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**AWARD SURVEY OF  
THE CENTRAL BANK OF NICARAGUA  
ECONOMIC STABILIZATION AND RECOVERY PROGRAM  
ADMINISTERED BY USAID/NICARAGUA**

**Audit Report No. 1-524-91-30-N  
May 22, 1991**

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

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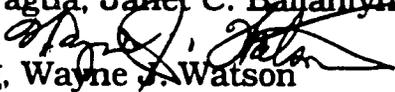
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May 22, 1991

**MEMORANDUM**

TO: D/USAID/Nicaragua, Janet C. Ballantyne

FROM: RIG/A/T Acting, Wayne J. Watson 

SUBJECT: Award Survey of the Central Bank of Nicaragua Economic Stabilization and Recovery Program Administered by USAID/Nicaragua

This report presents the results of a non-Federal award survey of the Central Bank of Nicaragua (Bank) in connection with the Economic Stabilization and Recovery Program, USAID/Nicaragua Program No. 524-0311. The accounting firm of Price Waterhouse prepared the report which is dated March 20, 1991.

The purpose of the program is to supply funds to Nicaragua for the purchase of desperately needed commodity imports, including oil imports, and for the repayment of debt to the World Bank and the Inter-American Development Bank.

The objectives of the award survey were to report on the Bank's: (1) financial and managerial capability and span of control to administer the Bank's portion of the FY 1990 ESF program for Nicaragua, (2) internal control structure with respect to the program's operations, and (3) compliance with the grant agreement's conditions precedent to disbursement and with applicable laws and regulations. The scope of the survey included evaluations of the Bank's implementation of the program in the areas of organization, personnel assignments, personnel performance, disbursement procedures, accounting systems, computer hardware and software, and controls over computer facilities and information processing.

Price Waterhouse found that the Bank has sufficient management capability and span of control to adequately manage the activities of the program and is financially capable of managing the program. The auditors also concluded that the internal control procedures established at the Bank are generally adequate although they noted that the Bank could improve program implementation by better defining controls over data processing and by establishing a unit for

coordinating the program's operations. In its tests of the Bank's compliance with the grant agreement's conditions precedent and applicable laws and regulations, Price Waterhouse determined that not all implementing officials had been provided with listings of eligible goods, which could result in utilizing program funds for ineligible transactions.

The report was discussed with the management of the Bank who expressed general agreement with the findings and conclusions of the award survey.

We are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system:

**Recommendation No. 1**

We recommend that USAID/Nicaragua ensure that the Central Bank of Nicaragua organize an electronic data processing user's committee, or similar high level committee to adequately define and supervise all necessary EDP systems and related activities.

**Recommendation No. 2**

We recommend that USAID/Nicaragua require the Central Bank of Nicaragua to establish a unit charged with the coordination, monitoring and analysis of the accounting entries and subsidiary records generated by the program so that they are reconciled before the corresponding reports are prepared and distributed.

**Recommendation No.3**

We recommend that USAID/Nicaragua supply listings of goods eligible to be imported using program funds to the supervisory officials of the Central Bank of Nicaragua involved in the management of the program.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

AWARD SURVEY OF THE CENTRAL BANK OF NICARAGUA  
ECONOMIC STABILIZATION AND RECOVERY PROGRAM  
USAID/NICARAGUA PROGRAM No. 524-0311

\* \* \*

MARCH 20, 1991

AWARD SURVEY OF THE CENTRAL BANK OF NICARAGUA

ECONOMIC STABILIZATION AND RECOVERY PROGRAM

USAID/NICARAGUA PROGRAM No. 524-0311

NOVEMBER 30, 1990

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## *Price Waterhouse*

March 20, 1991

Mr. Reginald Howard  
Regional Inspector General for Audit  
United States Agency for  
International Development  
Tegucigalpa, Honduras

Dear Mr. Howard:

This report presents the results of our award survey of the Central Bank of Nicaragua (Banco Central de Nicaragua - BCN), aimed at assessing BCN's financial and management capabilities, internal control structure and compliance with agreement terms and applicable laws and regulations in connection with the FY 1990 Economic Support Fund Assistance provided to Nicaragua in support of its economic recovery programs.

### BACKGROUND

On May 25, 1990, the President of the United States signed into law the Fiscal Year (FY) 1990 Dire Emergency Supplemental Appropriation Act which included US\$300 million in Economic Support Funds (ESF) to support Nicaragua's economic recovery. The program includes two major categories of assistance:

- a. Cash transfer assistance for balance of payments/budget support, and
- b. Development projects in support of the new government's economic recovery and long-term social programs.

The initial cash transfer assistance provided under the program was for the purpose of financing essential commodities primarily for the private sector, such as petroleum, agricultural inputs (excluding pesticides), spare parts, intermediate goods, capital goods, and other private sector imports needed to keep the economy functioning. Follow-on cash transfer assistance provided further financing of commodity imports and additionally included an element of debt repayment.

The principal Nicaraguan Government entity involved in the cash transfer portion of the assistance is the Central Bank of Nicaragua (Banco Central de Nicaragua - BCN). Other entities, some of which are headquartered outside Nicaragua, will be involved in the implementation of individual development projects.

As of September 30, 1990, USAID/Nicaragua's spending plan for the \$300 million was as shown below:

A. <u>Restoring Productive Capacity (Cash Transfer)</u>	\$178.0
Commodity imports	\$ 60.0
Commodity imports (\$68 million) and debt repayment (\$50 million)	<u>118.0</u>
B. <u>Development Projects</u>	
Nine development projects identified by USAID/Nicaragua	68.0
C. <u>Repatriation of Resistance and Refugees</u>	
Transfer to the U.S. State Department	47.0
D. <u>USAID Mission Expenses</u>	<u>7.0</u>
	<u>\$300.0</u>

On May 31, 1990 a grant agreement was signed to manage the Economic Stabilization and Recovery Program I, USAID/Nicaragua Program No. 524-0300, and finance critical commodity imports. On June 4, 1990 \$60 million was disbursed to an account established in the name of the BCN in the Federal Reserve Bank of New York. From this account money is periodically transferred to banks in Florida to establish commercial letters of credit to finance individual import transactions. As of November 30, 1990, \$61.1 million had been transferred to the Florida bank account based on the Central Bank of Nicaragua's approval of 181 import transactions. About 88 percent of the dollar value of these transactions (\$44.6 millions) was for petroleum products.

On September 26, 1990, a second grant agreement was signed to manage the Economic Stabilization and Recovery Program II, USAID/Nicaragua Program No. 524-0311. Under this second agreement authorization was given to finance \$68 million of commodity imports. The agreement requires that no more than \$45 million could be earmarked for oil imports, and all non-oil imports would be made by the private sector as opposed to the public sector.

In addition to the commodity imports, \$50 million was provided for the repayment of debt owed to the World Bank and the Inter-American Development Bank.

The Central Bank of Nicaragua (Banco Central de Nicaragua - BCN) was created by Nicaraguan Congress Decree No. 525, published on September 16, 1960. Its main objectives are to create, promote and maintain monetary, exchange and credit under the most favorable conditions for the economic development of Nicaragua. Consequently it plays a very important role in the management of funds under the Economic Stabilization and Recovery programs, USAID/Nicaragua Programs No. 524-0300 and No. 524-0311.

#### AWARD SURVEY OBJECTIVES AND SCOPE

The objectives of our award survey were to determine whether the BCN:

1. has sufficient management and financial capabilities and span of control to administer its portion of the FY 1990 ESF program for Nicaragua considering its current and forecasted workload, staffing levels and past performance;
2. has an adequate internal control structure, considering its control environment, and its accounting system and control procedures contain sufficient capacity to accurately capture, process, summarize and report accounting data under the program; and
3. has complied with all conditions precedent to disbursement, as specified in the grant agreement, and with applicable laws and regulations.

The scope of our survey included:

1. Reviewing the following documents to become familiar with the program:
  - a) Program Assistance and Approval Document (PAAD) for USAID/Nicaragua Program No. 524-0300 and PAAD for Program No. 524-0311.
  - b) Grant Agreement for the Economic Stabilization and Recovery Program, USAID/Nicaragua Program No. 524-0300, together with Project Implementation Letters (PILs), if any, and relevant correspondence.
  - c) State Cable 194322 on financial management guidance on dollar separate accounts for ESF cash transfers and ESF, DA and DFA funded non-project sector assistance cash disbursements.

- d) Nicaragua Economic Stabilization and Recovery Program I Separate Account Operating Procedures for Program No. 524-0300, dated June 1, 1990.
  - e) Internal Control Assessment of the Central Bank of Nicaragua (May 11, 1990) by the Controller's Office of USAID/Nicaragua.
  - f) Programa de Estabilizacion y Recuperacion Economica, Proyecto No. 524-0300, Reporte Financiero No. 90-48 (borrador) 25 de septiembre de 1990, Controller's Office USAID/Nicaragua.
  - g) Project to assist USAID/El Salvador and the Central Reserve Bank of El Salvador in the implementation of the FY 90 Balance of Payments Support Program, Final Report, June 1, 1990, Ernst and Young.
  - h) Mandatory Standard Provisions for both U.S. and for Non-U.S., Non-Governmental Grantees.
  - i) OMB Circular A-110 "Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations".
  - j) A.I.D. Handbook 3, Project Assistance.
  - k) A.I.D. Handbook 13, Grants.
  - l) Contracts and subcontracts with third parties, as applicable.
  - m) A.I.D. Handbook 11, Chapter 4, which discusses host country contracts.
  - n) File documentation maintained in USAID/Nicaragua Controller's Office regarding the procedures and status of the \$60 million commodity import assistance (524-0300) and each of the existing project agreements under the program.
2. Determining whether the BCN has designated and delegated the programming, implementing, monitoring, and evaluation functions under the program to a specific unit within the bank.
  3. Determining if the responsibility for the performance of all duties by this control unit is specifically assigned and appropriately separated along with the necessary delegation of authority to a sufficient number of suitable qualified employees.
  4. Evaluating whether the performance of the assigned duties provides reasonable assurance that:

- a) The goals and objectives of the program will be met;
  - b) the funds will be utilized in a manner consistent with applicable laws, regulations and agreement terms;
  - c) established systems and procedures within BCN are adequate to safeguard the funds against waste, loss, and misuse;
  - d) reliable data will be obtained, maintained and fairly and opportunely disclosed in financial and statistical reports; and
  - e) adequate coordination and reconciliation of information among different departments and sections within BCN will be provided.
5. Evaluating the procedures by which funds will be disbursed from the dollar separate account at the Federal Reserve and Florida banks to assure that disbursements are properly supported and are made only for approved activities.
  6. Evaluating the BCN's accounting system with regard to the program to determine if the system follows sound practices and meets A.I.D. requirements.
  7. Reviewing the control unit's hardware and software and assess current utilization, additional requirements, uses and benefits to be derived therefrom.
  8. Determining, in relation to the A.I.D. assistance, if computer facilities and information processing are adequately controlled.

#### RESULTS OF SURVEY

Our evaluation of the Central Bank of Nicaragua's (BCN) financial and management capabilities, the internal control procedures and compliance with conditions specified in the grant agreement, and with applicable laws and regulations for the administration of A.I.D.'s Economic Stabilization and Recovery Programs for Nicaragua confirmed the following:

1. The BCN has sufficient management capability and span of control to adequately manage the activities of the Programs. Although BCN has not created a specific unit for the programming, implementing, monitoring and evaluation functions under the Programs, such functions have been assigned or delegated to a sufficient number of bank employees who are knowledgeable of the job requirements for handling Program activities.

2. Although the Central Bank of Nicaragua's unaudited financial statements as at October 31, 1990 show a loss for the period and an accumulated deficit of approximately US\$80 million, the deficit could be much larger if exchange losses and other charges originated primarily by devaluation of the Cordoba (local currency unit) had been recognized in accordance with generally accepted accounting principles applicable to most business enterprises. Instead, these additional losses were deferred based upon Nicaraguan legal requirements. Despite these accumulated losses, however, we believe that the BCN, as the financial agent for the Government of Nicaragua, is financially capable of managing the programs, since there presently is no requirement that it uses any of its own resources to finance program transactions. The grant agreements allow the BCN to either initially finance transactions from its own resources and then seek reimbursement from A.I.D. or to directly finance the transactions with A.I.D. funds.

3. Internal control procedures established at BCN appear generally adequate to provide assurance as to the safeguarding of grant funds against waste, loss or misuse. Also the BCN's accounting system appears adequate to capture, record, process, summarize and report on Program activities in compliance with USAID/Nicaragua requirements, including disbursements into and out of the separate Dollar Account required by the grant agreement.

Our evaluation disclosed, however, the need to strengthen coordination and reconciliation procedures regarding information maintained by different departments and sections within BCN.

4. BCN has complied with all conditions precedent applicable to disbursements made through November 30, 1990 as specified in the grant agreement, and with applicable laws and regulations.

#### MANAGEMENT COMMENTS

At an exit conference held on March 20, 1991, at which Ms. Maria Elena Flores representing the Office of the Regional Inspector General for Audit (RIG/A/T) was in attendance, Mr. Ramiro Balladares, Vice-president of Internal Control of the Central Bank of Nicaragua, expressed general agreement with the findings and conclusions of the award survey.

*Prince Waterhouse*

# *Price Waterhouse*

## AWARD SURVEY OF THE CENTRAL BANK OF NICARAGUA

### ECONOMIC STABILIZATION AND RECOVERY PROGRAM

#### USAID/NICARAGUA PROGRAM No. 524-0311

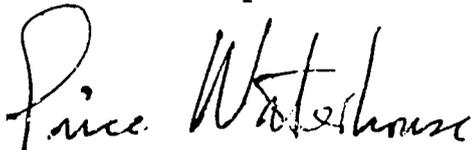
#### REPORT ON MANAGEMENT CAPABILITY

#### INDEPENDENT AUDITOR'S REPORT

We have performed an evaluation of BCN's management capability for the administration of the Economic Stabilization and Recovery Program, USAID/Nicaragua Program No. 524-0311. Our evaluation included those areas we considered relevant to the criteria established by USAID/Nicaragua as set forth in the statement of work for this survey. Our work was performed in accordance with the United States Comptroller General's "Government Auditing Standards" (1988 Revision).

Based on our evaluation and our understanding of the criteria included in the statement of work referred to in the preceding paragraph, we believe that the Central Bank of Nicaragua (BCN) has sufficient capability to manage the Economic Stabilization and Recovery Program, USAID/Nicaragua Project No. 524-0311.

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



December 7, 1990

# *Price Waterhouse*

## AWARD SURVEY OF THE CENTRAL BANK OF NICARAGUA

### ECONOMIC STABILIZATION AND RECOVERY PROGRAM

#### USAID/NICARAGUA PROGRAM No. 524-0311

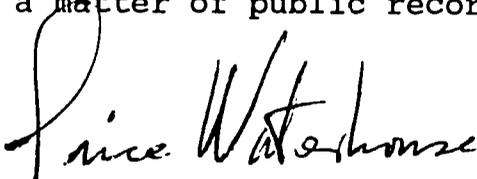
#### REPORT ON FINANCIAL CAPABILITY

#### INDEPENDENT AUDITOR'S REPORT

We have performed an evaluation of BCN's financial capability to manage the Economic Stabilization and Recovery Program, USAID/Nicaragua Program No. 524-0311. Our evaluation was performed pursuant to USAID/Nicaragua's statement of work for the above mentioned project and in accordance with the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Our work included, to the extent considered by us necessary to meet stated objectives, a review of both audited and unaudited financial information.

Based on our evaluation, as described above, we believe that BCN has the financial capability required to execute the Economic Stabilization and Recovery Program, USAID/Nicaragua Program No. 524-0311, especially since it will receive cash advances for the program's needs, as provided for by the terms of the grant agreement.

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December 7, 1990

# *Price Waterhouse*

## AWARD SURVEY OF THE CENTRAL BANK OF NICARAGUA

### ECONOMIC STABILIZATION AND RECOVERY PROGRAM

#### USAID/NICARAGUA PROGRAM No. 524-0311

#### REPORT ON INTERNAL CONTROL STRUCTURE

#### INDEPENDENT AUDITOR'S REPORT

The Government of Nicaragua was awarded a grant of US\$118,000,000 to be managed by the Nicaraguan Central Bank (BCN) for use in accordance with the Economic Stabilization and Recovery Program.

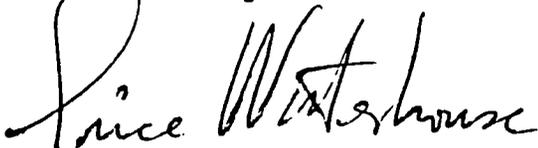
We have made a study of those internal accounting control and administrative control procedures of BCN that we considered relevant to the criteria established in the statement of work for the award survey requested by USAID/Nicaragua. Since our study related to procedures BCN proposes to follow in connection with the grant disbursements, the majority of which have not yet been made, it did not include tests of compliance with such procedures. Our study did not constitute an audit of any financial statements prepared by BCN.

The management of BCN is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. We understand that the objective of those administrative control procedures comprehended in USAID/Nicaragua's criteria is to provide similar assurance as to compliance with its related requirements.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

We understand that procedures in conformity with the criteria referred to in the second paragraph of this report are considered by USAID/Nicaragua to be adequate for its purposes in accordance with current regulations, and that procedures not in conformity therewith indicate some inadequacy for such purposes. Based on this understanding and on our study, we believe the BCN's procedures would be adequate for the Agency's purposes, assuming satisfactory compliance. Certain conditions that we believe are not material weaknesses but would not be in conformity with the criteria referred to above are described under findings No. 1 and 2 in the following pages.

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A handwritten signature in cursive script that reads "Price Waterhouse". The signature is written in dark ink and is positioned below the typed text of the report.

December 7, 1990

AWARD SURVEY OF THE CENTRAL BANK OF NICARAGUA

ECONOMIC STABILIZATION AND RECOVERY PROGRAM

USAID/NICARAGUA PROGRAM No. 524-0311

INTERNAL CONTROL STRUCTURE

FINDINGS

1. The General Controls of the Electronic Data Processing Area Have not Been Properly Defined

**Condition:**

The Central Bank of Nicaragua's Electronic Data Processing (EDP) center has not properly defined required general controls, as evidenced by the following conditions:

- There is not a formally defined, approved and authorized contingency plan establishing steps to be followed in case of disaster or any emergency situation.
- Access control to the EDP center and fire security measures are not adequate.
- System and applications access and security passwords are not adequate.
- Information priorities may have not been properly classified, which results in a high volume of monthly reports to be issued (approximately 3,000).
- Purchases and usage of computers are not centrally controlled as most of the units within the BCN have acquired PC's under their own judgment. Reportedly there are approximately 75 personal computers in the bank.

**Criteria:**

The bank's control environment reflects management's philosophy, attitude and demonstrated commitment to establishing an adequate atmosphere for the implementation and execution of well controlled banking operations. It strongly influences the effectiveness of the bank's systems of controls and accordingly significantly

affects any assessment of control risk. Hence, the Bank's operations and complexities regarding the recording of transactions and the need of an adequate management information system require a proper definition of general controls and a cost/benefit analysis to more efficiently coordinate the EDP equipment acquisitions, systems development and controls. This is for the purpose of classifying the Bank's information priorities in an orderly manner so that the present output may be reduced accordingly.

**Cause:**

It would appear that the Bank is lacking a strategic plan structured and designed for future needs and expansion of operations as a result of the economy reactivation of Nicaragua.

Also, the urgency of installing the systems and differing information requirements established by the various BCN's organizational units have caused the proliferation of equipment and reports resulting in important weaknesses in the procedures followed.

**Effect:**

The lack of an adequate computerized processing environment and key application controls does not help to ensure the completeness, authenticity and accuracy of financial information; therefore, it is possible that BCN's operational costs concerning EDP are higher than normal, in the absence of appropriate controls over the large number of PC's and reports independently issued without the guidance normally provided by a systematization strategy and operational plans. Also, the integrity and safety of the data processed in PC's may not be assured beyond any reasonable doubt.

**Recommendation:**

The Central Bank of Nicaragua (BCN) should organize an electronic data processing (EDP) User's Committee, or similar high level committee to adequately define and supervise all necessary EDP systems and related activities, such as:

- definition of the BCN's EDP strategic plan, taking into consideration all the available human resources, equipment and other facilities to satisfy the management information requirements at different levels within the organization;
- acquisition of additional EDP equipment, if necessary, and improving the utilization of that already in place;
- establishment of priorities for systems design, modification and related implementation;

- definition and approval of improved controls, including a contingency plan, physical access restrictions, fire prevention and control equipment acquisitions, personnel training, systems and applications access security design (passwords).
2. The Coordination of the Different Departments or Units Within the Bank Involved in the Program Requires Improvement

**Condition:**

The operating instructions for the Economic Stabilization and Recovery Program I (USAID/Nicaragua Program No. 524-0300), managed by the Central Bank set forth the procedures to assign, authorize, record and control commodity imports financed with project funds; these same procedures are intended to be followed for the Economic Stabilization Recovery Program II, USAID/Nicaragua Program No. 524-0311. Except for the duties assigned to the Exchange Control Division established for these purposes, the remaining operations are performed by the Bank's different operating divisions, at their own criteria. These divisions within the BCN involved in managing the programs are the following:

- The Exchange Control Department (DGCC), which passes on and proposes the transactions eligibility.
- The Exchange Control Division, which authorizes the transactions.
- The International Vicepresidency, which sets aside the corresponding obligation reserves.
- The Commercial International Operations Vicepresidency, which specifically acts as a commercial bank.
- The Internal Control Vicepresidency, which monitors the transactions recording and control aspects.

Other than for DGCC, the remaining units generate accounting reports and maintain records whose coordination and data reconciliation functions have not been specifically assigned, thus causing inconsistencies in the data produced by each organizational unit.

**Criteria:**

The covenants in the grant agreement require that Program transactions be critically analyzed and the related subsidiary records reconciled before the progress reports are prepared and distributed.

**Cause:**

The Bank's internal control structure is still under a process of revision and consolidation and therefore it does not specifically cover the transactions of the Economic Stabilization and Recovery Program.

**Effect:**

The resulting lack of coordination has produced inconsistencies between the subsidiary records, the accounting records and the final reports of Program N° 524-0300. For example, the November 30, 1990 initial listings of imports provided by the Bank's General Directorate for Imports when compared with information submitted by the International Vice-Presidency showed a difference of US\$2,281,989.

**Recommendation:**

The Central Bank of Nicaragua (BCN) should:

- a) Establish a unit charged with the coordination, monitoring and analysis of the accounting entries and subsidiary records generated by the Program so that they are reconciled before the corresponding reports are prepared and distributed. This unit should function until the revision and consolidation of the administrative and control procedures, and the assignment of duties, authority and responsibility are completed.
- b) Instruct its Technical Affairs Department to revise the format of the subsidiary records whereby the originally assigned sums (plus interest earned), the obligation reserves and actual payments thereof are registered. This revision aims at producing current data on Program transactions and the corresponding availability of funds.

# *Price Waterhouse*

## AWARD SURVEY OF THE CENTRAL BANK OF NICARAGUA

### ECONOMIC STABILIZATION AND RECOVERY PROGRAM

#### USAID/NICARAGUA PROGRAM No. 524-0311

#### COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENT TERMS

#### INDEPENDENT AUDITOR'S REPORT

Compliance with agreement terms and applicable laws and regulations is the responsibility of BCN's management. As part of our survey of BCN in connection with the Economic Stabilization and Recovery Program, USAID/Nicaragua Project No. 524-0311, we performed limited tests of BCN's compliance with laws, regulations and agreement terms. However, our objective was not to provide an opinion on overall compliance with such provisions.

The result of our evaluation disclosed that for certain items tested, BCN has not complied with agreement terms, as described under finding No. 2 in the internal control structure section of this report and in finding No. 1 on the following pages of this report. With respect to items not tested, nothing came to our attention that caused us to believe that BCN had not complied in all material respects with those provisions.

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



December 7, 1990

AWARD SURVEY OF THE CENTRAL BANK OF NICARAGUA

ECONOMIC STABILIZATION AND RECOVERY PROGRAM

USAID/NICARAGUA PROGRAM No. 524-0311

COMPLIANCE WITH AGREEMENT TERMS AND  
APPLICABLE LAWS AND REGULATIONS

FINDING

1. The USAID/Nicaragua's Listings of Eligible Goods are not Known by Most Officials of the Program Implementing Units Within the Bank.

**Condition:**

The program implementing units at the Bank were not furnished with the above mentioned listings and consequently they merely applied the criteria mentioned in the agreement and the operating instructions issued to handle the Separate Bank Account. Our evaluation revealed that because of lack of familiarity with these listings: (a) the Exchange Control Department (DGCC) does not consistently review the eligibility of the imports; and (b) upon obtaining additional information from the importers, the Importations Department is prevented from rejecting non eligible import requests.

**Criteria:**

The USAID/Nicaragua's listings of eligible goods should be readily on hand so that the program financed importations are correctly assessed by all program implementing units within the Bank.

**Cause:**

Due to financial and economic pressures prevailing during the first months of the program, the reproduction and distribution of the listings of eligible goods to pertinent officials was overlooked. Hence, the rush in making program funds immediately available to the importers prevented compliance with the information requirements applicable to these transactions.

**Effect:**

Funds may have been assigned to cover non-eligible importations, thus distorting the program objectives and forcing BCN to reimburse the related sums into the Separate Bank Account.

**Recommendation:**

The management of the Central Bank of Nicaragua should obtain from USAID/Nicaragua the listings of eligible goods and make them available to pertinent officials in order to assure that program funds are used solely for eligible transactions.

AWARD SURVEY OF THE CENTRAL BANK OF NICARAGUA

ECONOMIC STABILIZATION AND RECOVERY PROGRAM

USAID/NICARAGUA PROGRAM No. 524-0311

LIST OF REPORT RECOMMENDATIONS

REPORT ON INTERNAL CONTROL STRUCTURE -

**Recommendation 1:**

The Central Bank of Nicaragua (BCN) should organize an electronic data processing (EDP) User's Committee, or similar high level committee to adequately define and supervise all necessary EDP systems and related activities, such as:

- definition of the BCN's EDP strategic plan, taking into consideration all the available human resources, equipment and other facilities to satisfy the management information requirements at different levels within the organization;
- acquisition of additional EDP equipment, if necessary, and improving the utilization of that already in place;
- establishment of priorities for systems design, modification and related implementation;
- definition and approval of improved controls, including a contingency plan, physical access restrictions, fire prevention and control equipment acquisitions, personnel training, systems and applications access security design (passwords).

**Recommendation 2:**

The Central Bank of Nicaragua (BCN) should:

- a) Establish a unit charged with the coordination, monitoring and analysis of the accounting entries and subsidiary records generated by the Program so that they are reconciled before the corresponding reports are prepared and distributed. This unit should function until the revision and consolidation of the administrative and control procedures, and the assignment of duties, authority and responsibility are completed.

b) Instruct its Technical Affairs Department to revise the format of the subsidiary records whereby the originally assigned sums (plus interest earned), the obligation reserves and actual payments thereof are registered. This revision aims at producing current data on Program transactions and the corresponding availability of funds.

COMPLIANCE WITH AGREEMENT TERMS AND  
APPLICABLE LAWS AND REGULATIONS -

**Recommendation 1:**

The management of the Central Bank of Nicaragua should obtain from USAID/Nicaragua the listings of eligible goods and make them available to pertinent officials in order to assure that program funds are used solely for eligible transactions.

**REPORT DISTRIBUTION**

<b>U.S. Ambassador to Nicaragua</b>	<b>1</b>
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