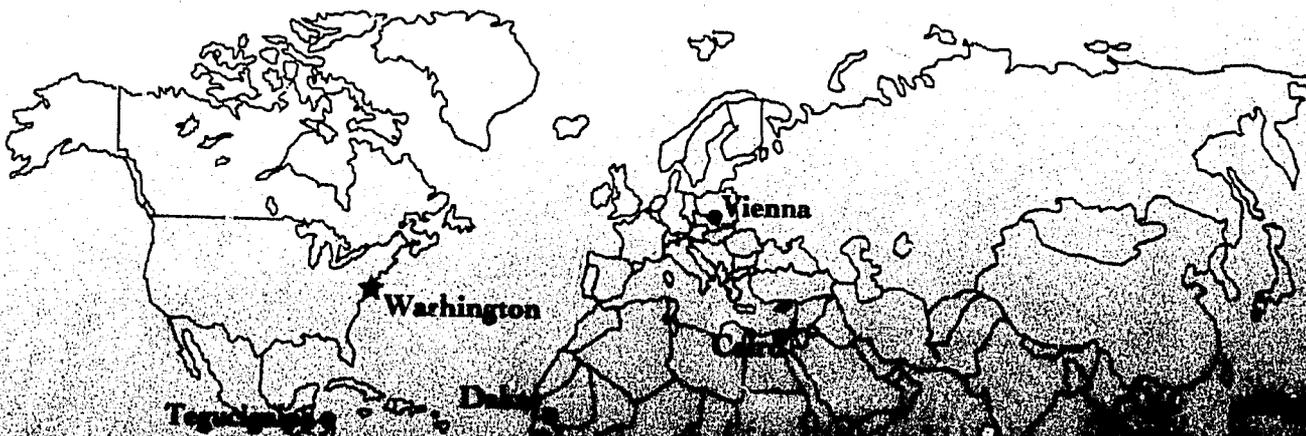


PD-ABF-383

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

**Audit of Selected Systems
at the Office of the
USAID Representative to Belize**

**Audit Report No. 1-505-93-006
January 25, 1993**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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January 25, 1993

MEMORANDUM

TO: USAID Representative/Belize, Barbara P. Sandoval

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

SUBJECT: Audit of Selected Systems at the Office of the USAID Representative to Belize

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 Belize. The final audit report is being transmitted to you for your action.

During the audit, the Mission was requested to provide a representation letter to confirm in writing certain information considered essential to answering the audit objectives. Mission officials provided some of the written assertions requested, but would not specifically confirm in writing that to the best of their knowledge and belief they (1) provided the auditors with all the financial and management information associated with the audit objectives, and (2) followed A.I.D. policies and procedures and laws and regulations for the areas reviewed and reported to the auditors known instances of material noncompliance. The absence of these representations constitutes a scope limitation on our audit and precludes us from providing an unqualified opinion in answering the audit objectives.

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 objective. The Mission's comments are presented in their entirety in Appendix II.

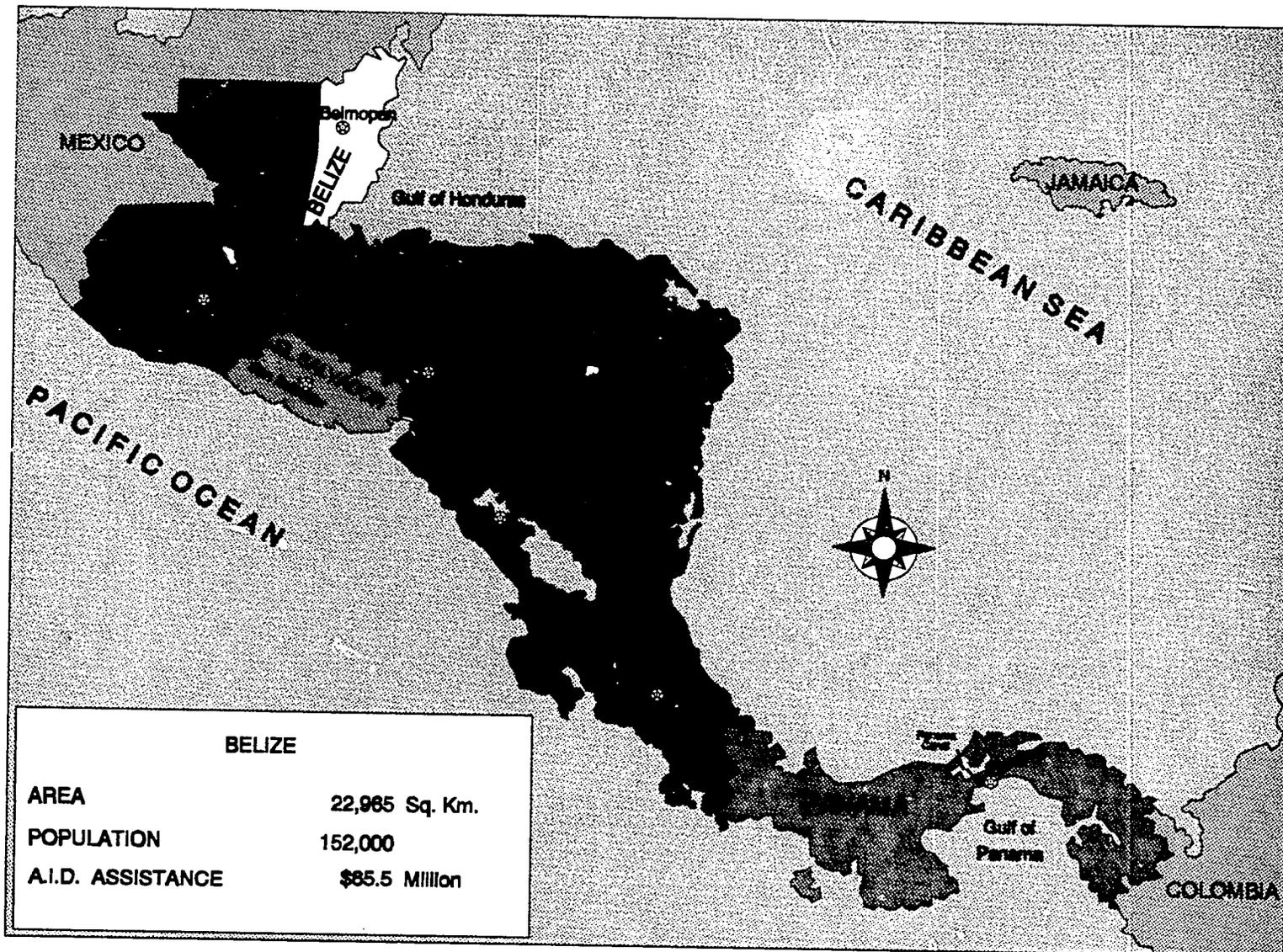
Based on actions the Mission reported it is taking, all report recommendations are resolved except for Recommendation Nos. 1.1, 1.3, and 2 which are unresolved and Recommendation Nos. 3.2, 5.2, and 6.2 which are closed upon issuance of this report. Please respond within 30 days indicating any actions taken to implement the recommendations remaining open in this report.

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

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

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January 25, 1993**



BELIZE	
AREA	22,965 Sq. Km.
POPULATION	152,000
A.I.D. ASSISTANCE	\$85.5 Million

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EXECUTIVE SUMMARY

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires A.I.D. to prepare a yearly report to Congress and the President of its management controls. In turn, A.I.D. requires each mission or office, such as the Office of the USAID Representative to Belize (USAID Office), to submit a yearly assessment of its management controls in order to prepare the required report. These management controls, also called internal controls, are to provide reasonable assurance that obligations and costs are proper, funds and assets are safeguarded, and revenues and expenditures are properly accounted for.

As of May 31, 1992, the USAID Office's portfolio consisted of 16 active projects valued at \$65.5 million. The audit focused on seven internal control systems which were most relevant to the USAID Office's portfolio and were in place from October 1, 1988 to May 31, 1992. We selected these systems based on their importance to the USAID Office program objectives and because prior Office of Inspector General audits frequently disclosed problems with these systems at other A.I.D. missions and offices.

Audit Objectives

We audited selected systems of internal control at the USAID Office in accordance with generally accepted government auditing standards except that USAID Office officials would not provide us with a completely acceptable representation letter (see Scope and Methodology, Appendix I). Our field work was conducted from May 11 to August 7, 1992 and was designed to answer the following audit objectives:

1. Did the USAID Office establish and implement procedures to monitor the timely and sufficient provision of host country and nongovernmental organization contributions in accordance with A.I.D. policies and procedures?

2. Did the USAID Office have a system to resolve and implement project evaluation report recommendations in accordance with A.I.D. policies and procedures?
3. Did the USAID Office establish and implement procedures to ensure advances of funds to host country and nongovernmental organizations do not exceed immediate cash needs and are liquidated in accordance with A.I.D. policies and procedures?
4. Did the USAID Office monitor project commodities to ensure that they were received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures?
5. Did the USAID Office have a system to: (a) plan participant training, (b) select participants, (c) ensure predeparture processing and monitoring of participants, and (d) ensure that participants return to Belize and utilize their training in accordance with A.I.D. policies and procedures?
6. Did the USAID Office have a system to close out A.I.D.-funded procurement instruments in accordance with A.I.D. policies and procedures?
7. Did the USAID Office have a system to prepare project assistance completion reports and implement recommendations for follow-up in accordance with A.I.D. policies and procedures?

Summary of Audit

We requested USAID Office officials to provide written representations which we considered essential to answering the audit objectives. USAID Office officials provided us with some but not all of these written representations. Our audit conclusions are, therefore, qualified because the officials would not confirm in writing that to the best of their knowledge and belief they (1) provided the auditors with all the financial and management information associated with the audit objectives, and (2) followed A.I.D. policies and procedures and laws and regulations and reported to the auditors known instances of material noncompliance. Considering the effects, if any, of this qualification, the audit did conclude that, for the items tested, the USAID Office's systems relating to advances and liquidation of funds and its participant training program complied with A.I.D. policies and procedures. Regarding the audit objectives concerning counterpart contributions, project evaluation report recommendations, monitoring project commodities, closing out A.I.D.-funded procurement instruments, and preparing project assistance completion reports, the audit

found that the USAID Office needed to improve upon or, in certain instances, establish written policies and procedures for these areas.

Audit Findings

Procedures For Monitoring Counterpart Contributions Need Improvement

The USAID Office's Operations Manual established procedures regarding counterpart contributions except that those procedures did not cover the counterpart contribution requirements for bilateral assistance projects or the monitoring of contributions from nongovernmental organizations. The audit noted that the USAID Office's agreed-upon contribution to six of its 16 active projects exceeded the maximum amount that it should have contributed to the project and further noted significant weaknesses as regards the USAID Office not specifying the timing of contributions in agreements, not receiving reports from implementing entities on their contributions, and not verifying reported contributions. We attribute these situations to the noted lack of written procedures in some cases and the failure to follow procedures in others. As a result, the USAID Office provided about \$2.9 million of excess funds to the six projects, which funds could have been used for other activities, and it did not have adequate assurance that agreed-upon counterpart contribution amounts were provided timely (see page 6).

The USAID Office Evaluation Follow-up System Needs Improvement

The USAID Office established procedures to resolve and implement project evaluation report recommendations, however, these procedures were incomplete and were not consistently followed to ensure compliance with A.I.D. policies and procedures. Specifically, the procedures did not establish timeframes for preparing and submitting evaluation summary reports to A.I.D./Washington, and follow-up actions to resolve and implement project evaluation report recommendations were not always documented. We believe this occurred because of the low emphasis given to such formal processes and poor monitoring by management. As a result, evaluation summary reports were not prepared and submitted timely to A.I.D./Washington and the USAID Office did not have adequate assurance that appropriate actions on evaluation recommendations were implemented timely. These deficiencies--if not corrected--could reduce the benefits to be derived from future evaluations (see page 14).

Procedures For Cash Advances Were Properly Established

Except for the effects, if any, of not receiving acceptable representations, as discussed in the Summary of Audit, we can report for the items tested that the USAID Office established and implemented procedures in accordance with A.I.D. policies and procedures to ensure that cash advances to host country and nongovernmental organizations did not exceed immediate cash needs and were liquidated according to A.I.D. requirements. Our audit tests of advances outstanding more than 60 days under 11 projects revealed that the USAID Office was complying with its procedures (see page 17).

Procedures To Monitor Project Commodities Are Needed

The USAID Office did not have a documented system for monitoring project commodities to ensure that they were effectively received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures. Additionally, the USAID Office did not maintain a current description, approved by its controller, of the host country's commodity arrival and disposition systems. These situations existed because the USAID Office's internal policies and procedures in these areas were not included in a mission order. As a result, the USAID Office did not have assurance that \$4 million in project commodities procured between October 1, 1988 and March 31, 1992 were properly safeguarded (see page 19).

The USAID Office Followed A.I.D. Policies And Procedures To Implement Its Participant Training Program

Except for the effects, if any, of not receiving acceptable representations, as discussed in the Summary of Audit, we can report for the items tested that the USAID Office had an informal system to: (a) plan participant training, (b) select participants, (c) ensure predeparture processing and monitoring of participants, and (d) ensure that participants returned to Belize and utilized their training in accordance with A.I.D. policies and procedures. While, these procedures were not documented in a mission order or in the USAID Office's Operations Manual, and a country training plan had not been developed, in practice, the USAID Office was following A.I.D. Handbook 10, "Participant Training", procedures and we did not find any problems with the implementation of those procedures. In addition, the USAID Office's internal control assessment for 1991 identified a lack of procedures and a country training plan and proposed to resolve these weaknesses by June 30, 1993 (see page 23).

Closeout Procedures for Contracts, Grants, and Cooperative Agreements Need To Be Established

The USAID Office did not establish a system for closing out A.I.D.-funded procurement instruments in accordance with A.I.D. policies and procedures. Although we found evidence that the USAID Office was aware of the procedures recommended in A.I.D.'s Contract Information Bulletin (CIB) 90-12 and that some closeout actions had been initiated, it was not uniformly following those procedures for closing out contracts, grants, and cooperative agreements. For 16 of 20 completed instruments reviewed on 12 projects, actions had not been initiated or completed in accordance with CIB 90-12. We attribute the lack of closeout actions to the low priority assigned to this task and the lack of written USAID Office procedures indicating when closeout should begin, the actions necessary to close out contracts, grants, and cooperative agreements, and the roles of the various offices in the closeout process. Also, for contract closeouts, the USAID Office incorrectly believed that the regional contracting officer in Guatemala had the responsibility to initiate the closeout actions. As a result, the USAID Office did not have reasonable assurance that grants, cooperative agreements, and contractual obligations ended in an orderly manner, with each party's rights and obligations protected and enforced (see page 25).

Project Assistance Completion Reports Were not Prepared Timely

The USAID Office did not have a system to prepare project assistance completion reports (PACRs) and implement recommendations for follow-up in accordance with A.I.D. policies and procedures. Our review of seven completed projects for which PACRs should have been prepared disclosed three PACRs were completed and only one was completed timely. This occurred because the USAID Office did not have written guidance on the preparation of the reports and it assigned a low priority to their preparation. As a result, the purposes served by these reports might not be realized and an opportunity to plan postproject monitoring requirements for goods and services could be lost (see page 28).

Summary of Recommendations

The report contains six recommendations to correct or improve the USAID Office's internal controls for the areas audited. All recommendations entailed the need to improve or establish written policies and to develop appropriate procedures for implementing and monitoring these policies. The USAID Office reported some of the internal control weaknesses

described in this report in its 1991 internal control assessment. For those weaknesses not reported, we have recommended that the weaknesses be included in the USAID Office's next assessment if not resolved.

Management Comments and Our Evaluation

The draft audit report was provided to the USAID Office and commented on by its management (see Appendix II). Their comments were considered in preparing the final report. While the USAID Office agreed with most of the report's recommendations and stated it would take the necessary steps to close them as soon as possible, the extent to which it agreed with Recommendation No. 1.1 regarding its need to establish procedures to assure it does not over-contribute to a project was unclear. Also, for Recommendation No. 1.3 it stated that it did not believe we were correct in implying that all counterpart contributions, including in-kind and participant training costs, need to be supported by accounting records and verified.

We included Recommendation No. 1.1 because the USAID Office did not have written procedures to implement the Foreign Assistance Act requirement that no assistance shall be furnished a country unless the country provides assurances that it will provide 25 percent of the entire cost of the activity with respect to which such assistance is to be furnished. Four of the six projects mentioned in the related problem area were bilateral projects whose agreed-upon counterpart contributions did not meet this requirement.

In our evaluation of the USAID Office's comments regarding Recommendation No. 1.3 we cite A.I.D. and Office and Management and Budget criteria which we believe support our position.

Office of the Inspector General
Office of the Inspector General
January 25, 1993

INTRODUCTION

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires A.I.D. to prepare a yearly report to Congress and the President of its management controls. In turn, A.I.D. requires each mission or office, such as the Office of the USAID Representative to Belize (USAID Office), to submit a yearly assessment of its management controls in order to prepare the required report. These management controls, also called internal controls, are to provide reasonable assurance that obligations and costs are proper, funds and assets are safeguarded, and revenues and expenditures are properly accounted for.

During our audit field work, the USAID Office was refining its program strategy to a limited number of precisely defined strategic objectives in response to budgetary constraints and because of the prospect of moving Belize into the category of "More Developed Country" during the 1990s. The new program strategy contains two objectives to improve: 1) the use of terrestrial natural resources and 2) the host government's fiscal resources.

The USAID Office's schedule is to reduce its portfolio by 1994 and to complete the current strategic program by 1996. As a result of refocusing its portfolio on redefined priorities, the USAID Office will reduce its portfolio from 17 active projects at the start of Fiscal Year 1992 to just six projects by the end of Fiscal Year 1993.

As of May 31, 1992, the USAID Office's project portfolio consisted of 16 active projects valued at approximately \$65.5 million. Obligations and expenditures for these projects as of the same date were approximately \$44.3 and \$35.6 million respectively.

The USAID Office is responsible for establishing systems of internal control to manage its portfolio. The audit focused on internal control systems most relevant to the USAID Office's portfolio which were in place from October 1, 1988 to May 31, 1992. We selected these systems based on their importance to the USAID Office program objectives and because prior Office of Inspector General audits frequently disclosed problems with these systems at other A.I.D. missions and offices.

Audit Objectives

The Office of the Regional Inspector General for Audit/Tegucigalpa, based on its Fiscal Year 1992 audit plan, audited the USAID Office's systems of internal control for selected functions to answer the following audit objectives:

1. Did the USAID Office establish and implement procedures to monitor the timely and sufficient provision of host country and nongovernmental organization contributions in accordance with A.I.D. policies and procedures?
2. Did the USAID Office have a system to resolve and implement project evaluation report recommendations in accordance with A.I.D. policies and procedures?
3. Did the USAID Office establish and implement procedures to ensure that advances of funds to host country and nongovernmental organizations do not exceed immediate cash needs and are liquidated in accordance with A.I.D. policies and procedures?
4. Did the USAID Office monitor project commodities to ensure that they were received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures?
5. Did the USAID Office have a system to: (a) plan participant training, (b) select participants, (c) ensure predeparture processing and monitoring of participants, and (d) ensure that participants return to Belize and utilize their training in accordance with A.I.D. policies and procedures?
6. Did the USAID Office have a system to close out A.I.D.-funded procurement instruments in accordance with A.I.D. policies and procedures?
7. Did the USAID Office have a system to prepare project assistance completion reports and implement recommendations for follow-up 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 provisions of laws and regulations. Our tests were designed to provide reasonable--but not absolute--assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, due to a lack

of a fully acceptable representation letter, we are able to provide only qualified answers to these objectives.

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

REPORT OF AUDIT FINDINGS

In accomplishing the audit work, we requested the USAID Office to provide a representation letter to confirm information considered essential to answering the audit objectives. USAID Office officials provided some of the written representations requested. The officials, however, would not confirm in writing that, to the best of their knowledge and belief, for those activities being reviewed that (1) all the financial and management information associated with the audit objectives was provided to the auditors, and (2) A.I.D. policies and procedures and laws and regulations were followed and known instances of material noncompliance were reported to the auditors. Instead of confirming that all the information was provided and known instances of noncompliance were reported, USAID Office officials would only state their belief that the records made available to the auditors were accurate and complete.

Our answers to the following audit objectives and our assessment of related internal controls are therefore qualified because of the lack of these written representations. We are also unable to make a firm conclusion on the USAID Office's compliance with applicable laws and regulations.

1. Did the USAID Office establish and implement procedures to monitor the timely and sufficient provision of host country and nongovernmental organization contributions in accordance with A.I.D. policies and procedures?

Except for the effects, if any, of not receiving acceptable representations, as discussed above, we can report for the items tested that the USAID Office established and implemented procedures to monitor the timely and sufficient provision of host country and nongovernmental organization contributions in accordance with A.I.D. policies and procedures except that the USAID Office did not have written procedures regarding the contribution requirements for bilateral assistance projects or for monitoring contributions from nongovernmental organizations. Further the procedures that it had established for this area were not always followed.

The USAID Office included requirements in its Mission Operations Manual that agreements with nongovernmental organizations include a counterpart

contribution of at least 25 percent of total costs. The Operations Manual also included procedures for monitoring Government of Belize contributions. However, as explained below, for six of the USAID Office's 16 active projects the USAID Office's agreed-upon contribution exceeded the maximum amount that it should have contributed to the project. Further, for 11 of the projects the USAID Office did not specify the timing of counterpart contributions in its agreements, for seven of them it did not receive reports from implementing entities on their contributions, and for 11 of them it did not verify the amount of contributions made.

Procedures For Monitoring Counterpart Contributions Need Improvement

Section 110(a) of the Foreign Assistance Act of 1961 (FAA), as amended, requires host countries to provide at least 25 percent of the cost of the entire program, project, or activity in which the U.S. Government is furnishing assistance. A.I.D. policy has extended this requirement to assistance provided to nongovernmental organizations unless there is strong justification for doing otherwise. We reviewed the USAID Office's 16 active projects having agreed-upon counterpart contributions of \$36.7 million to determine compliance with the FAA requirement and A.I.D. policy. The audit found that for six of the 16 projects the USAID Office agreed-upon contribution exceeded 75 percent of total project budget. Additionally, the audit noted significant weaknesses regarding the monitoring of agreed-upon counterpart contributions in that the USAID Office did not specify the timing of counterpart contributions nor did it receive periodic reports from implementing agencies on seven projects. Further, those contributions that were reported were generally not verified. These situations occurred because the USAID Office did not follow its Operations Manual and the Manual did not provide comprehensive guidance. As a result, the USAID Office provided about \$2.9 million of excess funds to the six projects, which funds could have been used for other activities, and it did not have adequate assurance that agreed-upon counterpart contribution amounts were provided timely.

Recommendation No. 1: We recommend that the USAID Office expand its Mission Operations Manual to:

- 1.1 provide instructions that in no case will the agreed-upon A.I.D. contribution to a program, project, or activity exceed 75 percent of the total cost unless, in the case of projects implemented solely by nongovernmental organizations, a waiver of counterpart contributions is approved;**

- 1.2 include procedures regarding monitoring and reporting requirements for nongovernmental organizations and what constitutes acceptable contributions; and**
- 1.3 require that project officers obtain and verify documentation for the reported counterpart contributions to ensure that the contributions are made when required and meet or exceed the agreed-upon amounts.**

Recommendation No. 2: We recommend that the USAID Office include the weaknesses reported by this audit regarding counterpart contributions in its next internal control assessment if the weaknesses are not 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 (FAA) requires host countries to provide at least 25 percent of the cost of the entire program, project, or activity. Section 110(a) of the FAA stipulates that:

No assistance shall be furnished by the United States Government to a country under sections 103 through 106 of this Act until the country provides assurances to the President, and the President is satisfied, that such country provide at least 25 per centum of the costs of the entire program, project, or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an "in kind" basis.

A.I.D. implements this section of the FAA in Handbook 3, Appendix 2G. Also, Handbook 3, Chapter 11 stipulates that project officers should ensure that the host country provides its contributions on a timely basis. Further, an A.I.D. worldwide cable (State 138349, dated April 27, 1991) requires A.I.D. missions to establish standards for providing auditable evidence relating to reporting and documenting host government counterpart contributions. Although not mandated by the legislation, an A.I.D. worldwide cable (State 331065, dated October 23, 1987) extended the requirement for at least a 25 percent contribution to assistance agreements with nonprofit organizations. A.I.D. expects missions to require the full 25 percent cost-sharing unless there is strong justification for doing otherwise.

The USAID Office's Operations Manual established procedures to ensure that agreements with nongovernmental organizations required a counterpart contribution of at least 25 percent of total costs but there were no procedures for implementing host country counterpart requirements.

The audit found that for six of the USAID Office's 16 active projects the USAID Office agreed to provide more than 75 percent of the total budgeted cost as illustrated in the following table.

**A.I.D. CONTRIBUTION TO TOTAL
BUDGETED PROJECT COST
AS OF AUGUST 7, 1992
(000s)**

Project No.	Total Budgeted Project Cost	A.I.D. Agreed-Upon Contribution	Maximum Contribution	Excess A.I.D. Contribution
505-0008	\$ 9,669	\$ 8,100	\$ 7,252	\$ 848
505-0016	2,767	2,500	2,075	425
505-0033	2,039	1,787	1,529	258
505-0037	2,491	2,260	1,868	392
505-0039/ 597-0001	3,413	3,413	2,560	853
505-0047	2,300	1,800	1,725	75
TOTAL	\$22,679	\$19,860	\$17,009	\$2,851

As illustrated in the table, A.I.D.'s agreed-upon contribution was \$2.85 million in excess of what it should have been for the six projects. The USAID Office did not waive the 25 percent counterpart contribution requirement for any of the organizations implementing these projects.

The audit also found that the USAID Office needed to strengthen implementation of its monitoring procedures and to verify the level of counterpart contributions actually made by host government and nongovernmental organizations. Although the USAID Office's Operations Manual included procedures for monitoring Government of Belize contributions, those procedures were not consistently followed. The Operations Manual did not include procedures for monitoring contributions from nongovernmental organizations.

The USAID Office's system to track and inform management of counterpart contributions is to report the accumulated contributed amounts in the USAID Office's Semiannual Report. Project managers obtained information for the Semiannual Report either from reports submitted by the

implementing entities--which they usually did not verify¹--or they made their own calculations. The audit found that the counterpart contribution information reported in the Semiannual Report may not have been accurate. For example, the cumulative counterpart contributions reported in the March 31, 1992 Semiannual Report for Project Nos. 505-0018, 505-0037, and 505-0039 showed a dollar value which was less than the project officers' supporting documentation.

The audit also found that counterpart contribution reports had not been received from the responsible implementing entities for Project Nos. 505-0006, 505-0008, 505-0016, 505-0018, 505-0037, 505-0039, and 505-0042. For Project Nos. 505-0006, 505-0008 and 505-0016, the project manager told us that he computed the \$3.2 million counterpart contribution reported in the March 31, 1992 Semiannual Report from the estimated amounts found in the annual budgets submitted by the host government to the USAID Office. For the four other projects, project managers said they determined the counterpart contributions by making their own calculations. Neither budgeted nor calculated amounts are actual expenditures and therefore should not have been used as support for the contribution amount. Finally, for Project Nos. 505-0020 and 505-0033 in-kind contributions were not verified.

The audit also noted that only five of the 16 projects specified the expected contributions by year of the agreement. These five projects were: 505-0008, 505-0016, 505-0020, 505-0027 and 505-0037. The remaining 11 projects did not establish timeframes for when contributions were to be made. Without timeframes, there is no objective standard for judging whether counterpart contributions are being provided timely. Specifying the required counterpart contribution by year of the agreement would help assure that problems in this area are detected before they become serious.

We attribute the above conditions to USAID Office officials inconsistently following the guidance in the Operations Manual and to the Manual not providing comprehensive guidance to enforce compliance with A.I.D.'s policies and procedures.

In its Fiscal Year 1991 assessment of its internal controls the USAID Office rated three internal control techniques for counterpart contributions as satisfactory. Even so, in a comment to the USAID Office's assessment of a control technique regarding verifying nonprofit contributions, one USAID Office officer stated that he would view the control technique as

¹ On only four of the 16 projects reviewed (505-0011, 505-0027, 505-0044, and 505-0047) did we find evidence that the counterpart contributions had been verified. On a fifth project (505-0043) we did not check whether the contribution had been verified.

unsatisfactory if verification meant fully substantiating contributions with supporting documents.

In conclusion, the USAID Office needs to restrict its agreed-upon contributions to no more than 75 percent of total project costs and improve monitoring of host country and nongovernmental contributions to ensure that agreed-upon amounts are provided timely. Counterpart contributions are a vital input required for the successful implementation of USAID Office-funded projects, and if there are delays or failures to make these contributions, project implementation could be seriously affected.

Management Comments and Our Evaluation

With regard to Recommendation No. 1.1, the USAID Office accepted that the agreements for five projects included in our report showed the USAID Office had contributed more than 75 percent of total project costs, but stated that for the sixth such project there would be additional contributions not reflected in the project paper budget, with the result that the USAID Office's contribution would no longer exceed 75 percent. It further indicated that for the five identified projects the recipients contributed more than they agreed-to and thus their actual contributions exceeded 25 percent of the total project costs in three cases. The USAID Office stated that nongovernmental implementing entities were involved in four [actually three] of the five identified projects and maintained that it had the authority to waive the contribution requirement for those entities but failed to document its waivers. The USAID Office also stated that our report cited old projects and therefore failed to reflect the attention given to this matter in recent years. The USAID Office maintained its present procedures ensure that agreements require a 25 percent contribution from recipients and concluded that the audit had not presented proof that its present systems fail to conform with A.I.D. guidelines. In response to corrections made to the draft report after its initial comments, the Mission indicated (see page 55) that although not presently stated in its Mission's Operation Manual the requirement for a 25 percent contribution from the host government on a bilateral project is basic and clear. Nevertheless, it agreed to explicitly state that requirement as part of revisions currently underway.

Regarding the bilateral project agreement for the sixth project that the USAID Office is referring to (Project No. 505-0047), we note that it was not amended to reflect the increased host government contribution cited by the USAID Office. To bind the host government to this increased contribution amount and set in motion host country reporting and USAID Office verification procedures, the agreement should be amended.

With regard to the USAID Office's comment that it had the authority to waive the counterpart contribution requirements for nongovernmental organizations, we note that it did not do so. Additionally, two agreements with nongovernmental organizations implemented subparts of a larger bilateral project with the host government. The Handbook 3 guidance which implements the counterpart contribution requirements for bilateral assistance to foreign governments specifies a contribution of 25 percent of the total cost of the project as defined in the associated project paper. (See Handbook 3, Appendix 2G, paragraphs C.1 and C.2.) For those projects implemented by both host government and nongovernmental entities, the above guidelines would require a counterpart contribution of at least 25 percent of the costs of the entire project as defined in the project paper regardless of whether the USAID Office chooses to waive counterpart contributions for agreements with nongovernmental entities. In other words, it is our interpretation of the Handbook guidance that in such cases the host government would be required to contribute more to make up for the waiver of contributions from nongovernmental organizations.

An additional three of the six projects noted in this problem area were bilateral projects with the host government which did not include agreements with nongovernmental organizations. Since Belize does not meet FAA waiver criteria, in these cases no contribution waiver is possible.

We disagree with the USAID Office's comments that the audit finding does not reflect the USAID Office's emphasis to follow these procedures in recent years. Four of the six projects cited in this finding were started or amended since 1991 and a fifth project was started at about the same time as the Mission's Operations Manual was issued. It appears that the USAID Office disregarded contribution requirements when amending agreements and did not ensure that the contribution requirements were met on another project recently started (Project No. 505-0047).

Additionally we do not see the reasoning in the USAID Office's comments that in three of the projects the recipients actually contributed more than 25 percent of project costs. As the finding demonstrates, the USAID Office has agreed to contribute more than 75 percent of the total project costs. In such circumstance, when a recipient's actual contributions also exceed 25 percent of the total project costs, the amount of project funds contributed between the two then exceeds the total project budget.

By contributing more than its 75 percent share of the total costs, the USAID Office has in essence used resources that could have been programmed to other development priorities. Considering this better use of A.I.D. resources and, in the case of bilateral agreements, that establishing a rule to contribute no more than 75 percent of total project cost would assure that the Foreign Assistance Act requirement is met (even

in cases where there are separate agreements with nongovernmental entities), we believe that Recommendation No. 1.1 is both valid and reasonable. We note that in the addendum to its initial comments the Mission has agreed to revise its Operations Manual to include a 25 percent contribution requirement from the host government. However, since it is not clear to RIG/A/T whether the Mission plans to require this contribution percentage for the entire cost of the Project as defined in the Project Paper and to enforce this requirement before adding further funds to projects currently underway, RIG/A/T considers Recommendation No. 1.1 unresolved.

Regarding Recommendation No. 1.2, the USAID Office stated that in practice its guidance for monitoring host country contributions was also applied to contributions from nongovernmental organizations. However, it agreed to expand its guidance on monitoring host country contributions to reflect its applicability to nongovernmental organizations and to include emphasis on the matter of timeliness of the contributions.

We consider the USAID Office's proposal--to formally extend its monitoring procedures for host country contributions to nongovernmental organization contributions as well and to include emphasis on the matter of timeliness of the contributions--addresses the intent of the recommendation. We expect that such procedures will include a requirement to specify the expected contribution amount by agreement year. Accordingly, RIG/A/T considers Recommendation No. 1.2 to be resolved.

Regarding Recommendation No. 1.3, the USAID Office agreed to issue additional guidance concerning the documentation of counterpart contributions. It believed, however, that we were incorrect in implying that counterpart contributions need to be verified to accounting records and considered that in certain cases, such as in the cases of in-kind contributions and participant training, this would not be possible.

We disagree with the USAID Office's comment on Recommendation No. 1.3 that it believes that we are incorrect in implying counterpart contributions need to be verified to accounting records. Agency guidance regarding host country contributions, contained in STATE cable 138349 dated April 27, 1991, provides that there should be "auditable evidence" with respect to reporting and documenting such contributions. It further indicates that the USAID Office official records on such contributions should include related host country accounting records and states that the reliability of reported counterpart contributions should be tested. Additionally, the guidance applicable to contributions from nongovernmental organizations (Office of Management and Budget Circular A-110) requires that all cash and in-kind contributions be verifiable from the recipient's records. Circular A-110 also states that the value of in-kind contributions will be

established in accordance with applicable cost principles and provides specific procedures for establishing the value of in-kind contributions. Finally, the standard provisions applicable to grants to both types of implementing entities require the grantee to maintain accounting books, records, documents, and other evidence relating to the agreement in accordance with applicable accounting principles.

We believe these criteria clearly show A.I.D.'s intent that grantees' counterpart contributions be supported by accounting records and verified. Therefore the procedures that the USAID Office proposes in response to Recommendation No. 1.3 should fully address A.I.D. requirements that the counterpart contributions be supported by accounting records. Although the USAID Office has agreed to take some action with regard to Recommendation No. 1.3, its disagreement that counterpart contributions need to be verified to underlying accounting records leads RIG/A/T to consider this recommendation open and unresolved.

Regarding Recommendation No. 2, the USAID Office stated that it had conducted its Fiscal Year 1992 internal control assessment but did not consider that it had major weaknesses in the area of counterpart contributions.

We note the USAID Office's comment that it did not find any major weaknesses for the two internal control techniques which it believed applied to this area. We believe, however, that the evidence presented in our report shows unsatisfactory controls in this area. Accordingly, RIG/A/T considers Recommendation No. 2 to be open and unresolved.

2. Did the USAID Office have a system to resolve and implement project evaluation report recommendations in accordance with A.I.D. policies and procedures?

Considering the effects of the qualification made on page 5, we can report for the items tested that the USAID Office had a system to resolve and implement project evaluation report recommendations in accordance with A.I.D. policies and procedures, except for not establishing timeframes for preparing and submitting evaluation summary reports, and not documenting follow-up actions to resolve and implement evaluation report recommendations.

The USAID Office designed a system for following up on the decided course of action in response to evaluation recommendations to ensure that these actions were implemented. However, as discussed below, those procedures were incomplete and were not consistently followed to ensure compliance with A.I.D. policies and procedures. Specifically, evaluation summary

reports were not prepared timely and therefore not timely submitted to A.I.D./Washington, and follow-up actions to resolve and implement project evaluation report recommendations were not always documented.

The USAID Office Evaluation Follow-up System Needs Improvement

The A.I.D. Evaluation Handbook requires missions and offices to establish a system for following up on the decided course of action in response to evaluation recommendations to ensure that these actions are implemented. The USAID Office designed such a system in its Operations Manual. However, Operations Manual procedures did not establish timeframes for preparing and submitting evaluation summary reports, and follow-up actions to resolve and implement evaluation report recommendations were not always documented. We believe that the low emphasis given to such formal processes and poor monitoring by management were contributing causes of these problems. As a result, evaluation summary reports were not prepared and submitted to A.I.D./Washington timely, and the USAID Office did not have adequate assurance that evaluation recommendations were implemented timely. Moreover, these procedural deficiencies--if not corrected--could reduce the benefits to be derived from future evaluations.

Recommendation No. 3: We recommend that the USAID Office:

- 3.1 amend its Mission Operations Manual procedures for implementing project evaluation report recommendations to include requirements to prepare and submit evaluation summary reports to A.I.D./Washington within 60 days of receipt of the associated evaluation reports and to implement the evaluation report recommendations, documenting actions taken; and**
- 3.2 report these weaknesses in the next internal control assessment if they are not resolved.**

The purpose of evaluations is to assist managers in improving the performance and effectiveness of projects. Evaluations assess whether planned results are being achieved and what impact a project is having. One of the beneficial aspects of evaluations are recommendations to correct deficiencies or make necessary adjustments to project planning.

The evaluation process is not complete until actions have been taken to satisfy evaluation report recommendations. To achieve this end, the A.I.D. Evaluation Handbook requires missions to respond promptly to evaluation recommendations and to establish a system for follow-up on the decided course of action. The A.I.D. office responsible for an evaluation is required

to complete an evaluation summary report which documents actions to be taken in response to evaluation report recommendations and identifies the persons responsible and the dates when actions are to be completed. The evaluation summary report is required to be submitted to A.I.D./ Washington within 60 days of the receipt of the evaluation report.

USAID Office written procedures designate an evaluation officer with responsibility for developing and coordinating the USAID Office's overall evaluation plan with project managers and for following up on all action decisions shown in an evaluation summary report. We found, however, that USAID Office procedures did not establish timeframes for the completion of evaluation summary reports. Also, discussions with the evaluation officer disclosed that he did not follow up on all action decisions shown in the reports since it was up to the project managers to process the reports and implement the recommendations. While project managers assured us that evaluation report recommendations were implemented their actions were not always documented.

We reviewed eight evaluation summary reports completed between October 1, 1988 and May 31, 1992, to determine if the USAID Office was meeting requirements of the A.I.D. Evaluation Handbook regarding the preparation of evaluation summary reports. The following table illustrates the results of our review.

**REVIEW OF THE USAID OFFICE
EVALUATION SUMMARY REPORTS
as of August 7, 1992**

Project No.	Date of Evaluation Report	Date of Evaluation Summary	Elapsed Time (Months)
505-0006	May 1991	None	14
505-0007	December 1990	April 1991	4
505-0016	April 1991	August 1991	4
505-0024	October 1991	June 1992	8
505-0027	January 1991	In Draft	18
505-0030	March 1990	July 1990	4
505-0033	March 1990	None	28
505-0036	December 1990	April 1991	4

As shown in the table on page 15, in no instance had an evaluation summary report been processed within the 60 days (two months) required by the A.I.D. Evaluation Handbook and in two instances reports were not prepared at all.

In discussing the status of evaluation recommendations with the responsible project officials for five of the above projects, we found little correlation between the implementation of recommendations and preparation of an evaluation summary report. For example, on Project No. 505-0033 an evaluation summary report had not been prepared; yet, the project manager stated that the recommendations had been nearly implemented. In addition, the audit tested 37 of the 74 recommendations included in the eight project evaluations reviewed to determine actions taken to implement those recommendations. While project managers assured us that the recommendations were implemented, their actions were not always documented.

We believe that the low emphasis given to establishing a formal system for evaluating project performance and poor monitoring by management contributed to these deficiencies.

The USAID Office did not report a weakness regarding evaluations in its internal control assessment performed in 1991.

In conclusion, the USAID Office had not prepared evaluation summary reports as required and its follow-up actions to resolve and implement evaluation report recommendations were not always documented. As a result, the USAID Office did not have adequate assurance on actions taken to implement evaluation report recommendations. Moreover, these procedural deficiencies--if not corrected--could reduce the benefits to be derived from future evaluations.

Accordingly, we believe that the USAID Office should prepare and submit evaluation summary reports within the required timeframes and document actions taken to implement evaluation report recommendations timely.

Management Comments and Our Evaluation

The USAID Office responded that it will amend its guidance to reflect the requirement for timely submission of evaluation summary reports and to implement and document actions taken on evaluation recommendations. In its response it also stated that it reported this weakness in its Fiscal Year 1992 internal control assessment. The USAID Office also stated that the auditors were shown a final evaluation summary report for Project No. 505-0027, but the audit report reflects this report as being in draft form.

We consider the corrective actions proposed by the USAID Office to be appropriate and note its comments that it assessed its procedures regarding evaluations as unsatisfactory in its Fiscal Year 1992 internal control assessment.

As regards the status of the evaluation summary report for project 505-0027, we note that the copy given to us during the audit was clearly stamped draft and did not include any signatures from USAID Office officials. Thus the information we were given supports the status as reflected in the audit report.

Based on the proposed actions by management, Recommendation No. 3.1 is considered resolved and Recommendation No. 3.2 is closed upon issuance of this report.

3. Did the USAID Office establish and implement procedures to ensure advances of funds to host country and nongovernmental organizations do not exceed immediate cash needs and are liquidated according to A.I.D. policies and procedures?

Considering the effects of the qualification made on page 5, we can report that for the items tested that the USAID Office established and implemented procedures to ensure advances of funds to host country and nongovernmental organizations did not exceed immediate cash needs and were liquidated according to A.I.D. policies and procedures. The USAID Office incorporated A.I.D.'s policy and procedures for cash management and project advances in its Operations Manual.

A.I.D. policy authorizes payment to A.I.D.-financed recipients on the basis of goods delivered and services performed or to cover costs already incurred. An exception to this policy is made for nonprofit organizations and host country governmental institutions which are normally funded on an advance-of-funds basis. In such cases, missions are to assure that balances are maintained commensurate with immediate disbursement needs and that excess balances are promptly returned to the mission.

USAID Office policy is to consider requests for 90-day advances by host government institutions due to the turnaround time and the time required to process vouchers through both governments. Cash advance requirements by nongovernmental organizations are considered for 30 days from the date the recipient receives the advance until it is expended. Advance payments are to be based upon an analysis of the cash required under the specific agreement, taking into consideration the reimbursement

cycle. An analysis performed by the USAID Office controller revealed that the turnaround time from the time the request for an advance was made until the recipient received the funds was between 45 to 60 days.

USAID Office procedures for ensuring advance requests do not exceed immediate cash needs and for the liquidation of advances were documented in its Operations Manual and project implementation letters. The procedures for advance requests required: (1) a monthly breakdown of expenses within budget line items, (2) submission of requests at least one month prior to the date funds are needed to allow for a 30-day lead-time for voucher review and processing, (3) deposit of advances in a separate bank account established solely for the project, (4) quarterly reports of any interest earned from the account with return of such interest to the USAID Office, and (5) inclusion of the Standard Form 1034 voucher, a Federal Cash Advance Status Report Control No. W-245, and a duly certified cash advance request summary by month and budget line item.

For liquidation of advances, the USAID Office required: (1) a certified monthly liquidation report within 30-days after the period covered by the advance, (2) a cash advance request for the next period following the period being liquidated, (3) a reduction of future cash advance requests by the amount of outstanding cash balances due for liquidation, and (4) the inclusion of the Standard Form 1034 voucher and a duly certified expenditure/liquidation report shown by budget line item. In addition, all advance requests and liquidation vouchers were to be administratively approved by project officers.

As of May 5, 1992, the USAID Office had a balance of \$780,487 in outstanding advances to host country and nongovernmental organizations. Of this amount, we tested \$206,101 of advances which were outstanding between 61 and 120 days for nine projects funded by the USAID Office. In addition, we tested \$12,486 in advances funded by A.I.D./Washington which were outstanding over 60 days for two projects.

The audit tests revealed that the USAID Office was complying with its internal control procedures for the cash advances that it made. Monthly liquidation vouchers were reviewed and administratively approved by project officers and requests for subsequent advances were reviewed and analyzed by responsible officials through the use of the Federal Cash Advance Status Report.

The outstanding advances from A.I.D./Washington were made through letters of credit. In these cases the audit found that USAID Office provided to A.I.D./Washington the required voucher administrative approvals and obtained liquidation vouchers for all but \$334 of the outstanding amount. The \$334 balance was to be deducted from the next advance request.

In summary, we concluded that the USAID Office complied with its established internal control procedures and A.I.D. policy and procedures for ensuring that advances of funds to host country and nongovernmental organizations did not exceed immediate cash needs and that such advances were liquidated as required.

4. Did the USAID Office monitor project commodities to ensure that they were received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures?

The USAID Office did not have a documented system for monitoring project commodities to ensure that they were received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures. The audit tested seven of the nine projects² which had procured commodities between October 1, 1988 and March 31, 1992. The audit tests revealed that USAID Office procedures did not provide assurance that commodities were properly received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures. The USAID Office stated it relied on project officer site visits and host country/contractor reports to ensure that commodities were accounted for and used. However, our review showed that these two methods did not address project commodity receipt, storage, maintenance, and utilization issues. Additionally, the USAID Office did not maintain a current description, approved by its controller, of the host country's commodity arrival and disposition systems. As discussed below, the USAID Office needed to document comprehensive guidelines for monitoring project commodities.

Procedures To Monitor Project Commodities Are Needed

The Federal Managers' Financial Integrity Act of 1982 requires that U.S. Government agencies' internal control systems provide reasonable assurances that assets are adequately safeguarded against waste, loss, unauthorized use, or misappropriation. With regard to project commodities, A.I.D.'s internal controls to provide these assurances are defined in Handbooks 1, 3, 13, and 15. The USAID Office did not follow A.I.D. policies and procedures to ensure that project site visits included analyses of commodity receipt, storage, maintenance, and utilization and that the host country's commodity arrival and disposition systems were documented and approved by the USAID Office controller. This occurred because USAID Office internal policies and procedures regarding receipt,

² Included in our review were Project Nos. 505-0006, 505-0007, 505-0008, 505-0012, 505-0016, 505-0020, and 505-0027.

storage, maintenance, and utilization of project commodities were not documented and disseminated in a mission order. Consequently, the USAID Office did not have the assurance that \$4 million in project commodities procured between October 1, 1988 and March 31, 1992 were properly safeguarded.

Recommendation No. 4: We recommend that the USAID Office prepare and issue a mission order that requires: (a) project officers to review and document commodity accountability and utilization during site visits, and (b) the USAID Office to ensure that the host country maintains current and approved commodity arrival and disposition systems.

The USAID Office needs to improve the monitoring system currently used to ensure receipt, storage, maintenance, and utilization of A.I.D.-funded commodities. Its records showed that the value of commodities for its existing active projects would amount to approximately \$6 million over the life of these projects.

A.I.D. Handbook 15, Chapter 10 requires the project officer to ensure that host country accounting system are adequate to control commodities. This system should account for the arrival, receipt, storage, and utilization of the commodities. A.I.D. Handbook 13, Appendix 4C requires that a grantee's financial management system provide effective control and account for all funds, property, and other assets. It also requires the grantee to adequately safeguard all such assets and ensure that they are used solely for authorized purposes. Furthermore, A.I.D. Handbook 3, Supplement B (Project Officer's Guidebook) requires project officers to independently verify that project commodities are used for intended purposes.

To verify proper receipt, storage, maintenance, and utilization of project commodities, the project officer should perform end-use inspections during site visits. These visits should be documented as soon as possible after the visit ends and be placed in the project files. The USAID Office's Operations Manual requires that site visit reports be prepared by professional staff for all in-country project related travel within five days after each visit. However, the audit found no documentation that site visit reports were prepared for the seven projects reviewed.

The audit tested seven of the nine projects which had procured commodities between October 1, 1988 and March 31, 1992. The audit tests revealed that USAID Office procedures did not provide assurance that commodities were properly received, stored, maintained, and utilized in accordance with A.I.D. policies and procedures. Based on this judgmental sample, we concluded that the USAID Office needed to improve its

monitoring functions for commodities. The following examples summarize the monitoring weaknesses found:

- Although project managers responsible for the seven projects reviewed stated that site visits were made, there was no documented evidence to support that commodity-oriented site visits were in fact performed.
- In four cases, project managers stated they relied on host country institutions and nongovernmental organizations/contractors to establish the necessary accounting systems. However, in no case, did we find any documentation indicating that project managers verified the accounting systems' adequacy.
- A management review report, dated October 16, 1991, reported that 16 of 37 vehicles purchased under Project Nos. 505-0006, 505-0007, and 505-0016 did not have the A.I.D. emblem as required by A.I.D. Handbook 1, Supplement B, Chapter 22. On May 8, 1992, the USAID Office informed the Ministry of Agriculture and Fisheries that it was providing 14 A.I.D. emblems for the seven vehicles identified under projects 505-0006 and 505-0016; however, the project manager for these projects told us that there had been no follow-up by the USAID Office to determine if the emblems were placed on the vehicles. Additionally, we were not provided evidence that the USAID Office had requested the Ministry of Works to place the A.I.D. emblem on unmarked vehicles under Project 505-0007.
- The above review report also noted that a project vehicle was used for non-project purposes. On January 27, 1992, the USAID Office sought reimbursement of \$2,323 from the Ministry of Agriculture and Fisheries for the unauthorized use of this vehicle. As of the end of our fieldwork on August 7, 1992, the monies had not been collected.
- The project manager responsible for Project No. 505-0006 provided us with a listing of commodities purchased for the project; however, when we visited the project implementing entity, we found that this listing did not include all the commodities purchased for the project.
- Under Project No. 505-0007, the review report of October 1991 reported that two vehicles purchased with project funds were not included in the USAID Office's listing of commodities purchased for the project.
- At the termination of Project No. 505-0007 USAID Office officials performed an inventory of commodities purchased under the project. We found, however, that the officials relied on an inventory listing provided by the Ministry of Works. We believe a more prudent practice

would be for the USAID Office to have its own inventory listings to verify project commodities inventories.

The above examples indicate that site visits made by project officials need to focus on project commodities and problems related with the receipt, storage, maintenance, and uses of those commodities.

A.I.D. Handbook 15, Chapter 10 (E) additionally requires missions to maintain a current description, approved by the mission controller, of the borrower/grantee's commodity arrival and disposition system(s), the mission's evaluation of the system(s), and mission monitoring procedures. Also, A.I.D. Handbook 1, Supplement B, Chapter 24 states that the mission will periodically evaluate the system maintained by the borrower/grantee to verify the arrival, disposition, and utilization of commodities. However, the USAID Office did not comply with these requirements and accordingly does not have the required assurance that the host country's commodity arrival and disposition systems are adequate.

The USAID Office did not have a mission order delineating its policies and procedures for ensuring that commodities were properly received, stored, and maintained and effectively utilized. A mission order would also help strengthen controls for critical functions such as the maintenance of host country commodity arrival and disposition systems and independent reviews of project commodities.

The USAID Office reported its lack of procedures regarding a commodity monitoring system for A.I.D.-financed projects as a weakness in its internal control assessment performed in 1991. To resolve this weakness, the USAID Office planned to incorporate procedures in its Operations Manual by June 30, 1992 which was later extended to June 30, 1993.

In conclusion, the USAID Office's system to control project commodities did not ensure that: (1) key internal control requirements and responsibilities were codified in a mission order, (2) project officer site visits included reviews of the receipt, storage, maintenance, and utilization of commodities, and (3) the host country's commodity arrival and disposition systems were documented and approved. Consequently, the USAID Office did not have assurance that the \$4 million in commodities procured between October 1, 1988 and March 31, 1992 were properly safeguarded. The USAID Office should establish, in a mission order, a formal system which will ensure that commodities are properly safeguarded and used for authorized purposes.

Management Comments and Our Evaluation

The USAID Office agreed with this finding and recommendation and stated that it would issue USAID Office guidance as proposed. Accordingly, RIG/A/T considers Recommendation No. 4 to be resolved.

5. Did the USAID Office have a system to: (a) plan participant training, (b) select participants, (c) ensure predeparture processing and monitoring of participants, and (d) ensure that participants return to Belize and utilize their training in accordance with A.I.D. policies and procedures?

Considering the effects of the qualification made on page 5, we can report that for the items tested the USAID Office had an informal system to: (a) plan participant training, (b) select participants, (c) ensure predeparture processing and monitoring of participants, and (d) ensure that participants returned to Belize and utilized their training in accordance with A.I.D. policies and procedures. However, these procedures were not documented in the mission order for managing the participant training program or in its Operations Manual. In addition, a country training plan had not been developed. We are not making recommendations at this time because the audit found that, in practice, the USAID Office was following A.I.D.'s Handbook 10, "Participant Training", procedures and we did not find any problems with the implementation of those procedures. While the audit found that the USAID Office had not developed a country training plan specifically for its participant training program, it was using a similar training plan developed for the Central American Peace Scholarships Program. In addition, the USAID Office's internal control assessment for 1991 identified a lack of procedures and a country training plan and proposed to resolve these weaknesses by June 30, 1993.

The USAID Office's training program is comprised of project-related training and includes the Central American Peace Scholarships Program (CAPS). The CAPS Program is the major participant training activity at the USAID Office and is designed to increase the number of socially and economically disadvantaged individuals trained in the U.S. as well as to assist in Belize's development through a program of long- and short-term training across all sectors. Special attention is given to the educational sector and to rural areas of the country. A limited mission order defines the training responsibilities of project officers, a training officer, and others.

The USAID Office's participant training selection process conforms to A.I.D. selection criteria found in Handbook 10, Chapter 4E. Recognizing that leadership potential is a difficult quality to assess, the USAID Office encourages nominations from nominating/collaborating agencies who know the target group well enough to nominate participants for review. This procedure is in addition to the regular practice of advertising scholarships in the radio, newspapers, and school districts. For the CAPS Program a screening and selection committee reviews the individual applications to ensure that all nominees are from rural primary schools, all districts are

fairly represented, female participation is adequate, and each participant meets the economic means test. On other projects which have smaller participant training components, selection is in accordance with training needs as identified in agreements.

The USAID Office predeparture processing and monitoring of participants conforms to A.I.D. policies and procedures in Handbook 10. The USAID Office does not conduct English language testing for its training participants as English is the official language of Belize. It ensured that participants obtained medical examinations by providing them A.I.D.'s Form 1382 "Medical History and Examination for Foreign Applicants" and a physician referral list prepared by the U.S. Embassy's Medical Section. Our tests of 13 participant files found completed medical examination forms and medical clearance documentation prepared by the responsible USAID Office officials. As a result of our judgmental tests of selected files, we concluded that participants underwent medical examinations prior to departure for training.

To monitor its training participants, the USAID Office receives an academic enrollment and term report for each semester from the institution providing the training. In addition, the USAID Office training assistant visits annually educational institutions in the United States where groups of students are enrolled. Site visit reports were prepared for these visits.

The USAID Office had a follow-up system to ensure that participants return to Belize and utilize their training. It also maintained a centralized database to track employment activities of returned participants and sponsors "networking" among returned participants through associations, post training seminars, and other activities. To determine whether participants who had completed their training since 1989 had returned to Belize, we judgmentally selected 13 of 39 participants meeting these criteria. We contacted 11 of 13 selected participants and they confirmed their employment in Belize as recorded in the USAID Office database. According to the training assistant, the two participants that we could not contact were reportedly not in Belize--one was completing his Masters degree abroad and the other was dropped from the training program.

In conclusion, the USAID Office's informal system for participant training complied with the requirements of A.I.D. Handbook 10. To continue the effectiveness of this program, we believe the USAID Office should document the required procedures in its mission order on participant training or in its Operations Manual and should develop a country training plan.

6. Did the USAID Office have a system to close out A.I.D.-funded procurement instruments in accordance with A.I.D. policies and procedures?

The USAID Office did not establish a system for closing out A.I.D.-funded procurement instruments in accordance with A.I.D. policies and procedures. Although we found evidence that the USAID Office was aware of the procedures recommended in A.I.D.'s Contract Information Bulletin 90-12 and that some closeout actions had been initiated, it did not uniformly follow those procedures for closing out 16 of the 20 instruments reviewed.

Closeout Procedures for Contracts, Grants, and Cooperative Agreements Need to be Established

Contract Information Bulletin (CIB) 90-12 states the necessity for all procurement officials to effect a closeout of acquisition and assistance instruments in a timely and comprehensive manner. We examined the files for 20 instruments on 12 projects (seven completed and five on-going) and determined that the USAID Office followed the requirements in CIB 90-12 for closing out two instruments. The USAID Office also requested the regional contracting office in Guatemala to initiate closeout actions on two additional instruments. However, the closeout of the 16 other completed instruments had either not been initiated or had not been completed in accordance with CIB 90-12. We attribute the lack of closeout actions to the low priority that the USAID Office assigned to this task and the lack of written procedures indicating when closeout should begin, what actions are necessary to close out contracts, grants, and cooperative agreements, and what the roles of the various offices are throughout the process. The USAID Office distributed CIB 90-12 through an administrative notice, however, it did not issue any other written guidance. Also, for contract closeouts, the USAID Office incorrectly believed that the regional contracting officer in Guatemala had the responsibility of initiating the closeout actions. As a result, the USAID Office did not have reasonable assurance that grants, cooperative agreements, and contractual obligations ended in an orderly manner, with each party's rights and obligations protected and enforced.

Recommendation No. 5: We recommend that the USAID Office:

- 5.1 expand on its administrative notice regarding closeout procedures for acquisition and assistance instruments to include written procedures relating to control forms, roles of**

individual offices, and time frames for closing out contracts, grants, and cooperative agreements; and

5.2 report this condition in its next internal control assessment if it is not resolved.

The underlying criteria for the closeout of A.I.D.-funded acquisition and assistance instruments depends on the type of instrument used. For example, contracts are governed by the Federal Acquisition Regulation, Subpart 4.804, while grants and cooperative agreements are governed by the Office of Management and Budget (OMB) Circular A-110, Attachment K. CIB 90-12 incorporates both requirements and also includes suggested forms and recommends procedures for use by A.I.D. personnel. The procedures recommended by the Bulletin provide a means for assuring implementation of the underlying requirements and require closeout of contracts, grants and cooperative agreements and the preparation of completion statements for each.

CIB 90-12 procedures for final vouchers advise contracting/grant officers to contact the mission controller to make certain that final vouchers are presented to the contracting officer for clearance. The procedures include coordination between the contracting officer and financial staff to obtain sufficient information to ascertain that: (1) obligated amounts and contract/grant amounts are able to be reconciled, (2) amounts disbursed and obligated are able to be reconciled, and (3) contractor/grantee billing records and A.I.D. disbursement records are in agreement.

The audit tested three control techniques to determine if the USAID Office's practices accomplished the intent of CIB 90-12. These techniques were: (a) preparation of the closeout completion statements, (b) notification to the contractor/grantee that the contract/grant/cooperative agreement was nearing completion and for it to make any necessary closeout arrangements, and (c) request for final voucher to ensure that no payments were pending.

Our tests of the above techniques revealed that for technique (a) the USAID Office prepared four closeout completion statements on the 20 completed instruments reviewed. For technique (b) we found evidence that the USAID Office had informed six of 20 contractors/grantees that their instruments were nearing completion. And for technique (c) the USAID Office documented receipt of 12 final vouchers. For the remaining eight instruments, one final voucher was requested on a contract after our review, five files provided no evidence that the latest voucher in the file was in fact the final voucher, and two instruments were not considered in our tests because the final payments were not yet due.

The results of our testing agree with information provided by the USAID Office that closeout of procurement instruments was a new activity and the USAID Office's efforts were concentrated in closing out entire projects instead of procurement instruments which were implementing parts of projects.

The USAID Office also believed that closeout actions for contracts were the responsibility of the regional contracting officer; however, the Federal Acquisition Regulation (FAR) Subpart 4.804-5(a) states that: "The office administering the contract is responsible for initiating ... administrative close out of the contract after receiving evidence of its physical completion." In addition, FAR 4.804-2(b) states that: "All other contract files shall be closed as soon as practicable after the contracting officer receives a contract completion statement from the contract administration office." Thus, after the physical completion of the contract the USAID Office, as the contract administration office, should notify the regional contracting officer to initiate closeout actions and ensure that all financial and contractual obligations are completed.

In its internal control assessment for 1991, the USAID Office reported closeout procedures for nonprofit grant/cooperative agreements as a minor weakness and proposed resolution by June 30, 1992, which was later extended to June 30, 1993. However, closeout procedures relating to contracts were not reported as a weakness by the USAID Office.

In conclusion, the USAID Office was aware of the procedures recommended in A.I.D.'s Contract Information Bulletin 90-12 and either closed out or initiated actions to close out four instruments, however, it did not uniformly follow those procedures for closing out 16 of the 20 instruments on 12 projects. As a result, the USAID Office did not have reasonable assurance that grants, cooperative agreements, and contractual obligations ended in an orderly manner, with each party's rights and obligations protected and enforced. The USAID Office needs to establish internal control procedures to ensure that all applicable administrative actions for the closeout of contracts and of grants to nonprofit organizations are completely in an orderly manner.

Management Comments and Our Evaluation

The USAID Office agreed with this finding and with regard to Recommendation No. 5.1 stated that it would issue expanded guidance. Regarding Recommendation No. 5.2 the USAID Office noted that the A.I.D./Washington questionnaire that it used in making its Fiscal Year 1992 internal control assessment did not have an internal control technique regarding closeout procedures for contracts and grants and cooperative agreements with nonprofit organizations.

Based on the USAID Office's proposed actions we consider Recommendation No. 5.1 we consider to be resolved, and Recommendation No. 5.2 closed upon issuance of this report.

Although we have closed Recommendation No. 5.2 based on the actions proposed to resolve Recommendation No. 5.1, we would point out that the absence from the A.I.D./Washington internal control assessment questionnaire of an internal control technique appropriate to this area should certainly not preclude the reporting of this weakness by the USAID Office in its internal control assessment to A.I.D./Washington.

7. Did the USAID Office have a system to prepare project assistance completion reports and implement recommendations for follow-up in accordance with A.I.D. policies and procedures?

The USAID Office did not have a system to prepare project assistance completion reports (PACRs) and implement recommendations for follow-up in accordance with A.I.D. policies and procedures.

Project Assistance Completion Reports Were Not Prepared Timely

A.I.D. Handbook 3, Chapter 14 requires PACRs to be completed within six months after the project assistance completion date. Our review of seven completed projects for which PACRs should have been prepared disclosed that three PACRs were completed and only one was completed timely. This occurred because the USAID Office did not have written guidance on the preparation of PACRs and management assigned a low priority to their preparation. As a result, the purposes served by these reports might not be realized and an opportunity to plan postproject monitoring requirements for goods and services could be lost.

Recommendation No. 6: We recommend that the USAID Office:

- 6.1 establish written procedures to ensure that project assistance completion reports are prepared as required by A.I.D. Handbook 3; and**
- 6.2 report this condition as a weakness in the next internal control assessment if it is not resolved.**

The project assistance completion date (PACD) is defined as the date that parties to the project agreement estimate that all A.I.D.-financed project assistance will be complete. Even though A.I.D.-financed inputs normally

are delivered by this date, the project officer's responsibilities to support and monitor project activities continue. This continued oversight is usually planned through the PACR.

A.I.D. Handbook 3, Chapter 14 requires PACRs to be completed within six months after the PACD. An important element of the PACR is its recommendations for continuing A.I.D. support and monitoring actions. According to USAID Office officials, they relied on individual project officers to follow Handbook 3 guidance to ensure that the PACRs were prepared.

We reviewed seven projects which terminated during the period covered by our audit for which PACRs should have been prepared. Our review is illustrated in the following table.

**REVIEW OF THE USAID OFFICE
PROJECT ASSISTANCE COMPLETION REPORTS
as of August 7, 1992**

Project No.	Project Assistance Completion Date	PACR Due Date	Date PACR Prepared	Months Beyond Six Month Standard
505-0007	10/31/91	4/30/92	4/27/92	0
505-0012	9/30/91	3/31/92	Not Prepared	4
505-0024	6/30/91	12/31/91	6/9/92	5
505-0026	7/31/91	1/31/92	Not Prepared	6
505-0030	1/31/90	7/31/91	Not Prepared	12
505-0036	12/31/90	6/30/91	7/31/91	1
505-0040	9/30/91	3/31/92	Not Prepared	4

As shown in the table, one of seven PACRs was prepared timely. Of the four PACRs which had not been completed, one was partially in draft and the other three had not been started. The reasons for not preparing PACRs varied. For example: the grantee received funding under another project thus the project was not considered closed, the project officer did not know a PACR was needed, and the project officer did not have time to start the

PACR. We also attribute the lack of written USAID Office guidance and the low priority assigned to this task as reasons for not preparing the PACRs.

The PACRs serve as a backup system to check whether critical monitoring tasks were done during the life of the project (e.g., host government contributions were made, performance data was collected to measure progress against baseline data, evaluations were performed, etc.). A need for post-PACD monitoring was demonstrated by one project which had problems with equipment diversion and lack of project support from the host government. Although covenants to correct these problems were included in a follow-on project, no postproject monitoring was included in the PACR completed for that project.

In conclusion, PACRs provide the mechanism for ensuring the timely and continued oversight of A.I.D. resources after the A.I.D.-funded inputs have been fully provided. However, the USAID Office prepared only three of seven required PACRs and only one of the three reports was prepared within the required timeframe. As a result, the purposes served by these reports might not be realized and an opportunity to plan postproject monitoring requirements for goods and services could be lost. Therefore, the USAID Office should establish internal control procedures to ensure that these reports are prepared and used as a management tool on required follow-up monitoring actions.

Management Comments and Our Evaluation

The USAID Office responded that while a PACR may be a technical requirement at project termination, it believed necessary post-project support and monitoring is more appropriately built into the design of the follow-on project, in which case the PACR is of little value as a management tool. Nevertheless, it agreed to issue written procedures to ensure more consistent, timely completion of PACRs as recommended. The USAID Office also stated that it reported this weakness in its Fiscal Year 1992 internal control assessment.

Based upon the USAID Office's proposed actions, Recommendation No. 6.1 is resolved, and Recommendation No. 6.2 is closed upon issuance of this report.

REPORT ON INTERNAL CONTROLS

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

Scope of Our Internal Control Assessment

Our audit was made in accordance with generally accepted government auditing standards except that USAID Office would not provide us with an acceptable representation letter (see page 3). The representation letter which was provided by USAID Office officials did not state that to the best of their knowledge and belief (1) the auditors were provided all the financial and management information associated with the audit objectives, and (2) the USAID Office followed A.I.D. policies and procedures and laws and regulations for the areas being reviewed. The lack of such written representations constitutes a scope limitation sufficient to preclude an unqualified opinion about the internal control structure.

Our assessment of internal controls was limited to those controls applicable to the audit's 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. We have reported these categories as well as any significant weaknesses under the applicable audit objective in the "Conclusions for the Audit Objectives" 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 counterpart contributions for A.I.D. projects. In planning and performing this objective, we considered Section 110(a) of the Foreign Assistance Act, Office of Management and Budget Circular A-123, State cable Nos. 331065, dated October 23, 1987, and 138349, dated April 27, 1991, and the applicable internal control policies and procedures cited in A.I.D. Handbook 3. For purposes of this report, we have classified the relevant policies and procedures into a category called the contribution implementation process.

We reviewed the USAID Office's internal controls relating to the contribution implementation process. Our assessment showed that the USAID Office's controls were logically designed and consistently applied except for six of 16 projects reviewed; however, we conducted more extensive testing to determine whether the USAID Office ensured that the Government of Belize and nongovernmental organizations contributed at least 25 percent of project cost. These alternative procedures consisted of reviewing current procedures being used to monitor counterpart contributions, interviewing operating personnel on these procedures, and comparing counterpart contributions programmed in agreements to the 25 percent requirement.

We noted three significant weaknesses relating to counterpart contributions:

- the USAID Office did not ensure that its agreed-upon contribution to projects was not in excess of 75 percent of the total project budget,
- the USAID Office did not ensure that its procedures for monitoring Government of Belize's contributions were consistently followed, and
- the USAID Office's Operations Manual did not include procedures for monitoring contributions from nongovernmental organizations.

The USAID Office did not report these weaknesses in its 1991 internal control assessment. We believe that it should report these weaknesses in its next internal control assessment if they are not resolved.

Audit Objective Two

The second audit objective relates to the tracking of project evaluation recommendations for resolution and implementation. In planning and performing this objective we considered the applicable internal control policies and procedures cited in the A.I.D. Evaluation Handbook. For purposes of this report, we have classified the relevant policies and procedures into a category called the evaluation recommendation tracking process.

We reviewed the USAID Office's internal controls relating to the evaluation recommendation tracking process. For the items tested USAID Office controls were logically designed and consistently applied except for not establishing timeframes for preparing and submitting evaluation summary reports, and not documenting follow-up actions to resolve and implement evaluation report recommendations. However, we conducted more extensive testing to determine whether the USAID Office ensured that project evaluation report recommendations were appropriately resolved and implemented. These alternative procedures consisted of reviewing the eight evaluation reports completed between October 1, 1988 and May 31, 1992 to determine whether evaluation summary reports had been prepared timely and determining whether evaluation recommendations were implemented as agreed upon by the USAID Office.

We noted one significant weakness relating to project evaluation report recommendations:

- The USAID Office established procedures for ensuring that evaluation report recommendations were resolved and implemented. However, these procedures did not establish timeframes for the completion and

submission to A.I.D./Washington of evaluation summary reports and there was no assurance that the procedures were consistently followed because actions taken to resolve and implement evaluation report recommendations were not always documented.

The USAID Office did not report this weakness in its 1991 internal control assessment. We believe that it should report this weakness in its next internal control assessment if it is not resolved.

Audit Objective Three

The third audit objective relates to ensuring that advances of funds to host country and nongovernmental organizations do not exceed immediate cash needs and are promptly liquidated. In planning and performing this objective we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 19 and the USAID Office's procedures included in its Mission Operations Manual. For purposes of this report, we have classified the relevant policies and procedures into a category called the advance payment process.

We reviewed the USAID Office's internal controls relating to the advance payment process and for the items tested the USAID Office's controls were logically and consistently applied. Therefore, we limited our tests to ensuring that advances of funds to host country and nongovernmental organizations did not exceed immediate cash needs and advances were promptly liquidated.

For the items tested the USAID Office complied with its internal control procedures and A.I.D. policy and procedures for ensuring that advances of funds to host country and nongovernmental organizations did not exceed immediate cash needs and that such advances were liquidated as required.

Audit Objective Four

The fourth audit objective relates to the accountability and utilization of project commodities. In planning and performing this objective, we considered Office of Management and Budget Circular A-123 and the applicable internal control policies and procedures cited in A.I.D. Handbooks 1, 3, 13, and 15. For purposes of this report, we have classified the relevant policies and procedures into a category called the commodity monitoring process.

We reviewed the USAID Office's internal controls relating to the commodity monitoring process. Our assessment showed that the USAID Office's controls were not properly designed or implemented; therefore, we could not rely on them in designing our audit approach. However, we conducted

more extensive testing to determine whether the USAID Office assured the accountability and utilization of commodities. These alternative procedures consisted of interviewing project officials on their procedures for determining receipt, storage, maintenance, and utilization of project commodities and performing site visits to two projects to determine implementation of those procedures.

We noted one significant weakness relating to project commodities:

- the USAID Office did not have a documented monitoring system to account for project commodities and ensure that they were effectively received, stored, maintained, and utilized.

The USAID Office reported this weakness in its 1991 internal control assessment.

Audit Objective Five

This objective relates to the planning of participant training and the selecting, processing, and monitoring of participants. In planning and performing this objective, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 10. For purposes of this report, we have classified the relevant policies and procedures into a category called the participant training process.

We reviewed the USAID Office's internal controls relating to the participant training process and for the items tested the USAID Office's controls were logically and consistently applied. Therefore, we limited our tests to the files for 13 of 39 participants who had completed their training between October 1, 1988 and May 31, 1992. Our tests included reviewing training needs, selection criteria, predeparture planning, and follow-up on participants who had returned from training. We also contacted the participants to determine if they lived in Belize and were employed in a position where their training was useful.

Our review found for the items tested that although the USAID Office's procedures were not documented in a mission order and it had not prepared a country training plan, in practice it was following A.I.D. Handbook 10 procedures. Also in its 1991 internal control assessment it identified the lack of procedures and a country training plan as weaknesses which it proposes to resolve by June 30, 1993.

Audit Objective Six

This objective relates to the closeout of A.I.D.-funded procurement instruments. In planning and performing this objective, we considered the

applicable internal control policies and procedures in the Federal Acquisition Regulation, Subpart 4.804, and Office of Management and Budget Circular A-110, Attachment K; both are implemented through A.I.D.'s Contract Information Bulletin No. 90-12 (CIB 90-12). For purposes of this report, we have classified the relevant policies and procedures into a category called the nonprofit grant and contract closeout process.

We reviewed the USAID Office's internal controls relating to the nonprofit grant and contract closeout process. Our assessment showed that the USAID Office's controls were not properly designed or implemented; therefore, we could not rely on them in designing our audit approach. However, we conducted more extensive testing to determine whether the USAID Office closed out procurement instruments in accordance with A.I.D. policies and procedures. These alternative procedures consisted of testing three control techniques to determine if the USAID Office's undocumented practices accomplished the intent of CIB 90-12 for closing out contracts, grants, and cooperative agreements. These techniques were: (1) preparation of the closeout completion statements, (2) notification to the contractors/grantees that their procurement instruments were nearing completion and for them to make any necessary closeout arrangements, and (3) requesting a final voucher and ensuring that no payments were pending.

We noted one significant weakness relating to closeout procedures:

- the USAID Office did not establish procedures for closing out A.I.D.-funded procurement instruments.

In its internal control assessment for 1991, the USAID Office reported closeout procedures for nonprofit grants/cooperative agreements as a minor weakness and proposed resolution by June 30, 1992, which was later extended to June 30, 1993. However, closeout procedures relating to contracts were not reported as a weakness by the USAID Office. We believe the USAID Office should report the lack of closeout procedures for contracts, grants, and cooperative agreements as a weakness in its next internal control assessment if it is not resolved.

Audit Objective Seven

This objective relates to the timely preparation of project assistance completion reports and implementation of their recommendations. In planning and performing this objective, we considered Office of Management and Budget Circular A-123 and the applicable internal control policies and procedures cited in A.I.D. Handbook 3, Chapter 14. For purposes of this report, we have classified the relevant policies and

procedures into a category called the project assistance completion report process.

We reviewed the USAID Office's internal controls relating to the project assistance completion report process. Our assessment showed that the USAID Office's controls were not properly established or implemented; therefore, we could not rely on them in designing our audit approach. However, we conducted more extensive testing to determine whether the reports were prepared timely and if report recommendations were implemented. These alternative procedures consisted of identifying those projects that had been completed since October 1, 1988 and determining whether project assistance completion reports had been timely prepared.

We noted one significant weakness relating to the project assistance completion report process:

- the USAID Office did not document its procedures for preparing project assistance completion reports and for ensuring implementation of recommendations for follow-up actions.

The USAID Office did not report this weakness in its 1991 internal control assessment. We believe the USAID Office should report this weakness in its next internal control assessment if it is not resolved.

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 except that USAID Office officials would not provide us with a representation letter confirming that, to the best of their knowledge and belief, that they provided the auditors with all the financial and management information as associated with the audit objectives and that they reported to the auditors all known instances of material noncompliance (see page 3). In light of this qualification, the objectives of our compliance review were to:

- assess compliance with applicable requirements of laws and regulations 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 our review to answer the audit objectives, we performed tests of the USAID Office's compliance with the Foreign Assistance Act, Section 110(a), Federal Acquisition Regulation, Subpart 4.804, Office of Management and Budget Circular A-110, Attachment K, and A.I.D. Handbook 1, Supplement B, Chapters 22 and 24. However, our objective was not to provide an opinion on overall compliance with such provisions.

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 and procedures 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, other than A.I.D. Handbook 1 "Policy", 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, contracts, grants and binding policies and procedures is the overall responsibility of the USAID Office's management.

Conclusions on Compliance

Since USAID Office officials would not confirm in writing that, to the best of their knowledge and belief, that the auditors were provided all the financial and management information associated with the audit objectives and that the USAID Office reported to the auditors all known instances of material noncompliance, we cannot express an opinion that the USAID Office complied in all significant respects with the provisions referred to above. However, our tests did note the following instances of noncompliance.

- The USAID Office in certain instances did not comply with Section 110(a) of the Foreign Assistance Act which requires that in the case of bilateral assistance to a foreign government the recipient government will agree to provide at least 25 percent of the cost of the entire program, project, or activity with respect to which such assistance is to be furnished.
- The USAID Office did not comply with the Federal Acquisition Regulation, Subpart 4.804, and Office of Management and Budget Circular A-110, Attachment K, requirements, implemented through Contract Information Bulletin 90-12 for closing out contracts, grants, and cooperative agreements.
- The USAID Office did not periodically evaluate the systems maintained by grantees to verify the arrival, disposition, and utilization of project commodities as required by Handbook 1, Supplement B, Chapter 24.
- The USAID office did not ensure that all A.I.D.-financed equipment was suitably marked with the A.I.D. emblem as required by Handbook 1, Supplement B, Chapter 22.

SCOPE AND METHODOLOGY

Scope

We audited USAID Office's controls related to the audit objectives in accordance with generally accepted government auditing standards except that the USAID Office did not provide a completely acceptable representation letter. USAID Office officials would not confirm in writing, to the best of their knowledge and belief, that for the activities reviewed they provided the auditors all the financial and management information associated with the activities and that they reported to the auditors all known instances of material noncompliance with A.I.D. policies and procedures and laws and regulations. Instead, USAID Office officials would only state that the records made available to the auditors were accurate and complete.

Without the above written representation from USAID Office officials, we cannot fully answer the audit objectives and conclude whether the USAID Office maintained adequate internal controls and complied with applicable laws and regulations. However, based on the representation letter we did receive, we can report, for the items tested, some positive conclusions.

We conducted the audit from May 11, 1992 to August 7, 1992 in the offices of the USAID Representative to Belize located in Belize City, Belize. As of May 31, 1992, the USAID Office's active project portfolio consisted of 16 projects valued at approximately \$65.5 million. At that same date obligations and expenditures for these projects were approximately \$44.3 and \$35.6 million, respectively. While the audit reviewed the 16 active projects, it did not specifically audit these amounts. Rather our audit focused on selected systems for controlling project activities. The audit entailed reviewing the USAID Office's internal controls established for each of the audit objectives, which included reviewing A.I.D. policies and procedures, interviewing the USAID Office officials, and reviewing USAID Office files and records. We reviewed project papers, agreements, semi-annual reports, the USAID Office's action plan, financial records, training records, and other official documents related to the audit objectives. We

also reviewed a management review report and considered prior audit findings included in Audit Report No. 1-505-90-010 dated May 31, 1990.

Methodology

The methodology for each audit objective follows.

Audit Objective One

To accomplish the first objective we interviewed mission controller's staff, project officers, and project managers. Subsequently, we reviewed project papers and agreements to determine the level of counterpart contributions programmed and mutually agreed to by all parties. We then prepared an analysis to determine if recipients agreed to provide the required 25 percent counterpart contribution for all 16 projects. We further reviewed supporting documentation for actual counterpart contributions reported in the USAID Office Semiannual Report as of March 31, 1992 to determine the extent of counterpart contributions.

Audit Objective Two

To accomplish the second audit objective, we interviewed project officers and the USAID Office's evaluation officer. We obtained the USAID Office's Operations Manual and reviewed established procedures relating to project evaluation report recommendations. We reviewed the evaluation plans for 1990-1994 and analyzed the eight evaluations completed since October 1, 1988 to determine compliance with the A.I.D. Evaluation Handbook relating to the timely preparation of evaluation summary reports and implementation of evaluation recommendations. We judgmentally selected three evaluation reports and tested the 37 recommendations included in the three reports to determine how the USAID Office implemented those recommendations. We also reviewed USAID Office Semiannual Reports to determine whether actions taken on evaluation report recommendations were discussed.

Audit Objective Three

To accomplish the third objective, we obtained the USAID Office Operations Manual and reviewed the established procedures relating to advances and liquidations of funds to host country and nongovernmental organizations. We held discussions with the USAID Office officials to determine implementation of these procedures. To verify implementation of established procedures, we tested \$206,101 in advances made by the USAID Office on nine projects, which advances had been outstanding between 61 and 120 days. In addition, we tested \$12,486 in advances

funded by A.I.D./Washington on two other projects, which advances were outstanding over 60 days. We obtained Mission Accounting and Control System (MACS) reports on advances and liquidations and reviewed requests for advances and liquidating vouchers to determine whether the USAID Office made cash flow analyses of a recipient's immediate cash needs and ensured that advanced funds did not exceed their immediate cash needs. We reviewed liquidation vouchers to determine whether the USAID Office ensured that advanced funds were being liquidated in accordance with its established procedures. To determine whether the information contained in MACS was credible and reliable, we judgmentally tested 63 transactions for seven projects. We found no exceptions, therefore, we concluded that the information obtained from the MACS reports was credible and reliable.

Audit Objective Four

To accomplish the fourth objective, we obtained the USAID Office Operations Manual to determine if the USAID Office had established procedures for monitoring the receipt, storage, maintenance, and utilization of project commodities. We also reviewed the procedures in the Operations Manual relating to project officials' site visits to determine if these procedures required analyses of commodity accountability and utilization. We then obtained Mission Accounting and Control System reports to determine the universe of projects that had procured commodities during our audit coverage period.

We selected seven of the nine projects that had procured commodities valued at \$75,000 or more. Subsequently we interviewed respective project managers on their procedures for ensuring commodity accountability and utilization. We then determined if accountable records existed for recording the location of the project commodities, verified if project managers had supporting documentation to ascertain the effective use of the project commodities, and determined if implementing entities had the necessary records to account for the commodities. We visited two project locations to verify compliance with A.I.D. Handbooks 3 and 15. At the USAID Office, we reviewed project files and documentation relating to the receipt, storage, maintenance and utilization of project commodities.

Audit Objective Five

To accomplish the fifth objective, we obtained and reviewed A.I.D. Handbook 10 and the USAID Office's Mission Order No. 100 on participant training. We interviewed the USAID Office's training officer and the training assistant to determine whether the policies and procedures used by the USAID Office complied with A.I.D. participant training policies and procedures. We reviewed the Participant Training Management System (PTMS) to determine the universe of participants that had completed their

training after October 1, 1988. We tested 13 of 39 participants selected judgmentally which had completed their training between October 1, 1988 and May 31, 1992. Our tests included reviewing participant files to determine training needs, selection criteria, predeparture processing, and follow-up on returned participants. To verify whether returned participants were in Belize and employed in positions where their training was useful, we contacted 11 of the 13 selected participants. In view that the information provided by the 11 contacted participants was already included in the PTMS, we concluded that the PTMS information was credible and reliable.

Audit Objective Six

To accomplish the sixth objective, we reviewed the USAID Office's Operations Manual to determine whether procedures had been established relating to the closeout of procurement instruments as required by Contract Information Bulletin No. 90-12. We also interviewed project officials and the controller's staff, obtained an inventory of procurement instruments pending closure, and tested 20 instruments on seven completed and five on-going projects. Our tests included three control techniques to determine if the USAID Office's practices accomplished the intent of CIB 90-12. These techniques were: (1) preparation of closeout completion statements, (2) notification to the contractor or grantee that its procurement instruments were nearing completion and for it to make any necessary closeout arrangements, and (3) requesting final vouchers and ensuring that no payments were pending. For the tested 20 instruments, we reviewed the project and voucher files maintained by project managers and controller's staff.

Audit Objective Seven

To accomplish the seventh objective, we reviewed the USAID Office's Operations Manual to determine whether the USAID Office had established procedures to ensure preparation of project assistance completion reports and implementation of recommendations for follow-up in accordance with A.I.D. Handbook 3, Chapter 14. We interviewed project officials to determine the procedures followed in preparing these reports and reviewed the seven projects completed within our audit period which required preparation of a project assistance completion report. We reviewed the project files for the seven completed projects to determine whether reports had been prepared and recommendations for follow-up implemented.

**MANAGEMENT COMMENTS
AND OUR EVALUATION**

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A. I. D. MISSION TO BELIZE

EMBASSY OF THE UNITED STATES OF AMERICA

P.O. BOX 817, BELIZE CITY, BELIZE

TELEPHONE 501-2-31066, TELEFAX 501-2-30215

November 25, 1992

UNCLASSIFIED
MEMORANDUM

TO : Lou Mundy, RIG/A/T

FROM : A.I.D. Representative,  Barbara P. Sandoval

SUBJECT: Draft Audit Report of Selected Mission Systems at USAID/Belize

REF : Mundy/Sandoval memo dated October 27, 1992

We received the subject draft audit report on November 4 and appreciate the opportunity to respond to it. We are also glad that the report considered our comments and issues made during the exit conference.

Attached is the Mission's reply to your audit findings and recommendations. Please note that the corrective actions are in process and expected to be finalized by the end of this calendar year. I, therefore, request that you consider the recommendations resolved upon issuance of the final audit report.

My representation letter is also attached per our discussion.

Attachments

RESPONSE TO DRAFT AUDIT REPORT

I. SUMMARY

The Mission generally agrees with the recommendations made in the draft audit report and will take the necessary steps to close them as soon as possible.

We feel that findings made with regard to Recommendation No. 1 were misleading and do not reflect USAID's efforts in monitoring counterpart contributions. During the audit we acknowledged some difficulties in documenting these contributions and consulted with the cognizant auditors on this matter. We note that the draft report does not comment on any of the four projects initiated in FY 1991, reflecting our current requirements and practices.

Another aspect which we expected the auditors to consider when forming their recommendations is the Mission's declining workforce levels and consequent ability to carry out elaborate control systems.

Finally, we are pleased that the audit did not find any case wherein the weaknesses resulted in significant losses of the Mission's resources or any adverse material findings on management operations.

II. MISSION RESPONSE ON AUDIT FINDINGS WITH RECOMMENDATIONS

Audit Finding No. 1: Procedures for Monitoring Counterpart Contributions Need Improvement

Recommendation No. 1: We recommend that the USAID Office expand its Mission Operations Manual to:

- 1.1 provide instructions that in no case will the agreed-upon A.I.D. contribution to a program, project, or activity exceed 75 percent of the total cost unless, in the case of projects implemented solely by nongovernmental organizations, a waiver of counterpart contributions is approved;
- 1.2 include procedures regarding monitoring and reporting requirements for nongovernmental organizations and what constitutes acceptable timely contributions; and
- 1.3 require that project officers obtain and verify documentation for the reported counterpart contributions to ensure that the contributions are made timely and meet or exceed the agreed-upon amounts.

Mission Response:

For the first five projects listed on page 7 of the draft audit report, Mission accepts that the agreements reflect an A.I.D. contribution of more than 75 percent of total project costs. In reality, for three of those five projects, actual counterpart contributions exceeded 25 percent of total actual project costs. The failure was that not all counterpart contributions were included in the agreements. In addition, NGOs/PVOs were involved as implementing entities for four of the five projects, including the two for which actual counterpart was less than 25 percent. The Mission had the authority to waive the 25 percent counterpart contribution but failed to document the waiver. It should be noted also that all five projects were initiated prior to the issuance of the current Mission Operations Manual in 1989.

Project 505-0047, Central America Peace Scholarship II, (CAPS II) was started in 1990. USAID provided the auditors with a copy of a memorandum on file, dated July 5, 1990, which identified additional counterpart contributions not included in the Project Paper budget, e.g., contributions by participants in the follow-on program. Certain costs, including the follow-on program, were originally to be obligated by direct USAID contract,

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A.I.D. AND COUNTERPART CONTRIBUTIONS
FOR SELECTED PROJECTS (IN US \$'000)

Project Number	Agreed-Upon Contributions		Actual Contributions 1/		% Actual HCC/ Total Actual Contribution
	AID	Host Country	AID	Host Country	
505-0008	8,100	1,569	8,100	1,741	18
505-0016	2,500	267	2,411	811	25
505-0033	1,876	252	1,876	896	32
505-0037	2,260	231	2,223	346	13
505-0039 & 597-0001	3,413	0	3,413	1,477	30
505-0047	1,800	600 2/	947	92	1 3/

1/ As of 9/30/92 A.I.D. actual obligations; Host country expenditures (cash and in-kind)

2/ Includes additional \$100,000 non-A.I.D. contribution per file memo dated July 5, 1990

3/ The project is in the early stages of implementation; however, actual Host Country Contributions (HCC) as a percent of total actual expenditures is 29 percent.

outside of the agreement with the Government of Belize (GOB). When the decision was made to include those costs in the bilateral agreement, it was also appropriate to include the related additional counterpart contributions. As identified in the July 1990 memorandum, these totalled an additional \$100,000. Thus, contrary to the draft audit report, USAID's planned contribution to this project does not exceed 75 percent of the total planned cost and there is clear documented evidence of the Mission's attention to the requirement.

As acknowledged in the draft audit report, the Mission Operations Manual already includes procedures to ensure that agreements require a counterpart contribution of at least 25 percent of total project costs. While the report is generally correct that certain agreements did not conform to the requirements, the implication that counterpart contributions were not received is incorrect and misleading, as discussed in the foregoing. It also fails to reflect the attention that the Mission has given to this matter in recent years, citing old projects as evidence of current failure to follow procedures. Since there is no proof that the Mission's present systems fail to conform with A.I.D. guidelines on counterpart contributions, we do not believe Recommendation 1.1 is necessary and request it be deleted from the final audit report.

Section 6 I (page 6-27) of the Mission Operations Manual already provides guidance to project managers with regard to tracking host country contributions. The guidance specifically refers to the GOB contributions, but the same guidance has been applied in practice to all recipients, including PVOs/NGOs. The Mission is in the process of revising its operations guidance and, for the purpose of resolving Recommendation 1.2, will expand the guidance on monitoring host country contributions to reflect its applicability to PVOs/NGOs, and to include emphasis on the matter of timeliness of the contributions. We propose that this recommendation be closed upon our submission of the issued guidance.

The draft report stated that "Neither budgeted nor calculated amounts are actual expenditures and therefore should not have been used as support for the contribution amount." We believe the implication that only actual expenditure records will satisfy reporting and monitoring requirements is incorrect. The legislation itself [FAA, Section 110 (a)] explicitly allows in-kind contributions, which often must be estimated.

Additional written guidance will be issued concerning documentation of counterpart contributions. However,

cases will remain, e.g., CAPS II Project, where the GOB will not have information necessary to report on contributions and the only feasible alternative will be for USAID to continue to perform its own calculations. We propose that Recommendation 1.3 be closed upon our submission of the issued guidance.

Recommendation No. 2: We recommend that the USAID Office include the weaknesses reported by this audit regarding counterpart contributions in its next internal control assessment if the weaknesses are not fully resolved.

Mission Response:

In the recently conducted FY 92 Management Control Assessment (MCA), we reported control techniques III(e) and V(g) as satisfactory since the Management Control Review Committee (MCRC) did not find any major weaknesses in this area. These are the two control techniques in the annual assessment which relate to Recommendation 1. We have agreed to expand Mission guidance on monitoring and documentation of counterpart contributions in response to Recommendation 1 above. Hence, we propose that this recommendation be closed upon our submission of the expanded guidance.

Audit Finding No. 2: The USAID Office Evaluation Follow-up System Needs Improvement

Recommendation No. 3: We recommend that the USAID Office:

- 3.1 amend Mission Operations Manual procedures for implementing project evaluation report recommendations to include requirements to prepare and submit evaluation summary reports to A.I.D./Washington within 60 days of receipt of the associated evaluation reports and to implement the evaluation report recommendations timely, documenting actions taken; and
- 3.2 report these weaknesses in the next internal control assessment if they are not fully resolved.

Mission Response:

The draft audit report's Evaluation Summary table on page 12 indicated that the Project 505-0027 evaluation summary report is still in draft. The Evaluation Report for the project was finalized and submitted by Devres, Inc. on February 1991. The evaluation summary was delayed because of lengthy discussions with the project implementing entity but was finalized in August 1992. Copies of both reports were shown and given to RIG/A/T auditors during their audit.

USAID reported this weakness in the FY 92 MCA under control technique III (r) as unsatisfactory. USAID will amend its Mission guidance to reflect the requirement for timely submission of Evaluation Summary Reports and to implement and document actions on evaluation recommendations. Therefore, we propose that this recommendation be closed upon our submission of the amended guidance.

Audit Finding No. 4: Procedures To Monitor Project Commodities Are Needed

Recommendation No. 4: We recommend that the USAID Office prepare and issue a mission order that requires: (a) project officer to review and document commodity accountability and utilization during site visits; and (b) the maintenance of current and approved descriptions of the host country's commodity arrival and disposition systems.

Mission Response:

We agree with this recommendation and will issue Mission guidance as proposed. Control technique III (k), related to this finding, has been reported as a weakness both in the FY 1991 Internal Control Assessment and the FY 1992 MCA. Action necessary to resolve this weakness in FY 1991 was postponed because the Mission did not have an EXO for more than 6 months. We propose that this recommendation be closed upon our submission of the issued guidance.

Audit Finding No. 6: Closeout Procedures for Contracts, Grants and Cooperative Agreements Need to be Established

Recommendation No. 5: We recommend that the USAID Office:

- 5.1 expand on its administrative notice regarding closeout procedures for acquisition and assistance instruments to include written procedures relating to control forms, roles of individual offices, and time frames for closing out contracts, grants, and cooperative agreements; and
- 5.2 report this condition in its next internal control assessment if it is not fully resolved.

Mission Response:

The Mission agrees with this recommendation and will issue expanded guidance. We propose that this recommendation be closed upon our submission of the issued guidance. Please be aware that the FY 92 MCA questionnaire does not include this in the checklist of control techniques.

Audit Finding No. 7: Project Assistance Completion Reports Were Not Prepared Timely

Recommendation No. 6: We recommend that the USAID Office:

- 6.1 establish written procedures to ensure that project assistance completion reports are prepared by A.I.D. Handbook 3; and
- 6.2 report this condition as a weakness in the next internal control assessment if it is not fully resolved.

Mission Response:

Among the examples of weaknesses or problems cited in the draft report are two projects which involved follow-on project activities with the same entities. While a PACR may be a technical requirement at project termination, we believe necessary post-project support and monitoring is more appropriately built into the design of the follow-on project, in which case the PACR is of little value as a management tool. Nevertheless, written procedures will be issued to ensure more consistent, timely completion of PACRs, as recommended. USAID reported this weakness in the FY 92 MCA under control technique III(s) as unsatisfactory. We propose that this recommendation be closed upon our submission of the issued guidance.

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A. I. D. MISSION TO BELIZE

EMBASSY OF THE UNITED STATES OF AMERICA

P.O. BOX 817, BELIZE CITY, BELIZE

TELEPHONE 501-2-31066, TELEFAX 501-2-30215

November 23, 1992

Mr. Lou Mundy
RIG/A/Tegucigalpa
Agency for International Development
Tegucigalpa, Honduras



Dear Mr. Mundy:

In connection with your audit of Selected Systems at A.I.D./Belize covering procedures in place from October 1, 1988 to May 31, 1992, I confirm to the best of my knowledge and belief, the following representations made to you during the audit.

1. For the seven selected systems covered by the audit, project evaluation reports and recommendations, host country and nongovernmental contributions, advances of funds, project commodities, participant training program, close out of contracts or grants, and preparation of Project Assistance Completion Report), USAID/Belize has overall responsibility for:
 - the internal control systems;
 - compliance with applicable U.S. laws, and A.I.D. regulations; and
 - the fairness and accuracy of the accounting and financial management information.
2. In regard to this audit, I have asked appropriate members of my staff to make available to you all records in our possession for the purpose of this audit. Based on the representations made by those individuals to me, I believe that those records are accurate and complete, and that they give a fair representation as to the status of the systems. After review of your draft audit report and consultation with my staff, I know of no other facts (other than those expressed in the Mission comments given in response to the draft report) which, to the best of my knowledge and belief, would materially alter the conclusions reached in the draft report. Neither I nor my staff are aware of any communications from organizations concerning material deficiencies in the audited systems nor

do we have knowledge of material irregularities involving any other organization that would affect the audited systems. Furthermore, to the best of my knowledge there have been no irregularities involving management or employees who have roles in the internal control structure related to the systems covered by the audit. As of the date of this letter, I know of no events which have occurred subsequent to the period under audit that would materially affect the above representations.

3. I request that this Representation Letter be considered a part of the official Mission comments on the draft report, and be published along therewith as an annex to the report.

Sincerely,



Barbara P. Sandoval
A.I.D. Representative



AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A. I. D. MISSION TO BELIZE

EMBASSY OF THE UNITED STATES OF AMERICA

P.O. BOX 817, BELIZE CITY, BELIZE

TELEPHONE 501-2-31066, TELEFAX 501-2-30215

December 24, 1992

UNCLASSIFIED
MEMORANDUM

TO : Lou Mundy, RIG/A/T

FROM : Barbara P. Sandoval, A.I.D. Representative

SUBJECT: Draft Audit Report of Selected Mission Systems at USAID/Belize

RE : Mundy/Sandoval fax memo dated December 22, 1992

We agree that your draft audit report dated October 27, 1992 contained the two factual errors noted in the referenced memo. However, we did not consider either to be of significance.

The Mission Operations Manual contains specific language applying Agency policy on the 25% contribution by PVOs. It also contains specific language regarding tracking and monitoring the contributions from Government. The requirement for Government's 25% contribution is basic and clear. It does no harm to restate it in the Mission's operational guidance, and we will do so in the revisions currently underway. However, we do not believe that is of significance to the real issues.

The error, using project 505-0020 as an example of projects for which time frames had not been established, likewise does not seem of substantial significance and has no effect on our comments.

I regret that my representation letter was not accepted by your Washington Office. I attempted to satisfy the requirements, but the weight of the legal advice I have received is against making a blanket statement that all policies, procedures, laws and regulations were followed, in this or in any other circumstance.

To clarify any perceived discrepancy between our comments and the corrected report, please include this memo as an attachment to our comments.

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