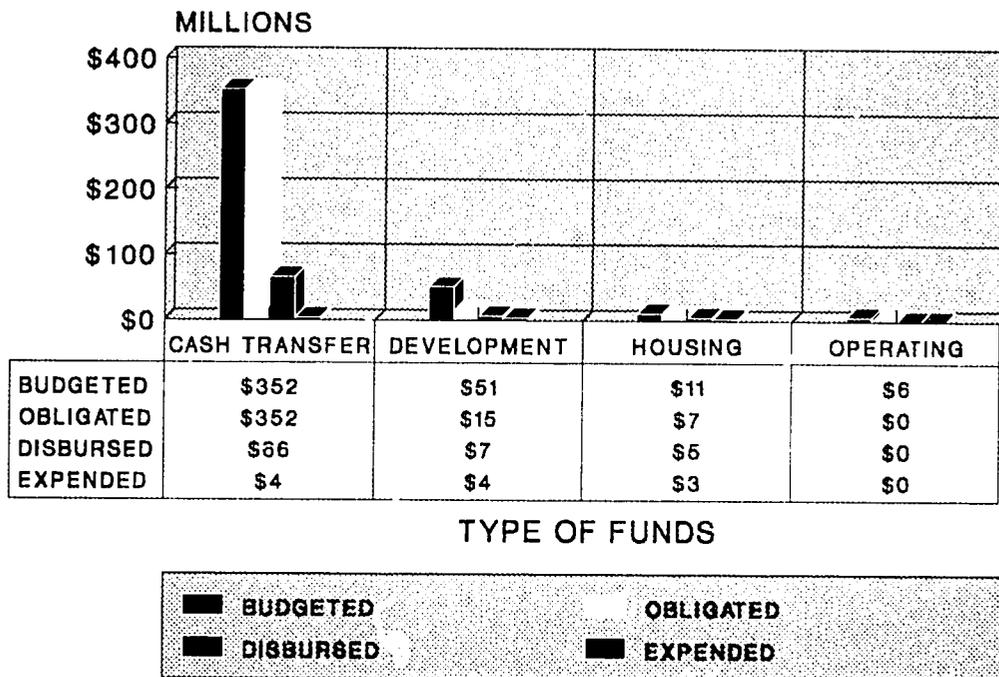
A.I.D. budgeted the Act's \$420 million in economic assistance to Panama as follows:

- \$351.7 million to two Cash Transfer Programs for budget support, clearing debt arrearages, and increasing the liquidity of the banking system (see page 19);
- \$51.4 million to 14 Development Projects in the areas of training, police services, financial administration, environment, private enterprise, and democratic initiatives (see page 23);

- \$10.9 million to two Housing, Food and Shelter Projects to support people displaced by the United States military action on December 20, 1989 (see page 45); and
- \$6 million to USAID/Panama for developing projects and operating expenses (see page 50).

According to information gathered during the audit, the following summarizes the financial status of the program in Panama funded under the Act.

UNAUDITED FINANCIAL STATUS
ECONOMIC SUPPORT FUND PROGRAM
BUDGETED-OBLIGATED-DISBURSED-EXPENDED
THROUGH 11/30/90



See pages 17 and 18 for a more detailed breakdown of the financial status of the Act's funds.

How do the program activities work and what apparent weaknesses exist?

The results of our review of A.I.D.'s control techniques for the various program activities and the apparent weaknesses noted are described as follows:

Cash Transfer Programs

The first of the two cash transfer programs includes funding totaling \$243.8 million for repayment of Government of Panama debt arrearages and support to Panama's public investment budget. Of this amount, as of November 30, 1990, \$29.9 million had been disbursed by A.I.D. to a separate account at the Federal Reserve Bank of New York, but none of these funds had been expended.

The controls over this program appear generally adequate, **given A.I.D.'s plans to track the funds only to their deposit into designated bank accounts**, as reported to the Congress by A.I.D. during the planning stage of the program. Notwithstanding this decision, A.I.D. has taken certain steps to retain control over these commingled funds. It is in this area, ie, control over commingled funds, that weaknesses were noted, as follows:

- A.I.D. funds amounting to \$113.8 million will be transferred into a commingled account to support Panama's public sector investment budget. These funds cannot be traced to their final expenditure as they will be commingled. While the agreement specifies prohibitions on the uses of the funds, this arrangement does not permit A.I.D. to monitor their use. A.I.D. has attempted to minimize this weakness utilizing various techniques including independent financial review of the commingled public sector investment funds.

The second cash transfer program provides \$107.9 million to Panama's banking system for their private sector lending activities. As of November 30, 1990, funds totaling \$36.0 million had been disbursed by A.I.D. to a separate account at the Federal Reserve Bank of New York, and six expenditures totaling \$3.4 million had been made from this account.

A.I.D.'s plan to track the funds only to their deposit into the accounts of participating banks was reported to Congress during the planning stage of the program. However, A.I.D. does plan to track the repayments of program funds into and out of a reflow fund established in Panama.

For the second cash transfer program we noted the following weakness:

- The program provides liquidity to Panama's banking system by purchasing interbank certificates of deposits for one half of the value of qualifying loans made by private banks. The interbank certificates of deposit are backed only by the good faith of the institutions. Should an institution fail a loss of program funds could occur.

Development Projects

Of the \$51.4 million budgeted for the 14 development projects, \$6.8 million had been disbursed and an estimated \$4.3 million expended as of November 30, 1990. For nine of the projects either there did not appear to be any control problems or the projects had not yet been developed to the point where the controls could be evaluated. For the remaining five projects we noted potential weaknesses of a minor nature. In accordance with various memoranda of agreement, implementation and control over three of the fourteen projects budgeted to receive \$13.8 million is vested in other U.S. Government entities--the State Department, the U.S. Information Agency, and the Peace Corps.

Two examples of potential weaknesses identified were:

- A \$240,000 subproject for Civic Education under a Democratic Initiatives project has a basic purpose of creating a new center within a Panamanian non profit organization so that center can pursue an ambitious agenda of activities. However the new center is basically an idea that needs to be developed into a functioning organization and has not yet developed the financial and accounting systems to account for and control A.I.D. funds.
- A \$6.0 million amendment to USAID/Panama's Central American Peace Scholarship project includes \$5.5 million that was added to an ongoing Mission contract with Georgetown University increasing the amount to \$21.2 million. The Mission has had this contract since 1986. While the project officer monitored costs and student progress through various reports, she had not been exercising administrative approval of the contractor's expense vouchers and did not know whether the contract costs have been audited.

Housing, Food and Shelter Assistance

A.I.D. disbursements for these two projects totaled \$5.1 million through November 30, 1990, with expenditures estimated at \$3.4 million. The two projects were designed primarily to reimburse A.I.D.'s Office of Foreign

Disaster Assistance for funds advanced to reconstruct apartment buildings damaged in the December 20, 1989 military invasion and to expand A.I.D. assistance programs implemented immediately following the invasion. We provided concurrent audit or survey coverage of housing activities carried out through the initial projects, in conjunction with an international accounting firm, and made several recommendations to provide more timely and effective accomplishment of program objectives. In our current assessment we did not note any weaknesses with regard to the housing activities, however, we did identify the following weakness concerning controls over the receipt and distribution of food at project refugee facilities.

- Most of the \$1.9 million provided for food and shelter assistance goes to catered food deliveries to four project feeding sites through two local restaurants. The Mission orders meals from the restaurants but the deliveries are made in bulk. There is no contract specifying serving sizes and no procedures to verify that the bulk amount of food delivered equals the number of meals ordered.

Project Development and Operating Expenses

We did not assess the controls over the project development and operating expenses of the A.I.D. Mission, as we considered Congressional interest to be in the direct assistance provided to Panama under the Act.

A detailed discussion of the control techniques and apparent weaknesses is presented in appendix II which includes all program activities funded under the Act without regard to their stage of development or expenditure status.

Management Comments

We provided a copy of the draft report to Mission management for their comments. While they had no written response they indicated overall agreement with the contents of the report.

Areas Needing Further Study

As required by the Act, we will expand our work during the Program's second six-month period to audit A.I.D.'s financial management and administrative systems that are used to control the Program. We will also follow-up on apparent control weaknesses discussed in this report.

SCOPE AND METHODOLOGY

Scope

We audited A.I.D.'s program in Panama funded under Public Law 101-302, "The Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act", for the period from May 25 (the date the Act became law) through November 30, 1990 only for the limited purposes discussed in our section on Audit Objectives. We conducted our field work solely in Panama City, Panama at USAID/Panama and at some of the implementing organizations and project sites from September 13, through December 7, 1990. We performed our work in accordance with generally accepted government auditing standards.

The scope of work was subject to the following limitations:

- We had a limited amount of time to perform our audit under the Act. Although the Act requires audits at least semiannually beginning six months from May 25, 1990, during this initial reporting period A.I.D. was in the process of reestablishing its Mission in Panama after an absence of two years. In fact, as of November 1990, USAID/Panama had not yet done its internal control assessment to meet the intent of the Federal Managers' Financial Integrity Act of 1982, Public Law 97-255, and revised Office of Management and Budget Circular A-123 dated August 4, 1986. Also most of the program activities that were underway by the end of the reporting period did not begin until late in the period. As a result, we were unable to begin our audit of program controls until shortly before the end of the reporting period.
- We did not audit A.I.D.'s general financial management and administrative systems either in A.I.D. Washington or USAID/Panama, nor did we audit A.I.D.'s general policies and procedures for the implementation of programs.

- Our audit of internal controls was limited to A.I.D.'s agreement-specific controls over the external organizations implementing the Program.
- As many program activities were still in the design stage, A.I.D. had not reached agreements with the related implementing organizations. As a result, we could not begin to audit the control technique (agreements) for these organizations.
- Except for those expenditures that had taken place for the second cash transfer program, we did not review source documentation supporting program expenditures by the implementing organizations, nor did we review the internal control structures of any of the implementing organizations.
- Except for the second cash transfer program, the expenditure information in this audit is based on accrued expenditure information from USAID/Panama and from grantee supplied information. Such information has not been verified in this audit and therefore may not reflect the exact expenditures under the Program.
- This report includes financial information obtained from USAID/Panama relating to several program activities managed through A.I.D./Washington. USAID/Panama does not maintain the official accounting records for these activities so this information may not be complete and accurate--particularly with regard to those projects being implemented through other U.S. Government entities.
- We limited our review of the housing activities under the two projects assisting displaced persons because for one of them we had audited these activities during the earlier phases of assistance to Panama (A.I.D. IG Audit Report Nos. 1-525-90-17 and 1-525-91-14-N) and for the other one we had done survey work during the earlier assistance phases. No significant control weaknesses were noted during this earlier work and we determined that the control structures from the earlier period remain in effect.
- We did not audit any of the controls over project development and operating expenses because we believed that the Congressional intent is to audit the direct assistance provided to Panama.

Methodology

The methodology for each audit objective follows.

Audit Objective One

Our first objective was: What is A.I.D.'s main technique for controlling external organizations implementing the program in Panama?

To answer this objective we identified the actual or planned control technique (the controls to be incorporated into the agreements with external implementing organizations) through review of program documentation and interview with USAID/Panama officials.

Audit Objective Two

Our second objective was: What program activities are being funded under the Act and what is their reported (unaudited) financial status?

To answer this objective, we reviewed USAID/Panama's plan for budgeting the \$420 million available under the Act and gathered information from program documentation and correspondence, unaudited financial records, and interviews with officials at USAID/Panama and implementing organizations. The program documentation included project agreements, program assistance approval documents, project papers, program identification documents, concept papers, and Congressional notifications. Except for those expenditures that had taken place for the second cash transfer program, we did not verify the accuracy of the financial information. The unverified information is only presented as information supplied to us by USAID/Panama and the implementing organizations.

Audit Objective Three

Our third objective was: How do the program activities work and what apparent weaknesses were noted?

To answer the third objective we reviewed program documentation and correspondence and interviewed officials at USAID/Panama and some implementing organizations. Also, we gathered information on apparent

weaknesses that came to our attention from officials and records at USAID/Panama and implementing organizations. We did not confirm that these are real or serious problems instead we are only providing the best available information to date on these potential weaknesses.

EXPANDED DISCUSSION OF
THE ECONOMIC SUPPORT
FUND PROGRAM IN PANAMA
FUNDED UNDER THE FISCAL YEAR 1990
DIRE EMERGENCY SUPPLEMENTAL
APPROPRIATIONS ACT

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Glossary

ADF	America's Development Foundation
AIFLD	American Institute for Free Labor Development
BNP	National Bank of Panama
Caja de Ahorros	Panama's National Savings Bank
CBN	Panama's National Banking Commission
CENA	Panama's National Economic Council
CIAT	Inter-American Center of Tax Administrators
Civic Crusade	Panama's National Civic Crusade Foundation
COSPAAE	Panama's Private Sector Council for Educational Assistance
DGI	Panama's Director General of Income
DOJ	Department of Justice
FAA	Foreign Assistance Act
FIU	Florida International University
GOP	Government of Panama
GOP Controller	Controller General of Panama
GU	Georgetown University
IBRD	World Bank
ICDs	Interbank certificates of deposit
ICITAP	Department of Justice's International Criminal
Investigative	Training Assistance Program
IDB	Interamerican Development Bank
IFIs	International Financial Institutions
IIDH/CAPEL	International Institute for Human Rights/Center for Advice and Promotion of Elections
IMF	International Monetary Fund
INRENARE	National Institute for Renewable Natural Resources
LAC	A.I.D.'s Latin America and Caribbean Bureau

MHT	Panama's Ministry of Finance and Treasury
MIPPE	Panama's Ministry of Planning and Economic Policy
MIVI	Panama's Ministry of Housing
MOA	Memorandum of Agreement
NATURA	Foundation for Nature Conservation
NGOs	Nongovernmental organizations
OFDA	A.I.D.'s Office of Foreign Disaster Assistance
PANAJURU	National Foundation for Panamanian Rural Youth
PASA	Participating Agency Services Agreement
SPIF	GOP's Special Priority Investment Fund
USIA	U.S. Information Agency
USFS	U.S. Forest Service

**Unaudited Financial Status of USAID/Panama's Economic Support Fund Program
Funded Under the Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act
As of November 30, 1990 1/ 2/**

Project Number	Title	Implementing Organizations (Primary-Sub)	Budgeted Amount (000s)	Obligated Amount (000s)	A.I.D. Disbursements (000s)	Implementing Organization Expenditures (000's)
CASH TRANSFERS:						
25-0303	ECONOMIC RECOVERY PROGRAM Repayment of GOP Debt Arrearages Support to GOP Public Investment Budget	MIPPE and BNP MIPPE and BNP	\$130,000 113,850	\$130,000 113,850	\$29,850	
25-0304	PRIVATE SECTOR REACTIVATION PROGRAM	CENA and BNP	107,900	107,900	36,000	\$3,398
SUBTOTAL CASH TRANSFERS			\$351,750	\$351,750	\$65,850	\$3,398
DEVELOPMENT PROJECTS:						
25-0258	PRIVATE SECTOR SCHOLARSHIPS	COSPAE	500			
25-0281	PANAJURU LOCAL SCHOLARSHIPS	PANAJURU	500	500		\$ 11 6/
25-0305	IMPROVING POLICE SERVICES	Dept. of State -Dept. of Justice	13,200	6,700 3/	6,700 3/ 4/	4,000 6/
25-0306	FINANCIAL MANAGEMENT REFORM	CG, MIPPE, and MHT	4,500			
25-0307	DEMOCRATIC INITIATIVES:					
25-0307.01	JOURNALISM STRENGTHENING	Florida Intl. Univ.	500			
25-0307.02	CIVIC EDUCATION	Am. Develop. Fnd. -Civic Crusade	240	240		
25-0307.03	AID TO ELECTORAL TRIBUNAL	IIDH/CAPEL	630	630		200 6/
25-0307.04	LEGISLATIVE DEVELOPMENT	Consortium for Leg. Dev.	730			
25-0308	NATURAL RESOURCE MANAGEMENT	INRENARE and NATURA	10,000			
25-0309	EXPORT AND INVESTMENT PROMOTION	local priv. sector org(s)	2,000			
25-0310	PEACE CORPS - NATURAL RESOURCES	Peace Corps	100	100 3/	100 3/ 4/	25 6/
25-0311	USIA - TRAINING	USIA	500	500 3/		
25-0312	IMPROVED ADMINISTRATION OF JUSTICE	Sup. Court, Public Ministry Bar Assoc. & Univ. of Pan.	6,900			
25-0313	ECONOMIC POLICY REFORM	MIPPE	3,100			
25-0314	TAX ADMINISTRATION IMPROVEMENT	IRS	1,500			
25-1000	CENTRAL AMERICAN PEACE SCHOLARSHIP					
	Participant Training Program (less ELT)	Georgetown Univ.	5,450	5,450		45 6/
	English Language Training (ELT)	TBD	550			
98-0790	AIFLD LABOR DEVELOPMENT PROGRAM	AIFLD	500	500 3/		67 7/
SUBTOTAL DEVELOPMENT PROJECTS			\$ 51,400	\$ 14,620	\$ 6,800	\$ 4,348

**Unaudited Financial Status of USAID/Panama's Economic Support Fund Program
Funded Under the Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act
As of November 30, 1990 1/ 2/**

Project Number	Title	Implementing Organizations (Primary-Sub)	Budgeted Amount (000s)	Obligated Amount (000s)	A.I.D. Disbursements (000s)	Implementing Organization Expenditures (000's)
HOUSING, FOOD AND SHELTER ASSISTANCE:						
525-0300	EMERG. REHAB. OF CHORRILLO APARTMENTS	MIVI	\$ 2,500	\$ 2500 3/	\$ 2,500 3/	\$ 2,500 3/
525-0302	IMMEDIATE RECOVERY PROJECT AMENDMENT					
	Replacement Housing	MIVI and Caja de Ahorros	6,475	2,975	2,610 5/	910 6/
	Food and Shelter to Displaced Persons	Camara de Comercio	1,900	1,900		
SUBTOTAL HOUSING, FOOD AND SHELTER			\$ 10,875	\$ 7,375	\$ 5,110	\$ 3,410
USAID MISSION EXPENSES:						
525-0000	PROJECT DEVELOPMENT AND SUPPORT	A.I.D.	\$ 975	\$ 117	\$ 90	\$ 27 6/
	OPERATING EXPENSES	A.I.D.	5,000	229	229	100 6/
SUBTOTAL MISSION EXPENSES			\$ 5,975	\$ 346	\$ 319	\$ 127
TOTAL FY 1990 SUPPLEMENTAL			\$420,000	\$374,091	\$78,079	\$ 11,283

- 1/ Except for the second cash transfer program, the expenditure information in this audit is based on accrued expenditure information from USAID/Panama and from grantee supplied information. Such information has not been verified in this audit and therefore may not reflect the exact expenditures under the program.
- 2/ This report includes financial information obtained from USAID/Panama relating to several program activities managed through A.I.D./Washington. USAID/Panama does not maintain the official accounting records for these activities so this information may not be complete and accurate--particularly with regard to those projects being implemented through other U.S. Government entities.
- 3/ Formal documentation supporting these figures was not available at the Mission.
- 4/ Transferred to other U.S. Government entities. Actual disbursements by the receiving entities is unknown.
- 5/ Combined disbursement under Project No. 525-0302.
- 6/ Accrued expenditures based upon USAID/Panama's records.
- 7/ This figure supplied by grantee is as of October 31, 1990.

DISCUSSION OF THE TECHNIQUES ESTABLISHED TO CONTROL PROGRAM IMPLEMENTATION

A.I.D. relies both on its general control systems and agreement-specific controls to implement the program in Panama funded under the Act. We define A.I.D.'s general control systems as its internal accounting, procurement, and project monitoring and reporting systems, and in this regard we noted that the USAID Mission in Panama is organized to exercise these general controls. The agreement-specific controls are determined during the project design process and depend upon the nature of each project. The actual implementation of agreement-specific controls is the responsibility of each implementing entity subject to A.I.D. oversight.

In the material that follows we provide a brief discussion for each project in Panama's program under the Act explaining the nature of the project, identifying the implementing entities, describing the project control technique, and identifying apparent weaknesses in the controls.

CASH TRANSFERS:

There were two cash transfer programs. The first had two subprograms--one for the repayment of Panama's debt arrearages and another for budget support to Panama's public sector investment budget. The second program provided added liquidity to Panama's banking system.

ECONOMIC RECOVERY Program

USAID/PANAMA Program No. 525-0303 (\$243,850,000)

Description of the Program

The purpose of the program is to provide financial support to the Government of Panama (GOP) to implement policy reforms for economic recovery and to help restore the credit worthiness of the Panamanian public sector. The program has two subprograms: (1) \$130 million provided as contribution to a multidonor support group fund to clear Panama's payment arrears to International Financial Institutions (IFIs)--specifically the International Monetary Fund (IMF), World Bank (IBRD), and Interamerican Development Bank (IDB), and (2) \$113.85 million provided to the GOP's "Special Priority Investment Fund" (SPIF) to support the GOP's 1990-91 public sector investment budget.

Implementing Entities

For both subprograms, the entities involved in the control of the funds to the A.I.D.-defined end uses are the same. The National Bank of Panama (Banco Nacional de Panama - BNP) handles the banking transactions, and the Ministry of Planning and Economic Policy (Ministerio de Planificacion y Politica Economica - MIPPE) and the Controller General of the Republic (Contralor General de la Republica - the GOP Controller) jointly order those transactions.

Description of the Control Technique

Clearing of Debt Arrearages Subprogram (\$130,000,000)

Upon Panama's furnishing of evidence that it has met the conditions specified in the agreement, A.I.D. will disburse the full amount of this subprogram's funds into a separate non-commingled account established by Panama at the Federal Reserve Bank of New York. From that account the GOP will repay the IFIs directly without placing the funds in an intermediate account. Prior approval of A.I.D. is not required. However, the agreement specifies that if a withdrawal is made from the separate account for an ineligible use, then the GOP will redeposit the equivalent amount plus interest.

Support to the Public Sector Investment Budget Subprogram (\$113,850,000)

A.I.D. funds for this subprogram are to be disbursed in three tranches upon the satisfaction of conditions specified in the agreement. The disbursements are made to the same separate account as noted above for the first subprogram. Withdrawals from the separate account are to be made on a monthly basis according to GOP projections of the financing needs for its public sector investment program. These withdrawals require A.I.D.'s prior approval and are to be deposited into the GOP's SPIF fund at the BNP.

The agreement specifies that the deposit of funds into the SPIF is the end use of A.I.D.'s funds. This then would be the point where A.I.D.'s right to control these funds ends and where A.I.D. defines its need to maintain accountability ends. Nevertheless, the agreement additionally specifies prohibited uses of SPIF funds and further procedural requirements. One of the procedural requirements is that all public sector investment expenses will first be approved by the GOP Controller and paid from

Panama's General Funds account with the General Fund later being reimbursed from the SPIF.

The agreement also states that A.I.D. will fund an independent financial review by external auditors contracted by the GOP Controller to assist the Controller in ensuring that sound management and controls are being applied to the SPIF.

Apparent Weaknesses

The controls over this program are generally adequate, given A.I.D.'s plans to track the funds only to their deposit into designated bank accounts, as reported to the Congress by A.I.D. during the planning stage of the program. However, the agreement also has specific prohibitions on the uses of the funds. Since \$113.8 million of the funds will be transferred into a commingled account to support Panama's public sector investment budget, these funds cannot be traced to their final expenditure. This arrangement does not permit monitoring of the A.I.D. funds to assure that they are not applied to the prohibited activities. A.I.D. has minimized this weakness somewhat by requiring an independent financial review of the commingled public sector investment funds, but funding for this review may be insufficient to the task.

PRIVATE SECTOR REACTIVATION Program USAID/PANAMA Program No. 525-0304 (\$107,900,000)

Description of the Program

The purpose of the program is to assist the GOP to provide immediate liquidity to the banking system to permit an increase in credit to the private sector in Panama. The main thrust of the program is to make funds available to domestic and foreign banks with general licenses to do business in Panama so that they can perform incremental lending activities to the productive private sector. In addition, program funds were available, on an exception basis, to provide short term liquidity only to domestic banks following the GOP's lifting of term deposit withdrawal restrictions on July 10, 1990.

Implementing Entities

The BNP is financial agent for the GOP on this program. BNP follows policy guidance provided by Panama's National Economic Council (Consejo Económico Nacional - CENA). The CENA is composed of GOP's

Minister of Planning, Minister of Finance, Comptroller General of the Republic, General Manager of the BNP, and a representative of the President of the Republic.

Description of the Control Technique

The GOP established a separate non-commingled account in New York's Federal Reserve Bank to receive the A.I.D. funds. A.I.D. will disburse the funds in three tranches upon the GOP satisfying conditions specified in the agreement for the release of each tranche. BNP then holds the funds in the separate account pending their use to purchase interbank certificates of deposit or enter into short term repurchase agreements with private banks.

As reported to Congress, A.I.D. has defined the purchase transactions themselves to be the end use of the funds. However, as in the preceding discussion on the first cash transfer program's Support to the Public Sector Investment Budget subprogram, A.I.D. has provided for certain controls over the use of these funds beyond this point. For example, the agreement specifies eligible uses as well as specifically prohibited uses. Prior A.I.D. approval for withdrawal of funds from the separate account is not required but any ineligible uses discovered later require redeposit of the misused amount plus interest. Our review of these after the fact control techniques had not progressed to the point of identifying apparent weaknesses.

Banks participate in the incremental lending activities portion of the program by making qualifying loans then selling interbank certificates of deposit (ICDs) to the BNP for 50 percent of the loan value. BNP wire transfers the amount to purchase the ICDs directly from the separate account to the account of the selling bank. ICDs are backed by the faith and credit of the selling bank rather than the underlying loans that gave rise to them.

The BNP does not see the actual loan documentation. It has distributed to the banks a procedures manual which specifies eligible and prohibited uses of program funds and the banks operate under a honor system in filling out the statistical forms that the BNP relies upon to support disbursements. Although not specified in the agreement, the BNP procedures manual indicates that the BNP will coordinate with bank inspections made by the National Banking Commission (Comisión Bancaria Nacional - CBN) to guarantee correct participation in the program.

For the short term liquidity portion of the program, a bank would receive funds by discounting part of its portfolio with the BNP. A.I.D. personnel told us that a demand for funds under this part of the program never materialized. However, the agreement provided access to these funds would be subject to eligibility criteria, conditions and guarantees established by the CBN -- with the objective being to ensure no funds of the program are lost because of a bank failure. The agreement provided that BNP could provide 50 percent of the market value of bank assets of the highest quality, the program funds would be provided at penalty interest rates, and the funds could be lent only for 120 days.

BNP collections of funds advanced under both portions of the program are to go into an interest-bearing separate account for reflows established at the BNP. This reflow fund may be available to continue activities until the end of the seventh year of the program. At that point, the program terminates with the funds being used only for the payment of non-military U.S. Government bilateral debt or debt to international financial institutions.

Apparent Weaknesses

An apparent weakness results from giving what amounts to unsecured loans to banks. The program operates under the assumption that banks will be able to liquidate their interbank certificates of deposit. The Mission project officer, however, believed this was a safe assumption to make given the CBN's normal supervision of Panama's banking system and its powers to take over the management of a bank should its financial situation deteriorate.

DEVELOPMENT PROJECTS:

The purpose of development projects is to assist Panama in addressing specific problems. As of November 30, 1990, USAID/Panama had planned 14 development projects in the areas of training, police services, financial administration, environmental protection, private enterprise, and democratic initiatives.

PRIVATE SECTOR SCHOLARSHIPS Project USAID/PANAMA Project No. 525-0258 (\$500,000)

Description of the Project

The purpose of the project is to establish Panama's Private Sector Council for Educational Assistance (Consejo del Sector Privado para la Asistencia

Educacional - COSPAE) as a permanent private organization with broad private sector participation that can identify private sector training needs, select trainees, arrange training programs and successfully reincorporate training participants into the Panamanian economy. The goal of the project is to strengthen the Panamanian private sector by training technical and supervisory personnel in priority fields.

Implementing Entities

The implementing entity is COSPAE located in Panama City, Panama.

Description of the Control Technique

The project started in June 1984 and has been funded through two grant agreements, the existing one which started on September 30, 1987 and is scheduled to end on March 31, 1991. The Mission plans to amend to the existing grant using funds from the Act so that project activities may continue. Present project activities are conceptually divided into two phases with the first phase being institutional support to develop the entity's administrative and technical capabilities and the second phase being short term training in the U.S. and Panama for technical and supervisory personnel. The second phase activities have not started because the agreement provides that phase I activities should be completed prior to the implementation of phase II activities, and the Mission intends to review COSPAE's degree of achievement of phase I activities before it allows COSPAE to proceed.

Assuming the amended agreement will continue with the control structure of the present one, it will be contracted by the Mission and include the Standard Provisions for Non-U.S., Nongovernmental Grantees. The grantee will receive no advances and its vouchers for reimbursement will be administratively approved by the Mission project officer. The project officer plans to request quarterly reporting on project activities and to receive a copy of COSPAE's annual audit. The existing agreement is a matching grant and calls for reviewing the grantee's contributions quarterly to assure compliance.

Apparent Weaknesses

COSPAE has not yet proven its ability to contract and account for training activities to be conducted through U.S. organizations, and therefore it may not be able to adequately control and account for the funds. Matching contributions is another area where weakness lies since due to the

Mission's 2-year closing it has not monitored these contributions as called for by the agreement.

PANAJURU LOCAL SCHOLARSHIPS Project
USAID/PANAMA Project No. 525-0281 (\$500,000)

Description of the Project

The purpose of the project is to provide classroom and on-farm training to rural youth of economically disadvantaged families to improve their skills and transfer agricultural technologies. The skills learned are designed to be taken home to improve the operations of their own farms or those of their community.

The project started in April 1985 with a grant amount of \$447,000. The agreement was amended in September 1987 to add an additional \$500,000, and again in September 1990 to add \$500,000 more, this time with funds from the Act. The project provides \$50 per month for the room and board of scholarship recipients attending junior high and high-school level vocational institutions in rural areas. Additionally the implementing entity is reimbursed for certain salary costs and may receive a \$5 per student per month fee to defray administrative expenses associated with running the scholarship program.

Implementing Entity

The implementing entity is the National Foundation for Panamanian Rural Youth (Patronato Nacional de la Juventud Rural Panamena - PANAJURU). Its headquarters is located in Panama City, Panama.

Description of the Control Technique

Vocational institutes participating in the scholarship program are selected by PANAJURU and approved by the Mission. The institutes enroll their students and have the students fill out the applications for scholarships. Using project selection criteria, PANAJURU and A.I.D. make the final selections as to which students will receive scholarships. The usual scholarship term is three years. The scholarship amounts remaining for students that drop out of the program are awarded to other students who qualify.

The contract instrument is a Mission grant with matching requirements. The agreement includes the Standard Provisions for Non-U.S.

Nongovernmental Grantees. PANAJURU gets a 90-day advance from A.I.D., and sends a monthly check to each institute based upon the number of students that were awarded scholarships. To be reimbursed for project costs, PANAJURU submits reimbursement vouchers to the Mission which are administratively approved by the Mission project officer. The Mission and PANAJURU hold quarterly meetings to review the progress and financial status of the program. PANAJURU also prepares an annual report of project accomplishments which includes budgets and plans for the upcoming year and it provides the Mission a copy of its annual audit. The Mission monitors the project matching contribution informally.

Apparent Weaknesses

None noted.

IMPROVING POLICE SERVICES Project USAID/PANAMA Project No. 525-0305 (\$13,200,000)

Description of the Project

The purpose of the project is to establish a modern, professional, civilian controlled police force to provide for the security of life and property in Panama while respecting human rights and using minimal force. The project will provide training, technical assistance and commodities to strengthen Panama's newly formed police force.

Implementing Entities

Although A.I.D. has memoranda of agreement with the State Department on this project, for all practical purposes the project is implemented by the U.S. Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP). ICITAP's main office is in Washington D.C. and it has a field office in Panama City, Panama. ICITAP contracts with a consulting firm, Miranda Associates, Inc. with offices in Washington D.C. and Panama City, Panama to assist it in managing project activities. On the GOP side, the implementing entities are the Ministry of Government and Justice and the Public Ministry.

Description of the Control Technique

Project funds were transferred from A.I.D. to the Department of State and from the Department of State to the Department of Justice (DOJ) using

the authority of section 632(a) of the Foreign Assistance Act (FAA). Section 632(a) of the FAA provides that A.I.D. may transfer to any agency of the U.S. Government any part of funds made available for carrying out the purposes of the FAA. Any such funds transferred are available for obligation and expenditure in accord with authority in the FAA or under authority governing the receiving agency.

The control that A.I.D. has in such transfers is to come to a mutual agreement with the receiving agency before the funds are transferred. However, in this case due to the urgency of the situation in Panama (which did not have a standing police force once the military regime was unseated) the funds were transferred without going through the analytical and review processes that would normally be called for on a project of this magnitude.

Although A.I.D. Mission does not have control over ICITAP's program in Panama, the Mission project officer is generally aware of the activities taking place by virtue of attending interagency meetings where Administration of Justice topics are discussed.

The memorandum of agreement (MOA) transferring the funds provides that State will ensure that ICITAP maintains full and complete records and accounts with respect to the funds in accordance with generally accepted accounting principles, fulfills all necessary audits, and provides A.I.D.'s Office of Financial Management with monthly reports of budget execution (SF-133). Further, in the case of any disbursement not made in accordance with the MOA, A.I.D. may require State to refund the amount of such disbursement.

Apparent Weaknesses

The funds were transferred without going through the analytical and review processes that would normally be called for on a project of this magnitude.

FINANCIAL MANAGEMENT REFORM Project USAID/PANAMA Project No. 525-0306 (\$4,500,000)

Description of the Project

The purpose of the project is to improve and integrate the GOP's financial management and audit systems and promote accountability of government officials in managing public resources. The goal is to strengthen the

management capability of the GOP and renew domestic and international confidence in the integrity and technical competence of the Government.

Technical assistance and a limited amount of commodities will be provided to design and implement at the national level an integrated financial management system consisting of budgeting, cash management, debt management and accounting subsystems. Additionally, a comprehensive audit capability for the GOP will be developed through a newly created and independent Office of the Auditor General.

The design of the project is near to being finalized as the Mission is in the later stages of developing a project paper. A.I.D.'s contribution to the project is expected to be \$6.3 million over the life of the project which means that funds beyond those provided under the Act will be needed.

Implementing Entities

Implementation of the project will be the overall responsibility of the Controller General of Panama. However, the Ministry of Planning and Economic Policy (MIPPE) will oversee the development of the budgeting and debt management subsystems and the Ministry of Finance and Treasury (MHT) will oversee the development of the cash management subsystem.

Description of the Control Technique

Draft project paper information indicates that about \$5.4 million of the A.I.D. contribution to the project will be contracted directly by A.I.D. About \$4.5 million of this amount will be for expert technical assistance and local support costs, \$150,000 will go to purchase commodities (mainly computers), \$640,000 will pay the cost of a personal services contractor to act as the Mission's project officer and the remainder will be for evaluations and audit.

The technical assistance contractor will report to the Mission project officer and will provide quarterly administrative reports to the Mission on project progress and expenditures.

Apparent Weaknesses

None noted.

DEMOCRATIC INITIATIVES Project
USAID/PANAMA Project No. 525-0307 (\$2,100,000)

The Democratic Initiatives Project is an umbrella project with four components (in this case separate subprojects):

JOURNALISM STRENGTHENING, 525-0307.01 (\$500,000)

Description of Subproject

The purpose of the subproject is to assist the journalism profession in Panama in adjusting to its new press freedom in a professional and responsible manner. This 12-month subproject will provide seminars, training, and technical assistance activities based on the professional standards of the free press. It will complement and be executed as an amendment to the cooperative agreement for A.I.D.'s Central American Regional Journalism Strengthening Project (No. 597-0031).

Implementing Entities

Florida International University (FIU) of Miami, Florida is the implementing entity for both this subproject and A.I.D.'s regional project.

Description of the Control Technique

As of November 30, 1990, an agreement amendment for this subproject had not been finalized. Contracting is being done by A.I.D./Washington. The cooperative agreement for the regional project incorporates A.I.D.'s Standard Provisions for U.S. Nongovernmental Grantees and the payment mechanism is a letter of credit. The Mission project officer understands that the amendment will include reporting requirements to the Mission. A.I.D.'s Latin America and Caribbean Bureau (LAC) manages the regional project and will administratively approve on all vouchers presented for payment. The Mission project officer will not be involved in the approval of expenses presented by FIU relating to this subproject nor does she expect that the vouchers presented to the LAC Bureau manager will separately breakout the subproject's expenses. Her experience has been that such vouchers show global amounts only. The control relied upon by A.I.D. to assure the allowability of expenses is the grantee's external audits.

Apparent Weaknesses

The Mission project officer will not administratively approve expenses incurred in Panama.

CIVIC EDUCATION, 525-0307.02 (\$240,000)

Description of Subproject

The purpose of the subproject is to promote the development of democracy in Panama. This will be done by providing financial support through America's Development Foundation (ADF) for programs to be implemented by Panama's National Civic Crusade Foundation (Fundación Cruzada Civilista Nacional - the Civic Crusade), specifically its Pro Democracy Center. A subgrant will support the Center's institutional development and its program activities directed at guiding national business, professional, and grassroots organizations, and the people of Panama through the transition toward a more democratic society.

Implementing Entities

ADF located in Alexandria, Virginia is the subproject's grantee and the Civic Crusade located in Panama City, Panama is the subgrantee.

Description of the Control Technique

A grant agreement for this subproject was executed on November 30, 1990. Contracting was done by USAID/Panama. The grant includes the Standard Provisions for U.S. Nongovernmental Grantees.

The Pro Democracy Center is a new office of the Civic Crusade. It is basically an idea that needs to be developed into a functioning organization. The Civic Crusade expects ADF to design the financial management and accounting systems to meet USAID/Panama and other donors' requirements.

Apparent Weaknesses

The Center has planned an ambitious program of workshops, training, seminars, and media promotion, but the financial and accounting systems to control and account for the funds have yet to be developed.

AID TO ELECTORAL TRIBUNAL, 525-0307.03 (\$630,000)

Description of Subproject

The primary purpose of this six-month subproject is to assist the Panamanian Electoral Tribunal in preparing for special elections scheduled for January 27, 1991. These elections will replace certain of the elections held in May 1989 whose results have been challenged as questionable. Secondary purposes are to do a follow-up evaluation on the January 1991 election activities and to do an assessment of the Electoral Tribunal's needs in preparation for 1994 national elections.

Implementing Entities

The International Institute for Human Rights/Center for Advice and Promotion of Elections (Institute Internacional para los Derechos Humanos/Centro para Asesoría y Promoción Electoral - IIDH/CAPEL), a regional organization in Costa Rica with expertise in providing this type of assistance, was selected as the implementing entity.

Description of the Control Technique

The grant is effective November 7, 1990 and includes Standard Provisions for Non-U.S. Nongovernmental Grantees which specify accountability requirements. A program description is also included in the grant. We noted that the grant budget included activities beyond those covered in the program description. However, the project officer told us these additional areas have been discussed with the grantee so there should be no confusion about what is expected. The subproject activities will be monitored by the project officer and she will administratively approve all vouchers.

Apparent Weaknesses

None noted.

LEGISLATIVE DEVELOPMENT, 525-0307.04 (\$730,000)

Description of Subproject

The purpose of this subproject, which has yet to be designed, will be to increase the capability of Panama's Legislative Assembly to carry out its role in a democratic government. The subproject will be a "buy-in" to the

LAC Bureau's Regional Legislative Development Project (No. 598-0770) which has five interrelated component activities: assessments of needs, regional training seminars, technical assistance, legislative and management information systems, and university and internship programs. During December 1990 the Mission intends to use the regional project to conduct an assessment of needs for Panama's legislature. This assessment will then serve as the basis for the design of a bilateral project tailored to Panama.

Implementing Entities

The Consortium for Legislative Development, a joint venture composed of the Center for Democracy (Washington, D.C.), Florida International University (Miami, Florida), and the State University of New York (Albany, New York), will be responsible for implementing both the regional project and the Mission's subproject.

Description of the Control Technique

This subproject will be contracted by A.I.D./Washington and an overall agreement manager will be assigned from A.I.D.'s LAC Bureau. Administrative approval of vouchers will be done by the LAC Bureau manager. The regional project contract instrument is a cooperative agreement which includes the Standard Provisions for U.S. Nongovernmental Grantees. The payment vehicle is a letter of credit and A.I.D. will rely upon the grantee's external audit to assure the allowability of expenses charged to A.I.D. funds. The Mission's project officer will monitor activities taking place in Panama.

Apparent Weaknesses

The Mission project officer will not administratively approve vouchers of expenses incurred in Panama.

NATURAL RESOURCES MANAGEMENT Project USAID/PANAMA Project No. 525-0308, (\$10,000,000)

Description of the Project

The project purpose is to improve conservation, management and sustained productivity of soil, water and forest resources through actions of both the public and private sectors. Its goal is to protect and manage

Panama's renewable natural resources to permit sustained economic and social development.

The project will consist of four integrated components: Panama Canal Watershed Management, National Parks and Wildlands Management, National Forest Management, and a Conservation Foundation. The overall project is designed to strengthen the planning, coordination and public resources management functions of the National Institute for Renewable Natural Resources (INRENARE) as the lead Government of Panama agency for regulating natural resource use.

INRENARE will implement the first three components which include the following activities: (1) for the Panama Canal Watershed Management component, interagency coordination and planning, land use classification, and institutional strengthening of INRENARE, (2) for the National Parks and Wildlands Management component, physical security and management of national parks and wildlife refuges, and (3) for the National Forest Management component, legally establishing three National Forest Reserves which will be managed for sustained yields of forest products.

The fourth component establishes a perpetual trust fund to be administered by a newly formed non-profit organization, Foundation for Nature Conservation (Fundacion para la Conservacion de la Naturaleza - NATURA). Income from the fund will be used to provide grants to finance INRENARE's recurrent costs for the National Parks and Wildlands Management component, as well as programs for conservation, reforestation and the environment implemented by local nongovernmental organizations (NGOs) and community groups.

The project design has not been finalized. A draft project paper exists, but the Mission project officer cautioned that the design could change substantially if the terms of a "debt-for-nature" exchange to provide capital for establishing the perpetual trust fund mentioned above vary significantly from what was anticipated in the project design. We should also point out the Act is providing only half of the \$20 million A.I.D. contribution planned over the life of the project.

Implementing Entities

The implementing entity for the first three components of the project is the National Institute for Renewable Natural Resources (INRENARE), a semi-autonomous agency of the Government of Panama within the portfolio of

the Minister for Planning and Economic Policy (MIPPE). NATURA will manage the trust fund. Program activities financed by the trust fund will be executed by INRENARE, local nongovernmental organizations (NGOs) or community groups in accordance with proposals, workplans and budgets approved by NATURA's Board of Trustees.

Description of the Control Technique

The draft project paper indicates that a Participating Agency Services Agreement (PASA) will be executed with the U.S. Forest Service (USFS) for the long term and some of the short term technical advisers under the project. Project funds will also be used to furnish short term technical assistance through a buy-in to a regional project administered by A.I.D.'s Regional Office for Central American Programs in Guatemala. This short term technical assistance will be provided through a consortium of U.S. NGOs and a Costa Rican educational institution. The project will also include significant construction activities to build infrastructure in Panama's national parks and reserves. These construction activities would be contracted directly by A.I.D. The trust fund will provide significant amounts of financing for INRENARE and apparently to a number of local NGOs and community groups.

Apparent Weaknesses

None noted.

EXPORT AND INVESTMENT PROMOTION Project USAID/PANAMA Project No. 525-0309 (\$2,000,000)

Description of the Project

The purpose of the project is to help diversify the Panamanian economy away from the traditional service sector into other sectors that are export oriented. The goal is to increase levels of employment, productivity, and foreign exchange in Panama. The project will focus on making selected areas of nontraditional agricultural and industrial sectors more competitive and it will promote the development of the tourism sector by encouraging key policy changes which impact this sector.

It is anticipated that the project will focus on:

1. Policy change to make Panamanian products more competitive,

2. Working with a private sector organization to identify and resolve export constraints and to focus on exported-oriented areas of opportunity that Panama should more fully exploit,
3. Working and sharing the risk with the private sector, identifying specific nontraditional agricultural products which have the potential of providing excellent returns to an investor,
4. Encouraging the establishment of privately owned export processing zones and assisting in attracting foreign and local investors into these zones, and
5. Developing and carrying out a publicity campaign to raise local awareness of the importance and benefits of exporting.

The project still is in the conceptual phase. During the development of a project paper the specifics of the design will be decided. Although \$2.0 million is presently budgeted under the Act for this project, it is envisioned that the life-of-project cost will be \$5.0 million.

Implementing Entities

It is envisioned that one or several private sector organizations in Panama will implement the project.

Description of the Control Technique

The agreement-specific controls have yet to be designed.

Apparent Weaknesses

None noted.

PEACE CORPS - NATURAL RESOURCES Project USAID/PANAMA Project No. 525-0310 (\$100,000)

Description of the Project

The purpose of the project is to assist the Government of Panama's efforts in reducing natural resource degradation while offering economically attractive alternatives to rural families as part of the overall public and private sector effort to achieve sustainable development in Panama through resource conservation.

Peace Corps volunteers will work in activities such as agriculture extension, agroforestry, forestry extension, environmental education, small business development, community development, and related activities, with the overall objective of improving agricultural productivity and farm incomes, and developing other economic alternatives which reduce pressure on tropical soils and forests.

The A.I.D.-supplied funds under this project were described by Mission personnel as being a reentry budget to reestablish a Peace Corps presence in Panama. The Peace Corps solicited the A.I.D. donation to pay for program support costs including salaries for in-country program administration, costs to lease and operate an office in Panama City, costs of purchasing of a vehicle, and certain housing and travel expenses.

Implementing Entities

The implementing entity is the Peace Corps located in Washington, D.C. with a skeleton coordinating staff in Panama City, Panama.

Description of the Control Technique

The funds were transferred from A.I.D. to Peace Corps using the authority of section 632(a) of the Foreign Assistance Act (FAA). Section 632(a) of the FAA provides that A.I.D. may transfer to any agency of the U.S. Government any part of funds made available for carrying out the purposes of the FAA. Any such funds transferred are available for obligation and expenditure in accord with authority in the FAA or under authority governing the agency.

The memorandum of agreement (MOA) which was signed on August 8, 1990 states that the funds are for the purpose of providing project support to Peace Corps volunteers and staff who will serve in a program of assistance in the natural resource sector of Panama. The MOA goes on to state that the Peace Corps will keep full and complete records and accounts with respect to the funds in accordance with generally accepted accounting principles, fulfill all necessary audits, and provide the A.I.D. Office of Financial Management monthly reports of budget execution (SF-133). Further, in case any disbursement is not made in accordance with the MOA, A.I.D. may require the Peace Corps to refund the amount of such disbursement.

We interviewed the Mission project officer and were told that he does not monitor Peace Corps activities in country. Additionally we interviewed the

Peace Corps Program Coordinator in Panama and asked him for accounting information on the funds. He provided documentation on the transactions executed in country but told us that he does not have information on the transactions processed by the Peace Corps headquarters.

Apparent Weaknesses

None noted.

USIA - TRAINING Project USAID/PANAMA Project No. 525-0311 (\$500,000)

Description of the Project

The purpose of the project is to assist Panamanian efforts to reestablish and consolidate representative democratic government with full public participation. The U.S. Information Agency (USIA) will provide training aimed at strengthening democratic institutions. The training will be in such areas as the role of the legislature in democratic government, public administration, labor issues, journalism, community leadership and other topics related to pluralism and democracy.

Implementing Entity

The USIA is the implementing entity.

Description of the Control Technique

Under the authority of section 632(a) of the Foreign Assistance Act (FAA), A.I.D. will transfer funds to USIA to implement the project. Section 632(a) provides that funds transferred are available for obligation and expenditure in accord with the authority of the FAA or under authority governing the receiving agency.

In advance of transferring the funds, the Mission project officer and USIA personnel in Panama have come to an understanding on what activities are to be supported. This understanding is formalized through a memorandum of agreement (MOA) between A.I.D. and USIA that was signed in Washington on November 30, 1990. The MOA provides that USIA will keep full and complete records and accounts, will fulfill all necessary audit requirements and will provide monthly reports of budget

execution (SF-133) to A.I.D.'s Office of Financial Management in Washington.

The Mission project officer's understanding of this type of agreement is that the money is transferred to the agency that has special expertise in the type of activity being implemented and once the funds are transferred the Mission project officer has no responsibility to monitor their expenditure.

Apparent Weaknesses

None noted.

IMPROVED ADMINISTRATION OF JUSTICE Project USAID/PANAMA Project No. 525-0312 (\$6,900,000)

Description of the Project

The purpose of the project is to improve the operation and coordination of Panama's justice system in the conduct of the investigative and trial stages of the criminal justice process. The goal is a Panamanian criminal justice system that is expeditious, fair and independent of political and extra-judicial influences. A.I.D.'s contribution to the project will be \$12 million of which \$6.9 million is to come from the Act.

The project is directed at improving the coordination between and operations of Panama's Judiciary and Attorney General functions. Additionally, it will support the integration of the police investigative function within the Attorney General function and support further analysis of ways to modify the jurisdiction of executive branch administrative judges to make it compatible with the project goal.

The project has four components with activities as follows:

1. The first component will assist the Judiciary (consisting of the Supreme Court, and Superior, Circuit and Municipal Courts) and the Attorney General's Office (commonly known as the Public Ministry) in improving their operations. Improvements will be introduced in the personnel, records management, and financial management and budgeting systems. Also, operations will be analyzed and measures taken to expedite the handling of cases.

2. The second component will provide support to the operation of the justice sector by providing basic legal materials to all judges and prosecutors and establishing legal reference libraries in the Judiciary and Public Ministry. It will also support the establishment of a judicial school to provide continuous, in-service training to justice system employees and a legal reference service with automated retrieval capabilities within the University of Panama which will be available to the justice system and private users on a fee-for-service basis.
3. The third component will plan for the improvement and expansion of the Public Defenders system once responsibility for that system is transferred to the Judiciary. Additionally, limited funds will be set aside to reinstate a program of pro bono work through the Panamanian Bar Association and legal clinics manned by students of law schools.
4. The fourth component will assist the Judiciary and Public Ministry to improve their planning and coordination by strengthening the role of a joint coordinating body (the Judicial Council) as the formal coordinating mechanism for the two organizations.

The above is based upon preliminary information. As of the audit cut-off date, the Mission was in the process of finalizing a draft project paper to be presented to A.I.D.'s LAC Bureau for approval.

Implementing Entities

The two primary implementing entities on this project will be Panama's Supreme Court, which exercises administrative and judicial control over the country's judiciary, and its Public Ministry. Additionally, the University of Panama will implement the legal reference system mentioned above, and the Bar Association will receive a limited grant for its pro bono program.

Description of the Control Technique

The A.I.D. contribution to the project will be applied mainly to: (1) long and short term technical advisers (2) local support contractors, (3) training, and (4) commodities (mainly computers and law books and libraries).

To carry out the varied technical assistance and training activities and to make limited procurements, the project will finance one long-term institutional contract using formal competitive bidding procedures. However because the competitive procurement process is expected to take some time, the Mission plans to initiate activities using a U.S. "Section 8(a)" firm. Computer hardware and software will be procured through A.I.D. Washington.

The preliminary project design also calls for the preparation of yearly work plans and budgets for use of project funds and quarterly and annual progress reports.

Apparent Weaknesses

None noted.

ECONOMIC POLICY REFORM Project USAID/PANAMA Project No. 525-0313 (\$3,100,000)

Description of the Project

Preliminary planning information indicates that the purpose of the project will be to improve Panama's economic policy environment and develop incentives for private sector growth. The project will continue with the public sector technical assistance program initiated under USAID/Panama's Immediate Recovery Project (No. 525-0302) begun during the earlier phases of assistance to Panama which had the purpose of assisting in the urgent rehabilitation and restructuring of public sector agencies in order to establish the necessary structure and stability for economic recovery.

The original plan for this project was that a technical assistance fund would be created to respond to requests from the Government of Panama's Ministry of Planning and Economic Policy, Panama's legislature, the National Bank of Panama, and other institutions which make or implement laws or policies affecting the economic environment. Assistance would be provided in the areas of macro-economic policy, privatization, tax reform, banking and finance laws and regulations, investment incentives, labor laws and the civil service code.

The Mission project officer told us that the project still is in the idea stage. A needs assessment has not been done and a concept paper has not been prepared.

Implementing Entities

The implementing institution would be the GOP Ministry of Planning and Economic Policy (MIPPE).

Description of the Control Technique

The agreement-specific controls will be determined during the project design process which has yet to begin.

Apparent Weaknesses

None noted.

TAX ADMINISTRATION IMPROVEMENT Project USAID/PANAMA Project No. 525-0314, (\$1,500,000)

Description of the Project

The purpose of the project is to transfer both technical and managerial expertise to Panama's Director General of Income (DGI) to improve its capabilities to enforce the country's tax laws. The goal is to achieve a self-sufficient Panamanian tax administration.

According to the Mission controller, the project originated with a request from Panama's Minister of Finance for technical assistance in improving tax examination and collection activities. The Inter-American Center of Tax Administrators (CIAT) conducted a survey of DGI's operations and made numerous recommendations directed toward achieving a more effective and efficient tax administration. CIAT then submitted to A.I.D. a tax administration assistance proposal for the Government of Panama which detailed a plan for technical assistance in implementing the recommendations. The Mission plans to obtain the technical assistance through a Participating Agency Services Agreement (PASA) with the U.S. Internal Revenue Service (IRS).

The Mission controller indicated that the project cost will probably be \$1.6 million and that funds beyond what is presently budgeted for the project will likely be taken from amounts budgeted for Mission operating expenses.

Implementing Entities

Although the project agreement will be with the Government of Panama, the project basically entails a PASA agreement with the IRS.

Description of the Control Technique

A PASA agreement will be entered into with the IRS. Typically, under such an arrangement Missions administratively approve summary level vouchers submitted through the participating agency's headquarters, and therefore do not have visibility of the expenditure detail. However, we would expect that the Mission will monitor the project's activities and generally be aware of the number of IRS personnel involved in the project at any time.

The types of expenses involved in the project will mainly be those for compensation, travel, maintenance and overhead associated with IRS personnel.

Apparent Weaknesses

None noted.

CENTRAL AMERICAN PEACE SCHOLARSHIP Project USAID/PANAMA Project No. 525-1000 (\$6,000,000)

Description of the Project

The purpose of the project is to equip a broad base of leaders and potential leaders in Panama with technical skills through training and academic education, and in the process give them an appreciation/understanding of the working of a free enterprise economy in a democratic society. The project provides \$5,450,000 for the training and support costs for 43 Panamanians sent to the U.S. in August 1990 for long term university degree training and for 15 Panamanian high school English language teachers who will be sent for short-term training. Additionally, within this sum \$1,250,000 is budgeted to cover delinquent federal tax liabilities for earlier training participants, which liabilities resulted from a change in U.S. tax laws. The remaining \$550,000 planned for the project is to be applied to an English language training program for an additional 60 participants yet to be selected.

Implementing Entities

Georgetown University (GU), Washington D.C., manages all project activities except for English language training. The Mission has not yet decided which entity will be selected to provide the language training. However, in the past this training was provided by Department of Defense Dependent Schools, through the Panama Canal College.

Description of the Control Technique

The Mission contracted directly with GU in 1986 to handle the full range of financial and administrative details both in Panama and the U.S. involved in managing the Mission's participant training program. The initial contract has been amended as further participants have been added. A Treasury Letter of Credit arrangement was established to allow GU to reimburse itself for its costs as needed. Since the contract is directly with the Mission, the contractor expense vouchers should be administratively approved by the project officer. However, the contractor apparently worked out some other arrangement with A.I.D. during the period that the A.I.D. Mission was closed. The project officer has not been sent vouchers for approval.

The project officer monitors the progress of individual participants through program reports submitted by GU which include grade information from the various universities. GU is also required to submit quarterly budget versus expenditure information both for the overall contract and for individual student programs.

The project officer assumes that GU has an annual external audit which would include testing of the contract costs to protect the Government's interests. However, such audits are not required by the contract and the project officer has not seen any audit reports that may have been done. Project files show, however, that GU has had a negotiated overhead rate with the U.S. Department of Health and Human Services which would indicate that there is some audit oversight through that Department.

Apparent Weaknesses

The Mission has not been exercising administrative approval over the contractor's expense vouchers and presently does not know if the costs of its contract have been audited. Although the project officer has been able to monitor costs and student progress through other reports, it appears that the Mission should reinstitute administrative approval of vouchers

and obtain copies of audits to determine if there has been any audit coverage of its contract.

AIFLD LABOR DEVELOPMENT Program
LAC BUREAU REGIONAL Project No. 598-0790 (\$500,000)

Description of the Project

The purpose of the regional project is to assist free and democratic labor organizations and unions in Latin American countries to develop effective trade union leadership. The Mission transferred \$500,000 to A.I.D.'s LAC Bureau as a contribution toward funding AIFLD's bilateral program in Panama. AIFLD's program activities in Panama are predominantly oriented towards training but include limited financial support to certain labor organizations for operating expenses.

Implementing Entities

The implementing entity is the American Institute for Free Labor Development (AIFLD) headquartered in Washington, D.C. AIFLD has a Country Director in Panama to supervise its program there.

Description of the Control Technique

A.I.D.'s support to AIFLD is through an LAC Bureau cooperative agreement contracted and managed out of Washington. The agreement includes the Standard Provisions for U.S. Nongovernmental Grantees and the payment mechanism is a letter of credit.

The regional cooperative agreement does not detail the specifics of the individual country programs, but AIFLD prepares proposals for country programs which are reviewed and commented upon by the respective A.I.D. field Missions. Other than this review, there are no formal Mission reporting requirements and no administrative approval of country expenses by the Mission project officer.

Copies of all financial reports are submitted to the A.I.D. Washington financial and technical offices. An annual audit is required which is to be reviewed by A.I.D.'s IG staff in Washington.

Apparent Weaknesses

The Mission project officer does not administratively approve expenses incurred in Panama.

HOUSING, FOOD AND SHELTER ASSISTANCE:

Two projects in the program provide housing, food and shelter for persons displaced from their homes by the U.S. military action of December 20, 1989. One project to repair a damaged apartment building was initially funded through an advance of funds from another A.I.D. office and the expenditure of the Act's funds merely paid back the amounts advanced. The other project involves one component for housing and another for food and shelter activities.

EMERGENCY REHABILITATION OF CHORRILLO APARTMENT BUILDINGS Project

USAID/PANAMA Project No. 525-0300 (\$2,500,000)

Description of the Project

The purpose of the project was to rehabilitate the "24 de Diciembre" apartment complex to put it in a habitable condition at least equal to its pre-disaster condition as quickly as possible to allow displaced families to return to their apartments. The complex had been looted and basically stripped to a skeleton structure following the military action of December 20, 1989.

A.I.D.'s best estimate of the cost to repair the "24 de Diciembre" complex was \$2.5 million but the agreement provided that if the rehabilitation cost less, then the Government of Panama, with prior written approval of A.I.D., could use the remaining funds to defray the costs of rehabilitating other apartment buildings in Panama City's Chorrillo district. Through this provision an additional eight buildings were repaired.

A.I.D.'s Office of Foreign Disaster Assistance (OFDA) determined that the project was appropriate for funding as a rehabilitation effort for the victims of a man-made disaster and therefore it used the authority of section 491 of the Foreign Assistance Act (FAA) to "borrow" funds from other A.I.D. projects and programs. However, the FAA limits the amounts that can be "borrowed" under this authority each year and OFDA and LAC

Bureau agreed that OFDA's funding for the project would be considered to be an advance to be repaid with funds from the Act.

Implementing Entities

The Government of Panama's Ministry of Housing (Ministerio de Vivienda - MIVI) was the primary implementing entity and had responsibility for contracting for construction services. Additionally, A.I.D. contracted the U.S. Army Corps of Engineers through a Participating Agency Services Agreement to provide architectural and engineering and construction supervision services.

Description of the Control Technique

In accordance with modified Panamanian regulations providing for accelerated contracting, MIVI awarded the construction services on a competitive basis following procedures which included a short period for public advertising, submission of sealed bids by prospective contractors, public opening of bids, and technical evaluation of the bids. The Corps of Engineers provided technical advice to MIVI in the preparation of the solicitation documents, assisted MIVI with evaluation of construction bids, and made recommendations on the awards. A.I.D. approved the contracts which were awarded to the lowest responsive and responsible bidders. Fixed price contracts were awarded to three construction contractors.

The Corps provided construction supervision services including on-site supervision of the construction work. The Corps also reviewed and approved progress payment invoices submitted to MIVI by the construction contractors.

Apparent Weaknesses

None noted.

IMMEDIATE RECOVERY PROJECT AMENDMENT, USAID/PANAMA Project No. 525-0302 (\$8,375,000)

Description of the Project

One of the purposes of the basic project, signed March 7, 1990, was to provide support to the Government of Panama (GOP) to provide assistance to families of Panama City's Chorrillo District to obtain replacement housing. These persons had their homes destroyed or damaged during

the events of December 20, 1989. Other project purposes were to carry out employment generation activities and restore public sector institutions. The activities under the basic project were funded from pre-Act sources.

Amendment No. 1 of June 29, 1990, funded by the Act, expanded the housing activities component to include an \$800 allowance to help each family replace basic furniture and household effects and to add funding for 150 additional families, including about 78 whose homes were located outside the Chorrillo District. Additionally, another component was added to provide a continuation of food and shelter assistance to the displaced persons located at a Panamanian-owned hangar at Albrook Field in Panama City. Operation of this shelter and others had previously been funded by A.I.D.'s Office of Foreign Disaster Assistance.

Amendment No. 2, which the Mission planned to sign in early December 1990, will add Act funding for 200 additional families. This increased number partly results from a more liberal application of the agreement's eligibility criteria. Included in the Mission's headquarters authorization for this change is the approval to expand the eligibility criteria for housing to include additional situations where the GOP and the A.I.D. Mission believe it is reasonable to provide housing. In a previous cable, the Mission stated that it anticipated that there would be 100 to 200 families which would fall outside the eligibility criteria and that some provision would have to be made for this group if the interim shelters for displaced persons were to be closed down.

Implementing Entities

The implementing entities for the housing and the food and shelter activities funded under the project amendments are, for the housing component, the Government of Panama's Ministry of Housing (Ministerio de Vivienda - MIVI) and its National Savings Bank (Caja de Ahorros); and, for the food and shelter component, the Panamanian Chamber of Commerce, Industry and Agriculture (Cámara de Comercio, Industrias y Agricultura - the Chamber).

Description of the Control Technique

Replacement Housing Component (\$6,475,000)

A.I.D. relies upon MIVI to determine the eligibility of families to benefit from the project and the Caja de Ahorros to handle the money.

MIVI

At the beginning, MIVI developed its initial lists of eligible families based upon various sources of information including September 1989 census data, utility bills, and information provided by the Catholic parish in Chorrillo. Later, MIVI decided that in addition to the above information it would interview the families in each building to increase the confidence in the accuracy of its lists. In the case of the displaced from Chorrillo, the lists prepared by MIVI identify the specific room or apartment in El Chorrillo which each family occupied. MIVI publishes its preliminary lists to allow interested persons to present claims regarding ineligible persons included in the list or eligible persons missing from it. Names not challenged become part of a definitive list of eligible families which is certified by the Minister and then sent to the Caja de Ahorros. Problems encountered by MIVI in determining eligibility are considered by a working committee of project-funded employees of MIVI and the Caja de Ahorros. Cases that cannot be resolved at the working committee level are referred to an appeals committee for final determination.

Caja de Ahorros

The Caja de Ahorros receives the lists of eligible families certified by MIVI and calls the families into its office in Chorrillo to prepare the needed documents to open a blocked non-interest bearing savings account for each family. The Caja certifies a list of accounts prepared for opening and presents it to A.I.D. as the basis for a request for an advance of funds. Upon receipt of the funds from A.I.D., the money is placed into an interest bearing account (with interest remitted to the U.S. Treasury) as funds to back the Caja's opening of the non-interest bearing individual savings accounts. The eligible families then receive their blocked savings account passbook for the \$6,500 amount of their housing grant. Thereafter the families must decide on a housing option and sign a contract with a developer. After construction is finished and the title is registered, the Caja makes final payment to the construction contractor. Payment is made from a project checking account which receives its funds from the interest bearing account mentioned above. The \$6,500 passbook is then closed and becomes part of the project documentation supporting the expenditure.

Food and Shelter Assistance to Displaced Persons Component (\$1,900,000)

The funding for activities under this component flow through a grant to the Panamanian Chamber of Commerce, Industry and Agriculture (the Chamber). Now that initial construction activities are complete, the funds are applied for the most part to food (86 percent) and salaries (11 percent).

For all practical purposes the activities are directly managed by the Mission project officer with staff assistance purchased through the grant. The Chamber provides accounting services and a project officer assistant, the Panamanian Red Cross runs most activities of the Albrook shelter, a Catholic parish church in the Chorrillo area runs a feeding operation for two shelters, and Government social workers or paid volunteers run an additional three shelters.

With regard to labor costs, the project officer approves all positions and salaries paid through the grant as well as reviewing and approving the actual payroll.

With regard to food costs, most of the expense involves food delivered from two restaurants with the cost in August 1990 running about \$185,000. These restaurants have been providing food since the emergency phase of the assistance to Panama. However they are not under contract. A specific number of meals ordered is based upon the number of persons in each shelter. However, food is delivered in bulk and there are no procedures to verify that the bulk amount of food delivered equals the number of meals ordered.

Apparent Weaknesses

Housing Component - None noted.

Food and Shelter - The method of contracting for food deliveries in a manner so that the amounts ordered cannot be verified as being delivered (both through weighing and through headcounts with portion control) is a weakness because the restaurants involved could deliver less food than was ordered and the shortage not be detected.

USAID MISSION EXPENSES:

PROJECT DEVELOPMENT AND OPERATING EXPENSES

USAID/PANAMA Project No. 525-0000 (\$5,975,000)

We did not assess the controls in this area as we considered Congressional interest to be in the direct aid provided to Panama under the Act.

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