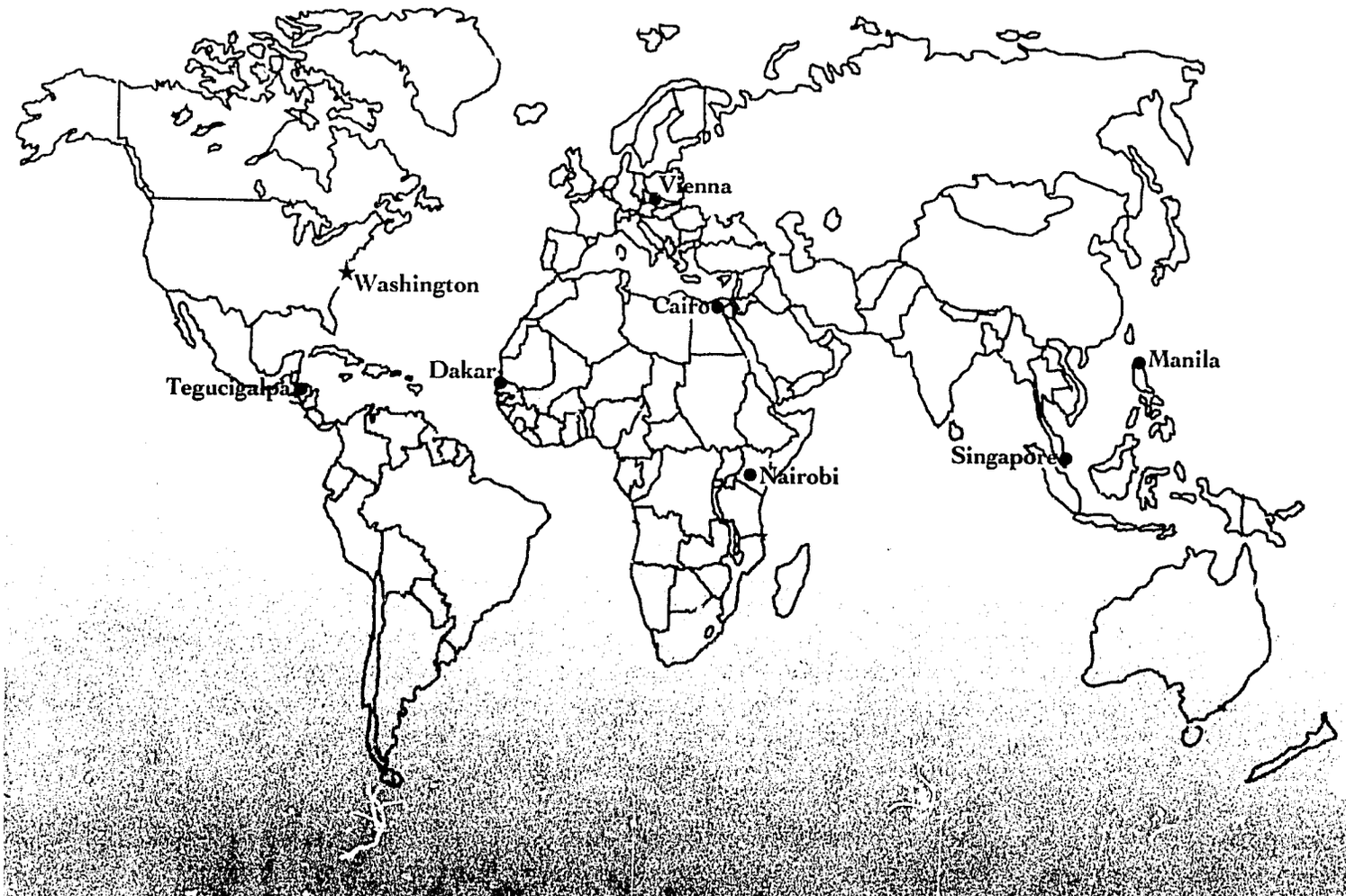
PD-ABF-322

Regional Inspector General for Audit
Vienna

Audit of the Bureau for Europe's Energy Sector Grant to Hungary

Report No. 8-185-93-01
January 29, 1993



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

AUDIT OF THE BUREAU FOR EUROPE'S ENERGY SECTOR GRANT TO HUNGARY

Report No. 8-36-93-01
January 29, 1993

The Bureau for Europe followed most A.I.D. policies and procedures in planning, negotiating, monitoring, and evaluating cash transfer assistance under the Grant. However, it did not design the program to ensure that it met timeliness requirements. As of November 1992, $10 million in local currency funds were still in the special account pending results of an independent review of Government of Hungary Program payments--over one year after the funds were needed.

EUROPE

Agency for International Development
Washington, D.C. 20523

Assistant Inspector General
for Audit

MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR, BUREAU FOR EUROPE, Mr. David N. Merrill

FROM: AIG/A, John P. Competello

SUBJECT: Audit of the Bureau for Europe's Energy Sector Grant to Hungary (Audit Report No. 8-185-93-01)

Enclosed are ten copies of our report on the subject audit. We considered your comments on the draft report and included them as an appendix to this report. As requested by members of your staff, we have also included as an appendix the representation letters from the Bureau (including the Regional Mission for Europe) and the AID/Representative for Hungary.

The report contains one recommendation for your action which is considered resolved. Please respond to this report within 30 days, indicating any actions planned or taken to implement the recommendation. I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

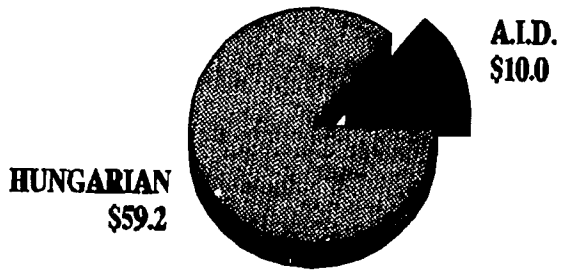
On September 3, 1991, the Bureau for Europe and Near East, presently the Bureau for Europe, approved the Energy Sector Grant to Hungary (Sector Grant). Under the terms of the Program Assistance Approval Document (PAAD), A.I.D. transferred $10 million to the Government of Hungary (Government) in exchange for energy policy reforms that would: 1) eliminate all Federal budget energy subsidies, 2) liberalize coal prices, and 3) implement new tariff structures for electricity and other energy sources. These policy reforms were conditions of the World Bank's Structural Adjustment Loan with the Government; A.I.D.'s Sector Grant served to reinforce these reforms.

Both the Bureau and Regional Mission for Europe designed and negotiated the Sector Grant, while the AID/Representative in Budapest was tasked with the responsibility of monitoring and implementing the Agreement. The Sector Grant was signed on September 17, 1991. The entire $10 million was released by A.I.D. through Treasury on January 10, 1992 and released to the Government in April 1992, after adequate proof of U.S. source imports was provided to A.I.D.

The equivalent of $10 million in local currency, generated from the Sector Grant, was to be used in conjunction with $59.2 million (unaudited) in Government funds to provide support payments for families and low income pensioners thereby easing the burden of higher energy prices. As shown in the chart below, A.I.D.'s contribution to these support payments was about 14 percent.

Assistance to Hungarian Pensioners and Families

Purpose: Minimize Hardships of Energy Price Increases



Local currency equivalents in millions
(Source: The PAAD)

Audit Objectives

Based on the Inspector General's Fiscal Year 1992 Audit Plan, we audited the Sector Grant program to answer the following audit objectives:

1. Did the Bureau for Europe follow A.I.D. policies and procedures, as modified for Central and East Europe, in planning and negotiating the cash transfer assistance under the Energy Sector Grant to Hungary?

2. Did the AID/Representative for Hungary and the Regional Mission for Europe follow A.I.D. policies and procedures, as modified for Central and East Europe, in: 1) monitoring the conditions precedent for the transfer and use of the dollar funds, 2) monitoring the Government of Hungary's deposit of the subsequently generated local currency, and 3) evaluating the use of the local currency in accordance with the Energy Sector Grant to Hungary?

Our tests were sufficient to provide reasonable--but not absolute--assurance in answering the audit objectives.

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

Audit Findings

Did the Bureau for Europe Follow A.I.D. Policies and Procedures, as Modified for Central and East Europe, in Planning and Negotiating the Cash Transfer Assistance Under the Energy Sector Grant to Hungary?

The Bureau for Europe followed A.I.D. policies and procedures, as modified for Central and East Europe (CEE), in planning and negotiating the cash transfer assistance under the Energy Sector Grant to Hungary, except that the Bureau did not design the program to ensure that it met the timeliness requirements of the Sector Grant Agreement and the PAAD.

The Bureau's Action Plan did not have streamlined guidelines for non-project assistance such as the Sector Grant. We determined, however, that the Bureau for Europe planned and negotiated the Sector Grant in accordance with the Bureau's streamlined planning approach for project assistance and A.I.D. Handbooks 1, 3, and 4. The use of this approach provided the best guidance available for planning and negotiating non-project assistance. In addition, more specific local currency and dollar separate account cable guidance was followed by the Bureau. Our audit work provided us with reasonable--but not absolute--assurance that the following positive findings regarding planning and negotiating were correct:

- The planning document adequately described the sector constraints, the policy reforms to be addressed, and the A.I.D.-financed inputs to be used.

- The Sector Grant Agreement was consistent with the provisions of the authorizing documents in all material respects.

- Prior to the signing of the Sector Grant Agreement, the Bureau reserved funds by citing their availability for this program under the Fiscal Year 1991 Appropriations Act.

- The PAAD's authorization document was consistent with essential conditions and provisions of the PAAD.

- The Bureau performed a financial assessment of the host government entity responsible for managing the special account, and this assessment is discussed in the PAAD. (The scope of our audit did not include a review of the quality of this assessment.)

- The Bureau properly followed the local currency guidance (State Cables 202944 and 204855 and Policy Determination-18) and the dollar separate account guidance (State Cable 194322) in the plan and final negotiation of the Sector Grant.

- The Bureau incorporated into the agreement a provision to evaluate the Sector Grant, and the evaluation later chosen by the Bureau examines the use of the local currency.

The Bureau did not, however, design the program to ensure that it met the timeliness requirements of the Sector Grant Agreement and the PAAD. As discussed below, there was a significant delay in transferring the $10 million to the Government and, at the time of our audit, the generated local currency still had not been released.

The Bureau Should Implement
Procedures to Ensure Timeliness

In accordance with A.I.D. handbook requirements to specify the agreed timing of assistance, both the PAAD and Sector Grant Agreement provided that a quick disbursement of generated local currency needed to be made to recipients. However, the Government of Hungary did not receive a timely release of the U.S. dollars or the corresponding local currency. Furthermore, because the implementation plan contained no timing benchmarks for disbursement of funds, the inconsistencies within the design of the program sidetracked the intended quick disbursement. This implementation ambiguity, combined with the Government's lack of understanding of A.I.D. requirements, stopped the release of the local currency. Therefore, the Government had to use the equivalent of $10 million of its own scarce resources to carry-out A.I.D.'s share of the program.

<u>Recommendation No. 1:</u> We recommend that the Bureau for Europe and the Regional Mission for Europe review the current portfolio of bilateral grant agreements and:

1.1 assess the importance of timing of actions as a critical factor in the success of the agreements;

1.2 establish timing benchmarks when such timing is considered critical; and

1.3 determine the need to advise implementing Central and East Europe host government officials on meeting specific A.I.D. assistance requirements.

In general, Handbook 4, Chapter 4, provides that cash transfer agreements should specify the agreed timing of the assistance to be provided. In accordance with this guidance, the PAAD specified that the local currency generations under the $10 million Sector Grant should be released to the Government by October 1991.

Initial design efforts got underway in early 1991. At that time, the Bureau for Europe indicated to the Government that it was willing to negotiate a Sector Grant for $10 million. A decision was made during March 1991 to focus on assisting the energy sector, and various alternative means of doing this were discussed. During June 1991, the Bureau agreed that the Government would need additional assistance to implement the World Bank's Structural Adjustment Loan Agreement which required the Government to increase heating oil and electricity prices. The Government believed it could only increase these prices if it assisted pensioners and families with energy support payments. The first payment to these groups was made in August 1991. The U.S. negotiators agreed to assist the Government with a second payment during October 1991--targeting A.I.D.-generated local currency to low income individuals.

The Sector Grant Agreement between the two governments was signed on September 17, 1991--just weeks before the final Hungarian-legislated energy support payment due date during October 1991. However, the U.S. dollars ($10 Million) were not deposited into the required Federal Reserve dollar account until January 10, 1992 and were not entirely transferred to the Government until April 1992. As of November 1992, the $10 million in local currency funds were still in the special

account pending results of an independent review of Government payments to families and pensioners--over one year after the funds were needed.

Sector Grant design problems, coupled with the Government implementing officials' inexperience in meeting A.I.D. requirements, caused the delay in the disbursements of the U.S. dollars and the related local currency. For example, the following design problem confused Government implementing officials involved in the transfer of funds. Although the dollars and local currency were intended to be disbursed no later than October 1991, the Government had to demonstrate (through invoices) that it had purchased at least $10 million in U.S. source and origin commodities during the one-year period ending July 14, 1992. Due to the confusion over this July 1992 date, the Government did not submit its invoices in sufficient time to allow for A.I.D. review and feedback prior to the end of October 1991 when the final disbursement of local currency was needed for support payments to low income individuals.

As of November 1992, the $10 million in local currency funds were still in the special account pending results of an independent review of Government payments to families and pensioners--over one year after the funds were needed.

This example also demonstrated the Government implementing officials' lack of understanding of A.I.D. requirements. For example, the Government took over six months from the signing of the Sector Grant to identify $10 million in invoices meeting the U.S. source and origin requirements. This problem developed, according to Bureau officials, even though the Government negotiators of the agreement fully understood that $10 million in commodity purchases had to be bought from U.S. sources and had to originate from the U.S. However, once the responsibility for implementation of the agreement was turned over to lower level officials, they collected and submitted invoices which did not meet these requirements. Finally, on January 22, 1992, the AID/Representative had to send a Project Implementation Letter to the Government clarifying the source and origin requirements.

Therefore, the underlying cause of these delays was the lack of an implementation plan containing specific timing benchmarks. In addition, specific guidance to lower level officials on how to implement the Sector Grant requirements would have cleared up many of the implementation delays and misunderstandings. These

occurred because the agreement had no requirement for technical training assistance to Government implementing officials in meeting A.I.D. requirements. The end result of this omission was significant.

Since the Government did not receive the Sector Grant's local currency generation prior to the October 1991 support payments, the Government had to use the equivalent of $10 million of its own funds for A.I.D.'s share of the payment, thus putting an extra burden on the Government's budget. In November 1992, the $10 million in local currency generation was still in a special account awaiting the Bureau's retroactive approval of their release. This retroactive approval was contingent on the Government's demonstration that the support payments, made in the Fall of 1991, actually went to low income pensioners and families. The Bureau concluded that this retroactive approval process was necessary, because the support payments were made prior to the release of the dollars and therefore out of sequence with, and in violation of, the Sector Grant agreement terms.

After our field work was completed, we were informed that the retroactive approval was completed, and the $10 million in local currency was authorized for release to the Government on December 30, 1992.

In conclusion, the Bureau has begun working with various host governments which are not familiar with A.I.D. requirements. This inexperience is exacerbated under time-critical programs such as the Sector Grant. The Bureau does not plan to enter into any new Sector Grants. However, to prevent similar delays on other on-going bilateral assistance activities, the Bureau needs to review its portfolio to assess the importance of timing and the need for implementation plans which establish timing benchmarks and require assistance to host government implementing officials in meeting A.I.D. requirements.

Did the AID/Representative for Hungary and the Regional Mission for Europe Follow A.I.D. Policies and Procedures, as Modified for Central and East Europe, in: 1) Monitoring the Conditions Precedent for the Transfer and Use of the Dollar Funds, 2) Monitoring the Government of Hungary's Deposit of the Subsequently Generated Local Currency, and 3) Evaluating the Use of the Local Currency in Accordance With the Energy Sector Grant to Hungary?

The AID/Representative for Hungary and the Regional Mission for Europe followed A.I.D. policies and procedures, as modified for CEE, in: 1) monitoring the conditions precedent for the transfer and use of the dollar funds, 2) monitoring the Government

of Hungary's deposit of the subsequently generated local currency, and 3) evaluating the use of the local currency in accordance with the Energy Sector Grant to Hungary. Our audit work provided us with reasonable--but not absolute--assurance that the following positive findings were correct.

There were five conditions precedent before the $10 million could be transferred from the Treasury to the separate dollar account. They included (1) a statement of names of Government representatives for the Sector Grant, (2) the establishment of the dollar separate account, (3) the designation of the local currency separate account, (4) evidence of Hungarian authority requiring the support payments for pensioners and families, and (5) a legal opinion regarding the binding nature of the Sector Grant on the Government. As required by Handbook 1, the conditions

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...the AID/Representative did a thorough job reviewing Hungarian invoices and requested special assistance from AID/Washington during the approval process.

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precedent were fulfilled prior to preparation and approval of the financing request and subsequent release of dollars. In addition, as part of the monitoring responsibilities for source and origin requirements related to the use of the dollars, the AID/Representative did a thorough job reviewing Hungarian invoices and requested special assistance from AID/Washington during the approval process. A review was done to ensure that source and origin requirements were fully met.

The AID/Representative for Hungary and the Regional Mission for Europe monitored and evaluated the dollar and local currency accounts in accordance with the Sector Grant and State Cables 202944, 204855 and 194322. A representative from the Regional Mission for Europe reviewed, during July 1992, the AID/Representative's monitoring of the movement of dollar and local currency funds. The representative found that the Government had not complied with certain aspects of the Sector Grant. Examples of exceptions included the fact that the local currency account was technically non-interest bearing and they used the wrong exchange rate while making a deposit into the account. For these areas in which the Government did not comply, the AID/Representative and Regional Mission for Europe are in the process of obtaining corrective action.

Concerning the evaluation of the use of local currency, the AID/Representative contracted with a Certified Public Accountant (CPA), of NewEraInvest, Ltd., to verify whether support payments were in fact made to pensioners. While in Budapest, the IG audit team accompanied the CPA on interviews of individual pensioners to determine whether support payments were received. Later, the CPA planned to do more extensive follow-up work, on a test sample of pensioners, to statistically determine whether the Government had made the equivalent of $10 million in payments. Based on the results of this follow-up work, the Bureau for Europe approved, in December 1992, the Government's request for a direct transfer of the Sector Grant local currency funds to the Government.

Management Comments and Our Evaluation

In commenting on the draft report, the Bureau for Europe stated that it accepted the findings of the report and took actions to help prevent similar delays on other current project activities. However, since the Bureau was not planning any additional bilateral projects beyond those currently designed and negotiated, it did not see a specific need to institute any policies and procedures (e.g. Mission Orders) as recommended in our draft. Therefore, the audit report recommendation was revised to require a Bureau review of its current portfolio of bilateral grant agreements to determine the need for timing benchmarks and assistance to host governments in meeting A.I.D. requirements. Since the Bureau indicated that they have taken steps to ensure that such delays do not repeat themselves, recommendations 1.1, 1.2, and 1.3 are resolved upon report issuance and will be closed when the Bureau submits documentation of the complete review results including any implementing guidance to the AID/Representatives.

The Bureau also suggested various report language changes which, with some modifications, were incorporated in the final report. Appendix II contains the full text of management's comments.

SCOPE AND METHODOLOGY

Scope

We audited the Bureau for Europe's Energy Sector Grant to Hungary (Sector Grant) in accordance with generally accepted government auditing standards. We conducted the audit from May 20, 1992 through October 23, 1992 and as of the time of our audit, $10 million had been disbursed by A.I.D. under the Sector Grant. We conducted our field work in the offices of AID/Washington and AID/Budapest and reviewed relevant documents and internal controls used for the period from April 17, 1991 through October 23, 1992.

The evidence used in answering our audit objectives included A.I.D. Handbooks, official documents such as the Grant Agreement, faxes and cables, memorandums, and interviews with A.I.D. and Government of Hungary officials. When necessary, we verified relevant documents and interview responses, using comparisons or secondary documents/follow-up methods. Prior audit findings were not applicable in this case because this was the first government-to-government agreement between the U.S. and Hungary. We did rely, to an extent, on the work of an independent CPA, who was performing the evaluation of the Hungarian Sector Grant, and a Bureau trip report entitled Review of Mission (AIDREP's) Monitoring of Dollar and Local Currency Funds Under the Sector Grant Program: Hungary, Bulgaria, and Czechoslovakia. By interviewing the CPA and Bureau representatives and reviewing their scope, methodology and relevant working papers, we were able to satisfy ourselves that we could rely on their work.

Since the objectives of this audit dealt only with one grant, we did not believe that this was sufficient testing to comment on the Bureau's internal controls or compliance as a whole. We did not, therefore, prepare separate Reports on Internal Controls and Compliance.

Methodology

The methodology for each audit objective follows.

Audit Objective 1

To accomplish the first audit objective, we determined whether (1) the core documents were prepared appropriately and (2) planning steps were appropriate and complete, in accordance with A.I.D. Handbooks 1, 3 and 4 and State cables 202944, 204855 and 194322.

To determine whether A.I.D. Handbooks and State cables were followed, we reviewed core documents of the Sector Grant including the: preliminary summary design documents, PAAD, Authorization Memorandum, Congressional Notification, and Grant Agreement. This was performed on a comparative basis to identify any discrepancies between the various design documents and the Sector Grant Agreement. We also interviewed Bureau and Mission officials, as well as officials of the Government, to obtain information on the planning and negotiations. We verified that the entire $10 million was disbursed by A.I.D. on behalf of the Hungarian Sector Grant by reviewing letters from the Government and bank statements. We concluded, as addressed earlier, that the Bureau for Europe followed A.I.D. policies and procedures, as modified for Central and East Europe (CEE), in planning and negotiating the cash transfer assistance under the Hungarian Sector Grant except the Bureau did not design the program to ensure that it met the timeliness requirements of the Grant Agreement and the PAAD.

Audit Objective 2

To accomplish the second objective, we determined whether (1) the dollar separate account was set up properly, (2) the dollar separate account was accounted for properly, (3) the dollar separate account was properly monitored and audited, (4) the local currency account was set up properly, (5) the local currency account was

accounted for properly, (6) the local currency account was properly monitored and audited, and (7) the use of the local currency was properly evaluated, in accordance with A.I.D. Handbook 1 and State cable guidance.

To accomplish the above, we reviewed documents and reports pertaining to the separate dollar and local currency accounts including, but not limited to, State Cables 202944, 204855 and 194322, bank statements, letters from the Government, and evaluation reports from NewEraInvest, Ltd. and the Bureau. We interviewed the AID/Representative, Mission officials, officials of the Government, and the CPA from NewEraInvest, Ltd., to obtain information about both accounts. We also accompanied the CPA while he questioned pensioners, on a sample basis, to determine if they received the energy support payments. We did not use scientific sampling techniques. Instead, a judgmental sample of pensioners was selected for personal interviews to determine if pensioners had received their support payments. We simply wanted a general idea of the pensioners' responses and opinions of the support payments. As concluded earlier, the AID/Representative for Hungary and the Regional Mission for Europe followed A.I.D. policies and procedures, as modified for CEE, in: 1) monitoring the conditions precedent for the transfer and use of the dollar funds, 2) monitoring the Government of Hungary's deposit of the subsequently generated local currency, and 3) evaluating the use of the of the local currency in accordance with the Hungarian Sector Grant.

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

JAN 8 1993

Assistant
Administrator
for Europe

MEMORANDUM

TO: AIG/A, John P. Competello

FROM: A-AA/EUR, Paul O'Farrell

SUBJECT: Bureau Comments to the Draft Audit Report on the Bureau for Europe's Energy Sector Grant to Hungary (Audit Report No. 8-36-93-01)

INTRODUCTION

The Bureau for Europe appreciates the professionalism the audit team displayed during the conduct of this audit. We think the draft audit report is thorough and generally accurate. The Bureau accepts the findings of the audit and in response has taken actions as discussed below. In addition to the specific recommendation, comments concerning other aspects of the draft report are also presented.

RESPONSE TO AUDIT RECOMMENDATIONS:

The following response provides the Bureau's comments to the single recommendation issued under the above mentioned draft audit report.

Recommendation No. 1:

We recommend that the Bureau for Europe and the Regional Mission for Europe institute policies and procedures for Project Officers and A.I.D. Representatives which emphasize, for bilateral assistance activities, the need to:

1.1 assess the importance of timing of actions as a critical factor in the success of the program/project;

1.2 establish timing bench marks within implementation agreements with the host governments when such timing is considered critical; and

1.3 periodically advise implementing Central and East Europe host government officials on meeting specific A.I.D. assistance requirements.

Bureau Comments:

The Bureau acknowledges that more emphasis on project timing would have been useful during its early implementation effort. However, the Office of the AID Representative did engage in substantial discussions attempting to expedite the process. In retrospect, a Project Implementation Letter could have been sent to the Government of Hungary (GOH) earlier, urging them to comply with the submission requirements and to pursue alternative ways of arranging the payments to the low income pensioners and families. In addition, the Bureau could have made additional attempts to explain to the GOH counterparts their responsibilities related to the grant.

The Bureau has taken steps to ensure that such delays do not repeat themselves without specific efforts on the part of AID/W and the AID Representative to mitigate such delays. The Bureau is not planning any additional bilateral projects beyond those currently designed and negotiated. As a result, the Bureau does not see a specific need to institute any policies and procedures as recommended above.

In the future, should our programming plans determine that a bilateral agreement is an appropriate assistance methodology, the Bureau will develop specific guidelines and procedures to insure that appropriate responses and actions are taken into account by the host government officials prior to the time that any related design work is undertaken.

For current activities, we recently designed and negotiated a sector grant (bilateral agreement) with the Government of Romania for improvements in private sector sales and distribution of agricultural input commodities. Considering the issues that were raised in the audit report, the Bureau took specific action in order to ensure appropriate host government counterpart response to actions required on their part by the grant agreement. A cable is being sent to the AID Representative (and the Embassy, seeking their support of the AID Representative) to provide specific guidance on these issues, namely; timely response by the counterpart, need for contact by Embassy and AID Representative with the counterpart for specific guidance, and further emphasizing the program's dependency on the counterpart for success and impact.

OTHER ISSUES:

AUDIT REPORT VARIANCES - INTRODUCTION

During the review of the specific details contained in the draft report the Bureau identified items which we feel require clarification. In order to make the report more factually correct and to prevent any misinterpretation by others not as familiar with our program as is the IG, the Bureau offers the following corrective observations.

Background: (page 1)

In the first paragraph, the sentence reading: "Under the terms of the Program Assistance Approval Document (PAAD), A.I.D. transferred $10 million to the Government of Hungary (Government) in exchange for energy policy reforms that would: 1) eliminate all Government energy subsidies..." It was not the Bureau's or the World Bank's understanding that the Government of Hungary would eliminate all Government energy subsidies. Substantial progress was expected and attained on overall price increases, especially for petroleum and gas, which reduced but did not eliminate the subsidies. At this time, substantial subsidies and cross-subsidies still remain.

The second sentence, located at the end of second paragraph, states: "The Sector Grant was signed on September 17, 1991, and the entire $10 million was disbursed by April 1992." This sentence implies that responsibility for the delay might fall on AID. To more accurately reflect actual circumstances (which is subsequently done in the audit report), the Bureau suggests that you substitute the portion reading "was disbursed by April 1992" and replace it with "was released by A.I.D. through Treasury on January 10, 1992 and released to the Government of Hungary in April 1992, after adequate proof of U.S. sourced imports was provided to A.I.D."

Release of Funds: (page 5)

The last sentence on page five implies that A.I.D. might be solely responsible for the delay in the release of the funds. To avoid potential inappropriate quotations from this report, the Bureau suggests that the last period be changed to a comma and the following phrase be added: "pending result of an independent audit of GOH payments to families and pensioners."

Government Distribution of Support Payments: (page 6)

The next to last sentence of the last paragraph on page six reads: "This retroactive approval was contingent on the Government's demonstration that the support payments, made in the Fall of 1991, actually went to low income pensioners." The funds

actually went to families and low income pensioners, as per the project design. The Bureau suggests that "and families" be added to the end of that sentence.

CONCLUSIONS:

The Bureau found that the IG has completed an appropriate audit of the Energy Sector Grant to Hungary. The Bureau recognizes and appreciates the constructive suggestions made by the report. For the reasons stated above, we suggest the IG modify the report so that the recommendation applies only if the Bureau's programming plans determine that a bilateral agreement is an appropriate assistance methodology.

cc: EUR/RME/ECA, Gale Rozelle
EUR/DR, Ross Anthony

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

November 17, 1992

Toby L. Jarman
RIGF/A/EUR/W
Agency for International Development

Dear Mr. Jarman:

This representation letter is issued in connection with your audit of the Bureau for Europe's Energy Sector Grant to Hungary (A.I.D. Grant No. 180-T-601). This audit relates to the design and approval of the program authorization; to negotiation of the Grant Agreement; and to accounting for monitoring, evaluating and reporting for the Grant Agreement. Your audit was conducted between May 20, 1992 and October 23, 1992, and included the Hungarian Energy Sector Grant Agreement that was signed on September 17, 1991. As of October 23, 1992, and to the best of our knowledge and belief, we confirm that following representations made to you during your audit.

1. For these activities, the Bureau for Europe and the Regional Mission for Europe shares responsibilities with the Office of the A.I.D. Representative/Budapest for:

   - the internal control system,

   - compliance with applicable A.I.D. policies and procedures, and U.S. laws and regulations, and

   - the fairness and accuracy of the management information.

2. We have asked the most knowledgeable, responsible members of our staff to make available to you all records in our possession for the purposes of this audit. Based on the statements made by these individuals, of which we are aware, and our own personal knowledge, we believe that those records are accurate and complete, and that they constitute a fair representation as to the status of the Energy Sector Grant. Please note that FAXes, notes, and other informal communications, which are not part of the official files, are not systematically kept by our office.

3. To the best of our knowledge and belief, the EUR Bureau and EUR/RME have disclosed any known:

   - irregularity involving management or employees who have roles in the internal control structure,

   - irregularity involving any other organizations that

could affect the subject audit of the Hungarian Grant Agreement, and

- communication from any other organizations concerning non-compliance with or deficiencies related to the subject audit of the Hungarian Energy Sector Grant.

4. To the best of our knowledge and belief, the EUR Bureau and EUR/RME are not aware of any material instance where significant management information has not been accurately reported to responsible management in the Bureau.

5. To the best of our knowledge and belief, the EUR Bureau and EUR/RME are not aware of any instance of material non-compliance with A.I.D. policies and procedures (as modified by Bureau and Mission policies and procedures) and the Grant Agreement for the Hungarian Energy Sector Grant, other than those contained in the Record of Audit Findings.

6. To the best of our knowledge and belief as laymen, and not as lawyers, the EUR Bureau and EUR/RME have not withheld information about material non-compliance with A.I.D. policies and procedures or violations of U.S. laws and regulations.

7. Following our review of your Record of Audit Findings and further consultations with our staff, we know of no other facts as of the date of this letter which, to the best of our knowledge and belief, would materially alter the conclusions reached in that document.

We request that this representation letter be included as a part of the official management comments on the draft report and that it be published herewith as an annex to the report.

Sincerely,

David Merrill 11/17/92
Deputy Assistant Administrator, EUR Bureau

Frank Almaguer 11/16/92
Director, Regional Mission for Europe

John Morgan 11/16/92
Director, Office of Project Development, EUR/RME

Representation Letter to A.I.D. IG regarding Hungary Energy Sector Grant; Merrill/Almaguer/Morgan signatures

November 16, 1992:REPLETTE.RME

cc:

David Cowles, A.I.D. Representative/Budapest
Herb Morris, GC/EUR
Robert Nachtrieb, EUR/RME/DD
Denton Larson, EUR/RME/FMS
Paul O'Farrell, EUR/PDP
Roxanna Bowers, EUR/RME/PD (180-0036)

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

OFFICE OF THE AID REPRESENTATIVE TO HUNGARY

Mr. Toby Jarman
Regional Inspector General
Audit Europe
Washington D.C.

November 24, 1992

Dear Mr. Jarman,

This representation letter is issued in connection with your audit of the Bureau for Europe's Energy Sector Grant to Hungary (AID Grant No. 180-T-601). Your audit was conducted between 20 May 1992 and 23 October 1992, and included the Hungarian Energy Sector Grant Agreement that was signed on 17 September 1991. As of 23 October 1992 and to the best of my knowledge and belief, I confirm the following representations made to you during your audit.

1. Where your audit relates to accounting for, monitoring, evaluating, and reporting on the Hungarian Energy Sector Grant Agreement, the Office of the AID Representative, shares responsibilities with AID/EUR/RME for:

- The internal control system, and
- Compliance with applicable AID policies and procedures, and U.S. laws and regulations, and
- The fairness and accuracy of the management information.

2. I have asked the most knowledgeable, responsible members of my staff to make available to you all records in our possession for the purposes of this audit. Based on the representations made by those individuals, and my own personal knowledge, I believe that those records are accurate and complete, and that they constitute a fair representation as to the status of the Energy Sector Grant. Please note that faxes, notes, and other informal communications, which are not part of the official files, are not systematically kept by my office.

3. To the best of my knowledge and belief, the Office of the AID Representative has disclosed any:

- Known irregularity involving management or employees who have roles in the internal control structure,

Address in Hungary or International:
American Embassy, Szabadság tér 12.

Address from United States:
AIDREP Budapest

- Known irregularity involving any other organizations that could affect the subject audit of the Hungarian Grant Agreement, and

- Known communication from any other organizations concerning non-compliance with or deficiencies related to the subject audit of the Hungarian Energy Sector Grant.

4. To the best of my knowledge and belief, the Office of the AID Representative is not aware of any material instance where financial or management information has not been properly or accurately recorded and reported, other than those contained in the Report of Audit Findings.

5. To the best of my knowledge and belief, the Office of the AID Representative is not aware of any instance of non-compliance with AID policies and procedures for the Hungarian Energy Sector Grant Agreement, other than those contained in the Report of Audit Findings.

6. To the best of my knowledge and belief as a layman, and not as a lawyer, the Office of the AID Representative has not withheld information about material non-compliance with AID policies and procedures or violations of U.S. laws and regulations.

7. Except for those findings specifically mentioned in the Report of Audit Findings, the Office of the AID Representative is not aware of any Government of Hungary instances of non-compliance with the aspects of the Grant Agreement, that could materially affect the Hungarian Energy Sector Grant.

8. Following our review of your Report of Audit Findings and further consultation with my staff, I know of no other facts as of the date of this letter which, to the best of my knowledge and belief, would materially alter the conclusions reached in that document.

I request that this representation letter be included as a part of the official management comments on the draft report and that it be published herewith as an annex to the report.

Sincerely,

David L. Cowles

David L. Cowles
A.I.D. Representative
Budapest, Hungary

APPENDIX IV

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