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Regional Inspector General for Audit
Tegucigalpa, Honduras

Audit of Selected Systems at the Office of the USAID Representative to Argentina and Uruguay

Audit Report No. 1-528-93-004
December 23, 1992

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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December 23, 1992

MEMORANDUM

TO: USAID Representative/Argentina/Uruguay, Robert Asselin, Jr.

FROM: RIG/A/T, Lou Mundy Lou Mundy

SUBJECT: Audit of Selected Systems at the Office of the USAID Representative to Argentina and Uruguay

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its Audit of Selected Systems at the Office of the USAID Representative to Argentina and Uruguay. The final audit report is being transmitted to you for your action.

In preparing this report we reviewed your comments on the draft report. A summation of your comments has been included in the Executive Summary and after the appropriate audit findings. Your comments are presented in their entirety in Appendix II.

Based upon your written comments, we consider Recommendation Nos. 4.1 and 5 to be unresolved, Recommendation Nos. 1.1, 2, and 3 to be resolved, and Recommendation Nos. 1.2, 4.2, and 6 closed upon issuance of this report. Please respond to this report within 30 days, indicating any actions taken to implement the open recommendations.

I appreciate the cooperation and courtesies extended to my staff during this assignment.

Regional Inspector General for Audit
Tegucigalpa, Honduras

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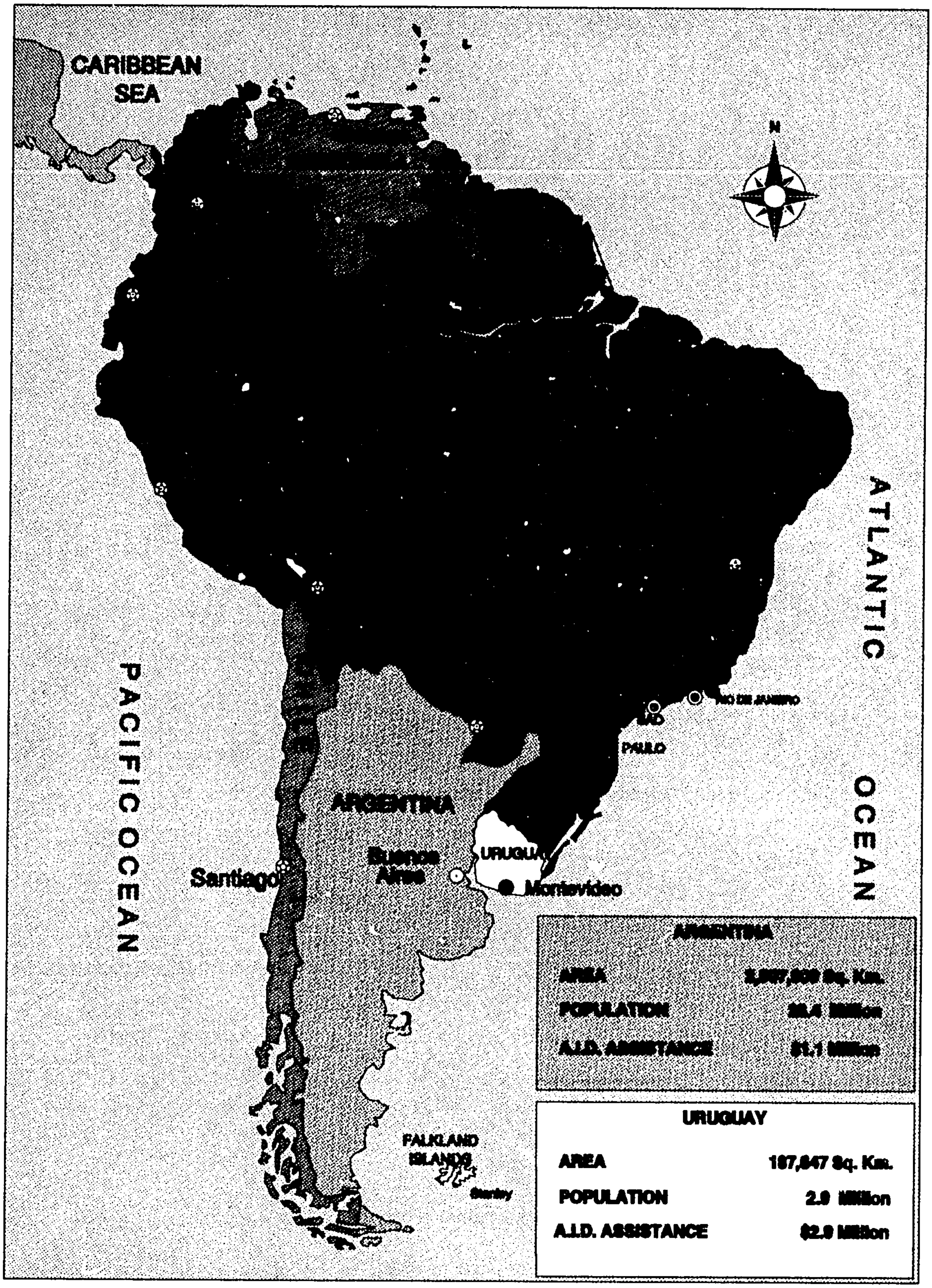
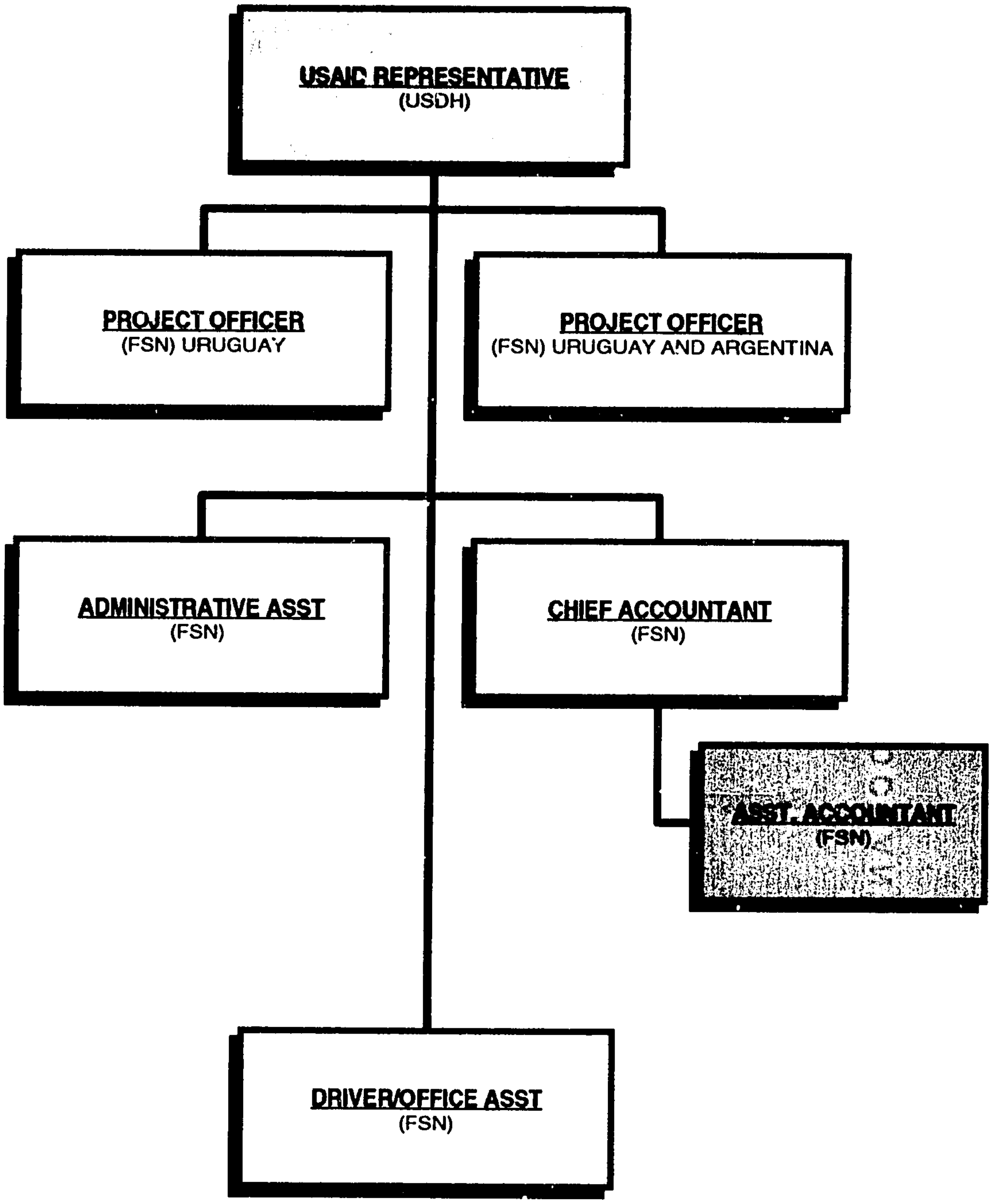


CARIBBEAN SEA
N
ATLANTIC OCEAN
PACIFIC OCEAN
RIO DE JANEIRO
SAO PAULO
ARGENTINA
Santiago
Buenos Aires
URUGUAY
Montevideo
FALKLAND ISLANDS
Stanley
ARGENTINA
AREA
POPULATION
A.I.D. ASSISTANCE
URUGUAY
AREA 187,847 Sq. Km.
POPULATION 2.9 Million
A.I.D. ASSISTANCE $2.9 Million

ORGANIZATION CHART

OFFICE OF THE USAID REPRESENTATIVE TO ARGENTINA AND URUGUAY

MAY 1992



EXECUTIVE SUMMARY

Background

The Foreign Assistance Act of 1961 as amended requires A.I.D. to establish systems which include the adoption of methods for comparing actual results of projects with those anticipated when they were undertaken. The Federal Managers' Financial Integrity Act of 1982 requires A.I.D. to establish internal controls over its program to provide reasonable assurance that obligations and costs are proper, funds and assets are safeguarded, and revenue and expenditures are properly accounted for.

The Office of the USAID Representative to Argentina and Uruguay (USAID Office) was reorganized in 1991. Prior to this reorganization, the former USAID Representative was responsible for managing A.I.D. programs in three countries. The current USAID Representative, whose office is in Montevideo, Uruguay, assumed his duties in September 1991 and is responsible for managing A.I.D. programs in both Argentina and Uruguay. As of December 31, 1991, these two programs were valued at approximately $4 million and have been implemented primarily through grants with nongovernmental organizations.

Audit Objectives

We audited selected systems of internal control at the USAID Office in accordance with generally accepted government auditing standards. We selected those systems which, we believe, were most relevant to the USAID Office's program as of March 31,1992. Our field work was conducted from May 14, 1992 to May 29, 1992 and was designed to answer the following questions:

1. Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that grants are awarded to nongovernmental organizations in accordance with A.I.D. policies and procedures?

2. Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that nongovernmental organizations made cost-sharing contributions in accordance with A.I.D. policies and procedures?

3. Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that cash advances to nongovernmental organizations do not exceed immediate needs and are liquidated in accordance with A.I.D. policies and procedures?

4. Did the USAID Office/Argentina and Uruguay establish and follow a system in accordance with A.I.D. policies and procedures to ensure that: (a) quantitative indicators are developed, (b) site visits are performed and documented by project officers, and (c) evaluations are planned and performed?

5. Did the USAID Office/Argentina and Uruguay establish and follow a system for financial auditing of grants in accordance with A.I.D. requirements?

6. Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that grants are closed out in accordance with A.I.D. policies and procedures?

Summary of Audit

The audit found that the USAID Office did not establish formal, documented systems for any of the areas covered by the audit objectives. But, despite this lack of documented systems, we were able to determine that the USAID Office followed A.I.D. policies and procedures in some of these areas, as discussed in the following section.

We believe that the USAID Office needs to establish written policies and procedures in several of the areas where we found problems. Such policies and procedures are necessary to improve internal controls. Specifically, procedures need to be documented to help ensure that: (1) recipients make cost-sharing contributions, (2) funds advanced to recipients are limited to immediate cash needs, and interest earnings are remitted to A.I.D., and (3) grants are monitored through the use of quantitative indicators and documented site visits. Our findings are summarized in the following section.

This report includes a summary of our assessment of the USAID Office's internal controls (see page 19). We identified three significant internal control weaknesses.

This report also includes a summary of our assessment of the USAID Office's compliance with applicable laws, regulations, and binding policies (see page 25). We concluded that the USAID Office did not comply, in all material respects, with A.I.D. binding policy for cost-sharing contributions.

Audit Findings

Agreements Were Awarded In Accordance with A.I.D. Policies and Procedures

Written policies and procedures were not in place to cover the awarding of grants to recipients. But we found that the USAID Office followed informal procedures to ensure that: pre-award surveys were properly performed and were documented and project files contained sufficient justification when there was no competition (see page 3).

Written Procedures Need To Be Established for Cost-Sharing Contributions

Written policies and procedures were not in place to ensure that: (1) cost-sharing provisions were incorporated into agreements, (2) recipients reported their contributions, and (3) the USAID Office verified contributions. Agreements did not always contain cost-sharing provisions or reporting requirements. Also, project officers did not maintain records of contributions and thus, could not verify contributions that may have been made. As a result, the USAID Office does not have adequate assurance that recipients are contributing to projects in accordance with A.I.D. policy (see page 4).

Advances Should Be Limited to Immediate Needs and Interest Earnings Should Be Remitted to A.I.D.

Written policies and procedures were not in place to limit cash advances to recipients to immediate cash needs, or to monitor their use by recipients in accordance with A.I.D. policies and procedures. We identified two conditions needing improvement: (1) advances were generally made for a 90 day period without a written justification, when a 30 day advance period may have been more appropriate (see page 6), and (2) the USAID Office did not ensure that one recipient remitted the interest earnings on its outstanding advances to A.I.D. for deposit into the U.S. Treasury (see page 8). As a result of these two conditions, outstanding advances were not handled in the best interests of the U.S. Government.

Monitoring Could Be Improved by More Extensive Use of Quantitative Indicators and by Documenting Site Visits

Written policies and procedures were not in place to help ensure that quantitative indicators were consistently incorporated into grant agreements. Some agreements did not contain quantitative indicators or clear progress reporting requirements and there was little basis to measure whether the purposes of the agreements were being achieved or whether activities began or ended as planned (see page 10). Also, project officers were making site visits but were not documenting the results. Because of this, the USAID Representative does not have adequate assurance that implementation problems are being identified, documented, or resolved (see page 13).

An Agreement Needs Specifically Budgeted Audit Funds

In 1991, A.I.D. policies and procedures were revised to require non-U.S., nongovernmental recipients of A.I.D. funds to have an annual audit performed in accordance with generally accepted government auditing standards. The USAID Office has made substantial progress in implementing the new requirements. But the USAID Office still needs to ensure that funds will be available for this required financial audit on one of its grants (see page 16).

Procedures for Closeouts Could Not Be Assessed

We were unable to determine whether the USAID Office followed A.I.D. policies and procedures to close out grants because there were no written policies and procedures in place and because there has not been closeout activity during recent years (see page 17).

Summary of Recommendations

We made six recommendations to improve the systems covered by the audit objectives. These recommendations address: the specific conditions which we identified; the need to establish written policies and procedures in some of the areas where we found problems; and the need to report certain conditions as weaknesses in the next internal control assessment.

Management Comments and Our Evaluation

The draft audit report was reviewed and commented upon by USAID Office management (see Appendix II for the written comments and representation letter) and those comments were considered in preparing the final report. Management agreed with most of the report recommendations and is in the process of taking appropriate corrective actions.

The USAID Office indicated throughout its response that it did not agree with the presentation of the audit findings in the draft audit report. Generally, the USAID Office requested the RIG to consider the following when preparing the final report: (1) recognize there is a difference in sophistication, number and degree of formality of internal control systems required in A.I.D. offices as opposed to A.I.D. missions; (2) acknowledge that the lack of formal written procedures embodied in local orders does not mean that no control systems exists; (3) distinguish clearly between A.I.D. regulations and required policies, and areas in which management discretion in following recommended A.I.D. program management practices is wider; (4) endeavor to be as precise as possible regarding audit findings and their actual scope and impact; and (5) avoid misleading language.

We carefully analyzed the USAID Office's comments and made changes to the final report where appropriate. We have summarized the USAID Office's specific comments after each audit finding in this final report and believe that we have presented our audit findings in proper perspective.

Office of the Inspector General

Office of the Inspector General
December 23, 1992

INTRODUCTION

Background

The Foreign Assistance Act of 1961 as amended requires A.I.D. to establish systems which include the adoption of methods for comparing actual results of projects with those anticipated when they were undertaken. The Federal Managers' Financial Integrity Act of 1982 requires A.I.D. to have internal accounting and administrative controls over its programs. A.I.D. requires its missions and offices to establish internal controls to provide reasonable assurance that obligations and costs are proper, funds and assets are safeguarded, and revenues and expenditures are properly accounted.

The Office of the USAID Representative to Argentina and Uruguay (USAID Office) was reorganized in 1991. Prior to this reorganization, the former USAID Representative was responsible for managing A.I.D. programs in three countries. The current USAID Representative, whose office is in Montevideo, Uruguay, assumed his duties in September 1991 and is responsible for managing A.I.D. programs in both Argentina and Uruguay.

As of December 31, 1991, the USAID Office's two programs were valued at approximately $4.0 million and have been primarily implemented through grants to nongovernmental organizations ($ figures in millions):

Country	Life of Project Funding	Obligations	Expenditures	Number Of Grants
Uruguay	$2.9	$2.9	$1.8	5
Argentina	1.1	1.1	0.6	3
Total	$4.0	$4.0	$2.4	8

Audit Objectives

Our audit focused on those internal control systems which, we believe, were most relevant to the implementation of the USAID Office portfolio. We selected them because of their on-going importance to USAID Office programs and because Office of Inspector General audits have frequently disclosed problems with these systems at other A.I.D. missions and offices.

The Office of the Regional Inspector General for Audit/Tegucigalpa audited the USAID Office's selected systems of internal controls to answer the following audit objectives:

1. Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that grants are awarded to nongovernmental organizations in accordance with A.I.D. policies and procedures?

2. Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that nongovernmental organizations made cost-sharing contributions in accordance with A.I.D. policies and procedures?

3. Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that cash advances to nongovernmental organizations do not exceed immediate needs and are liquidated in accordance with A.I.D. policies and procedures?

4. Did the USAID Office/Argentina and Uruguay establish and follow a system in accordance with A.I.D. policies and procedures to ensure that: (a) quantitative indicators are developed, (b) site visits are performed and documented by project officers, and (c) evaluations are planned and performed?

5. Did the USAID Office/Argentina and Uruguay establish and follow a system for financial auditing of grants in accordance with A.I.D. requirements?

6. Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that grants are closed out in accordance with A.I.D. policies and procedures?

In answering these audit objectives, we tested whether the USAID Office followed applicable internal control procedures and complied with certain binding policies. Except where noted in our answers to the individual audit objectives, our tests were sufficient to provide reasonable--but not absolute --assurance of detecting material internal control weaknesses or illegal acts that could significantly affect the audit objectives.

Appendix I contains a complete discussion of the scope and methodology for this audit.

REPORT OF AUDIT FINDINGS

Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that grants are awarded to nongovernmental organizations in accordance with A.I.D. policies and procedures?

Although the USAID Office did not establish a formal, documented system addressing its overall award process for grants, our audit found that the USAID Office followed A.I.D. policies and procedures.

For those active grant agreements which were awarded locally, we found that pre-award surveys were performed when necessary. The surveys, conducted by the USAID/Bolivia Controller's Office or a member of the USAID Office staff, were comprehensive and properly documented. We also concluded that project files contained sufficient justification if there was an absence of adequate competition at the time of the award. Approximately one-half of the active agreements were awarded to a public international organization which, according to A.I.D. procedures, is not subject to competition requirements.

Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that nongovernmental organizations made cost-sharing contributions in accordance with A.I.D. policies and procedures?

The USAID Office did not establish and follow a formal, documented system to ensure that nongovernmental organizations made cost-sharing contributions. Instead, the USAID Office had an informal policy to require such organizations to share in project implementation costs.

Our review of eight active agreements disclosed that three did not contain a cost-sharing agreement with the recipient. In addition, the USAID Office project officers did not maintain records of contributions that may have been made. These problem areas are described in the following section.

Written Procedures Need To Be Established
For Cost-Sharing Contributions

Agency policies specify that missions and offices should normally require a 25 percent cost-sharing contribution from nonprofit organizations unless there is strong justification for doing otherwise. The USAID Office did not ensure full compliance with these policies. There was no formal system to incorporate cost sharing provisions into agreements to require recipients to report their contributions. The USAID Office project officers did not maintain records of contributions and therefore, could not verify contributions that may have been made. As a result, three of the eight grant agreements did not contain cost-sharing provisions and the USAID Office does not have adequate assurance that recipients are contributing to projects in accordance with Agency policy. At the time that we performed our audit field work, we were unable to determine the exact cause for this condition.

Recommendation No. 1: We recommend that the Office of the USAID Representative to Argentina and Uruguay:

1.1 implement through written guidelines a system for cost-sharing contributions to comply with A.I.D. policy; and

1.2 report this condition as a weakness in its next internal control assessment if not fully resolved.

To ensure that recipients of foreign assistance have a vested interest in the success of A.I.D.-financed projects, Section 110(a) of the Foreign Assistance Act requires host governments to provide at least 25 percent of the cost of an entire project. Although it was not mandated by this legislation, A.I.D. policy has extended this requirement to programs implemented by nongovernmental organizations.

A.I.D. Policy Determination No. 16 ("Program Financing Arrangements With Independent Organizations", dated October 9, 1987) states that, as a general principle, A.I.D. policy seeks the largest possible financial participation from an assistance recipient, and this policy applies to all assistance provided by the Agency to nongovernmental organizations in grant or cooperative agreements. It suggests that missions and offices use a 25 percent financial contribution as a reference point when designing an assistance activity with a nongovernmental organization.

Our audit found that the USAID Cffice had a informal policy to require cost-sharing contributions from nongovernmental organizations. However, there were no written guidelines which explained this policy. Our review of the eight active grant agreements determined that the USAID Office had only incorporated cost-sharing requirements into five agreements. As summarized below, we found that there has been less than full compliance with A.I.D. policy regarding cost-sharing contributions for the eight grant agreements:

- Three grant agreements did not contain a cost-sharing requirement and there was no justification in the project files for waiving the requirement.

- Five grant agreements included cost-sharing requirements; however, we found that: (1) there were no requirements for recipients to report their contributions to the USAID Office, and (2) the USAID Office project officers did not have records of recipient contributions that may have been made.

- We visited one recipient and found that it was unable to document that it had made its agreed-to cost-sharing contribution.

We were unable to determine the exact cause for the above conditions at the time that we performed our audit field work.

Cost-sharing contributions represent an important part of the A.I.D. projects in Uruguay and Argentina since the portfolio is primarily implemented through grant agreements to nongovernmental organizations. By establishing and following a formal system to ensure that nongovernmental organizations make contributions to projects the USAID Office will have added assurance that it is in compliance with Agency policies and procedures.

Management Comments and Our Evaluation

The USAID Office disagreed with our conclusion that it had not complied, in all significant respects, with the provisions of Policy Determination No. 16. The USAID Office stated that Policy Determination No. 16 leaves ample room for exceptions to the 25 percent guideline. It explained that its policy had been to request that contributions be listed in proposals but be shown in agreements only to the extent that the contribution is both needed and doubt might exist regarding the grantee's ability to contribute it on schedule. The USAID Office did acknowledge that it does need to document exceptions to the 25 percent guideline, and monitor those agreements where contributions are required.

The USAID Office concurred with both parts of Recommendation No. 1. It plans to formalize and improve its system by issuing written guidelines in the form of a local order to: document how the USAID Office has been applying the guidelines in Policy Determination No. 16 regarding the setting of cost-sharing contributions; require that decisions regarding the level of contribution required in grant agreements be separately documented for each agreement in accordance with Policy Determination No. 16; and set out procedures which will improve monitoring of required contributions. The USAID Office reported this condition as a weakness in its 1992 Internal Control Assessment.

Recommendation No. 1.1 is resolved and can be closed when RIG/A/T receives and reviews for adequacy a copy of the mission order. Recommendation No. 1.2 is closed.

Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that cash advances to nongovernmental organizations do not exceed immediate needs and are liquidated in accordance with A.I.D. policies and procedures?

The USAID Office did not establish and follow a formal, documented system to ensure that advances of funds to nongovernmental organizations did not exceed immediate cash needs and were liquidated in accordance with A.I.D. policies and procedures. Instead, it followed an informal policy concerning advances.

We identified two areas where the USAID Office needs to establish a formal, documented system to fully comply with A.I.D. policies and procedures: (1) advances were generally made for a 90-day period and no written justifications were prepared explaining why a 90-day advance was needed and (2) interest earned on one outstanding advance was not remitted to the USAID Office for deposit into the U.S. Treasury. Discussion of these problems areas follows.

Advances Should Be Limited To Immediate Cash Needs

A.I.D. generally requires that advances of funds to nonprofit organizations not exceed 30 days. However, we found that the USAID Office generally made advances for a 90-day period. No written justifications were prepared detailing why 90-day advances were made. We were unable to determine the exact cause for this condition. Poor cash management practices could require the U.S. Government to unnecessarily borrow funds to cover outstanding advances.

Recommendation No. 2: We recommend that the Office of the USAID Representative to Argentina and Uruguay implement

through written guidelines a system for issuing cash advances to nongovernmental organizations.

A.I.D. recognizes that nonprofit organizations may have limited working capital and may need an advance of funds, but it also requires prudent cash management practices. Accordingly, when an A.I.D. mission or office provides an advance to a nonprofit organization it should be restricted to immediate cash needs.

A.I.D. Handbook 1B (Procurement Policies), Chapter 15 (Methods of Payment to Suppliers, Contractors and Grantees) specifies that when advances are made to a nonprofit organization by U.S. Treasury check they should generally not be provided for a period which exceeds 30 days. Advance payments are to be based upon an analysis of the working capital (e.g. cash) requirements of the recipient, and should, in our opinion, consider the reimbursement cycle.

We examined the standard provisions pertaining to payment methods for the eight active grant agreements. Four agreements were with a multinational organization and were financed by a letter of credit. The remaining four were financed by a periodic advance. When the USAID Office finances an agreement via a periodic advance, it generally has done so for a 90-day period. There was no written policy or justification in the project or voucher files for making advances for such a long period.

Because U.S. Treasury checks are prepared and issued by the Regional Administrative and Management Center located in Buenos Aires, Argentina, the USAID Office should be able to process a payment rapidly. The USAID Office accountant estimated that, under routine circumstances, it would require approximately ten working days from the time a voucher is sent until a recipient in Uruguay or Argentina is able to receive the check. Therefore, we see no justification for routinely authorizing 90-day advances for recipients located in Uruguay and Argentina.

At the time that we performed our audit field work, we were unable to determine the cause for such general use of 90-day advances. The USAID Office had not documented its policies and procedures for issuing and monitoring advances to nongovernmental organizations. In order to implement our recommendation, the USAID Office should, as a minimum, establish written policies and procedures addressing: cash advance versus cost reimbursement arrangements, policy on the period of advance, the need to justify a recipient's request for more than a 30-day advance in writing, and the periodic review of recipient advance needs in order to make adjustments, if warranted.

Management Comments and Our Evaluation

The USAID Office indicated that, in accordance with its informal procedures, it had considered the need for advances versus reimbursements and had established 90-day periods when advances were deemed appropriate. The USAID Office also stated that it carefully monitored advances once they were given. But it acknowledged that it had not made a detailed analysis of the cash needs of each grantee, in order to justify the 90-day period. It stated that it plans to perform such an analysis in the future and to document the results.

The USAID Office concurred with Recommendation No. 2. It plans to formalize and improve its system by issuing written guidelines in the form of a local order to: document decisions made to finance grants with advances versus reimbursements; set advance periods; and monitor liquidation and replenishment. The USAID Office reported this condition as a weakness in its 1992 Internal Control Assessment.

Recommendation No. 2 is resolved and can be closed when RIG/A/T receives and reviews for adequacy a copy of the mission order.

Interest Earned on an Advance From One Grant Should Be Remitted to A.I.D.

A.I.D. policy is that interest earned on outstanding advances should be remitted to the A.I.D. mission or office for deposit into the U.S. Treasury. The USAID Office did not ensure that interest earnings were always handled as required. We identified one instance where a recipient applied its interest earnings to the project covered by the grant. This occurred because the USAID Office did not incorporate a mandatory standard provision covering refunds into the grant agreement. As a consequence, the U.S. Treasury was denied the interest earned on the funds.

> **Recommendation No. 3: We recommend that the Office of the USAID Representative to Argentina and Uruguay implement through written guidelines a system to monitor the use of advances by nongovernmental organizations and to require the periodic remittance of interest earnings to the U.S. Government.**

A.I.D. Handbook 13 (Grants), Chapter 1 (Introduction) states that recipients shall maintain advances of funds in interest-bearing accounts and shall remit to A.I.D. at least quarterly, the interest earned on such advances. Interest earned is to be deposited by A.I.D. into the U.S. Treasury, except that amounts up to $100 per year may be retained by a recipient for administrative expense. This policy is to be enforced by A.I.D. offices through the incorporation of mandatory standard provisions into grant and cooperative agreements. Appendix 4D (Mandatory Standard Provisions for Non-U.S. Nongovernmental Grantees) contains a mandatory standard "Refunds" provision which states: "The grantee shall remit to A.I.D. all interest earned on funds provided by A.I.D." This requirement has been in effect since at least May 1986.

We identified an instance where a recipient applied interest earned on an advance to further the project covered by the grant rather than remit it to A.I.D. for deposit into the U.S. Treasury. This instance involves Grant No. 598-0616-90003 which was effective June 22, 1989 and was awarded to the Catholic University "Damaso Antonio Larranaga". The University reported to the USAID Office that the total interest earned on cash advances but not remitted to A.I.D. from the start of the grant through March 31, 1992, was $1,744.

This occurred because the USAID Office did not incorporate the mandatory standard provision titled "Refunds" into the grant agreement with the University. Instead, it incorporated a provision which states: "The grantee shall remit to A.I.D. all interest earned on funds provided by A.I.D., except to the extent interest is used for approved project purposes." We were unable to determine the exact reason why the mandatory standard provision was not incorporated.

By not ensuring that recipients remit interest earnings, the USAID Office does not have assurance that any idle funds are being handled in the best interests of the U.S. Government and, as a consequence, the U.S. Treasury has been denied the use of interest earned on the funds.

Management Comments and Our Evaluation

The USAID Office indicated that the mandatory standard provision had not been included in only one of its active grants and that this single instance was not necessarily indicative of its system for treating interest earned on grants. The USAID Office stated that this instance represented an error made prior to the establishment of an informal control system once the USAID Office staff became aware of the A.I.D. procedure regarding interest.

The USAID Office advises that the grantee has requested an extension of the grant. The USAID Office plans to use this opportunity to correct its prior error regarding the treatment of interest earnings.

The USAID Office concurred with Recommendation No. 3. It plans to formalize and improve its system by issuing written guidelines in the form of a local order which will address the remittance of any interest earned on outstanding advances to the U.S. Treasury. The USAID Office reported this condition as a weakness in its 1992 Internal Control Assessment.

Recommendation No. 3 is resolved and can be closed when RIG/A/T receives and reviews for adequacy a copy of the mission order.

Did the USAID Office/Argentina and Uruguay establish and follow a system in accordance with A.I.D. policies and procedures to ensure that: (a) quantitative indicators are developed, (b) site visits are performed and documented by project officers, and (c) evaluations are planned and performed?

The USAID Office did not establish and follow a formal, documented system to ensure that quantitative indicators are developed, site visits are performed and documented, and evaluations are planned and performed. Instead, it followed an informal policy in these three areas.

We found that in two areas the USAID Office could have more fully complied with A.I.D. policies and procedures. Quantitative indicators or targets were not always incorporated into grant agreements, and project officers were not documenting the results of their site visits. Discussions of these two problem areas are contained in the following two report sections.

We found that in the third area, which deals with planning and performing evaluations, the USAID Office had complied with A.I.D. policies and procedures. Previously, it had obtained evaluations of individual projects. But according to its latest action plans it intends to undertake annual program evaluations to measure progress towards achievement of strategic objectives. The USAID Office believes that most of its activities may be too small to merit individual evaluations and the overall programs in Argentina and Uruguay could benefit from external evaluations focusing on systemic impact and on the relevance of program activities to the attainment of strategic objectives.

More Extensive Use of Quantitative Indicators Is Needed To Measure the Progress of Grants

A.I.D. encourages missions and offices to develop systems that include quantitative indicators for measuring progress toward defined objectives. Our audit found that agreements did not always contain objectively verifiable indicators to measure whether the purposes of the grants were being achieved. There was no formal system to incorporate quantitative indicators into grant agreements or to require recipients to report progress against them. We were unable to determine the exact cause for this condition. The USAID Office will have a more objectively verifiable basis of determining whether its existing agreements are accomplishing its strategic objectives if it makes more extensive use of quantitative indicators.

<u>Recommendation No. 4</u>: We recommend that the Office of the USAID Representative to Argentina and Uruguay:

4.1 establish written policies and procedures for developing and incorporating quantifiable indicators into grant agreements and informing recipients of the need to report progress achieved against these indicators; and

4.2 review its present portfolio to identify those grants which have a substantial implementation period remaining and develop appropriate indicators which correspond to the USAID Office's new strategic objectives.

The Foreign Assistance Act requires the development of indicators to measure progress towards objectives for foreign assistance programs. Section 621A (b) requires A.I.D. to establish a management system that includes:

- the definition of objectives and programs for United States foreign assistance,
- the development of quantitative indicators of progress toward these objectives,
- the orderly consideration of alternative means for accomplishing such objectives, and
- the adoption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken.

Procedures on utilizing quantitative data to assist in project management are fragmented throughout Handbook 3 (Project Assistance), Handbook 13 (Grants), training course materials, evaluation guidelines, and cable guidance written by individual bureaus. A.I.D. Handbook 13 (Grants), Chapter 4 (Specific Support Grants) states that the goals of the grant and the planning and implementation to reach those goals should be contained in the program description of the agreement, and that A.I.D.'s role is to measure and evaluate the recipient's progress in achieving these goals. Also, A.I.D. Handbook 3 (Project Assistance), Appendix 4B (Procedures for PVOs on Operational Program Grants) recommends that project proposals contain data for measuring the project purpose and any intermediate accomplishments.

Objectively verifiable quantitative indicators, when expressed as a unit of measure and tied to a target statement of the desired results, provide reliable performance data Agency managers need to assess project progress, rapidly detect problems, and demonstrate project impact. Our review of the eight active grant agreements determined that the USAID Office use of quantitative indicators targets and timeframes could be improved. Based on our review, we concluded that some grant agreements did not satisfactorily contain indicators, targets, or timeframes, whereas other grant agreements were generally satisfactory in this area.

We were unable to determine the exact cause for the above condition. It is probable that, in the past, there may have been less emphasis on quantitative indicators. As a result, the USAID Office had not established written policies and procedures for developing quantitative indicators and incorporating them into grant agreements and there were no written instructions for developing targets for specific events/activities or timeframes for starting or ending activities. Also, there were no written instructions for informing nongovernmental organizations of the need to report progress against indicators.

The USAID Office underwent a strategic planning exercise in 1992 to refocus and consolidate its portfolio on two strategic objectives in both Uruguay and Argentina. But in the past, the USAID Office grants did not have to relate directly to these new strategic objectives. We did not determine if all existing grants support the new strategic objectives. There are active grants which still have a lengthy implementation period remaining and the USAID Office may not know the degree to which they are contributing to strategic objectives unless appropriate quantitative indicators are developed and incorporated into the existing agreements. We believe the USAID Office should review the existing portfolio, identify those grants with substantial implementation time remaining, and incorporate or revise indicators where necessary to correspond to the new strategic objectives.

Management Comments and Our Evaluation

The USAID Office stated that its practice regarding the use of indicators is an area of management discretion, and does not involve legally binding A.I.D. policies and procedures. In the opinion of the USAID Office, the RIG should not get involved in program management areas where honest disagreements can occur because firm A.I.D. policies and regulations are not at issue.

The USAID Office, in disagreeing with Recommendation No. 4.1 stated that it currently has a clear policy for developing objectives for each activity/grant, program outputs and progress indicators, along with procedures in effect for implementing that policy. The USAID Office stated that it sees no utility to be gained in documenting these policies and procedures to a greater extent than they are reflected in program planning documents.

We disagree with the USAID/office's position on the need to document policies and procedures for utilizing quantitative indicators as a part of their program management system. Our audit identified several problems with the development and use of indicators, targets and timeframes for the 8 grants we selected for review. Quantitative indicators are an important part of a management system to help identify problems rapidly, conduct periodic evaluations and demonstrate the impact of A.I.D. development efforts. In our opinion, documented policies and procedures in this area would benefit current and future operating personnel at the USAID/office.

With regard to Recommendation No. 4.2, the USAID Office has reviewed its portfolio and identified two existing grants with significant implementation periods remaining. On the first grant, the USAID Office stated that it is in the process of fitting its objectives and indicators into the program reporting system. On the second grant, we concur with the USAID Office's determination that no further action regarding indicators is necessary.

Recommendation No. 4.1 is unresolved. The USAID Office action taken in response to Recommendation No. 4.2 satisfies its intent and it is closed.

Site Visits Need To Be Documented

A.I.D. Handbooks provide general guidelines for making and documenting the results of site visits. Our audit found that project officers were making but not documenting the results of their site visits. There was no formal system to require site visits or to document the results of such visits because the USAID Office had not considered the A.I.D. requirements for site visit reports to be relevant to its portfolio. Consequently, the USAID Office management does not have as much assurance as possible that implementation problems are being identified, documented, and brought to its attention to be resolved.

> **Recommendation No. 5: We recommend that the Office of the USAID Representative to Argentina and Uruguay establish written policies and procedures for documenting site visits.**

Among the more important aspects of the oversight of a grant or cooperative agreement are periodic visits by the project officer to the site where work under the agreement is being performed. An appraisal of performance based on comparison of the written reports and site visit findings against implementation plans provide a basis for isolating problems and identifying follow-up actions that need to be taken. Documented site visits also form one of the fundamental bases for a project officer's administrative approval of the nongovernmental organization's voucher.

A.I.D. Handbook 13 (Grants), Chapter 1 contains A.I.D. policy for making site visits on those projects implemented through grants and cooperative agreements. It states that the project officer shall make frequent site visits to review program accomplishments and management control systems and provide such technical assistance as may be required.

A.I.D. Handbook 3 (Project Assistance), Chapter 11 (Monitoring) contains the A.I.D. procedures for documenting site visits. It states that a site visit report is to be prepared and distributed as quickly as possible after the field trip. It provides a sample of a format for a site visit report and discusses several of the areas which can be reviewed during a visit.

We reviewed the project files for eight active grants and held discussions with the respective project officers to determine the extent of site visit activity. We determined that the two project officers did maintain frequent contact with recipients. This included site visits.

We found that the project officers were not documenting the results of their site visits in a manner which would satisfy the requirements of A.I.D. Handbook 3. One project officer did document the results of site verification of public vouchers submitted by recipients in Argentina. This project officer also had maintained a record of telephone conversations with recipients but had discontinued this practice in 1991.

At the time of our audit, the USAID Office had not established a formal policy for making or documenting site visits. Its informal policy, that documented site visits were not essential in all cases, developed because it had considered the A.I.D. requirements for site visit reports not applicable to its portfolio. Because site visits were not documented, the USAID Office did not have adequate assurance that an effective monitoring mechanism is being implemented. A systematic method of documenting these visits would help ensure that implementation problems are identified, documented and brought to the attention of the USAID Office.

Management Comments and Our Evaluation

The USAID Office stated that its practice regarding the use of site visit documentation is an area of management discretion, and does not involve legally binding A.I.D. policies and procedures. In the opinion of the USAID Office, the RIG should not get involved in program management areas where honest disagreements can occur because firm A.I.D. policies and regulations are not at issue. For the reasons already explained in the above paragraphs, we disagree with the USAID Office's position and opinion on the usefulness of site visit documentation for program management.

The USAID Office stated that it plans to prepare a mission order which will address: frequent site visits, oral reports to the A.I.D. Representative--documenting findings only when significant and necessary, and the use of voucher approval checklists.

We recognize that the USAID Office plans to prepare a mission order addressing site visits. However, before resolving or closing the recommendation, we will want to review the draft order and assess its requirements for documenting site visits. Based on the USAID Office's response, we still have a concern that the results of site visits by project officers may continue not to be documented.

Recommendation No. 5 remains unresolved.

Did the USAID Office/Argentina and Uruguay establish and follow a system for financial auditing of grants which complies with A.I.D. requirements?

The USAID Office did not establish and follow a formal, documented system for the financial auditing of grants. Instead, the USAID Office followed an informal procedure. That informal procedure was in compliance with A.I.D. requirements except that the USAID Office needs to ensure that funds are specifically budgeted to perform financial audits on one grant.

In May 1991 the "Accounting, Audit, and Records" standard provision in A.I.D. Handbook 13 (Grants) was revised to require a non-U.S., nongovernmental recipient to have an audit made of the funds provided under the grant and of the financial statements of the organization as a whole. The USAID Office has taken positive steps to implement this revised financial audit provision. For example, it determined its audit universe and has begun to alert recipients of the requirement to do independent financial audits. Also, when new grants were made, the USAID Office included the new standard audit provision into the agreements. But, as discussed in the following report section, the USAID Office needs to ensure that funds are specifically budgeted for financial audit in one agreement.

An Agreement Needs Specifically Budgeted Audit Funds

A.I.D. generally recognizes that when audits are necessary, funds should be specifically budgeted for those audits and not be commingled with funds for other project requirements. We found that one USAID Office grant to a non-U.S., nongovernmental organization did not specifically budget funds for the audit which must be performed under the new recipient-contracted financial audit program. This condition possibly occurred because the A.I.D. handbook covering such grants did not provide clear guidance in this area. Funds may not be available for the required audits if they are not specifically budgeted for in grant agreements.

Recommendation No. 6: We recommend that the Office of the USAID Representative to Argentina and Uruguay amend existing Grant Agreement No. 598-0616-10011 to include a separate budget line item for financial audit.

A.I.D. Handbook 3 (Project Assistance), Chapter 3 (Project Development Analysis and Presentation) recommends that final planning documents include a statement describing the audit coverage that is planned. It further recommends that project funds be specifically budgeted for audit and not commingled with other project requirements.

A.I.D. Handbook 13 (Grants), Appendix 4D (Mandatory Standard Provisions for Non-U.S., Nongovernmental Grantees) now requires recipient-contracted financial audits. But Handbook 13 does not provide guidance regarding the need to specifically budget funds for these financial audits, although their cost would normally be chargeable to the grant agreements. In our view, in order to ensure that funds will be available for recipient-contracted audits, the anticipated cost of such audits should be specifically budgeted for in the agreement in a manner similar to that required by the Handbook 3 guidance.

We examined four active agreements and found that the USAID Office did not always budget for audit coverage. Three agreements had funds specifically budgeted for financial audit. One agreement (Grant No. 598-0616-10011) did not have funds budgeted.

It is probable that the USAID Office had not always budgeted funds for audits because there was no specific guidance in this regard in Handbook 13. Because funds were not specifically budgeted, funding for the recipient-contracted audit activity has not been clearly established on this grant.

Management Comments and Our Evaluation

The USAID Office pointed out that funds were not budgeted in one of four cases where required and that this was the only instance of a problem with the USAID Office's recipient audit program--with no adverse impact. The USAID Office also indicated, that in this one case, funding had been omitted by oversight for the first year of the activity, but done so with the intention to budget funds in the second year of the grant when the recipient audit would take place. The USAID Office advised that it amended this grant in August 1992 to include funds for audit.

In our draft report, we recommended that the USAID Office develop written guidelines applicable to budgeting funds for financial audits. Because of the circumstances it described in the above paragraph, the USAID Office believes that its informal procedures for the financial auditing of grants are effective and that formal written policies are not necessary. Also, since LAC Bureau recently issued explicit guidelines calling for separate budget linc items for audit we have modified the recommendation contained in our draft report.

Recommendation No. 6 is closed.

Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that grants are closed out in accordance with A.I.D. policies and procedures?

We were unable to determine whether the USAID Office established and followed a system to ensure that grants are closed out in accordance with A.I.D. policies and procedures. The USAID Office did not have written policies and procedures to cover the closeout of grant agreements. We also were unable to determine by testing actual transactions whether the USAID Office followed A.I.D. policies and procedures to close out grants because there has not been any closeout activity at the USAID Office during recent years. USAID Office staff stated that there were no grants which had become eligible for closeout during the past three years.

We were able to determine that the USAID Office has scheduled recipient-funded financial audits for those grants which became or will become eligible for closeout during fiscal years 1992 and 1993.

Management Comments and Our Evaluation

The USAID Office stated that it is its policy to close out grants in accordance with A.I.D. guidance. It stated that a grant has recently been completed and that it plans to use the experience of closing out this grant to establish a procedure (a checklist) which the USAID Office will use to close out all grants on schedule.

REPORT ON INTERNAL CONTROLS

This section summarizes our assessment of the USAID Office's internal controls for the areas covered by the audit objectives.

Scope of Our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives, and
- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

We limited our assessment of internal controls to those controls applicable to the audit objectives and not to provide assurance on the USAID Office's overall internal control structure.

For the purposes of this report, we classified significant internal control policies and procedures applicable to each audit objective by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they had been placed in operation--and we assessed control risk.

When assessing control risk, we found that the USAID Office had not documented its internal controls applicable to the areas covered by our audit objectives. We therefore conducted more extensive testing, whenever possible, to achieve our purpose of assessing applicable internal controls. We have reported the internal control categories as well as any significant weaknesses under the applicable audit objective in the "Conclusions for the Audit Objective" section of this report.

General Background on Internal Controls

The management of A.I.D., including the USAID Office, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Managers' Financial Integrity Act (FMFIA) in September 1982. The FMFIA, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the FMFIA, the Office of Management and Budget has issued "Guidelines for the Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government". According to these guidelines, management is required to assess the expected benefits versus the related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions for the Audit Objectives

Audit Objective One

The first audit objective relates to the awarding of grant agreements. In planning and performing our audit, we considered the relevant internal control policies and procedures cited in A.I.D. Handbooks 3 and 13. For purposes of this report, we have classified the relevant policies into a category called the negotiation of agreement process.

We reviewed the USAID Office internal controls relating to the awarding of grant agreements and our tests showed that the controls were logically and consistently applied. Our tests were performed on the eight active grant agreements awarded by the USAID Office since 1989.

Audit Objective Two

The second audit objective relates to the requirement that grant recipients provide cost-sharing contributions. In planning and performing our audit we considered the relevant internal control policies and procedures cited in A.I.D. Handbook 13. For purposes of this report, we have classified the relevant policies and procedures into a category called the contribution implementation process.

We conclude that the internal controls were unreliable. Our assessment showed that the controls were not properly designed or implemented; therefore we could not rely upon them in designing our audit approach. However, we conducted more extensive testing to achieve our objective. We identified the following significant weakness:

- The USAID Office did not establish written policies and procedures to ensure that nongovernmental organizations provided required cost-sharing contributions in accordance with A.I.D. Policy Determination No. 16 and A.I.D. Handbook 13 (see page 4).

It should be noted that this condition had not been reported by the USAID Office in its 1991 Internal Control Assessment. The USAID Office should report this condition as a weakness in its 1992 Internal Control Assessment if it has not been fully resolved.

Audit Objective Three

The third objective concerns issuing and monitoring advances to nongovernmental organizations. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 1B, 13, and 19. For purposes of this report, we have classified the relevant policies and procedures into a category called the payment process.

We reviewed the USAID Office internal controls relating to this audit objective. Our tests showed that the controls were logically and consistently applied, except for the two significant weaknesses described below. Our tests were performed on four agreements financed via periodic advance.

We identified the following two significant weaknesses:

- The USAID Office did not have a written procedure to ensure that advances to nongovernmental organizations did not exceed immediate cash needs in accordance with A.I.D. Handbook 1B (see page 6).

- The USAID Office did not have a written procedure to ensure that interest earnings on outstanding advances were always remitted to A.I.D. in accordance with A.I.D. Handbook 13 (see page 8).

Audit Objective Four

The fourth objective relates to the monitoring of grant agreements and consists of three parts. The first part relates to the requirement that quantitative indicators be developed and implemented. The second part relates to site visits by project officers. The third part relates to planning and performing evaluations. In planning and performing our audit we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3, 11, and 13. For purposes of this report, we have classified the relevant policies and procedures into a category called the agreement monitoring process.

We reviewed the USAID Office internal controls relating to this audit objective. Our tests showed that the controls were logically and consistently applied. Our tests were performed on the eight active grants in the USAID Office.

However, considered significant in terms of answering the audit objective, our tests disclosed the following two areas in which the USAID Office could strengthen its controls:

- The USAID Office did not have a written procedure to ensure that quantitative indicators were consistently developed and incorporated into agreements (see page 10).

- The USAID Office did not have a written procedure for documenting the results of site visits (see page 13).

Audit Objective Five

The fifth audit objective concerns the financial audit monitoring requirements applicable to non-U.S., nongovernmental recipient organizations. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3, 13, and 19. For purposes of this report, we have classified the relevant policies and procedures into a category called the audit monitoring process.

We reviewed the USAID Office internal controls relative to this audit objective. Our tests showed that they were logically applied. Our tests were performed on four active grant agreements with indigenous organizations.

Audit Objective Six

The sixth audit objective relates to closeouts of grant agreements. In planning and performing our audit we considered the relevant internal control policies and procedures cited in A.I.D. Handbook 13. For purposes of this report, we have classified the relevant policies and procedures into a category called the closeout process.

We were unable to review the internal controls relating to this audit objective because the USAID Office has neither established a formal system for closeouts nor conducted closeout activity during recent years (see page 17). Except as noted above, our work was conducted in accordance with generally accepted government auditing standards.

REPORT ON COMPLIANCE

This section summarizes our conclusions on the USAID Office's compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we:

- assess compliance with applicable requirements of laws, regulations, and binding policies when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives), and

- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of the USAID Office's compliance with A.I.D. Policy Determination No. 16: "Program Financing Arrangements With Independent Organizations". Our purpose, however, was not to provide an opinion on the USAID Office's overall compliance with this binding policy. This report summarizes our conclusions on the USAID Office's compliance with the provisions of this binding policy which are specifically applicable to our audit objectives.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws and implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior. Compliance with applicable laws, regulations, binding policies, and contractual obligations is the overall responsibility of the USAID Office's management.

Conclusions on Compliance

The results of our tests of compliance indicate that the USAID Office/Argentina and Uruguay did not comply in all significant respects, with the provisions of A.I.D. Policy Determination No. 16: "Program Financing Arrangements With Independent Organizations" (see page 4).

SCOPE AND METHODOLOGY

Scope

We audited selected systems at the USAID Office in accordance with generally accepted government auditing standards. We conducted the audit from May 14 to May 29, 1992 and covered systems in place as of March 31, 1992. We did our field work in the offices of the USAID Office in the American Embassy in Montevideo, Uruguay and of one implementing entity.

The audit was limited to determining whether the USAID Office has established and followed the necessary management systems to effectively and efficiently implement the areas covered under the audit objectives. Therefore, our audit covered only systems and procedures at the USAID Office and not at the implementing entity levels.

We were unable to determine whether the USAID Office had followed A.I.D. policies and procedures to close out grants and cooperative agreements. There were no written policies and procedures in this area and we were unable to assess this process because there was no closeout activity during recent years.

We used computer-prepared financial data from the Mission Accounting and Control System (MACS) to develop certain of our findings. But we did not audit the computerized segment of the MACS and performed very limited tests of the computer-prepared data obtained therefrom. We observed MACS primarily in terms of original document inputs and report outputs.

During the period covered by our audit, the USAID Office's aggregate program was valued at $4.0 million. Obligations and expenditures at this same time were $4.0 million and $2.4 million, respectively. We did not specifically audit these amounts; instead, our audit focused on the systems used to control and manage the program.

After reviewing our draft audit report, the USAID Representative confirmed to us in writing that the USAID Office was responsible for: (1) the internal control system,
(2) compliance with applicable laws, regulations and legally binding requirements, and (3) the fairness and accuracy of the accounting information. He further confirmed, to the best of his knowledge and belief, that all relevant financial and management information available at the USAID Office was made available to the auditors, and that no events have occurred during or subsequent to the period under audit which would materially alter the conclusions reached in the draft audit report.

Methodology

The methodology for each audit objective follows:

Audit Objective One

To accomplish the first objective, we obtained and reviewed those sections of A.I.D. Handbook 13 which cover the award of grant agreements to nongovernmental organizations. We then interviewed operating personnel to determine the USAID Office policies and procedures in this area and compared them to the Handbook 13 requirements.

We identified eight active grant agreements which were awarded locally after 1989. We tested those awards to determine whether pre-award surveys were performed and whether the awards were made competitively. If the awards were not made competitively, we tested to determine that the project files contained an adequate explanation.

Audit Objective Two

To accomplish the second audit objective, we obtained and reviewed A.I.D. Policy Determination No. 16 and A.I.D. Handbook 13. We interviewed operating personnel to determine A.I.D./Uruguay/Argentina policies and procedures regarding cost sharing provisions and compared them to the A.I.D. requirements.

We identified eight agreements which were active at the time of our audit. We tested these eight agreements to determine whether cost-sharing provisions were incorporated and whether cost-sharing contributions were made. To accomplish this, we reviewed the project files and interviewed project officers to determine whether: (a) recipients reported their contributions to the USAID Office, (b) project officers provided instructions to recipients concerning cost-sharing requirements, (c) project officers verified that cost-sharing contributions were made, and (d) the USAID Office knew what contributions recipients actually made to projects.

Audit Objective Three

To accomplish the third objective, we obtained and reviewed A.I.D. Handbooks 1B, 13, and 19. We then held discussions with the USAID Office officials to determine practices for negotiating and liquidating advances and compared them to the A.I.D. requirements.

We identified eight agreements which were active at the time of our audit. We then determined that four of these agreements were financed via periodic advance. We interviewed operating personnel and examined accounting records to determine the status of any outstanding advances applicable to these agreements.

Audit Objective Four

To accomplish the fourth objective, we obtained and reviewed A.I.D. Handbooks 3, 11, and 13. We then interviewed the USAID Office officials to determine the policies and procedures with respect to three areas: quantitative indicators, site visits, and evaluation activity.

We selected all eight active grants to assess compliance for the first two areas covered by this objective. To make this assessment, we interviewed project officers, reviewed the agreements, project files, and recipient progress reports.

To assess compliance with the third area covered by this objective, we interviewed project officers, obtained and reviewed evaluation documents, and obtained and reviewed the Action Plans for fiscal years 1993-1994 for Uruguay and Argentina.

Audit Objective Five

To accomplish the fifth audit objective, we obtained and reviewed A.I.D. Handbooks 3 and 13. We then interviewed operating personnel to determine the policies and procedures used to ensure that recipients (other than public international organizations) performed the required annual audits and that the USAID Office monitored this process.

We obtained the USAID Office's list of recipients to determine the universe of recipient-funded audits. We selected all four active grants with indigenous recipients and tested the agreements to determine whether (a) required audit provisions were included and (b) funds were specifically budgeted for audit.

Audit Objective Six

For the sixth objective, we obtained and reviewed A.I.D. Handbook 13. We then interviewed operating personnel to determine the extent of: (1) documented policies and procedures used to close out grants and (2) grant closeout activity at the USAID Office. We obtained and reviewed the USAID Office schedule of recipient-funded financial audits for those grants which became or will become eligible for closeout during fiscal years 1992 and 1993.

MANAGEMENT COMMENTS

UNITED STATES GOVERNMENT

memorandum

DATE: December 4, 1992

REPLY TO ATTN OF: Robert J. Asselin, Jr., A.I.D. Representative

SUBJECT: Draft Audit Report of Selected Systems at the Office of the USAID Representative to Argentina and Uruguay

TO: Lou Mundy, RIG/A/T

Enclosed is this Office's reply to the subject Draft Audit Report. We have carefully reviewed the Draft Report. In the coming weeks, I plan to use all available resources to expedite implementation of the actions indicated below in order to close all of the RIG's final audit recommendations.

Our reply to the Draft Audit Report is organized as follows:

I. General Comments on the Draft Audit Report
II. Comments on Findings and Replies to Recommendations
   1. Current Office Policies and Procedures
   2. Reply to Draft Recommendations
   3. Comments on Text

Attached to our reply are my representation letter; a copy of our latest Internal Control Assessment; and a copy of the memorandum provided to the auditors during their visit.

I regret that this reply took longer than anticipated to submit to the RIG. We found it necessary to use this time to include in our reply extensive comments on the text of the Draft Report in view of our desire that the Final Report present as balanced and accurate a picture as possible of our Office and the systems audited.

I hereby request that the RIG take full account of the comments included in our reply to its Draft Audit Report and that this reply be included in full in the Final Audit Report.

Attachment: a/s

USAID/ARGENTINA AND URUGUAY REPLY TO DRAFT AUDIT REPORT

I. GENERAL COMMENTS ON THE DRAFT AUDIT REPORT

The General Accounting Office's *Government Auditing Standards,* 1988 Revision states:

> *"Internal controls include the plan of organization and methods and procedures* ***adopted by management*** *to ensure that its goals and objectives are met; that resources are used consistent with laws, regulations and policies; that resources are 0safeguarded against waste, loss and misuse; and that reliable data are obtained, maintained and fairly disclosed in reports."*

This quotation is relevant to the RIG's audit of selected systems at our Office because it makes it clear that establishment of control systems is the responsibility of **management** and it does not mandate that all control systems/procedures must be formalized in writing. The AICPA Statement on Auditing Standards #55[1] states that **"establishing and maintaining an internal control structure is an important management responsibility."** We believe the internal control structure of our Office meets the requirement of SAS #55 which states in Section 12 that an entity's size, organization and ownership characteristics, diversity and complexity of operations, methods of processing data and applicable legal and regulatory requirements **should all be considered in the design and implementation of an internal control structure.** Specifically, SAS #55 also states:

> *"...A formal written code of conduct or an organizational structure that provides for formal delegation of authority may be significant to the control environment of a large entity. However, a small entity with effective owner-management involvement may not need a formal code...a small entity with effective owner-manager involvement may not need ...formal control procedures..."*

The Office of the AID Representative to Argentina and Uruguay has established **firm policies** to comply with all required AID policies and regulations in the areas selected by the RIG for its audit and **informal procedures** to help ensure that these policies and

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[1] According to *Government Auditing Standards, 1988 Revision,* Chapter 1, paragraph 3: "The AICPA standards for field work and reporting have been incorporated into this statement for financial audits. As additional statements on auditing standards are issued by the AICPA, they will be adopted and incorporated into these standards unless GAO excludes them by formal announcement."

regulations, and other **objectives of internal control** systems, are met.

In preparing its Final Audit Report, we would like to request that the RIG make all necessary efforts to ensure that it is balanced and accurate by:

- o recognizing there is a difference in sophistication, number and degree of formality of internal control systems required in A.I.D. representatives' offices as opposed to A.I.D. missions;

- o acknowledging that the lack of formal written procedures embodied in local orders does not mean that no control systems exist at all (i.e., that informal control systems exist and are effective in ensuring accountability);

- o distinguishing clearly between A.I.D. regulations and required policies, and areas in which management discretion in following recommended A.I.D. program management practices is wider;

- o endeavoring to be as precise as possible regarding audit findings and their actual scope and impact; and

- o avoiding misleading language.

<u>A.I.D. Representative's Office versus Mission</u>

Three factors which distinguish the operations of A.I.D. representatives' offices such as our own from A.I.D. missions are:

- o the much smaller size and different nature of activities financed (in our case, mostly small grants to NGOs and buy-ins to regional and world-wide A.I.D. projects, with few, if any, stand-alone projects);

- o a higher level of competence among host country grantee personnel; and

- o a small USAID staff, whose members are continuously in touch with each other on a day-to-day basis.

In this type of operating environment, it simply is not necessary to formalize (i.e., write down) all control procedures in order to ensure adequate compliance with A.I.D. regulations. Certainly, nothing approaching the number and sophistication of local orders found in a typical A.I.D. mission would be appropriate. Even A.I.D. missions must draw the line when deciding how many of their control systems to formalize. Both missions and representatives' offices must balance costs with potential benefits in the design of systems needed to ensure adequate compliance with A.I.D.'s required policies and regulations. This fact is recognized by OMB and was acknowledged by the RIG on page 21 of its Draft Audit Report, which states:

> *"According to these (OMB) guidelines, management is required to assess the expected benefits versus the related costs of internal control policies and procedures."*

Informal Versus Formal Control Systems

Throughout the Draft Report, the RIG has made unqualified statements that this Office has no **formal** policies, procedures and systems, which leave the impression that no policies, procedures and systems in specific areas have been established **at all**, and ignore the existence of effective informal control systems.

This Office **has** control systems in five of the six areas audited (no project close-out procedures have yet been developed). The Office has **firm policies** and **informal procedures** to help ensure policy compliance. Our control systems are informal, but not non-existent. We agree with the RIG that in some cases it would be useful to document these existing informal systems for the sake of clarity and consistent application, especially as the number of activities and office staff grow. The degree to which this is done, however, is within the discretion of the management of the Office and the LAC Bureau (taking into account OMB's guidance about balancing costs and benefits), with the effectiveness of both formal and informal systems subject to examination by the RIG in its audits. We request that the RIG take care not to imply that because some systems are not formal and documented that no systems exist at all in the areas audited, nor that A.I.D. representatives' offices are always required to implement the same type of management controls as an A.I.D. mission.

A.I.D. Policies and Regulations Versus Recommendations to Management

Most of the six audit areas selected by the RIG are subject, at least in part, to required A.I.D. policies and regulations (areas 1, 2, 3 and 5); whereas others are areas in which A.I.D. makes program management recommendations with respect to which A.I.D. managers have much wider latitude (areas 4 and 6). We request that RIG recognize this distinction because whereas compliance with required policies and regulations must clearly be ensured, honest differences of opinion may exist regarding A.I.D.'s program management recommendations. In our opinion, the latter need not be subject to the same kind of attention, if any, by RIG staff as the former. We would appreciate RIG's efforts to ensure that its Final

Report distinguishes between required policies and regulations and recommended program management practices.

Precision in Findings

To present a fair and balanced picture of this Office, we believe the RIG should endeavor to be as quantitative as possible regarding the incidence, and potential impact, of problems noted (i.e., how many projects in the portfolio, or how much money in total funding involved) so as to avoid misleading the reader, and to decide how far it is appropriate to go in its recommendations (balancing potential benefits and costs as OMB recommends).

Misleading Language

The RIG's specific recommendations are limited in number and should be relatively easy to close. We appreciate efforts made by the RIG to recognize successful efforts on behalf of this Office. Nevertheless, we believe strict accuracy in the language used in the text of the Final Report is important. As drafted, the findings can be misleading to outside readers in the absence of a better effort to indicate the relatively limited magnitude of the problems identified. This is especially important because sentences may be excerpted from the Final Report for use in other RIG reports.

We find several statements in the Draft Report are exaggerated or unfounded, overly simplistic, or speculative; and we request that the RIG examine them carefully. We are providing detailed comments on the Draft Report because we feel strongly that the Final Report needs to be thoroughly edited to ensure that its findings are clear, quantified, fair and accurate, and that sufficient perspective is provided so that outside readers can make accurate judgments on the results of the audit.

II. COMMENTS ON FINDINGS AND REPLIES TO RECOMMENDATIONS

COMMENTS ON BACKGROUND, OBJECTIVES AND SUMMARY SECTIONS OF AUDIT (cover pgs. i to iii in Executive Summary and pgs. 1 to 3 in Introduction)

1. Program Size: For the eight grant agreements covered by the audit, funding figures as of 12-31-91 were (in approximate thousands of dollars):

	Oblig.	Exp.	Undisbursed
URUGUAY (5)	2.7	1.537	1.163
ARGENTINA (3)	0.9	0.408	0.492
TOTAL (8)	3.6	1.945	1.655
%	100	54	46

Please revise the figures provided on pages i, 1 and 30.

2. Systems Selected for Audit: On page i, the RIG states: "Our audit focused on those internal control systems which were most relevant to the implementation of the USAID Office portfolio." We request that the RIG add "in the IG's opinion", or "RIG believes" to this sentence (and to that on pg. 2) since the relative importance of various internal control systems and audit areas is a matter of opinion, and the audit areas were selected unilaterally by the RIG.

3. Summary Conclusions (pg. iii)

The Draft Report states:

> "The audit found that the USAID Office did not establish formal, documented systems for any of the areas covered by the audit objectives. But, despite this lack of documented systems, we were able to determine that the USAID Office followed A.I.D. policies and procedures in some of these areas."

While the first sentence is true taken by itself, it ignores the fact that **informal internal control systems were established** and have been working in five of the six areas audited. We request the RIG cite the fact that effective informal control systems exist rather than imply no systems exist at all. We agree with the RIG that in a few areas written policies and procedures can help clarify and improve internal controls already established informally, but disagree that written policies and procedures are needed to "establish" internal controls.

We feel the use of the word **"some"** in the second sentence is imprecise, and therefore misleading, and request the RIG be more specific; e.g., by citing the number of areas among the six audited in which the RIG believes A.I.D. policies and regulations were or were not significantly violated.

The Draft Report also states:

> "Nevertheless, we believe that the USAID Office needs to establish written policies and procedures in some of the areas covered by the audit objectives. Such policies and procedures are necessary to improve and, in some areas - establish - internal controls. Specifically, procedures need to be established or improved to help ensure that:

(1) recipients make cost-sharing contributions, (2) funds advanced to recipients are limited to immediate cash needs, and interest earnings are remitted to A.I.D., (3) grants are monitored through the use of quantitative indicators and documented site visits, and (4) grants will be audited."

In our most recent Internal Control Assessment, I have identified only two control techniques requiring improvement: monitoring cost-sharing contributions and limiting advances to non-profit organizations to immediate cash needs. We agree with the RIG that informal procedures currently being employed can be **improved** in audit area No. 1 and in the first part of audit area No. 2. For reasons explained in detail below, we believe procedures currently in use regarding remittance of interest earnings, and items No. 3 and 4 cited above are already adequate. We request the RIG limit its conclusion accordingly.

AUDIT AREA NO. 1: AWARD OF GRANTS TO NGOS

"Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that grants are awarded to nongovernmental organizations in accordance with A.I.D. policies and procedures?"

We agree with RIG statements on pgs. iii/iv, 4, 22. We are not sure why the positive finding on pg. iii ("Agreements were awarded in accordance with A.I.D. policies and procedures") is not repeated in the Table of Contents and on pg. 4, as other negative summary findings are.

AUDIT AREA NO. 2: COST SHARING CONTROLS

"Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that non-governmental organizations made cost-sharing contributions in accordance with A.I.D. policies and procedures?"

1. Current Office Policy and Procedures

Policy Determination 16 leaves ample room for exceptions to the 25% host country contribution guideline which do not violate the principles of grantee commitment and sufficiency of resources to meet agreed project objectives. As explained to the auditors, our current policy is to request counterpart contributions be listed in NGO proposals, but shown in grant agreements only to the extent counterpart funding is both needed and doubt might exist regarding the grantee's ability to contribute it on schedule. In some cases, we cooperate with NGOs to support specific aspects of their ongoing programs, and we are fully confident they will meet their financial commitment to these expanded ongoing activities. In these cases, we do not feel it necessary to include and monitor counterpart contributions. In others, such as with public sector organizations where budget availability is questionable, we decide to include needed counterpart contributions.

We **have** been at fault not to **document** exceptions to 25% guideline per PD 16, nor to monitor counterpart which **is** required under grant agreements. On the other hand, most counterpart is provided in-kind, and we know of no case where project implementation in any way has been impeded, or project objectives have not been reached, due to problems with the provision of counterpart contributions.

2. Reply to Draft Recommendations

Recommendation No. 1: "That USAID:

"1.1 implement through written guidelines a system for cost-sharing contributions to comply with A.I.D. policy, and

1.2 report this condition as a weakness in its next internal control assessment if not fully resolved."

In response to this Recommendation, we plan to formalize and improve our current informal control system by issuing written guidelines in the form of a local order which will: document how this Office has been applying the guideline in PD 16 regarding the setting of counterpart contributions; require that decisions regarding the level of counterpart required in grant agreements be separately documented for each grant in accordance with PD 16; and set out procedures which will improve our monitoring of required counterpart. In addition, we have reported in our last ICA (attached) that our control techniques for documenting decisions made regarding counterpart contributions by NGOs and counterpart monitoring need improvement. Please close recommendation 1.2 upon issuance of your Final Report.

3. Comments on Text

The Office policy and procedures cited above were explained to the auditors during their field visit but are not reflected in the Draft Report. We request that the Draft Report be edited in order to present a fair and balanced picture to the outside reader.

Informal Procedures versus No Procedures

The highlighted heading: "*Procedures need to be established for Cost-Sharing Contributions*" appears in the Table of Contents and on pgs. iv and 5. This statement ignores the fact that informal procedures already exist, and leaves the impression that procedures need to be developed from scratch, rather than just improved in two respects, as noted above. We request the RIG make this heading more specific or eliminate it from the Final Report.

On pg. 4, the RIG states:

> "The USAID Office did not establish and follow a formal, documented system to ensure that non-governmental organizations made cost-sharing contributions. Instead, the USAID Office had an informal policy to encourage such organizations to share in project implementation costs."

This Office does not have "*an informal policy to encourage such organizations to share in project implementation costs*". We have a **firm policy** to require adequate counterpart contributions and to show such contributions in grant agreements when both needed and any doubt exists that funds will be provided. It is our **control system** which is informal. (This same point is applicable to paragraph 3 of pg. 6).

Similarly, the use of the phrase "*establishing and following a system*" on pg. 7 is misleading because it does not recognize the policy and informal procedures which already exist.

Lastly, by using the word "consequently" on pg. iv, the RIG concludes that the reason some agreements do not contain cost-sharing provisions is because no **written** policies and procedures exist. As explained to the auditors, the Office made express decisions regarding cost-sharing contributions in the case of each grant. It is incorrect to state that the non-existence of written procedures resulted in cost-sharing provision being left out of certain grant agreements.

<u>Precision in Findings and Specifying Specific Deficiencies</u>

On pg. 5, the RIG states:

> "Agency policies specify that missions and offices should normally require a 25 percent cost-sharing contribution from non-profit organizations unless there is strong justification for doing otherwise. The USAID Office did not ensure full compliance with these policies."

On pg. 6, the RIG states:

> "We found that there has been less than full compliance with A.I.D. policy regarding cost-sharing contributions for the eight grant agreements."

The above description of A.I.D. policy from pg. 5 is stricter than that contained in PD 16. We recommend it be made more precise. To state that "*the USAID Office did not ensure full compliance with these policies*", i.e. those policies of PD 16 requiring **adequate** counterpart contributions from non-profit organizations, is incorrect. We have required adequate counterpart contributions in our grant agreements in line with PD 16. Our deficiencies have been limited to the two areas cited above (documenting decisions and monitoring).

In the section on internal controls (pg. 22, 23), the RIG states:

> "We conclude that the internal controls were unreliable. Our assessment showed that the controls were not properly designed or implemented; therefore we could not rely upon them in designing our audit approach. ... We identified the following significant weakness: The USAID Office did not establish and implement policies and procedures to ensure that non-governmental organizations provided required cost-sharing contributions in accordance with A.I.D. Policy Determination No. 16 and A.I.D. Handbook 13."

We request that the RIG be more precise in the conclusions given in the first two sentences cited above, and that it cite reasons for the conclusions drawn. "*Unreliable*" is a broad adjective. It would be more useful to this Office if specific deficiencies were cited so they can be addressed when our local order is drafted. We also request the RIG to explain why it considers the internal control weakness it cites (pgs. iii and 22) as "*significant*," rather than "*unsatisfactory*" with regard to certain specific details (as indicated in our latest Internal Control Assessment).

Again, as drafted, we believe the concluding sentence quoted above is neither accurate nor adequately precise. While it is accurate to say the Office did not establish **written** policies and procedures, it is not accurate to imply no policies and procedures were established at all. Neither is it accurate to state that the Office did not "*implement*" any policies and procedures.

In its report on compliance, the RIG concludes (p. 28) that:

> "The results of our tests of compliance indicate that the USAID Office/Argentina and Uruguay did not comply in all significant respects, with the provisions of A.I.D. Policy Determination No. 16: Program Financing Arrangements with Independent Organizations."

This conclusion is also reflected in the statement on pg. iii that "we found that the USAID Office did not comply, in all material respects, with A.I.D. binding policy for cost-sharing contributions." In the absence of more detail with regard to the specific areas in which the RIG finds compliance to be deficient, it will be more difficult for this Office to make the changes required to improve compliance. Furthermore, in order to provide outside readers of its Final Report with a balanced and informed picture of this Office's compliance record in this regard, we request that the RIG be more specific regarding the areas in which compliance is judged insufficient and the impact of such insufficiencies.

Speculation with Respect to Causes

On pg. 5, the RIG states:

> "It is probable that these conditions occurred because the prior management of the USAID Office had not considered the A.I.D. policy to be applicable to the types of organizations implementing its portfolio."

On page 7, the RIG states

> "We were unable to determine the exact cause for the above conditions. But it is probable that these conditions occurred because the prior management of the USAID Office had not considered the A.I.D. policy to be applicable to the types of organizations implementing its portfolio."

In our opinion, these statements are speculative and should not be included in the Final Audit Report. They may not be fair to the former A.I.D. Representative; and in any case, the subject of the audit is the Office and not individual officers.

Assurances Regarding Counterpart Contributions

On pg. iv, the RIG states:

> "As a result, the USAID Office does not have assurance that recipients are contributing to projects in accordance with A.I.D. policy."

On pg. 5, the RIG states:

> "As a result, three of the eight grant agreements did not contain cost-sharing provisions, and the USAID Office does not have adequate assurance that recipients are making contributions to projects."

It is incorrect to conclude on the basis of two valid findings ((1) some agreements do not contain cost-sharing provisions, and (2) counterpart contributions which were required in other grant agreements have not been **accounted for** by our Office), that therefore "the USAID Office does not have assurance that recipients are contributing to projects in accordance with A.I.D. policy", or that the Office "does not have adequate assurance that recipients are making contributions to projects". By far, most counterpart, whether required by grant requirements or not, is in-kind. If it were inadequate to meet agreed project objectives, we would know immediately, given the frequency with which our staff visits grantees. Furthermore, due to our policy regarding counterpart from NGOs, our case-by-case counterpart decisions, and our monitoring of each grantee, we are confident A.I.D. policy, as spelled out in P.D. 16, **is** being followed, even though we acknowledge documentation of this Office's conformance with that policy can be improved.

On pg. 6, the RIG states:

> "We visited one recipient and found that it did not make its agreed-to cost-sharing contribution." (This refers to our Junior Achievement project DESEM.)

This statement is imprecise. The RIG found the grantee had not been **documenting** its counterpart contributions and therefore could not prove to the RIG they had been made (or were even being monitored) by the grantee. This is a problem, but not the same as not making agreed contributions. Furthermore, although we erroneously did not require DESEM's in-kind contributions to be accounted for and reported to us; we nevertheless, have been confident it is being provided given the progress achieved by the grantee.

Judgments Regarding Developmental Impact

On pg. 7, the RIG states:

> "Cost-sharing contributions represent an important part of the A.I.D. projects in Uruguay and Argentina since the portfolio is primarily implemented through grant agreements to non-governmental organizations. By establishing and following a system to ensure that non-governmental organizations make contributions to projects in accordance with A.I.D. policies and procedures, the USAID Office will be able to increase the development impact of these projects."

Adequate cost-sharing is important in any agreement A.I.D. signs. However, we disagree with the first sentence in the RIG statement and would argue that, if anything, the magnitude and monitoring of counterpart is more important in agreements signed with the public sector, rather than those with NGOs which are specifically selected because they can be trusted and with which we share program objectives.

Even to claim that by formalizing and improving existing informal systems for counterpart contributions (the RIG's statement is not this precise), *"the USAID Office will be able to increase the developmental impact of these (NGO) projects"* is judgmental, speculative, and - in our opinion - inaccurate because this implies that insufficient counterpart contributions from NGOs have adversely affected achievement of agreed project objectives, which is untrue.

AUDIT AREA NO. 3: CASH ADVANCES

"Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that cash advances to non-governmental organizations do not exceed immediate needs and are liquidated in accordance with A.I.D. policies and procedures?"

1. <u>Current Office Policy and Procedures</u>

Of the eight grants audited, four contained provisions for periodic advances. These four had a value of $1.5 million and a remaining pipeline of $645,088.

This Office explained to RIG auditors its informal procedures regarding advances to NGOs. Under these procedures, for each relevant grant, our Office has considered the need for advances versus reimbursements and established 90-day advance periods when financing by advances is warranted. Our Office also carefully monitors the amounts advanced, on a regular basis, liquidations and remittance of any interest to the U.S. Treasury.

As noted in the Draft Report, we have examined the period needed for advances and decided to routinely grant 90-day advances in the belief that a 90-day period reasonably balances a) the need for ensuring that NGO cash balances on hand do not exceed immediate cash needs and are readily available in order not to delay planned program implementation, with b) the administrative burden having an advance system places on both the grantee and our Office, and c) delays in the accounting and disbursement system which are not fully under the control of either our Office or the grantee. We have not made a detailed analysis of the typical administrative delays and cash needs of each specific grantee, in order to justify the 90-day period in **each** case; but we are reasonably confident the same conditions apply to all four grantees. We have also not documented each decision to establish an advance period longer than 30 days. We plan to do both in the future.

For all four grants, on a continuing basis, the Program Officer and Office Accountant monitor quarterly advances, liquidations, replenishment and any interest earned, to ensure that amounts advanced are limited to immediate cash needs and liquidated on schedule.

There are several reasons why a 90-day advance period has been selected, and we believe it is reasonable. Even with our 90-day advance period, on the average, funds are available to each grantee only for about 45 days. This is because the advance liquidation and replenishment process usually takes 45 days. This includes the time necessary after the end of the quarter to receive the grantee's voucher, and to examine the voucher, process a new advance request, send the payment request to the U.S.D.O. in Buenos

Aires, and to receive the checks from Buenos Aires. In addition, local banks will often wait ten days before posting the grantees' advance checks and making funds available in their accounts. Starting in FY 1993, South American missions and offices will have checks issued by the RAMC Mexico. This will cause additional payment processing delays.

The final factor we have considered in setting a 90-day advance period is the need to minimize the administrative burden placed on both the grantees and our Office. As noted above, we have set the 90-day period in order to balance the built-in administrative delays and administrative burden with he need to ensure the amounts of cash available to grantees is limited to immediate needs and that cash is available when needed.

This Office is fully aware of the requirement to provide for reimbursement to the U.S. Treasury of any interest earned on funds advanced to grantees, and routinely incorporates a provision to this effect in all grants to non-profit NGOs which allows for periodic advances. During the visit of RIG auditors, it was pointed out that one grant made by this Office - in 1989 to the Catholic University (UCUDAL) - did not contain such a provision, and instead provided that any interest earned be reprogrammed for the project with A.I.D.'s concurrence. This is the **only** grant of this Office which does not provide for any interest earned on advances to be remitted to the U.S. Treasury. We pointed out to the auditors that the reason this grant does not contain the required provision regarding interest was that when it was drafted in 1989 the Office staff was not yet aware of the standard requirement to remit interest to the U.S. Treasury, and that since the grant had never needed to be amended to provide additional funds, the Office had not had the opportunity to modify provisions dealing with interest. (The total amount of the grant was obligated upon original signature, and the Office chose not to attempt to unilaterally re-open negotiations later to modify the treatment of interest which had already been agreed.)

UCUDAL has just requested A.I.D. to approve an extension of the grant, which we plan to do. This request now provides the Office with an opportunity to negotiate a change in the treatment of interest. We plan to use this opportunity to correct the Office's prior error.

The important point to stress is that the failure of the Office to include proper provisions regarding interest in one of a total of eight grants in force as of this date which provide for periodic advances does not mean that the Office's current **system** for ensuring proper treatment of interest is defective. It is a case of an error made prior to establishment of an informal control system once the Office staff became aware of the regulation regarding interest.

2. <u>Reply to Draft Recommendations</u>

Recommendation No. 2:

> **"We recommend that the Office of the USAID Representative to Argentina and Uruguay implement through written guidelines a system for issuing cash advances to non-governmental organizations."**

Recommendation No. 3:

> **"We recommend that the Office of the USAID Representative to Argentina and Uruguay implement through written guidelines a system to monitor the use of advances by non-governmental organizations and to require the periodic remittance of interest earnings to the U.S. Government."**

This Office currently employs an informal control system regarding treatment of advances to NGOs which reasonably ensures compliance with A.I.D. policies and regulations except in two respects:

1) The need to review individually the circumstance regarding each grantee for which it is decided to use advances, in order to determine individually a reasonable advance period (i.e. between 30 and 90 days).

2) Our failure to document decisions made to provide for advance periods of more than 30 days.

In all other respects, the Office's control system is adequate. We also believe 90-day advances will be justified in almost all cases. We believe these deficiencies are ones of form (i.e. lack of documentation) rather than substance (i.e. significant non-compliance with A.I.D. policy or grossly inadequate control techniques). We therefore request the RIG to consider presenting them as such, rather than leaving the misleading impression that problems exist where they do not (see comments on text below).

We are puzzled as to why the RIG chose initially to make a separate recommendation regarding the issue of interest when it was aware that no systematic problem exists in this regard and of the circumstances regarding the mistake made with the UCUDAL grant by the Office. We therefore request the RIG consider combining recommendations 2 & 3.

I decided to cite in our latest ICA that our control techniques for advances to NGOs are unsatisfactory with regard to documenting decisions to allow more than 30-day advance periods for individual grants. We plan to issue a local order which will document our existing internal control system for advances to non-profit NGOs to cover: decisions made to finance with advances versus reimbursements; setting advance periods; ongoing monitoring of liquidation and replenishment; and remittance of any interest earned to the U.S. Treasury. The local order will also improve our current control system in two ways: by providing for individual analysis of advance periods for each grantee; and by documenting each decision to provide for more than a 30-day advance period.

We request the RIG review the Draft Report's text, taking into account the comments given below, to ensure it conveys an accurate picture of the nature and impact of the limited deficiencies which exist, and that the RIG close its consolidated recommendation upon issuance of our local order.

3. Comments on Text

Misleading Conclusions

The heading on page iv states: "*Advances should be limited to immediate needs, and interest earnings should be remitted to A.I.D.*" This heading is repeated in the Table of Contents and on pgs. 8 and 10. Readers of the RIG's report can be mislead by this heading to believe that systemic cash management problems exist when in fact they do not. We request the RIG eliminate these headings from its Final Report.

In its Executive Summary, the RIG states:

> "Written policies and procedures were not established to limit cash advances to recipients to immediate cash needs, or to monitor their use by recipients. We identified two conditions needing improvement: (1) advances were generally made for a 90-day period without a written justification, when a 30-day advance period may have been more appropriate (see page 8), and (2) the USAID Office did not ensure that all recipients remitted the interest earnings on their outstanding advances to A.I.D. for deposit into the U.S.Treasury (see page 10). As a result of these two conditions, the U.S. Government incurred unnecessary interest costs."

We believe this summary conclusion is misleading on several counts. While the first sentence strictly speaking is true because it includes the word "written", it can convey the impression that no policies and procedures regarding cash advances are being employed because no mention is made of the adequate informal control systems which **do** exist. The phrase: "*when a 30-day advance period may have been more appropriate*" is speculative, and in our opinion, incorrect for the reasons cited above which have led us to opt for 90-day advance periods. We believe the inclusion of this phrase implies negligence regarding cash management when none exists, and the issue is one of documentation only. We also believe the wording regarding handling of interest by our Office is misleading because it is inadequately precise. Only one case of mishandling of interest exists, and there is no systemic problem; yet the phrase can give the impression one exists.

Lastly, we believe the final concluding statement is incorrect. The RIG cannot posit that unnecessary interest costs were incurred by the USG because of our decision to routinely grant 90-day advance periods in three cases in the absence of proof that less than 90 days would have been adequate. The decision whether to grant more than 30-day advance periods requires consideration of many factors which affect administrative costs and burdens incurred by A.I.D. and grantees. Management judgment is required, and in our opinion, only in cases of gross negligence in applying such judgment might it be possible to provide proof that particular decisions regarding the length of advance periods caused the USG to incur unnecessary interest costs. (It is also imprecise to state that as a result of the one case where the Office and grantee reprogrammed $1,744 in interest earned the USG incurred unnecessary interest costs. It would be more precise to say the USG lost the opportunity to use **interest earned** by the grantee to reduce its borrowing costs or to finance other USG programs.)

In the section on internal controls, the RIG states:

> "The USAID Office did not have a procedure to ensure that interest earnings on outstanding advances were remitted to A.I.D. in accordance with Handbook 13."

This is not true. A procedure is in place which has ensured that such remittances are being made in all but one case. We do not believe that a negative conclusion regarding the procedure, or control system, in effect is warranted by the one exception.

Informal Procedures versus No Procedures

On pg. 7, the RIG states:

> "The USAID Office did not establish and follow a formal, documented system to ensure that advances of funds to non-governmental organizations did not exceed immediate cash needs and were liquidated in accordance with A.I.D. policies and procedures. Instead, it followed an informal policy concerning advances."

This paragraph is similar to that cited regarding the last Audit Area, for which we requested the wording should be more precise. The Office does not "*follow an informal policy.*" It established and follows an informal procedure regarding management of advances. We believe the words "*and follow*" should be eliminated from the first sentences so as not to imply no policies and procedures are followed at all.

Page 7 also states:

> "We identified two areas where the USAID Office needs to establish a system to fully comply with A.I.D. policies and procedures.We recommend that the Office of the USAID Representative to Argentina and Uruguay implement through written guidelines a system for issuing cash advances to nongovernmental organizations."

We suggest the RIG consider saying "*establish a formal, written system*" and take care not to imply no system exists at all presently. Later in the same paragraph, the interest issue is again cited as if there were a general problem rather than one exception to the rule.

<u>Speculation with Regard to Cause</u>

On pg. 9, the RIG states:

> "We were unable to determine the cause for such general use of 90-day advances. It is likely that this condition occurred because the USAID Office did not establish adequate procedures or exercise adequate oversight to ensure that A.I.D. policy was effectively implemented."

This statement is repeated on pg. 8. The reasons for the use of 90-day advances were fully explained to RIG auditors during their visit (and are repeated above). The RIG's speculation regarding the reason 90-day advances were used is not accurate. Adequate procedures have been established, and adequate oversight has been exercised, to ensure A.I.D. policy is effectively implemented, in all but one respect - the need to document individual decisions to provide advances for more than 30 days. The Office's decisions to extend 90-day advances have been made after consideration of relevant factors. Advances are well managed. To otherwise state is incorrect.

We believe this section also contains two unnecessary statements:

> "Poor cash management practices could require the U.S. Government to unnecessarily borrow funds to cover outstanding advances." (pg. 8), and

> "Also, unjustified 90-day advances can result in unnecessary interest cost being incurred by the U.S. Government." (pg. 9)

Why say the obvious? Did the RIG find this Office's cash management practices were materially deficient?

<u>Precision in Findings</u>

In the section on internal controls, the RIG states:

"The USAID Office did not have a procedure to ensure that advances to non-governmental organizations did not exceed immediate cash needs in accordance with A.I.D. Handbook 1B." We request that this sentence be drafted more carefully. As stated, it says the Office has no procedures, which is incorrect. We believe the RIG also might more accurately conclude that the Office's policy to routinely grant 90-day allowances could have resulted in instances of advances exceeding immediate cash needs.

On pg. 10, the RIG states

"the USAID Office did not ensure that interest earnings were always handled as required".

To avoid possibly misleading the reader, we believe it would be preferable to state clearly that in only one case does A.I.D. fail to provide that interest be reimbursed.

Audit Area No. 4: Indicators, Site Visits and Evaluations

"Did the USAID Office/Argentina and Uruguay establish and follow a system in accordance with A.I.D. policies and procedures to ensure that: (a) quantitative indicators are developed, (b) site visits are made and performed by project officers, and (c) evaluations are planned and performed?"

1. Current Office Policy and Procedures

Practices regarding the use of indicators, evaluations, and site visit documentation are areas of management discretion, and do not involve legally binding A.I.D. policies and regulations. The RIG's report speaks of A.I.D. "encouraging" missions to develop indicator systems (pg. 12), and says that A.I.D. Handbooks providing "general guidelines" for making and documenting site visits. In our opinion the RIG should not get involved in debating practices in program management areas where honest disagreements can occur because firm A.I.D. policies and regulations are not at issue.

Since mid-1992, our Office has been managing two country programs composed of activities (not large projects) organized under two strategic objectives. Our intent is to achieve impact at the program level; i.e., achievement of program outputs to which each activity contributes, and progress in meeting ultimate strategic objectives.

Each activity (or grant) has objectives defined and generates data on attainment of program outputs. Objectives are cited in grant agreements, but details, schedules and progress indicators are to be shown in quarterly or semi-annual work plans. We do this because our Contracts Officer advised, and we agree, that it is too cumbersome to amend grant agreements each time schedules and indicators are modified.

As described in paragraph 2 of pg. 12, we will do annual evaluations in conjunction with Action Plans to assess program progress, on the basis of data submitted by grantees and annual surveys or program-level evaluations. This system has just been started in conjunction with consolidating program foci and slightly increasing the number of grantees. We just refined program outputs and indicators for our next Action Plan, and are in the process of setting up grantee reporting systems and scheduling annual evaluations.

Activity sites are in Montevideo and Buenos Aires, and are visited very frequently by project officers, myself, and financial management staff. Informal procedures for reporting on site visits are already established which call for members of our small staff to consult with me and others just before and right after each visit to discuss issues and findings. I am thus aware of **all** implementation problems Office staff encounter, and such problems are expeditiously addressed.

Given this Office's limited staff, relatively small portfolio, the constant day-to-day contact among staff members and with me, and the need to budget staff time to balance Office priorities, our Office has established a policy of not requiring a written report on each site visit. When important issues are encountered, they are documented in the manner I find most useful to their resolution (e.g. letter to grantee, memoranda to other officers or the file, etc.). Recently, we also decided to implement a new system (replenishment voucher checklists) to record on a quarterly basis issues being discussed and resolved with grantees.

2. <u>Response to Recommendations</u>

Recommendation No. 4:

"We recommend that the Office of the USAID Representative to Argentina and Uruguay:

> **"4.1 Establish written policies and procedures for developing and incorporating quantifiable indicators into grant agreements and informing recipients of the need/to report progress achieved against these indicators; and**
>
> **4.2 Review its present portfolio to identify those grants which have a substantial implementation period remaining and develop appropriate indicators which correspond to the USAID Office's new strategic objectives."**

The Office currently has a clear policy for developing objectives for each activity/grant, program outputs and progress indicators, along with procedures in effect for implementing that policy. We see no utility to be gained in documenting these policies and procedures any more than they already are in our program planning documents. Therefore, we request that the RIG drop Recommendation No. 4.1.

With regard to Recommendation 4.2, our Office has only two older grants with significant implementation periods remaining: UCUDAL and DESEM. Since we just extended the DESEM grant, we are in the process of fitting its objectives and indicators into the program reporting system developed for Uruguay. In the case of UCUDAL, its objectives, though valid and useful, do not fit our new strategic objectives for Uruguay. We therefore believe Recommendation 4.2 is unnecessary and request it also be dropped.

Recommendation No. 5:

> **"We recommend that the Office of the USAID Representative to Argentina and Uruguay establish written policies and procedures for documenting site visits."**

We plan to draft a short local order which documents current practices and procedures which call for: frequent site visits, oral reports to the A.I.D. Representative and other relevant staff, documenting findings only when significant and necessary, and the use of voucher approval checklists.

We request the RIG close Recommendation No. 5 when this local order is issued.

3. <u>Comments on Text</u>

<u>Misleading Headings</u>

We believe the headings used with respect to this audit area can be misleading. They are found in the Table of Contents on pages v, 12 and 15, and state: *"Quantitative Indicators Are Needed To Measure Progress of Grants"; "Procedures For Site Visits Need To Be Developed"; and "Monitoring Could Be Improved by Developing Quantitative Indicators and Documenting Site Visits"*

As reported by the IG, our Office does have indications for some grants and is in the process of developing them on a comprehensive basis for the program as a whole, whereas the headings leave the impression nothing has been done. Also, the Office already **has** procedures for site visits and implements them, contrary to the implication in that heading. Lastly, we disagree with the RIG's assertion that monitoring could be improved by documenting site visits. While this might be true in a larger A.I.D. mission, it is not the case for this Office.

Incorrect Findings and Conclusions

(1) Indicators

On pg. 12, the RIG states:

> "There was no formal system to incorporate quantitative indicators into grant agreements or to require recipients to report progress against them. We were unable to determine the exact cause for this condition. The USAID Office does not have an objectively verifiable basis of determining whether its existing agreements are accomplishing its strategic objectives."

This statement ignores the existence of our Office's informal system for establishing and monitoring indicators and recent progress made to expand and focus the use of indicators. The reason there is no formally written control technique, or system, is that the Office has found its informal system, as currently being implemented to be adequate. We believe the concluding sentence is too broadly stated and inaccurate. The Office **does** employ indicators and is improving its statistical monitoring system; grantee reports are routinely received; and site visits are made frequently to verify achievement of activity objectives. (N.B. Individual agreements are not established to directly "accomplish" strategic objectives, as stated in last sentence).

This section of the Draft Report also contains speculative statements on pg. 14:

> "It is probable that, in the past, there may have been less emphasis on quantitative indicators. As a result, the USAID Office had not established policies and procedures for developing quantitative indicators."

and

> "There are active grants which still have a lengthy implementation period remaining and the USAID Office may not know the degree to which they are contributing to strategic objectives unless appropriate quantitative indicators are developed and incorporated into the existing agreements."

With respect to the first statement, it is not accurate to say Office had not established any policies and procedures at all for developing indicators. With respect to the latter statement, we do know, on the basis of objectives already set forth in the two agreements in question.

In the section on internal controls, the RIG states:

> "The USAID Office did not have a procedure to ensure that quantitative indicators were developed and incorporated into agreements."

Our Office **does have** a procedure, or system, which has been improved since mid-1992 and is being implemented. We request that this statement be made more precise.

(2) Site Visits

With regard to site visits, the RIG states:

> "There was no formal system to require site visits or to document the results of such visits because the USAID Office had not considered the A.I.D. requirements for site visit reports to be relevant to its portfolio. Consequently, the USAID Office management does not have adequate assurance that implementation problems are being identified, documented, and brought to its attention to be resolved." (pg. 15); and

> "At the time of our audit, the USAID Office had not established a formal policy for making or documenting site visits The USAID Office's informal policy was that documented site visits were not essential in all cases. This informal policy developed because it had considered the A.I.D. requirements for site visit reports not applicable to its portfolio. Because site visits were not documented, the USAID Office did not have adequate assurance that an effective monitoring mechanism is being implemented. A systematic method of documenting these visits would help ensure that implementation problems are identified, documented and brought to the attention of the USAID Office." (page 16).

The first sentence from the statement on pg. 15 and the first three sentences from the statement on pg. 16 are inaccurate and misleading. First, these are no "A.I.D. **requirements** for site visit reports". Secondly, the Office has a firm policy, which is rigorously followed, to visit project sites frequently and to report promptly findings orally to the A.I.D. Representative (if he has not himself carried out the visit) and to other concerned Office personnel. Lastly, the issue is not whether written site visit reports are "*relevant*" or "*applicable*" to the Office's portfolio, but whether they are **necessary** in order for the Office to monitor grantee activities adequately. We feel they are not.

The RIG's concluding statement in the quotation from pg. 15 (which is also repeated on pgs. v and 16) is preposterous. The Draft Report presents no evidence to support the claim that the A.I.D.

Representative does not have "*adequate assurances*" he is aware of, and resolving all implementation problems. In fact, due to the Office's firm policy to make site visits regularly, report findings promptly, and implement financial reviews and audits on schedule, the opposite is clearly the case. Furthermore, unnecessarily requiring written site visit reports after all visits to repeat what has already been reported orally would have no material effect on the adequacy of assurance cited by the RIG. We request the above statements and conclusions be eliminated from the RIG's Final Report.

<u>Minor Comments</u>

Three additional minor comments are:

- o The reference to PVO policies on pg. 14 is not relevant to this Office's program because it has no PVO activities.
- o The same comments made above in other section regarding the term "**informal policy**" applies to RIG statements in the last paragraphs of pg. 11 and pg. 16.
- o There are no "**requirements**" for documenting the results of site visits in HB 13 (see paragraph 3 pg. 16).

AUDIT AREA NO. 5: FUNDING FOR RECIPIENT AUDITS

"Did the USAID Office/Argentina and Uruguay establish and follow a system for financial auditing of grants in accordance with A.I.D. requirements?"

1. <u>Current Policy and Procedures</u>

Informal procedures are in place to ensure that recipient audit provisions are included in all non-U.S. NGO grants, and that funds are budgeted for such in separate line items. The Office's recipient audit program is being carried out on schedule. A training course was held for NGOs and their auditors, and two audit reports have been received to date.

The RIG correctly notes funds were not budgeted in for audits in one of four cases where required. This situation has since been corrected, as we had informed the auditors it soon would be when they were here. This was the **only** instance of a problem with Office's recipient audit program - one which had no adverse impact on our program. In this one case, funding was omitted by oversight from the original grant agreement signed with a new grantee for the first year of the activity, but done so with the intention to budget funds in second year of the project when the recipient audit would take place. As indicated during visit of the auditors, we included funds for the audit in Amendment No. 1 to grant (dated August 6, 1992) as soon as FY 1992 funding was available.

2. <u>Response to Recommendation</u>

Recommendation No. 5:

"We recommend that the Office of the USAID Representative to Argentina and Uruguay:

6.1 Establish procedures to ensure that funds are budgeted for audit in grant agreements; and

6.2 Amend the existing Grant Agreement No. 598-0616-10011 to include a separate budget line item for financial audit."

The procedures called for in Recommendation No. 6.1. are already established informally and are fully effective. The Office currently has eight grants to non-U.S. NGOs which are in conformance with A.I.D. requirements. We therefore believe Recommendation No. 6.1 is unnecessary.

The grant referenced in Recommendation No. 6.2 was amended to include funds for audit before the Draft Audit Report was received. We request that this recommendation be dropped.

3. <u>Comments on Text</u>

<u>Misleading Heading</u>

We believe the heading "Agreements Need Specifically Budgeted Audit Funds" in the Table of Contents and on pgs. v and 17 is too broadly worded for the one adverse condition noted, and therefore misleading.

<u>Imprecise Findings</u>

The statement on pg. 25 of the Report on informal controls: "The USAID Office did not have a procedure to ensure that funds were specifically budgeted for financial audits in agreements" is incorrect. Effective informal controls are in force. Please also see the statement on pg. v that "Procedures still need minor improvement".

We believe the statement on pg. 19: "We examined four active agreements and found that the USAID Office did not always budget for audit coverage" is imprecise. Only one grant did not have funds budgeted initially. Funds were initially not included in the one grant due to oversight. The statements on pgs. 18 ("This condition possibly occurred because the A.I.D. Handbook covering such grants did not provide clear guidance in this area. Funds may not be available for the required audits if they are not specifically budgeted for in grant agreements"); and on pg. 19 ("It is probable that the USAID Office had not always budgeted funds for audits because there was no specific guidance in this regard in

Handbook 13.") are speculative.

AUDIT AREA NO. 6: PROJECT CLOSE-OUT PROCEDURES

> **"Did the USAID Office/Argentina and Uruguay establish and follow a system to ensure that grants are closed out in accordance with A.I.D. policies and procedures?"**

It is our policy to close out grants in accordance with A.I.D. guidance. A grant from our Office to the University of Hawaii has just concluded. We plan to use the experience of closing out this grant in accordance with Handbook guidance to establish an informal procedure (a checklist) which the Office will use to close out all grants on schedule.

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
AGENCIA DE LOS ESTADOS UNIDOS PARA EL DESARROLLO INTERNACIONAL

December 4, 1992

Mr. Lou Mundy
RIG/AT/T
Tegucigalpa, Honduras

Dear Mr. Mundy

In connection with your audit of Selected Systems at USAID/Argentina and Uruguay covering procedures in place as of March 31, 1992, I confirm to the best of my knowledge and belief the representations made below.

Six monitoring systems were covered by the audit: 1) award of grants; 2) non-governmental organization (NGO) cost-sharing contributions; 3) advances to non-governmental organizations; 4) development of quantitative indicators, performance of site visits, and evaluation planning; 5) financial auditing of grants; and 6) close-out of grants.

I have served as USAID Representative since September 29, 1991. Regarding the audited systems, with the assistance of the Controller's Office of USAID/La Paz, as well as the Regional Legal Advisor and Regional Contracts Officer, also located in La Paz, the USAID/Uruguay and Argentina Office has primary responsibility for:

- the internal control systems;
- compliance with applicable laws, regulations and legally binding requirements; and
- the fairness and accuracy of the accounting and financial management information for which my Office is responsible.

To the best of my knowledge and belief, without having read personally all the files and records reviewed by the RIG auditors, I hereby confirm that for the period September 29, 1991 to March 31, 1992 with regard to the audited activities:

1. To the best of my knowledge and belief, all relevant financial and management information available at the Office of USAID/Argentina and Uruguay was made available to your audit staff.

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2. To the best of my knowledge and belief, those records were accurate and gave a fair representation as to the status of the matters under audit at the time of the conclusion of the audit on May 29, 1992.

3. To the best of my knowledge and belief, other than may be included in the findings of the RIG's Draft Audit Report, upon which I have commented extensively, there have been no material irregularities (as defined in GAO/OP-4.1.2) involving management, employees or organizations having a material effect on the activities audited.

4. To the best of my knowledge and belief, other than may be included in the findings of the RIG's Draft Audit Report, upon which I have commented extensively, USAID/Argentina and Uruguay is not aware of any material instances in which financial or management information was not properly and accurately recorded and reported during the above period in the records of USAID/Argentina and Uruguay.

5. To the best of my knowledge and belief, USAID/Argentina and Uruguay has not withheld information about material noncompliance with A.I.D. policies and procedures, nor violations of U.S. laws and regulations.

6. As of the date of this letter, to the best of my knowledge and belief, no events have occurred subsequent to the period under audit which would affect the above representations with regard to the state of the audited systems at the time of the conclusion of the audit in May 29, 1992.

I request that this Representation Letter and the USAID/Argentina and Uruguay comments in response to the Draft Audit Report be published as part of the Final Audit Report.

Sincerely,

Robert J. Asselin

Robert J. Asselin, Jr.
A.I.D. Representative

cc: RLA/La Paz

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