

**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Nicaragua's
Economic Support Fund Program
Funded By the Fiscal Year 1990 Dire
Emergency Supplemental Appropriations Act
December 1, 1990 to May 31, 1991**

**Audit Report No. 1-524-92-20-N
January 21, 1992**



**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Nicaragua's
Economic Support Fund Program
Funded By the Fiscal Year 1990 Dire
Emergency Supplemental Appropriations Act
December 1, 1990 to May 31, 1991**

**Audit Report No. 1-524-92-20-N
January 21, 1992**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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

OFFICE OF THE REGIONAL INSPECTOR GENERAL

AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987 - 32-3120
FAX No. (504) 31-4465

January 21, 1992

MEMORANDUM

TO: D/USAID/Nicaragua, Janet Ballantyne

FROM: RIG/A/T Acting, Lou Mundy 

SUBJECT: Audit of USAID/Nicaragua's Economic Support Fund Program, Funded by the Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act, December 1, 1990 to May 31, 1991

This report presents the results of a financial audit of USAID/Nicaragua's Economic Support Fund Program (Program) for the period December 1, 1990 to May 31, 1991. A.I.D. funding of \$300 million was authorized for the Program by the Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act. The purpose of the Program is to provide support for Nicaragua's economic recovery through increases in the levels of sustainable employment and income in Nicaragua. This audit was limited to those implementing entities which conducted their financial and/or administrative operations within Nicaragua. The accounting firm of Price Waterhouse prepared the report which is dated October 31, 1991, but was not received by our Office until December 20, 1991.

The Program includes two major categories of assistance:

- Cash transfer assistance--for balance of payment/budget support to implement a rational economic program designed to stabilize and reactivate the Nicaraguan economy and
- Development assistance--for support of the new Nicaraguan Government's economic recovery and social programs.

The objectives of the audit were to determine whether: (1) the implementing entities' consolidated fund accountability statement presents fairly, in all material respects, the local financial activities under the Program during the period audited, (2) the implementing entities' internal control structures

-1-

were adequate to ensure appropriate control over the Program's activities, and (3) the implementing entities had complied, in all material respects, with the terms of the Program Agreements and applicable laws and regulations. The scope of the audit included an examination of the implementing entities' activities and transactions, executed within Nicaragua, to the extent considered necessary to issue a report thereon for the period under audit.

Implementing entities reviewed under this audit were:

- The Central Bank of Nicaragua,
- The Central American Institute of Business Administration,
- The National Institute for Municipal Development,
- The American Institute for Free Labor Development,
- The Salesian Society's Centro Juvenil Don Bosco,
- The Government of Nicaragua's Ministry of Health¹, and
- The Regional Aid Center II¹.

The audit coverage included expenditure of A.I.D. funds totaling \$26.95 million during the audit period for which records were available in Nicaragua.

Price Waterhouse found that the Program's consolidated fund accountability statement, with the exception of questionable costs of \$1,398,030, presents fairly, in all material respects, the local financial activities of the implementing agencies for the period audited. Questionable costs related to: (1) ineligible or undocumented commodities imported under the cash transfer programs--\$1,331,584 and (2) unauthorized disbursements made by the Central American Institute of Business Administration and the American Institute for Free Labor Development--\$43,371 and \$23,075 respectively.

Price Waterhouse identified three material weaknesses in the internal control structures of three implementing entities. The auditors reported that: (1) the Central Bank of Nicaragua lacked adequate procedures to determine the reasonableness of prices paid for commodities imported under the cash transfer programs, (2) the National Institute for Municipal

¹ *Audit coverage for these two implementing entities was limited to their systems for the receipt and delivery of goods under the internal control and compliance objectives.*

Development had not established an adequate filing system to control activities of the Employment Generation Project, and (3) the Regional Technical Aid Center II did not have adequate inventory control and distribution procedures for textbooks being provided under the Textbook Project.

In their review of compliance with terms of the various Program agreements and applicable laws and regulations, the auditors identified three areas of material noncompliance by three implementing entities. Price Waterhouse reported that: (1) the Central Bank of Nicaragua did not fully comply with the agreement provision requiring the documentation of import transactions or with the requirement to reimburse the special account, within 60 days, for those transactions determined to be ineligible under the cash transfer programs, (2) the Central American Institute of Business Administration did not control funds received under the Technical Assistance and Training Project in accordance with general accounting practices, and (3) the American Institute for Free Labor Development did not comply with A.I.D. provisions requiring prior authorization by USAID/Nicaragua for overruns in budget line items.

The draft report was discussed with management officials of the various implementing entities and USAID/Nicaragua who expressed general agreement with the report's content except for the internal control and compliance findings concerning the Central Bank of Nicaragua. Their comments were considered in the final report. USAID/Nicaragua's written comments are included as Appendix I to the Price Waterhouse report.

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 resolve the questionable costs of \$1,398,030 identified in the Price Waterhouse audit report dated October 31, 1991, and recover all amounts determined to be unallowable from the Central Bank of Nicaragua (\$1,331,584 questioned), the Central American Institute of Business Administration (\$43,371 questioned), and the American Institute for Free Labor Development (\$23,075 unsupported).

Recommendation No. 2

We recommend that USAID/Nicaragua, in conjunction with the Central Bank of Nicaragua, establish: (1) procedures requiring that importers furnish the Central Bank at least three vendor quotations for commodities that they propose for import under the cash transfer

program and (2) a monitoring system to ensure that import transaction documentation required under the cash transfer agreement is being obtained and that transactions determined ineligible under the program are reimbursed to the special account within 60 days.

Recommendation No. 3

We recommend that USAID/Nicaragua, in conjunction with the National Institute for Municipal Development, establish a project filing system which will fully support operations under the Employment Generation Project.

Recommendation No. 4

We recommend that USAID/Nicaragua, in conjunction with the Regional Technical Aid Center II, establish a monitoring system to ensure that Ministry of Education Districts: (1) maintain documentation evidencing the delivery of textbooks, (2) perform reconciliations of textbooks actually received to delivery documentation, and (3) establish warehouse security procedures.

Recommendation No. 5

We recommend that USAID/Nicaragua, in conjunction with the Central American Institute of Business Administration, develop and implement accounting system review procedures, to be performed by the Institute's supervisory staff, which will ensure proper accounting for A.I.D.'s technical assistance and training funds.

Recommendation No. 6

We recommend that USAID/Nicaragua, in conjunction with the American Institute for Free Labor Development, establish budget control procedures which ensure that budget line item amounts do not exceed authorized levels without prior documented approval by USAID/Nicaragua.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

**FINANCIAL AUDIT OF THE FISCAL YEAR 1990
ECONOMIC SUPPORT FUND (ESF) PROGRAM FOR
NICARAGUA FOR THE PERIOD
DECEMBER 1, 1990 TO MAY 31, 1991**

CONTENTS

	PAGE
Transmittal Letter and Summary	1 - 9
Background	
Audit Objectives	
Scope of Work	
Results of Audit	
Management Comments	
Fund Accountability Statement	10 - 16
Independent Auditor's Report	
Fund Accountability Statement	
Notes to the Fund Accountability Statement	
Internal Control Structure	17 - 22
Independent Auditor's Report	
Findings	
Compliance with Agreement Terms and Applicable Laws and Regulations	23 - 27
Independent Auditor's report	
Findings	
List of Report Recommendations	28 - 29
Fund Accountability Statement for the Local Accumulated Execution of the Program	Exhibit I
USAID Mission to Nicaragua Comments to the Audit Report	Appendix I

Price Waterhouse



October 31, 1991

Mr. Reginald Howard
Regional Inspector General for
Audit (RIG/A/T)
U.S. Agency for International Development
Tegucigalpa, Honduras, C. A.

Dear Mr. Howard:

This report presents the results of our financial audit of the Economic Support Fund (ESF) Program for Nicaragua for the period December 1, 1990 to May 31, 1991.

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, whose implementation will raise the levels of sustainable employment and income in Nicaragua. The program includes two major categories of assistance:

- a. Cash transfer assistance for balance of payments/budget support to assist in implementing a rational economic program to stabilize and reactivate the Nicaraguan economy.
- b. Disbursements over a longer period of time in support of the new government's economic recovery and social programs.

The principal Nicaraguan Government entity involved in the cash transfer portion of the assistance is the Central Bank of Nicaragua (CBN). Other entities, some of which are headquartered outside Nicaragua will be involved in the implementation of individual development projects. On May 31, 1990, a grant agreement was signed for the Economic Stabilization and Recovery Program, USAID/Nicaragua Program No. 524-0300, under the responsibility of the Central Bank of Nicaragua (CBN), for the purpose of financing essential commodities imports, primarily

for the private sector, such as petroleum, agricultural inputs (excluding pesticides), spare parts, intermediate and capital goods, and other private sector imports needed to keep the economy functioning. On June 4, 1990, \$60 million were disbursed for deposit in an account established with the Federal Reserve Bank of New York in the name of CBN.

On September 26, 1990, a second grant agreement was signed for the Economic Stabilization and Recovery Program, USAID/Nicaragua Program No. 524-0311, under which \$68.0 million were authorized for commodity imports and \$50.0 million for the repayment of debt to the World Bank and the Inter-American Development Bank.

As of May 31, 1991, out of nine development projects originally identified by USAID/Nicaragua, the following had reached the agreement stage:

1. Economic Growth and Development - This project provides \$39.3 million for various economic and social recovery sub-projects of an emergency nature. These include:
 - a. Technical Assistance and Training - On June 4, 1990, USAID/Nicaragua signed with the Central American Institute of Business Administration (INCAE) a cooperative agreement for \$1.1 million. The purpose of this agreement was to assist INCAE in its efforts to provide technical assistance to the Government of Nicaragua and training to both the public and private sectors. This assistance will support the highest priorities of the new government, including the government's macroeconomic program which aims to promote short and long-term economic recovery within the framework of a market oriented economic system.
 - b. Employment Generation - The purpose of this project, presently at \$14.4 million, is to utilize a portion of Nicaragua's unemployed population to work on the repair of basic infrastructure. The project will be implemented through the National Institute for Municipal Development (INIFOM), which represents Nicaragua's 143 municipalities.

Working closely with the municipalities, INIFOM will execute contracts with private sector entities for the repair and maintenance of local infrastructure. To meet stated project objectives, INIFOM will receive technical assistance to ensure the proper administration of project funds.

- c. Public Sector Support - This \$5.0 million grant, signed on September 25, 1990 will provide commodities - office equipment, including computers, typewriters, desks, etc., and vehicles for several ministries and Government offices. Except for furniture, all procurement must be of U. S. source and origin.
 - d. Amendment to PASA with USPHS for medicines - An agreement with the U. S. Public Health Service to procure medicines for an additional \$1.5 million to be distributed by the Ministry of Health (MINSA) to Government health facilities throughout Nicaragua.
 - e. Community Hospitals - OPG with Project HOPE - A \$2.5 million agreement to provide support to four community hospitals in Nicaragua to improve the quality of care by funding supplies and medicines, promoting an interchange program of medical specialists from both within and outside Nicaragua, and securing certain training. Project HOPE has agreed to make a counterpart contribution of at least \$3.5 million.
 - f. Textbooks under the Regional Aid Center II (RTAC II) - This regional project proposes to increase the availability of U. S. technical books and materials in Spanish to university students and development professionals in Central America. With regards to Nicaragua, \$12.2 million have been obligated to: a) provide Spanish language primary and secondary school textbooks to the Ministry of Education (approximately 6,200,000 books over the life of the project); and b) provide technical assistance and services to university bookstores, the Ministry of Education, and USAID/Nicaragua.
2. AIFLD-CUS - This grant of \$700,000 to the American Institute for Free Labor Development (AIFLD) will support a program of the Confederation of Labor Unity (CUS) and other independent democratic unions for the planning of leadership roles in Nicaragua's organized labor movement. More specifically the grant will fund technical assistance to CUS and other independent labor unions; training, workshops and activities for union members; institutional strengthening for independent labor unions; and administrative and institutional financing for AIFLD.
3. NED - Delphi International - This \$235,000 grant to the National Endowment for Democracy will fund the purchase and shipping of a new transmitter, communications tower, and studio equipment that will enable Radio Corporation to

resume its country-wide operations as soon as possible, and function as a forum for free discussion and the advancement of democratic ideas.

4. Non-Formal Vocational Education - This \$1.7 million grant, to be administered by The Salesian Society's Centro Juvenil Don Bosco, provides resources for vocational training through six schools located in Managua, Granada and Masatepe. The funds will be used for: a) vocational training materials and support for education in moral, civic and democratic values; b) pay part-time instructors and auxiliary personnel; c) purchase equipment, tools and supplies, and d) remodel some shops and classrooms.

AUDIT OBJECTIVES

The general objective of this work was to audit the Fiscal Year 1990 Economic Support Fund (ESF) Program for Nicaragua as of May 31, 1991. The specific objectives of the financial audit were to determine whether:

- a. The Program's fund accountability statement presents fairly the financial activities performed within Nicaragua as of May 31, 1991 and costs reported as incurred were allowable, allocable and reasonable in accordance with the terms of the agreements and applicable laws and regulations;
- b. The internal control structures of the local implementing entities are adequate to manage the program's operations; and
- c. The local implementing entities have complied with the terms of the agreements and applicable laws and regulations which may affect the program's goals and incurred costs.

SCOPE OF WORK

To meet stated audit objectives, our work included the following:

- a. Preliminary steps -

Review the following documents to become familiar with the program:

1. Program Assistance and Approval Document (PAAD) for USAID/Nicaragua's Programs No. 524-0300 and No. 524-0311.

2. Grant Agreement - Economic Stabilization and Recovery Programs I and II, USAID/Nicaragua Programs No. 524-0300 and 524-0311, with Project Implementation Letters (PILs), if any, and relevant correspondence.
3. State Cable 194322 - Subject: Financial Management Guidance on Dollar Separate Account for ESF Cash Transfers and ESF, DA and DFA Funded Non-Project Sector Assistance Cash Disbursements.
4. Nicaragua Economic Stabilization and Recovery Program I and II Separate Account Operating Procedures, Program No. 524-0300 of June 1, 1990 and No.524-0311 of October 12, 1990.
5. Internal Control Assessment - Central Bank of Nicaragua, May 11, 1990, Controller's Office USAID/Nicaragua.
6. Programa de Estabilización y Recuperación Económica, Proyecto 524-0300, Reporte Financiero No. 90-48 (borrador) del 25 de septiembre de 1990, Controller's Office USAID/Nicaragua.
7. A.I.D. Commodity Eligibility Listing (1989 Edition).
8. Amendment No. 10, dated June 19, 1990, to Contract No. LAC-0011-C-00-6081-10 with Aguirre International, San Mateo, California (buy-in for RTAC-II under Project No. 524-0301).
9. Cooperative Agreement No. 524-0301-CA-90-01, dated June 4, 1990, with the Central American Institute of Business Administration (INCAE).
10. Office of Management and Budget (OMB) Circulars A-110, A-122 and A-133.
11. Mandatory Standard Provisions for both U.S. and Non-U.S., Non-Governmental Grantees.
12. A.I.D. Handbooks 3 (Project Assistance) 11 (Host Country Contracts), and 13 (Grants).
13. Contracts and subcontracts with third parties, as applicable.
14. File documentation maintained in USAID/Nicaragua Controller's Office regarding the procedures and status of the \$60.0 million commodity import assistance (524-

0300) and each of the existing project agreements under the program.

15. RIG/A/T audit report No. 1-524-91-04 dated 2/8/91.
 16. Project/Program related documentation available in USAID/Nicaragua Controller's office relevant for audit purposes.
- b. Financial audit of the program's local execution/disbursements -
1. Examine the fund accountability statement for the overall local execution of the program for which records were available in Nicaragua from December, 1990 to May 31, 1991. Our work included review of program implementation and accomplishments to determine if commodities had been properly managed and costs reported as incurred were allowable, allocable, and reasonable under the terms of the agreements.

Although that was not the purpose of our financial audit, we were alert to situations or transactions that would be indicative of fraud, abuse or illegal expenditures or acts.

2. Evaluate the implementing entities' internal control structure as considered appropriate. For this purpose we conducted compliance and substantive tests to determine the extent to which established procedures and controls were functioning as intended and the adequacy of the accounting and information systems, procurement procedures and practices, inventory controls, bank account controls, and controls to assure that charges to the projects and programs were proper and adequately documented.

In gaining an understanding of the internal control structures and assessing risk, we followed the guidance contained in applicable AICPA Statements on Auditing Standards. Therefore our work included:

- a. Obtaining sufficient understanding of the internal control structure of each implementing entity to plan the audit and to determine the nature, timing, and extent of our tests; and

- b. Obtaining sufficient understanding of policies and procedures that pertain to the implementing entities' ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statements.
3. Evaluate whether the Government of Nicaragua (GON) and the implementing entities complied with the terms of the agreements and with applicable laws and regulations.

RESULTS OF AUDIT

FUND ACCOUNTABILITY STATEMENT

Except for the effects of the matters mentioned in the following paragraph, the fund accountability statement examined by us presents fairly, in all material respects, the cash receipts and the locally made disbursements of the FY 1990 ESF Program for Nicaragua for the period December 1, 1990 to May 31, 1991.

As further described in Note 4 to the fund accountability statement, disbursements amounting to \$1,398,030 have been questioned for the reasons explained therein.

INTERNAL CONTROL STRUCTURE

Our evaluation of the internal control structure of the program's implementing units disclosed certain reportable conditions which are summarized as follows:

1. Central Bank of Nicaragua CBN -

- The reasonableness of prices paid for commodities imports could not be determined because the CBN did not require at least 3 quotations.

2. National Institute for Municipal Development (INIFOM) -

- The filing system concerning projects execution and control documents was not adequate.
- The evaluation of physical advance of projects upon which payments are made to contractors contained certain inaccuracies.

3. Regional Technical Aid Center II (RTAC II) -

- MED districts did not keep copies of documents evidencing the delivery of textbooks to schools and did not reconcile deliveries with the actual receipt of textbooks from RTAC II.
- The access to Districts warehouses was not restricted.
- RTAC II did not require authorized MED officials to show proper identification prior to withdrawal of materials.

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Our tests for compliance with agreement terms and applicable laws and regulations disclosed the following:

1. Central Bank of Nicaragua (CBN) -

- Although the Mission had not approved and liquidated in final form any transaction that was not fully documented in accordance with agreement terms and conditions, about 60% of all files reviewed at the Central Bank did not contain evidences regarding import permits and liquidations, as well as certificates of origin and source as required by Section IV.B.1 of the approved procedures. Some of this information was provided afterward by CBN.
- According to CBN records, there were US\$647,344 (including US\$20,145 of used items imports) in ineligible transactions that had been outstanding in excess of the 60 days period allowed for reimbursement.

2. Central American Institute of Business Administration (INCAE) -

- According to the Fund Accountability Statement prepared by INCAE, to April 30, 1991 INCAE had received \$1,078,782 in project funds from USAID/Nicaragua, INCAE's accounting records, however only showed US\$624,369 as received under the project.
- Due to delays in obtaining project funds, INCAE used its own resources to finance project activities, when project funds were received INCAE reimbursed its own operational account. This reimbursement, however, was for US\$43,371 in excess of actual project related expenditures.

3. American Institute for Free Labor Development (AIFLD) -

- There are line budget overruns in the aggregate of US\$23,075, lacking prior authorization from USAID/Nicaragua.

Prior Period Recommendations

The recommendations included in our report dated March 20, 1991, regarding the internal control structure and compliance with agreement terms and applicable laws and regulations, have been implemented, except for the following:

Central Bank of Nicaragua

- The letters of credit files did not contain complete and sufficient documentation to demonstrate the application of competitive bidding procedures.
- Certain documents related to import permits and liquidations, as well as certificates of origin and source required by section IV.B.1 of the approved procedures, were not on file.

USAID/NICARAGUA AND IMPLEMENTING ENTITIES MANAGEMENT COMMENTS

Draft copies of this report were submitted to officials of the USAID Mission to Nicaragua and implementing entities management in an exit conference held on July 24, 1991 who expressed general agreement with the report findings and recommendations, except for finding N°1 of the report on Internal Control Structure and finding N°1 of the report on Compliance with Agreement Terms and applicable Laws and Regulations. USAID/ Nicaragua and implementing entities management comments, where applicable, have been considered in this final report. The entire text of the written USAID Mission to Nicaragua comments is included in Attachment I of this report.

AUDITOR'S RESPONSE

With respect to finding N°1 of the Internal Control Structure, action taken by the Mission in its ESR III agreement signed May 8, 1991 were not in force during the six month period covered by the audit; regarding finding N°1 on Compliance with Agreement Terms and applicable Laws and Regulations as at May 31, 1991 the Mission had not requested reimbursement in the program's separate account for the questionable import transactions to the Central Bank of Nicaragua.

Price Waterhouse

Price Waterhouse



**FISCAL YEAR 1990 ECONOMIC SUPPORT FUND (ESF)
PROGRAM FOR NICARAGUA FOR THE PERIOD
DECEMBER 1, 1990 TO MAY 31, 1991**

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying fund accountability statement for the local execution of the fiscal year 1990 Economic Support Fund (ESF) program under the Dire Emergency Supplemental Appropriations act for Nicaragua for which records were available in Nicaragua for the period December 1, 1990 to May 31, 1991. This fund accountability statement is the responsibility of the Government of Nicaragua (GON) and the Program Implementing Entities. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the Fund Accountability Statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the fund accountability statement referred to above fairly presents the locally incurred disbursements of the 1990 Economic Support Fund (ESF) Program for Nicaragua for the period December 1, 1990 to May 31, 1991 on the basis of accounting described in Note 2. Regarding project execution for USAID/Nicaragua purposes, however, our audit tests disclosed costs for US\$1,398,030 which have been considered questionable for the reasons explained in Note 4.

Pricewaterhouse

June 25, 1991

**FISCAL YEAR 1990 ECONOMIC SUPPORT FUND (ESF)
PROGRAM FOR NICARAGUA**

**FUND ACCOUNTABILITY STATEMENT FOR THE
LOCAL EXECUTION OF THE PROGRAM
DECEMBER 1, 1990 TO MAY 31, 1991
(expressed in U.S. Dollars)**

<u>Title</u>	----- UN A U D I T E D -----					
	<u>Budget</u>	<u>Amount obligated</u>	<u>Disbursed according to USAID/Nicaragua</u>	<u>USAID direct disbursement in the period</u>	<u>Local execution in the period</u>	<u>Question- able costs (Note 3)</u>
CASH TRANSFERS:						
Economic recovery Program I	US\$ 60,000,000	US\$ 60,000,000			US\$ 4,672,234	US\$ 132,518
Economic recovery Program II	118,000,000	118,000,000	US\$54,000,000		19,504,558	1,199,066
Economic recovery Program II	5,000,000					
Sub-Total Cash Transfers	<u>183,000,000</u>	<u>178,000,000</u>	<u>54,000,000</u>		<u>24,176,792</u>	<u>1,331,584</u>
ECONOMIC GROWTH AND DEVELOPMENT:						
Technical assistance and training (INCAE)	3,190,000	1,100,000	611,957		558,142	43,371
Employment generation (INIFOM)	19,400,000	14,400,000	2,000,000		1,591,787	
Public sector support	6,780,000	5,000,000	1,913,604	US\$ 1,913,604		
Medicines - PASA	1,500,000	1,450,000				
Community Hospitals	2,500,000	2,500,000	541,388	541,388		
Textbooks	12,200,000	12,200,000	5,520,957	5,520,957		
American Institute for Free Labor	700,000	700,000	256,679		281,632	23,075
National Endowment for Democracy	235,000	235,000				
Salesian Vocational Education	1,700,000	1,700,000	581,088		342,633	
Natural Resources Management	8,000,000					
Strengthening Democratic Institutions	3,000,000					
Development Training & Support	2,000,000					
Sub-Total Development Projects	<u>61,205,000</u>	<u>39,285,000</u>	<u>11,425,673</u>	<u>7,975,949</u>	<u>2,774,194</u>	<u>66,446</u>
Repatriation of Refugees	<u>45,000,000</u>	<u>45,000,000</u>				
USAID MISSION EXPENSES:						
Project development and support	4,065,000	1,827,929	482,742	482,742		
Operating expenses	6,730,000	5,855,213	2,593,577	2,593,577		
Sub-Total Mission expenses	<u>10,795,000</u>	<u>7,683,142</u>	<u>3,076,319</u>	<u>3,076,319</u>		
Total FY 1990 Supplemental	<u>US\$300,000,000</u>	<u>US\$269,968,142</u>	<u>US\$68,501,992</u>	<u>US\$11,052,268</u>	<u>US\$26,950,986</u>	<u>US\$1,398,030</u>

SUPPLEMENTAL INFORMATION

Interest earned on cash deposits:

Central Bank of Nicaragua
INCAE

US\$ 1,054,336
2,019
US\$ 1,056,355

**FISCAL YEAR 1990 ECONOMIC SUPPORT FUND (ESF)
PROGRAM FOR NICARAGUA FOR THE PERIOD
DECEMBER 1, 1990 TO MAY 31, 1991**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - BACKGROUND:

On May 25, 1990, the President of the United States of America 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 to restore productive capacity, and
- b. Economic growth and development projects in support of the new Government's economic recovery and 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 and capital goods, and other private sector imports needed to keep the economy functioning. The cash transfer assistance of Program No. 524-0311 includes an element of debt repayment.

The principal Nicaragua Government entity involved in the cash transfer portion of the assistance is the Central Bank of Nicaragua. Other entities, some of which are headquartered outside Nicaragua, are or will be involved in the implementation of individual development projects.

NOTE 2 - BASIS OF ACCOUNTING:

The fund accountability statement has been prepared on the cash basis of accounting. Consequently, funding provided is recognized when received rather than when earned and expenditures are recognized when paid rather than when the obligations are incurred.

NOTE 3 - RATE OF EXCHANGE AND EXCHANGE RESTRICTIONS:

According to the Exchange Control Law of September 9, 1978 all foreign currency acquired must be reported to the Central Bank of Nicaragua and all remittances must have the approval of this bank.

On May 3, 1990 the Central Bank of Nicaragua (CBN) established a new monetary unit (Cordoba Oro) at par with the U.S. dollar; subsequently, on March 3, 1991 a new parity of the monetary unit (Cordoba Oro) was established at C\$5.00 per US\$1.00.

The CBN has allowed the operation of a free market for currency exchange, provided transactions are handled by authorized agents (foreign currency bureaus).

NOTE 4 - QUESTIONABLE COSTS:

During this period, out of US\$24,176,792 of commodities purchases selected for review, US\$1,398,030 have been questioned for the reasons explained below:

ECONOMIC RECOVERY PROGRAMS I AND II**Central Bank of Nicaragua**

<u>Letter of credit No.</u>	<u>Description</u>	<u>Amount</u>	<u>Reason for questioning</u>
<u>524-0300</u>			
1653-90	Purchase of a Ferguson starter	US\$ 66,240	1
1380-90	Purchase of medicines	16,793	1
1426-90	Purchase of medicines	16,680	1
1573-90	Stationary mechanic seals	21,095	2
1543-90	Sodium sulphur	<u>10,900</u>	1
		<u>132,518</u>	
<u>524-0311</u>			
1734-90	Purchase of industrial sewing machines	<u>385,019</u>	1
Carried forward . . .		US\$ 385,019	

<u>Letter of credit No.</u>	<u>Description</u>	<u>Amount</u>	<u>Reason for questioning</u>
Brought forward...		US\$ 385,019	
1816-90	Purchase of industrial sewing machines	43,301	1
1924-90	Purchase of pallet trucks	21,975	1
1695-90	Purchase of truck marine engine and radio	37,600	1 and 3
1798-90	Purchase of 3 pullman buses	38,237	1
1791-90	Industrial brewery coolers	114,000	2
1792-90	Purchase of truck to be used in brewer company	439,260	2
1779-90	Purchase of Mack truck	20,145	3
1846-90	Light bulbs	3,167	1
1926-90	Generator and spare parts	4,355	1
1743-90	Spare parts	476	4
1769-90	Spare parts	6,939	4
1815-90	Spare parts	28,432	4
1844-90	Spare parts	<u>56,160</u>	1
		<u>1,199,066</u>	
Subtotal		1,331,584	
ECONOMIC GROWTH AND DEVELOPMENT			
Central American Institute of Business Administration (INCAE)	Funds transferred to INCAE' own administrative bank account	43,371	5
American Institute for Free Labor Development (AIFLD)	Line budget overrun in excess of 10%	<u>23,075</u>	5
		<u>US\$1,398,030</u>	

REASONS FOR QUESTIONING

<u>Reference</u>	<u>Explanation</u>
1	Country of origin not eligible according to Cooperative Agreement.
2	Items or products not eligible according to Cooperative Agreement.
3	Used items.
4	Not eligible because it is a public sector company.
5	Lack USAID/Nicaragua approval.

QUESTIONABLE COSTS AT NOVEMBER 30, 1990

Questionable costs amounting to US\$843,236, which were disclosed in the previous audit report, were subsequently reimbursed by the Central Bank of Nicaragua.

NOTE 4 - LETTERS OF CREDIT FOR IMPORTS EXECUTED BY THE CENTRAL BANK OF NICARAGUA:

A summary of letters of credit for imports and fully executed by the Central Bank of Nicaragua at May 31, 1991 in the amount of US\$33,732,320 were found eligible under the program as follows:

	<u>Number of Credit letters</u>	<u>Total amount</u>
ECONOMIC RECOVERY PROGRAM I		
Manufacturers Hanover International Banking Corp.	26	US\$ 4,094,978
Citizens & Southern International Bank	<u>74</u>	<u>12,217,741</u>
Subtotal	<u>100</u>	<u>16,312,719</u>

	<u>Number of Credit letters</u>	<u>Total amount</u>
ECONOMIC RECOVERY PROGRAM II		
Manufacturers Hanover International Banking Corp.	20	US\$ 9,036,468
Citizens & Southern International Bank	<u>15</u>	<u>8,383,133</u>
Subtotal	35	<u>17,419,601</u>
Total	<u>135</u>	<u>US\$33,732,320</u>

- 11 -

Price Waterhouse



**FISCAL YEAR 1990 ECONOMIC SUPPORT FUND (ESF)
PROGRAM FOR NICARAGUA FOR THE PERIOD
DECEMBER 1, 1990 TO MAY 31, 1991**

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Economic Support Fund (ESF) Program for Nicaragua for the period December 1, 1990 to May 31, 1991 and have issued our report thereon dated June 25, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement of the above identified Program for the period December 1, 1990 to May 31, 1991, we considered the internal control structure applied to the Program in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement, and not to provide assurance on the internal control structure.

The GON and management of the Central Bank of Nicaragua (CBN) and of the implementing entities are responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but no 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 prop-

erly to permit the preparation of fund accountability statement in accordance with the basis of accounting used. Because of inherent limitations in any internal control structure errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: a) accounting and budgetary control systems; b) cash management; c) management information system; d) issuance of and control over letters of credit; e) procurement of goods and services; and f) reception, distribution and administration of inventories (commodities) and fixed assets.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement. The reportable conditions noted are described under findings Nos. 1, through 3, in the following pages.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, according-

ly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe, however, that the reportable conditions described as findings numbers 1 to 3 in the following pages are material weaknesses.

This report is intended for the information of the Government of Nicaragua, the program implementing entities 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 Regional Inspector General, is a matter of public record.

Price Waterhouse

June 25, 1991

**FISCAL YEAR 1990 ECONOMIC SUPPORT FUND (ESF)
PROGRAM FOR NICARAGUA FOR THE PERIOD
DECEMBER 1, 1990 TO MAY 31, 1991**

REPORT ON INTERNAL CONTROL STRUCTURE

FINDINGS

- 1. THE CENTRAL BANK OF NICARAGUA (CBN) HAD NOT IMPLEMENTED ADEQUATE CONTROL PROCEDURES REGARDING COMMODITIES IMPORTS PRICES.**

Condition:

The reasonableness of prices paid for commodities imported could not be determined.

Criteria:

Sound business practices require competitive biddings.

Cause:

The Central Bank of Nicaragua did not require importers to obtain at least 3 quotations prior to importing commodities to be financed with program funds.

Effect:

Due to lack of quotations, it was not possible to determine whether prices paid for commodities imported under the program were reasonable. In addition, it is possible that the above weakness may render the Program related financial data inappropriate for USAID/Nicaragua purposes and may result in questionable costs.

Recommendation:

We recommend that the Central Bank of Nicaragua always require potential importers of commodities to present at least three quotations from different vendors for commodities to be financed with project funds or a justification for the lack of quotations.

2. THERE WAS LACK OF ADEQUATE CONTROL PROCEDURES IN AREAS OF SIGNIFICANCE TO THE PROGRAM COMPONENT MANAGED BY THE NATIONAL INSTITUTE FOR MUNICIPAL DEVELOPMENT (INIFOM).

Condition:

Our testing of control procedures and our evaluation of INIFOM's internal control structure disclosed the following weaknesses:

- The filing system for projects execution control was not complete. There were some documents such as contracts, payments to contractors and physical progress, that were not filed by project.
- We found one instance in which payment was made to one contractor for work not performed.

Criteria:

INIFOM is responsible for implementing adequate internal control structure in the project execution area, which should be considered in the present design of INIFOM's administrative procedures.

Cause:

INIFOM had not established a Project filing System; in addition, according to the inspector, payment was made in order to provide the contractor an advance of funds to continue operating.

Effect:

- Due to incomplete project files, it is not possible to properly determine the status of projects being implemented, and
- The inaccuracies in the evaluation of physical progress of projects might result in unsupported advances of funds.

Recommendation:

INIFOM should establish a project filing system that incorporates all project information, and should follow established procedures for the evaluation of physical progress of projects and payments should be made based on actual work accomplished.

3. THE INTERNAL CONTROL STRUCTURE OF THE REGIONAL TECHNICAL AID CENTER (RTAC II) IN NICARAGUA REQUIRES IMPROVEMENT -

Condition:

Certain inventory control and distribution procedures were not appropriate, as explained below:

- MED districts do not keep copies of documents evidencing the delivery of textbooks to school and do not reconcile deliveries with the actual receipt of textbooks from RTAC.
- The access to Districts warehouses was not restricted.
- RTAC II does not require authorized MED officials to show proper identification prior to withdrawal of materials.

Criteria:

RTAC II was required to apply and coordinate with MED officials adequate procedures in the handling, distribution and custody of the textbooks inventory.

Cause:

RTAC and MED did not prepare specific instructions in writing for implementing control procedures to avoid the above mentioned conditions.

Effect:

The lack of appropriate procedures may affect the integrity and accuracy of financial data and information on project execution.

Recommendation:

MED districts officials should instruct pertinent employees to keep copies of documents evidencing the delivery of textbooks to schools and to reconcile such deliveries with the receipt of textbooks from RTAC II, and future projects should restrict access to warehouse areas.

237

Apartado 2697
Managua, Nicaragua

Teléfono 72032
Telex 2395

Price Waterhouse



**FISCAL YEAR 1990 ECONOMIC SUPPORT FUND (ESF)
PROGRAM FOR NICARAGUA FOR THE PERIOD
DECEMBER 1, 1990 TO MAY 31, 1991**

**COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS**

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Economic Support Fund (ESF) Program for Nicaragua for the period December 1, 1990 to May 31, 1991, and have issued our report thereon dated June 25, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

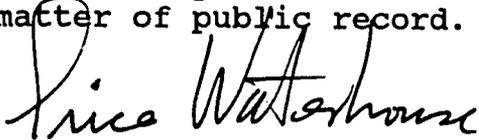
Compliance with laws, regulations, contract or grant terms applicable to the Fiscal Year 1990 ESF Program for Nicaragua is the responsibility of the Government of Nicaragua (GON) and the management of the different implementing entities involved with the Program. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the GON and the implementing units compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the material instances of noncompliance disclosed in findings 1 to 3 of this section.

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement of the Fiscal Year 1990 Economic Support Fund Program for Nicaragua for the period December 1, 1990 to May 31, 1991 is presented fairly, in all material respects, in conformity with the basis of accounting used, and this report does not affect our report dated June 25, 1991.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Government of Nicaragua and the implementing entities involved with the program complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the Government of Nicaragua and the implementing entities involved with the program had not complied, in all material respects, with those provisions.

This report is intended for the information of the Government of Nicaragua, the Program implementing units 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 Regional Inspector General, is a matter of public record.

A handwritten signature in cursive script, appearing to read "Price Waterhouse".

June 25, 1991

**FISCAL YEAR 1990 ECONOMIC SUPPORT FUND (ESF)
PROGRAM FOR NICARAGUA FOR THE PERIOD
DECEMBER 1, 1990 TO MAY 31, 1991**

**REPORT ON COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS**

FINDINGS

1. **THE CENTRAL BANK OF NICARAGUA (CBN), FINANCIAL AGENT OF THE GOVERNMENT OF NICARAGUA (GON), DID NOT COMPLY WITH CERTAIN TERMS INCLUDED IN COOPERATIVE AGREEMENTS No. 524-0300 AND 524-0311.**

Condition:

Although the USAID Mission to Nicaragua had not approved and liquidated in final from any transaction that was not fully documented in accordance with agreement terms and conditions, the following instances of noncompliance were revealed by our tests:

- a. About 60% of all files reviewed did not contain evidence regarding import permits and liquidations, as well as certificates of origin and source. Some of this information was subsequently provided by CBN.
- b. According to CBN records, there exist ineligible transactions that had not been reimbursed to the special account. These transactions have been outstanding in excess of the 60 days period allowed for reimbursement.

Criteria:

Section IV. B.1 of the Approved Procedures require the CBN to document import transactions funded under the project. In addition, the approved procedures also require that ineligible transactions be reimbursed to the special account within 60 days after it is determined that transactions are not eligible.

Cause:

Lack of familiarization with agreement terms by CBN officials charged with the responsibility over operations.

Effect:

Because of the lack of sufficient documentation to support imports as mentioned above, \$1,331,584 of incurred costs have been questioned as at May 31, 1991 and not get redeposited in the program's separate account. Additional amounts could be questioned for similar conditions or transactions and disbursements made subsequent to that date. Moreover, ineligible transactions amounting to US\$647,489 were not redeposited in the program's separate account.

Recommendation:

CBN's officials responsible for the program operations should be fully cognizant of agreement terms; recovery of funds for ineligible imports should be made opportunely and amounts outstanding over 60 days should be re-deposited in the program's specific bank account.

2. CERTAIN PRACTICES APPLIED BY THE CENTRAL AMERICAN INSTITUTE OF BUSINESS ADMINISTRATION (INCAE) DO NOT CONFORM TO USAID REGULATIONS.

Condition:

The procedures followed by INCAE for handling project funds did not comply with A.I.D. requirements, as follows:

- According to the Fund Accountability Statement prepared by INCAE, to April 30, 1991 INCAE had received \$1,078,782 in project funds from USAID/Nicaragua, INCAE's Accounting records, however only showed US\$624,369 as received under the project.
- Due to delays in obtaining project funds, INCAE used its own resources to finance project activities, when project funds were received, INCAE reimbursed its own operational account. This reimbursement, however was for US\$43,371 in excess of actual project related expenditures.

Criteria:

INCAE's accounting records related with the project should reflect actual transactions effected and reimbursements to its own operational account should be for the exact amounts.

Cause:

INCAE did not book actual transactions effected with project funds, nor has implemented review procedures to ensure financial information accuracy.

Effect:

As a result, funds remitted to bank amounting to US\$454,403 were not booked timely, and we also found questioned costs for US\$43,371 that should be reimbursed by INCAE.

Recommendation:

USAID/Nicaragua had taken corrective actions to recover unauthorized use of funds plus interest lost. However, INCAE needs to develop and implement review procedures by supervisory staff to ensure proper accounting for project funds.

3. THE AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT (AIFLD) DID NOT COMPLY WITH CERTAIN AGREEMENT TERMS.

Condition:

There were line budget overruns in the overseas allowances and consultant fees line items amounting to US\$23,075 in excess of the 10% allowed, lacking prior authorization from USAID/Nicaragua.

Criteria:

According to A.I.D. regulations, any line items modifications in excess of 10% should be previously authorized.

Cause:

Lack of current information on price levels in Nicaragua and inexperience in the preparation of budget.

Effect:

Questionable costs amounting to US\$23,075 were disclosed during the audit.

Recommendation:

AIFLD should either reimburse the US\$23,075 in budget overruns, or request approval for budget extensions prior to making disbursements. In additions, prior to the preparation of budget, current information on price levels in Nicaragua should be obtained and verified whenever possible.

* * *

**FISCAL YEAR 1990 ECONOMIC SUPPORT FUND (ESF)
PROGRAM FOR NICARAGUA FOR THE PERIOD
DECEMBER 1 1990 TO MAY 31, 1991**

LIST OF REPORT RECOMMENDATION

INTERNAL CONTROL STRUCTURE

Recommendation 1:

We recommend that the Central Bank of Nicaragua always require potential importers of commodities to present at least three quotations from different vendors for commodities to be financed with project funds or a justification for the lack of quotations.

Recommendation 2:

INIFOM should establish a project filing system that incorporates all project information, and should follow established procedures for the evaluation of physical progress of projects and payments should be made based on actual work accomplished.

Recommendation 3:

MED districts officials should instruct pertinent employees to keep copies of documents evidencing the delivery of textbooks to schools and to reconcile such deliveries with the receipt of textbooks from RTAC II, and future projects should restrict access to warehouse areas.

**COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE
LAWS AND REGULATIONS**

Recommendation 1:

CBN's officials responsible for the program operations should be fully cognizant of agreement terms; recovery of funds for ineligible imports should be made opportunely and amounts outstanding over 60 days should be re-deposited in the program's specific bank account.

Recommendation 2:

USAID/Nicaragua had taken corrective actions to recover unauthorized use of funds plus interest lost. However, INCAE needs to develop and implement review procedures by supervisory staff to ensure proper accounting for project funds.

Recommendation 3:

AIFLD should either reimburse the US\$23,075 in budget overruns, or request approval for budget extensions prior to making disbursements. In additions, prior to the preparation of budget, current information on price levels in Nicaragua should be obtained and verified whenever possible.

* * *

FISCAL YEAR 1990 ECONOMIC SUPPORT FUND (ESF)
PROGRAM FOR NICARAGUA

FUND ACCOUNTABILITY STATEMENT FOR THE
LOCAL ACCUMULATED EXECUTION OF THE PROGRAM
MAY 31, 1990 TO MAY 31, 1991
(expressed in U.S. Dollars)

Title	Budget	Amount obligated	Disbursed according to USAID/Nicaragua	USAID direct disbursement in the period	Local execution in the period		Total
					May 31 to November 30, 1990	December 1, 1990 to May 31, 1991	
CASH TRANSFERS:							
Economic recovery Program I	US\$ 60,000,000	US\$ 60,000,000	US\$ 60,000,000		US\$50,653,088	US\$ 4,672,234	US\$55,325,322
Economic recovery Program II	118,000,000	118,000,000	54,000,000			19,504,558	19,504,558
Economic recovery Program II	5,000,000						
Sub-Total Cash Transfers	<u>183,000,000</u>	<u>178,000,000</u>	<u>114,000,000</u>		<u>50,653,088</u>	<u>24,176,792</u>	<u>74,829,880</u>
ECONOMIC GROWTH AND DEVELOPMENT:							
Technical assistance and training (INCAE)	3,190,000	1,100,000	1,078,782		396,841	558,142	954,983
Employment generation (INIFOM)	19,400,000	14,400,000	2,000,000			1,591,787	1,591,787
Public sector support	6,780,000	5,000,000	1,913,604	US\$ 1,913,604			
Medicines - PASA	1,500,000	1,450,000					
Community Hospitals	2,500,000	2,500,000	601,062	601,062			
Textbooks	12,200,000	12,200,000	10,117,519	10,117,519			
American Institute for Free Labor	700,000	700,000	636,795	254,423	125,693	281,632	407,325
National Endowment for Democracy	235,000	235,000	235,000	235,000			
Salesian Vocational Education	1,700,000	1,700,000	841,020		165,003	342,633	507,636
Natural Resources Management	8,000,000						
Strengthening Democratic Institutions	3,000,000						
Development Training & Support	2,000,000						
Sub-Total Development Projects	<u>61,205,000</u>	<u>39,285,000</u>	<u>17,423,782</u>	<u>13,121,608</u>	<u>687,537</u>	<u>2,774,194</u>	<u>3,461,731</u>
Repatriation of Refugees	<u>45,000,000</u>	<u>45,000,000</u>					
USAID MISSION EXPENSES:							
Project development and support	4,065,000	1,827,929	489,500	489,500			
Operating expenses	6,730,000	5,855,213	4,169,520	4,169,520			
Sub-Total Mission expenses	<u>10,795,000</u>	<u>7,683,142</u>	<u>4,659,020</u>	<u>4,659,020</u>			
Total FY 1990 Supplemental	<u>US\$300,000,000</u>	<u>US\$269,968,142</u>	<u>US\$136,082,802</u>	<u>US\$17,780,628</u>	<u>US\$51,340,625</u>	<u>US\$26,950,986</u>	<u>US\$78,291,611</u>
SUPPLEMENTAL INFORMATION							
Interest earned on cash deposits:							
Central Bank of Nicaragua					US\$(1,718,444)	US\$(1,054,336)	US\$(2,772,780)
INCAE					(2,426)	(2,019)	(4,445)
					<u>US\$(1,720,870)</u>	<u>US\$(1,056,355)</u>	<u>US\$(2,777,225)</u>

21

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Amemb. Managua USAID
Unit 2712 Box 9
APO AA 34021



APPENDIX I
1 OF 2
AGENCIA INTERNACIONAL PARA EL DESARROLLO
Pista Sub Urbana
Apartado Postal C-187, Managua
Z P 13

November 15, 1991

TO : Oscar Cuadra
Price Waterhouse

FROM : ^{KGS} Kenneth G. Schofield
Acting Director

SUBJECT: Draft Non-Federal Financial Audit Report of the fiscal year 1990 ESF Program for Nicaragua for the period December 1, 1990 to May 31, 1991.

REF : Telcon Cuadra/Layton of November 14, 1991

Based on the result of the exit conference on subject matter held on July 24, 1991, the Mission's review of the revised draft of subject report received on September 25, 1991, meetings with representatives of your firm subsequent to the receipt of the revised draft, and your request of November 14, 1991, we hereby reiterate our concerns with certain areas of the draft audit report which we request be considered prior to its final publication.

I. FUND ACCOUNTABILITY STATEMENT

As confirmed by you in referenced telephone conversation we request the inclusion of a statement on page 15 Note 4 to the effect that transactions fully executed in the amount of \$33,732,320 were found eligible under the program.

II. INTERNAL CONTROL STRUCTURE

We request that any reportable conditions regarding "reasonableness of price" be deleted from the report based on actions taken by the Mission in its ESR III Agreement signed May 8, 1991 prior to the cut-off date of your audit (May 31, 1991). In this regard you can refer to Article II, Section 2.1.A of the Agreement and Section II.C of the Separate Account Operating Procedures.

III. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Any reference in this section of the report regarding the lack of documentation in support of import transactions should clearly state that the Mission had not approved and liquidated in final form any transaction that was not fully documented in accordance with agreement terms and conditions.

Telephone: Internacional -011-505-2 (Local No.)

Local No. - 670502, 670503, 670504

674028, 674029, 674030

Facsimile: 75711

APPENDIX I

2 OF 2

The finding and recommendation as presently stated tends to imply that the Mission had approved in final form transactions which were not fully documented.

Considering the above, we request any references in the report regarding the materiality of the findings reported be reevaluated and explained if the word "material" is not deleted.

If we can be of any assistance in further clarifying any of the above points, please do not hesitate in contacting our Office of Finance.

APPENDIX

REPORT DISTRIBUTION

U.S. Ambassador to Nicaragua	1
D/USAID/Nicaragua	5
AA/LAC	1
LAC/CONT	1
LAC/CEN/Nicaragua	1
AA/XA	2
XA/PP	1
LEG	1
GC	1
AA/MS	2
FM/FPS	2
PPC/CDIE	3

Office of the Inspector General

IG	1
AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM/C&R	5
AIG/I	1
IG/A/PSA	1
IG/A/FA	1

Regional Inspectors General

RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Europe	1
RAO/Manila	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/I/Tegucigalpa	1