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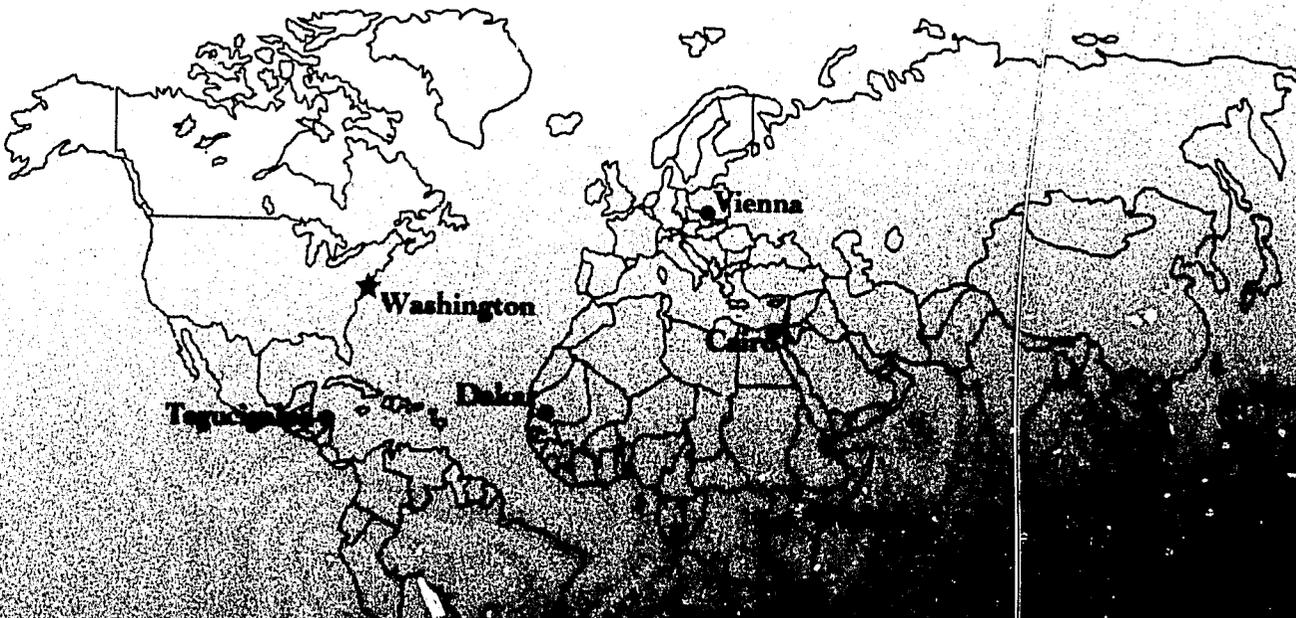
**Regional Inspector General for Audit  
Tegucigalpa, Honduras**

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**Audit of  
the Nicaragua Assistance Program  
Funded by Public Law 101-302 and  
Fiscal Year 1991 Appropriations  
as of March 31, 1992**

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**Audit Report No. 1-524-93-008  
February 19, 1993**



U. S. MAILING ADDRESS:  
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**AGENCY FOR INTERNATIONAL DEVELOPMENT**

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February 19, 1993

**MEMORANDUM**

TO: USAID/Nicaragua Director, Janet C. Ballantyne

FROM: RIG/A/T, Lou Mundy 

SUBJECT: Audit of the Nicaragua Assistance Program Funded by Public Law 101-302 and Fiscal Year 1991 Appropriations, as of March 31, 1992

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of the Nicaraguan Assistance Program Funded by Public Law 101-302 and Fiscal Year 1991 Appropriations, as of March 31, 1992. The final audit report is being transmitted to you for your action.

In preparing this report we reviewed your comments on the draft report and included them in their entirety in Appendix II. A summation of your comments has been included in the Executive Summary and after each problem area addressed by the report. Appendix III provides RIG/A/T's detailed response to your specific comments on individual report sections and examples.

Based upon your written comments, we consider the report's three recommendations to be unresolved. Please respond to this report within 30 days, indicating any actions taken to implement the recommendations.

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

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

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# EXECUTIVE SUMMARY

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## **Background**

On May 25, 1990, the President signed into law "The Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act" (Act), which included \$300 million in Economic Support Fund assistance to Nicaragua. This assistance was to help Nicaragua restore democracy and its economy which had been severely weakened after more than 10 years of communist rule. An additional \$217.7 million was allotted from Fiscal Year 1991 appropriations to continue this assistance making the total funding from these two sources \$517.7 million.

By March 31, 1992, the Agency for International Development (A.I.D.) had developed three cash transfer programs, 14 development projects, and two food aid programs to implement the above Assistance Program. Additionally, A.I.D. transferred funds to the Department of State for activities to repatriate and resettle the Nicaraguan Resistance and refugees. As of March 31, 1992, obligated Assistance Program funds were \$515 million and accrued expenditures were \$478 million.

The Act required the A.I.D. Inspector General to audit the Assistance Program funds provided under the Act in order to assess the financial management and administrative systems established by A.I.D. to control such programs. Additionally, a Senate Appropriations Committee report requested that the additional funds made available in Fiscal Year 1991 also be audited by the A.I.D. Inspector General.

This report presents the results of our fourth audit in response to the Act and Senate committee request and covers Assistance Program activities through March 31, 1992.

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## **Audit Objective**

We audited the Assistance Program in accordance with generally accepted government auditing standards. (See Appendix I, Scope and Methodology.) Our fieldwork was conducted from May to September 1992 to answer the following question regarding the Fiscal Year 1991 internal control assessment conducted by USAID/Nicaragua as part of A.I.D.'s overall effort to comply with the Federal Managers' Financial Integrity Act and Office of Management and Budget Circular A-123.

- Did USAID/Nicaragua evaluate the internal accounting and administrative systems established to control the Assistance Program in accordance with A.I.D. policies and procedures?

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## **Summary of Audit**

The audit found that USAID/Nicaragua evaluated the internal accounting and administrative systems that it established to control the Assistance Program in accordance with A.I.D. policies and procedures except that it generally did not document the information and methodology it used in reaching its conclusions on the adequacy of its internal controls. However, while in accord with A.I.D. policies and procedures, the Mission's evaluation was based on responding to an internal control technique questionnaire designed by A.I.D./Washington. This questionnaire did not identify the specific criteria against which to assess the Mission's adherence to the individual control techniques, and we noted control weaknesses that were inadequately assessed including some not covered by the questionnaire. Also we noted certain aspects of the Mission's control assessment process which could be improved to increase the quality of its evaluations. As a result of the above, we had insufficient basis to draw a conclusion on the overall quality of the Mission's Fiscal Year 1991 assessment of its internal controls.

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## **Audit Findings**

### **The Mission Should Identify the Specific A.I.D. Guidance for Which Internal Control Techniques Were Designed To Implement and Assess Its Implementing Controls**

General Accounting Office standards require an agency's internal controls to be reasonably complete and effectively and efficiently implemented. To comply, A.I.D./Washington developed a questionnaire for its overseas missions specifying 173 internal control techniques (means of achieving control) as a framework for self-assessment of mission internal control safeguards. However about one-third of the questions were so broadly stated that it was not clear what specific A.I.D. guidance and implementing mission controls were intended to be evaluated. Further, the Mission did not document the specifics of what it was evaluating. A.I.D./Washington personnel stated that the intent of the questionnaire for these broadly stated questions was that missions research applicable guidance and determine how it applied to their situations. However, the questionnaire did not explain this, and, in USAID/Nicaragua's case, it was not clear to what extent this had been done. While certain of the questions do appear

to be confusing, our review found several instances where it appeared that USAID/Nicaragua did not understand what was intended. Also, subsequent audit findings indicate that certain questions may not have been interpreted broadly enough or not methodically assessed by the Mission. Because the Mission did not document the specific A.I.D. guidance and its controls implementing this guidance we could not determine if the internal control techniques identified by A.I.D./Washington were comprehensively assessed. (See page 7.)

**Known Internal Control Problems Not Covered by the A.I.D./Washington Questionnaire Should Be Addressed and Reported**

General Accounting Office standards require an agency's controls to be reasonably complete and Office of Management and Budget Circular A-123 requires an annual evaluation of an agency's internal controls. We noted, however, that the A.I.D./Washington questionnaire did not address all areas in which USAID/Nicaragua had control weaknesses either because the questionnaire was not comprehensive enough or the designers intended that its questions be interpreted very broadly. Whatever the reason, certain control problems were not identified as part of the Mission's internal control assessment process. (See page 14.)

**The Quality of the Mission's Internal Control Assessment Process Could Be Improved**

An internal control evaluation should identify controls that need to be strengthened or streamlined. Also it should provide the basis for determining whether there is reasonable assurance that Government resources are protected against fraud, waste, mismanagement, or misappropriation and that Government activities are effectively and efficiently managed to achieve the goals of the agency. Given the importance of such evaluations, USAID/Nicaragua should assure that its internal control assessments are of the highest quality possible. While the Mission conducted its Fiscal Year 1991 assessment in a well organized manner, we did note certain areas that could be improved to raise the overall quality of the assessment process. Specifically, the Mission could (1) include in work papers for each control technique the pertinent details of source documentation reviewed which support the conclusion on the adequacy of the technique and have Mission offices perform quality reviews of each others work, (2) address the full detail of each internal control technique, and (3) assure that audits have specifically reviewed a control technique before using audit as the basis for rating that control technique.

We noted that the A.I.D./Washington internal control assessment questionnaire provided only limited guidance on assuring the quality of a mission's evaluation. We believe that the Mission's assessment of its internal controls would be significantly strengthened with resulting improvement in its overall control practices by making the referred to improvements. (See page 19.)

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## **Summary of Recommendations**

This report contains three recommendations to improve USAID/Nicaragua's internal control assessment process. The thrust of the recommendations are to: (1) identify A.I.D. guidance applicable to the internal control techniques included in the A.I.D./Washington questionnaire and assess implementing Mission controls, (2) identify and assess control areas not covered by the A.I.D./Washington questionnaire, and (3) implement measures to improve the overall quality of the Mission's assessment process.

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## **Management Comments and Our Evaluations**

The draft report was reviewed and commented on by USAID/Nicaragua management (see Appendix II) and those comments were considered in preparing the final report. In our opinion, the Mission's comments, although lengthy, did not directly address the report recommendations.

With regard to Recommendation No. 1, the Mission stated that it already followed the recommended procedures, although it did not say whether it would establish written procedures of a permanent nature as we recommend. It apparently does not agree with Recommendation No. 2 to report all internal control weaknesses and suggested that Recommendation Nos. 1 and 2 be addressed to A.I.D./Washington. Regarding Recommendation No. 3, to establish quality control procedures for three areas noted by the audit, the Mission apparently did not believe it needed such procedures as it considered it was already following the recommended procedures in one area and it did not agree that it had a problem in the other two areas.

The Mission's overall position was that it conducted its Fiscal Year 1991 internal control assessment in accordance with A.I.D./Washington policies and procedures, particularly in using a centrally designed internal control questionnaire to carry out its assessment. Thus, the Mission considered that Recommendation Nos. 1 and 2 went beyond the requirements of A.I.D./Washington guidance. The Mission stated Recommendation No. 1 in particular would add to the paperwork and staff time needed to complete

its annual internal control assessment and that the recommendation may be contrary to A.I.D./Washington plans to reduce paperwork. The Mission considered that Recommendation No. 2, which would require the Mission to report all internal control weaknesses even if they were not covered by the A.I.D./Washington questionnaire, was not applicable. Management's rationale for this position was that identification of missing control techniques was not required by the A.I.D./Washington questionnaire.

We will provide our report to the A.I.D./Washington office responsible for coordinating annual internal control assessments. While we agree that it would be more efficient for that office to research and provide the A.I.D. general guidance requirements applicable to each internal control technique, we do not consider that the lack of such guidance in the A.I.D./Washington questionnaire relieves the Mission of its delegated responsibility to comprehensively evaluate its internal controls or its responsibility under Office of Management and Budget Circular A-123 and Agency guidance to adequately document the assessment process that it followed. Consequently, we consider the report's recommendations are properly addressed to USAID/Nicaragua.

Further, we do not consider that the action we are recommending in Recommendation No. 1 is additive to what the Mission should already be doing to make its assessments. In fact, discounting the time involved in implementing the recommendation (that is, initially identifying the A.I.D./Washington guidance requirements for individual internal control techniques), the assessment process will be speeded considerably because the Mission can establish that it meets minimum requirements by rapidly checking the minimum controls specified by A.I.D. guidance.

As regards the Mission's apparent hesitancy to adopt Recommendation No. 2, we note that prior years questionnaires did request missions to identify missing control techniques that the missions felt should be assessed. We do not believe that the intent of the A.I.D./Washington questionnaire is to limit a mission's assessment of its internal control weaknesses. Quite the contrary, we believe the questionnaire was meant to assist missions in comprehensively evaluating their controls. Accordingly, we disagree with the Mission's rationale for not accepting Recommendation No. 2.

The Mission disagreed with the report's general conclusion that it did not document the information and methodology it used in reaching its conclusions on the adequacy of most of its internal controls, and it generally disagreed that the report examples supported there was a problem with the Mission's assessment process. Further, it took exception to our use of individual Mission office responses to the internal control assessment questionnaire, stating these were preliminary in nature and their use will be a serious disincentive to frank and open comments in future assessments. Finally, the Mission did not believe it was appropriate

that we include a special section in our report on our review of the Mission's internal controls over local currency since it considered the review had been made in response to unfounded allegations and it noted that we considered that technically there was no internal control weakness.

Despite Mission procedures and instructions designed to ensure that its internal control assessment process was adequately documented, except for 18 control techniques designated for mandatory testing, the only documentation separately maintained by the Mission to support its assessments were computer printouts--one showing the responses of individual Mission offices to individual internal control techniques and another showing the overall Mission assessment for each control technique. In other words, the documentation maintained to support the Mission's answers were the answers themselves. As explained throughout the report we do not consider such documentation to be sufficient. This is not to say that the offices had not reviewed other documents in formulating their answers, only that they did not document that review. Our evaluation of Mission comments regarding whether the report's examples show a problem with the Mission's assessment process is included within Appendix III.

In response to the Mission's concern over our use of the responses of individual offices to support the examples used throughout the report, we can only say we used this information because it was provided to us by the Mission as being its documentation of the assessment process.

Lastly, since our continuing special audit coverage of the Nicaragua Assistance Program has been in response to a Congressional request and an issue regarding the adequacy of A.I.D.'s management of local currency in Nicaragua was raised in Nicaragua Today, a Senate staff report from August 1992 (pages 104 through 106), we consider it appropriate to include the results of our review of the Mission's internal controls over local currency (see Appendix IV) to show responsiveness to a Congressional interest. Additionally, in our last report on the Nicaragua Assistance Program we noted as a subsequent event the initial allegations that U.S. aid was financing Sandinista organizations in an increasing manner (see Audit Report No. 1-524-92-007, July 16, 1992). Therefore we considered it appropriate to follow up on this issue.

*Office of the Inspector General*

Office of the Inspector General  
February 19, 1993

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# INTRODUCTION

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## Background

On May 25, 1990, the President signed into law "The Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act" (Act), which included \$300 million in Economic Support Fund assistance to Nicaragua. This assistance was to help Nicaragua restore democracy and revitalize its economy which had been severely weakened after more than 10 years of communist rule. An additional \$217.7 million was allotted from Fiscal Year 1991 appropriations to continue this assistance making the total funding from these two sources \$517.7 million.<sup>1</sup>

By March 31, 1992, the Agency for International Development (A.I.D.) had developed three cash transfer programs, 14 development projects, and two food aid programs to implement the above Assistance Program. Additionally, A.I.D. had transferred funds to the Department of State for activities to repatriate and resettle the Nicaraguan Resistance and refugees.

As of March 31, 1992, A.I.D. had obligated \$515 million of Assistance Program funds and disbursements and had accrued expenditures of \$478 million. Appendix V provides a financial summary of Assistance Program activities at that date.

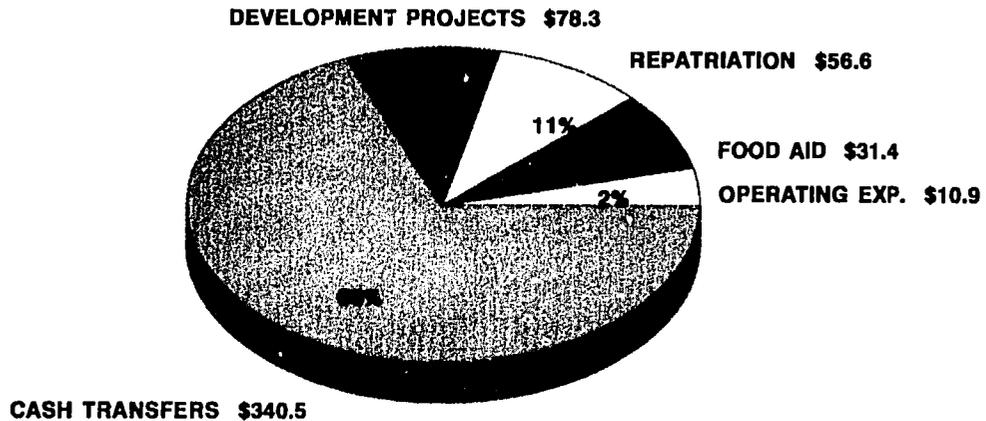
The chart on page 2 shows the allocation of the \$517.7 million of Assistance Program funds as of March 31, 1992.

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<sup>1</sup> Although not within the scope of our review, A.I.D. also provided \$31.7 million of assistance from pre-Act sources and planned funding for Fiscal Year 1992 was \$184.1 million including Food for Progress food aid managed by the Department of Agriculture. The U.S. Government also forgave \$284.3 million of bilateral debt during Fiscal Year 1991 which was not charged against Fiscal Year 1991 appropriations.

## ALLOCATION OF ASSISTANCE PROGRAM FUNDS

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(Budgeted Amounts in Millions)

The Act requires the A.I.D. Inspector General to, "...at least semiannually, beginning six months from the date of enactment of this Act, audit the Economic Support Fund programs provided under this Act for Nicaragua and Panama to assess the financial management and administrative systems established by the Agency to control such programs...."

A Congressional committee report accompanying the Act states that this special auditing requirement will be applicable only through Fiscal Year 1991. However, a Senate Appropriations Committee report regarding Fiscal Year 1991 Economic Support Fund assistance for Nicaragua requested that the additional funds be audited by the A.I.D. Inspector General consistent with the requirement contained in the supplemental appropriation for Fiscal Year 1990.

The present internal audit responds to the audit requirements under the Act and the request for continued audit coverage of Fiscal Year 1991 funding provided for Nicaragua and reports the results of our fourth audit covering Assistance Program activities through March 31, 1992. In addition to the present audit, our office has performed or supervised three

internal and nine financial audits of the Assistance Program. A brief discussion of these audits is presented in Appendix VI.

For this reporting period we reviewed USAID/Nicaragua's assessment of its internal controls as of the end of Fiscal Year 1991 and the status of corrective actions as of March 31 and September 30, 1992, to address identified control weaknesses. The Mission internal control assessment was done as part of the Agency's overall effort to comply with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget Circular A-123, "Internal Control Systems." As part of our audit we specifically reviewed whether USAID/Nicaragua had properly assessed its internal controls over the local currency resulting from U.S. assistance (see Appendix IV). The increased attention given to this area was in response to allegations that the local currency resulting from U.S. assistance allowed Nicaragua's state banking system to make over \$100 million of doubtfully collectible loans in 1991.

The Agency believes that public sector management involves stewardship over the resources entrusted to it by taxpayers. It also believes that stewardship without management controls is not possible and that management controls are an integral part of each manager's responsibility. The Congress reinforced the need for internal controls with its passage of the Federal Managers' Financial Integrity Act of 1982 whose primary purposes are to improve agency internal control systems so as to prevent and detect fraud, waste, and abuse and improve the effectiveness of Federal agency operations and programs. The FMFIA requires each executive agency to annually (i) conduct evaluations of its internal control systems in a manner prescribed by the Office of Management and Budget and (ii) submit statements to the President and the Congress on the status of the agency's internal controls.

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## **Audit Objective**

In response to the special auditing requirement for funds provided under the Act and the Senate Appropriations Committee request to continue this audit coverage for Fiscal Year 1991 appropriations, the Office of the Regional Inspector General for Audit/Tegucigalpa audited A.I.D.'s systems for managing the Assistance Program. Our audit objective for this reporting period which is stated below addresses USAID/Nicaragua's evaluation, as of the end of Fiscal Year 1991, of the internal controls systems that it established to control A.I.D.'s assistance to Nicaragua:

**Did USAID/Nicaragua evaluate the internal accounting and administrative systems established to control the Assistance Program in accordance with A.I.D. policies and procedures?**

Our fieldwork to answer this objective was conducted mainly at USAID/Nicaragua. However we did obtain limited information from A.I.D./Washington regarding A.I.D.'s proposed management control plan for evaluating its internal accounting and administrative systems agencywide and the questionnaire approach that A.I.D. is presently using in making such evaluations.

In answering the audit objective, we tested whether USAID/Nicaragua (1) followed applicable internal control procedures and (2) complied with certain provisions of laws and regulations. Such tests were sufficient to provide reasonable, but not absolute, assurance in answering the audit objective and detecting abuse or illegal acts that could significantly affect the audit objective.

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

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## **REPORT OF AUDIT FINDINGS**

### **Did USAID/Nicaragua evaluate the internal accounting and administrative systems established to control the Assistance Program in accordance with A.I.D. policies and procedures?**

USAID/Nicaragua evaluated the internal accounting and administrative systems that it established to control the Assistance Program in accordance with A.I.D. policies and procedures except that it did not document the information and methodology it used in reaching its conclusions on the adequacy of most internal control techniques. However the evaluation was based on responding to an internal control technique questionnaire designed by A.I.D./Washington. This questionnaire did not identify the specific criteria against which to assess the Mission's adherence to the individual control techniques. We noted control weaknesses that were not adequately covered and certain aspects of the Mission's internal control assessment process which could be improved to increase the quality of the Mission's evaluations.

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 as implemented by the Office of Budget and Management (OMB) Circular A-123, "Internal Control Systems," requires each executive agency to establish internal accounting and administrative controls meeting standards prescribed by the General Accounting Office. These controls are to provide reasonable assurance that:

- Obligations and costs comply with applicable law.
- Assets are safeguarded against waste, loss, unauthorized use and misappropriation.
- Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.
- Programs are efficiently and effectively carried out in accordance with applicable law and management policy.

Agencies are required to evaluate their systems of internal accounting and administrative control annually to determine such systems' compliance with the above control standards and report the status of compliance to the President and Congress.

In Fiscal Year 1991, as part of A.I.D.'s overall process to meet the above requirements, A.I.D./Washington sent USAID/Nicaragua an internal control assessment (ICA) questionnaire which the Mission was required to complete in a comprehensive self-assessment of the Mission's internal control safeguards. The completed ICA formed the basis for the Mission's certification of the adequacy of its internal control systems and was forwarded to A.I.D./Washington to be considered in the evaluation of the Agency's overall control systems.

Except for a lack of work papers to show the information and methodology used in reaching its conclusions on the adequacy of most internal control techniques, we found that the Mission had organized its internal control assessment process, completed its review, and made its certification of the adequacy of the Mission's controls in accordance with the instructions included in the ICA questionnaire. The process was well organized and included the establishment of a Management Control Review Committee, chaired by the Mission's Deputy Director, to ensure active involvement by all Mission offices. The Mission performed and documented testing required by the ICA questionnaire and did a limited amount of additional testing, on a discretionary basis, without maintaining the written evidence of its reviews. Final assessments on individual control techniques were based upon the committee's review of assessments made by relevant Mission offices.

The Fiscal Year 1991 cycle marked the first time the Mission formally assessed its internal controls. The Mission did not participate in the Fiscal Year 1990 cycle because it had only been in existence a few months, had minimal staff, and recognized its internal control systems were not yet in place. Its Fiscal Year 1991 assessment (as of September 30, 1991) identified staffing and the adequacy of training of locally hired staff as material control weaknesses. By considering each of the ICA questionnaire's 173 control techniques the Mission identified 63 areas requiring improvement. Although the Mission had a tracking system to follow up on corrective actions, it had not formally reviewed the adequacy of any corrective actions taken through September 30, 1992. Based on our review we considered that through March 31, 1992 adequate corrective actions had been completed on 19 of the identified areas and as of September 30, 1992 the Mission considered that an additional 24 areas had been corrected (Appendix VII).

Although our review found, with the above noted exception, that USAID/Nicaragua followed A.I.D. guidance in assessing its internal controls, we did note certain areas which in our opinion could be strengthened to improve the Mission's internal control assessment process. These areas are discussed under the following titles:

- The Mission Should Identify the Specific A.I.D. Guidance for Which Internal Control Techniques Were Designed To Implement and Assess Its Implementing Controls
- Known Internal Control Problems Not Covered By the A.I.D./Washington Questionnaire Should Be Addressed and Reported
- The Quality of the Mission's Internal Control Assessment Process Could Be Improved

**The Mission Should Identify the Specific A.I.D. Guidance for Which Internal Control Techniques Were Designed To Implement and Assess Its Implementing Controls**

General Accounting Office standards require an agency's internal controls to be reasonably complete and effectively and efficiently implemented. To comply, A.I.D./Washington developed a questionnaire for its missions specifying 173 internal control techniques (means of achieving control) as a framework for self-assessment of mission internal control safeguards. However about one-third of the questions were so broadly stated that it was not clear what specific A.I.D. guidance and implementing mission controls were intended to be evaluated. Further, the Mission did not document the specifics of what it was evaluating. A.I.D./Washington personnel stated that the intent of the questionnaire for these broadly stated questions was that missions research applicable guidance and determine how it applied to their situations. However, the questionnaire did not explain this, and, in USAID/Nicaragua's case, it was not clear to what extent this had been done. While certain of the questions do appear to be confusing, our review found several instances where it appeared that USAID/Nicaragua did not understand what was intended. Also, subsequent audit findings indicate that certain questions may not have been interpreted broadly enough or not methodically assessed by the Mission. Because the Mission did not document the specific A.I.D. guidance and its controls implementing this guidance we could not determine if the internal control techniques identified by A.I.D./Washington were comprehensively assessed.

**Recommendation No. 1: We recommend that USAID/Nicaragua, to assess the adequacy of Mission control systems implementing internal control techniques included in A.I.D./Washington's**

**internal control assessment questionnaires, establish written procedures which require the identification and documentation of the specific provisions of A.I.D. guidance that apply to each control technique and the Mission control systems that implement such guidance.**

USAID/Nicaragua's basis for certifying to the adequacy of its internal controls as of September 30, 1991 was its assessment of the individual control techniques in the internal control assessment (ICA) questionnaire sent from A.I.D./Washington. The questionnaire was designed by A.I.D./Washington's staff which coordinates the Agency's annual assessment of internal controls and it was intended to serve as a framework for a self-assessment of each mission's internal control safeguards. The questionnaire consisted of 173 internal control techniques covering 12 general areas.

General Accounting Office standards for internal controls require each agency's internal controls to be logical, applicable, and reasonably complete and effectively and efficiently implemented. The objectives of internal control are accomplished through various internal control techniques including specific policies, procedures, plans of organization, staffing patterns, reports, and physical arrangements.

While the internal control techniques included in the A.I.D./Washington questionnaire may have been considered by their designers to completely and effectively implement the Agency's internal control systems applicable to missions, we noted that 51 of the 173 control techniques were so broadly stated there was a significant risk that these control techniques could be narrowly interpreted or misunderstood and therefore inadequately assessed. Additionally for certain questions there was some evidence that the designers of the questionnaire were not aware of Agency guidance, which would call into question how well thought out and comprehensive the questionnaire was.

Our basic premise is that to certify annually to the President and Congress that A.I.D.'s internal control systems are adequate, the Agency's internal control assessment process should assure that all of its internal control systems are assessed. If the mechanisms devised to make the assessments do not ensure that all the control systems are assessed, then there may be gaps where unnoticed control weaknesses exist. An assessment process which may not be comprehensive and which is based upon internal control techniques that are so broad that they may be only partially assessed or even misunderstood is subject to the risk of missing serious internal control deficiencies. Appendix VIII presents the 51 control techniques we believe, due to their generality, could cause a mission to not assess or assess incorrectly internal control deficiencies.

USAID/Nicaragua did not document the specific A.I.D. guidance and implementing Mission controls it considered in assessing the above mentioned broadly stated internal control techniques. We believe that the Mission must document such information to support its assessments of individual control techniques. The following three subsections discuss areas which we believe would be improved by the Mission establishing procedures which require such documentation.

### **Apparent Misunderstanding of Control Techniques**

Two examples in which a control technique was apparently misunderstood are discussed in this section. The confusion resulting from these broadly stated internal control techniques illustrates the need to document the applicable A.I.D. guidance and implementing Mission controls. The first example relates to the development of well thought out assistance proposals. The control technique states:

*...[Policy] guidance for the proper preparation and approval of NPDs, PAIPs, PAADs, PIDs and PPs<sup>2</sup> clearly and completely outline the rationale, justification and goals and objectives for the project idea.*

One of the Mission's offices responded to the question by stating, "We have not the foggiest idea what this item is asking for." Another responded "Policy guidance for cash transfer assistance is not clear in regard to source and origin requirements nor eligibility criteria that should apply..." Another office, which probably answered the question more along the lines intended, stated "follow HB [handbook], controller guidance, payment verification procedures." The Mission rated this internal control technique satisfactory based on the last answer. However, due to lack of documentation we could not determine what specific A.I.D. guidance is being referred to, what the Mission's implementing control techniques are, and what was specifically checked in making the assessment.

A second example of an apparently misunderstood control technique related to the development of policy reform conditions precedent (CPs) for cash transfer programs. The control technique states:

*Agency policy for development of CPs for each funding tranche of the Cash Grant Assistance Programs is incorporated into the Mission standard operating procedures and consistently followed.*

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<sup>2</sup> The acronyms are for preliminary and final planning documents for project and nonproject assistance. New Project Descriptions (NPDs), Project Identification Documents (PIDs) and Project Papers (PPs) are successively more developed planning documents for project assistance, while Program Assistance Initial Proposals (PAIPs) and Program Assistance Approval Documents (PAADs) are preliminary and final planning documents respectively for nonproject assistance.

For this technique one Mission office answered "*Agency policy although not included in a Mission Order, it is consistently followed as reflected in PIL's [program implementation letters] notifying the grantee of meeting CP's....*" This answer relates to notifying a grantee that a CP has been met, not to the question which was whether the CPs themselves were developed in accordance with Agency policy. Another office simply responded "*documentation on file*", while another office that develops such CPs answered the question directly by stating "*Agency guidance was followed in developing CPs for the ESR [cash transfer] programs.*"

It is not evident, however, what Agency guidance is being referred to in this internal control technique or in the Mission's answer to it. In our last internal audit of the Assistance Program we reviewed this area and with regard to applicable Agency guidance were only able to find a general treatise on conditionality in an A.I.D. policy paper and obsolescent A.I.D. Handbook 4 requirements (dating back to 1975) for various macroeconomic analyses meant to justify cash transfer assistance and outline remedial actions to overcome noted disequilibriums. We considered the Handbook guidance to be inadequate to ensure that CPs were developed and defined in such a way as to permit an objective assessment of the host government's actual progress in implementing policy reforms against the Mission's original expectations for an acceptable rate of progress.

The Mission cited the first answer above (the one that does not relate to the question) in rating this internal control technique as satisfactory. Also, the Mission did not include reference to the fact that it had no Mission Order implementing the Agency's policy for development of CPs. We attribute this omission to the Mission not wanting to commit to developing a Mission Order for an area which has only vague or obsolescent guidance.

### **Adequacy of the Assessment Process**

The following two examples illustrate overly broad internal control techniques which the Mission assessed as satisfactory for which subsequent audits noted problems. Due to the lack of documentation as to the applicable A.I.D. guidance reviewed and the implementing Mission controls assessed, we could not determine whether these internal control techniques had been adequately assessed. The first concerns controls over project commodities. The control technique states:

*Host country entities, contractors and nonprofit organizations maintain complete records on the arrival, use, storage and disposition of commodities held and financed by A.I.D. and is periodically inspected.*

To properly research the A.I.D. guidance for this control technique, which involves three different types of implementing entities, would require the review of at least four A.I.D. handbooks and related supplements. USAID/Nicaragua had nine projects with a large commodities element, each involving a different control environment. Although various Mission offices rated this control technique as unsatisfactory or requiring improvement because of admitted monitoring weaknesses, the Mission rated this technique as satisfactory based upon the comments of its contracting officer which stated that his review indicated that host country systems were adequate and nonprofit organizations maintain systems of accountability reporting for A.I.D.-financed commodities. No mention was made of projects implemented by contractors. Subsequent audits found problems at several implementing entities including the host country-implemented project monitored by the contracting officer.

A second example relates to food aid. The applicable control technique states:

*Food aid project/programs meet the relevant criteria of USG legislation, policies, and regulations.*

The Mission assessment stated "*Local food aid projects in the area of [Public Law 480] Title II, meet the guidelines of the U.S. Government as described above.*" However, a subsequent audit reported different results. In one case it was found that the Mission agreed with a Government of Nicaragua pricing policy to sell one U.S. donated commodity which undercut the A.I.D. policy target price for selling the same commodity through a U.S. private voluntary organization. In another case it was found that the food ration sizes for a Title II direct-feeding program had not been justified in accordance with the A.I.D. methodology with the result that insufficient commodities were requested to meet the program's objectives.

### **Applicable Criteria Not Adequately Researched**

In one example it appeared that neither the designers of the A.I.D./Washington questionnaire nor the Mission were aware of the A.I.D. guidance for a particular internal control technique. The case involved a competency certification for U.S. direct hire (USDH) officers handling food aid. The control technique states:

*USDH officials responsible for food aid are Food Aid Certified.*

One office, with little involvement in food aid, stated that U.S. officials are food aid certified. For the two offices directly involved in food aid, one stated that its official would have to be certified as required and that the certification process would have to be initiated early in the next calendar

year. The other office stated that the Mission needs clarification as to what the certification process is and who is responsible for the certification.

The Mission rated this internal control technique as unsatisfactory based upon the last two responses. However, in pursuing the corrective action to certify its food aid officers it consulted with another mission and A.I.D./Washington and found A.I.D. does not require or have a food aid certification.

In addition to leaving in question whether the broadly stated control techniques were assessed properly, the Mission's apparent failure to identify the specific requirements of A.I.D. guidance and implementing Mission controls may have also lowered the quality of the Mission's assessment process. For instance many of the Mission's assessments addressed the general idea that a control technique was not being adequately implemented without getting to the detail of identifying which specific A.I.D. requirements were not being followed and which Mission controls were lacking. Also by not being specific about the criteria and controls considered in making an assessment--as well as not retaining work papers of the source documents reviewed and the analysis supporting assessments--it was not possible for the Mission's offices to independently review each others work and conclusions.

We did not determine why the designers of the A.I.D./Washington questionnaire did not assure that it was firmly grounded upon Agency guidance or why they did not further refine the questions to the detailed level, that is, to the level of detailed controls the Agency expects Missions to have in place for each of the various situations covered by the A.I.D. guidance. However, by interviewing personnel from the group that designed the questionnaire we concluded that it was their expectation that the individual missions would research A.I.D. guidance and determine, considering the make up of the mission's portfolio, what mission-level controls were required. However, as noted previously, the A.I.D./Washington questionnaire did not explain this and, in the case of USAID/Nicaragua, it was undocumented to what extent this had been done.

In conclusion, there are indications that while the A.I.D./Washington questionnaire may not have been as well designed as possible, the Mission may not have been thorough in identifying the A.I.D. guidance and the Mission controls that implement that guidance for the varying situations found in the Mission's portfolio. Although we could not determine the adequacy of the Mission's assessment process due to the aforementioned documentation problem, we believe there are indications that the broadly stated internal control techniques were not comprehensively assessed. Consequently we recommend that the Mission establish written procedures

requiring that for each control technique assessed in the Mission's annual assessment of its internal controls that applicable A.I.D. guidance be identified and documented along with the Mission's control systems which implement such guidance.

### **Management Comments and Our Evaluation**

The Mission believed that following the procedures recommended in Recommendation No. 1 would add to the paperwork and staff time needed to complete its annual internal control assessment and that the recommendation may be contrary to A.I.D./Washington plans to reduce paperwork. It therefore suggested that the recommendation be directed to A.I.D./Washington. Nevertheless, it stated that the recommended procedures are already being followed by the Mission.

The Mission took strong exception to the use of the responses of individual Mission offices to draw conclusions on the adequacy of its assessment process. The Mission pointed out that these were in essence draft responses and that through its Management Control Review Committee meetings the areas of confusion, uncertainty, and disagreement reflected in these responses are appropriately addressed in arriving at the Mission's overall assessment for each internal control technique. The Mission then took issue with our presentation of a number of examples supporting this problem area and ended its discussion with its conclusion that its assessment process was sufficiently comprehensive to enable management to reasonably conclude on the status of its internal control environment.

We do not believe that Recommendation No.1 requires more than what the Mission should already be doing in conducting its annual assessment of its internal controls. Therefore we disagree with any implication that the Mission should not determine what the applicable criteria are for an internal control technique because it takes additional time. Obviously, a mission needs to determine what a control technique means before it can assess whether it has adequately implemented the technique. For the broadly stated control techniques mentioned in this finding it appeared to us that there would be certain specific A.I.D. requirements that applied. Since the Mission is obligated to satisfy all A.I.D. requirements, it should have Mission-level controls to assure that these specific A.I.D. requirements are identified and assessed.

Since the Mission has been delegated the responsibility to assess its internal controls and we were auditing the Mission in this case we consider that the recommendation is properly addressed to the Mission. However, considering that the A.I.D./Washington questionnaire is used by missions worldwide, it would obviously be more efficient for the A.I.D./Washington office responsible for the questionnaire to research the applicable criteria

and provide that information to all the missions. Therefore we intend to provide a copy of our report to the A.I.D./Washington office responsible for coordinating A.I.D.'s annual internal control assessment process.

Regarding our use of individual Mission office responses as evidence of the Mission's assessment process, we fully realize that these responses were merely inputs considered in arriving at the Mission's final assessment and there was no intention to present them otherwise. However, it should not be overlooked that these responses were the basic building blocks upon which the overall assessment process stood and that it was at this level that source documentation was to be reviewed to support the offices' (and overall Mission's) responses. In each example discussed in this report, there was no evidence that the Management Control Review Committee overcame the basic deficiencies noted in the offices' initial review responses in arriving at the Mission's final assessment. Appendix III presents our detailed response to the Mission's comments on the examples used in this first problem area.

Lastly, we note that our report does not draw a conclusion with regard to whether the Mission had reasonable basis to certify to the overall adequacy of its controls. It only recommends areas where the assessment process could be improved.

While the Mission believes it is already following the recommended procedures, it has not agreed to establish permanent written procedures as recommended. Therefore we consider Recommendation No. 1 unresolved.

**Known Internal Control Problems Not Covered  
By the A.I.D./Washington Questionnaire Should  
Be Addressed And Reported**

General Accounting Office standards require an agency's controls to be reasonably complete and Office of Management and Budget Circular A-123 requires an annual evaluation of an agency's internal controls. A.I.D. used an A.I.D./Washington-developed questionnaire to evaluate the internal controls of its missions. We noted, however, that the questionnaire did not address all the areas in which USAID/Nicaragua had control weaknesses either because the questionnaire was not comprehensive enough or the designers intended that its questions be interpreted very broadly. Whatever the reason, certain control problems were not identified as part of the Mission's internal control assessment process.

**Recommendation No. 2: We recommend that USAID/Nicaragua, as a part of the annual evaluation of its internal control systems, establish procedures which require Mission offices to report all control weaknesses even if not covered by an A.I.D./Washington-**

**specified internal control technique. Included in such procedures should be a requirement to evaluate internal and financial audit report findings to determine whether A.I.D./Washington's internal control assessment (ICA) questionnaire includes control techniques which if properly assessed would have noted the control weaknesses evidenced in the audit findings. For weaknesses not covered, the procedures should also require the development and assessment of an appropriate internal control technique.**

According to the General Accounting Office (GAO) "Standards for Internal Controls in the Federal Government," in establishing and maintaining systems of internal control an agency must establish logical, applicable, and reasonably complete internal control objectives for each agency activity and effective and efficient internal control techniques to accomplish those objectives. Further, Office of Management and Budget (OMB) Circular A-123, "Internal Control Systems," requires an agency to evaluate its systems of internal controls annually to determine whether such systems comply with GAO standards and provide reasonable assurance that the objectives of internal control established by the Federal Managers' Financial Integrity Act and the Circular are met.

As part of its assessment of internal controls, the Mission examined each control objective stated in the internal control assessment (ICA) questionnaire and the corresponding internal control techniques. However, we noted that as a result of only reviewing the ICA questionnaire's stated internal control techniques in determining whether the control objective was satisfied, certain problem areas were not addressed.

For example, we noted that the ICA questionnaire did not include a control technique which called for complete and timely information from U.S.-based organizations. The Mission in many cases is dependent on A.I.D./Washington or other U.S.-based public and private organizations to supply the information the Mission needs to fulfill its management responsibilities. However, we noted cases where the information flow from such organizations was somewhat deficient.

An example is the Central American Survival Assistance (CASA) Project implemented by the Adventist Development and Relief Agency (ADRA), a U.S.-based private voluntary organization (PVO). Under the guidelines of A.I.D. Handbook 19, Chapter 3, project officers must administratively approve vouchers for payment. Under the letter of credit procedures often used with U.S.-based PVOs, the project officer administratively approves Standard Forms 269 "Financial Status Report" and 272 "Federal Cash Transactions Report" (Reports) submitted by the grantee. These Reports, required by OMB Circular A-110 - "Uniform Administrative Requirements For Grants and Agreements With Institutions of Higher Education,

Hospitals And Other Nonprofit Organizations," provide the net outlay status of the grant as well as the amount of cash withdrawn from the grant under a PVO's letter of credit with A.I.D..

This procedure was followed in the case of the grant to ADRA for the CASA Project. However, the Reports do not supply adequate detail to enable the project officer to identify the components of the total charges. As a result a detailed assessment of the charges was not possible based on these Reports. Additionally, we noted that the project officer did not compare the Reports submitted by the grantee to the grantee's regular accounting reports.

On July 26, 1991, USAID/Nicaragua received ADRA's Reports for the period ending June 30, 1991 and after reviewing them the project officer noted that the Reports showed that ADRA had expended all the grant funds. This concerned the project officer since the grant expiration date had recently been extended to September 30, 1991 to allow the grantee to use remaining project funds (about \$500,000 as of the end of April 1991).<sup>3</sup>

We followed up on this issue and found that throughout the life of the grant the Reports showed more expenditures than what was reflected on the local ADRA organization's accounting records even though ADRA headquarters told us that the local accounting records reflected all charges to the project --both in the U.S. and in-country. ADRA headquarters attributed the differences to delays in posting U.S. transactions to the local records. On April 9, 1992 we requested ADRA headquarters to submit information so that we could verify its assertion, however, to date ADRA has not provided the requested information. As a result of the inadequate flow of information concerning the expenditures of the PVO the Mission's ability to fulfill its monitoring responsibilities was restricted.

We also noted cases in which A.I.D./Washington or other U.S. Government entities had not supplied project/program data to the Mission. In a project that included the acquisition of electric generators, a U.S.-based cooperative, operating under an A.I.D./Washington letter of credit, contracted for three generators. Although two of the generators had already been received, the Mission had not received copies of the contract and its terms from the cooperative. The lack of data relating to the terms and conditions of the contract makes it more difficult for the project officer to monitor the contract.

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<sup>3</sup> In September, 1991 USAID/Nicaragua once again extended the grant agreement to December 31, 1991. The local ADRA organization's accounting reports showed about \$20,000 remaining in the project as of November 30, 1991.

Additionally, information available at the Mission indicated that approximately \$3 million of the \$300 million appropriated for the Assistance Program under the Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act had not been obligated as of March 31, 1992. The Act's funds expired for obligation purposes on October 1, 1991. After discussing this matter with Mission officials we concluded that the shortfall was likely to be found in accounts for which A.I.D./Washington maintained the accounting. Despite several attempts to obtain the information from A.I.D./Washington we were not provided sufficient information to verify the actual situation. As a result of the Mission not receiving timely and complete information about program obligations from A.I.D./Washington, the Mission and A.I.D./Washington may not have made available to Nicaragua the full amount of emergency funding provided under the Act.

These examples illustrate problems in obtaining timely and complete information from A.I.D./Washington and other U.S.-based organizations. The internal control assessment questionnaire contains no specific control technique that addresses this area. As a result the Mission did not assess internal control techniques relating to obtaining timely and complete project/program information from A.I.D./Washington and other U.S.-based organizations.

The above problem is one area where the Mission was aware of the situation but did not assess or report the weakness during its evaluation of its internal controls. Additionally, past internal and financial audits of the Assistance Program have identified problems for which we either could not find a corresponding ICA questionnaire internal control technique or which required a broad interpretation of control techniques to adequately address the problem area. However, as the Mission's interpretation of the ICA questionnaire internal control techniques may be different than ours, we believe that, in addition to covering the problem area noted above in its future internal control assessments, the Mission should evaluate past internal and financial audit report findings to determine whether the ICA questionnaire contains corresponding control techniques whose assessment would note the problems. For those audit findings for which there is no corresponding internal control technique, the Mission should establish procedures which assure that appropriate internal control techniques are developed and assessed on a portfolio-wide basis in its internal control assessment.

### **Management Comments and Our Evaluation**

The Mission noted that Recommendation No. 2 calls for it to go beyond the use of the A.I.D./Washington questionnaire by adding its own control techniques. It appeared particularly concerned that the recommended

procedures include a requirement to evaluate internal and financial audit report findings to determine whether the A.I.D./Washington questionnaire includes control techniques, which if properly assessed, would have noted the control weaknesses evidenced in the audit findings. The Mission requested that we address the recommendation to A.I.D./Washington for consideration in the development of A.I.D.'s procedures for the Fiscal Year 1993 assessment.

The Mission also stated that it has an effective audit management and resolution program to ensure that the results of all audit efforts are properly monitored and timely resolved. Therefore, it did not believe that excluding audit findings from the assessment process leads to a management control risk. Additionally, the Mission did not believe the three examples cited in this problem area showed a problem in its assessment process.

Since the Agency has delegated to missions the responsibility to assess their internal control systems, we believe it is appropriate to address Recommendation No. 2 to USAID/Nicaragua. However as mentioned previously in this report, we also intend to provide a copy of this report to the A.I.D./Washington office responsible for coordinating A.I.D.'s annual internal control assessment process.

For the past two years the Mission has received special audit coverage both from internal and financial audits. Therefore, it has more audit coverage than most missions and more to gain by analyzing audit findings to determine if its internal controls are fully established and functioning properly. The audit report's first problem area, under the subsection Adequacy of the Assessment Process, provided examples of internal control techniques for which subsequent audits found problems not surfaced during the internal control assessment process. While part of the problem might have been that the Mission did not fully assess whether the applicable A.I.D. requirements for a given internal control technique were met, the rest of the problem might be attributable to weak controls in areas where strictly speaking there are no hard A.I.D. requirements. We view the Mission's analysis of the control weakness implications of audit findings as an opportunity to assess the adequacy of its control systems from a different perspective. Also we note that Office of Management and Budget Circular A-123 states that audit reports are to be included within the sum of all information available to managers in making their assessments.

While we agree that the Mission has an effective system to resolve audit recommendations, it should be noted that financial audit recommendations are directed through the Mission to implementing entities and not to the Mission itself. The resolution of such audit recommendations may correct the noted problem for the affected implementing entities but does not

necessarily result in action to address any control problems within the Mission, which may be of a general nature and which may affect multiple implementing entities. Additionally, even though recommendations may be implemented, the analysis of both internal and financial audit report findings provides information that reflects back on the adequacy of the assessment process itself. Such analyses may show areas in the assessment process itself which can be improved upon in the upcoming cycle.

Regarding the Mission's comments on the three examples used in this problem area, we believe the examples support the existence of a general problem with the flow of information from U.S.-based entities. Appendix III presents our detailed response to the Mission's comments on the examples used in this problem area.

Since the Mission apparently disagrees with Recommendation No. 2, RIG/A/T considers it unresolved.

**The Quality of the Mission's Internal Control Assessment Process Could Be Improved**

Internal control evaluations should identify controls that need to be strengthened or streamlined and provide the basis for determining whether there is reasonable assurance that Government resources are protected against fraud, waste, mismanagement, or misappropriation and that Government activities are effectively and efficiently managed to achieve the goals of the agency. Given the importance of such evaluations, USAID/Nicaragua should assure that its internal control assessments are of the highest quality possible. While the Mission conducted its Fiscal Year 1991 assessment in a well organized manner, we did note certain areas that could be improved to raise the overall quality of the assessment process. Specifically, the Mission could: (1) include in work papers for each control technique the pertinent details of source documentation reviewed which support the conclusion on the adequacy of the technique and have Mission offices perform quality reviews of each others work, (2) address the full detail of each internal control technique, and (3) assure that audits have specifically reviewed a control technique before using audit as the basis for rating that control technique. We noted that the A.I.D./Washington internal control assessment questionnaire provided limited guidance on assuring the quality of a mission's evaluation. We believe, however, that the Mission's assessment of its internal controls would be significantly strengthened with resulting improvement in its overall control practices by making the referred to improvements.

**Recommendation No. 3: We recommend that USAID/Nicaragua, to strengthen its annual assessment of Mission internal control**

**systems, establish written procedures specifying requirements to: (1) include in work papers for each control technique the pertinent details of source documentation reviewed which support the conclusion on the adequacy of the technique and have Mission offices perform quality reviews of each others work, (2) address the full detail of each internal control technique, and (3) assure that audits have specifically reviewed a control technique before using audit as the basis for rating that control technique.**

Office of Management and Budget Circular A-123 provides that agencies shall establish and maintain a cost-effective system of internal controls to provide reasonable assurance that Government resources are protected against fraud, waste, mismanagement, or misappropriation and that both existing and new program and administrative activities are effectively and efficiently managed to achieve the goals of the agency.

Agencies are required to review their internal controls annually. These reviews should identify controls that need to be strengthened or streamlined and the reviews should be documented with written materials supporting what was done and what was found. Audit reports are to be included within the sum of all information available to managers in making their assessments on the adequacy of controls.

The internal control assessment questionnaire sent by A.I.D./Washington for use in making the Mission's Fiscal Year 1991 assessment did not specify the degree of quality control the Mission should exert in making its assessment.

We found that although the Mission had a well organized approach to its internal control assessment in Fiscal Year 1991 there were certain areas where the quality of the assessment process could be improved. These areas are discussed in the following three subsections.

### **Maintaining Written Evidence of the Assessment Process and Performing Internal Quality Reviews**

Office of Management and Budget (OMB) Circular A-123 requires documentation of internal control reviews showing the type and scope of the review, the responsible official, the pertinent dates and facts, the key findings, and the recommended corrective actions. Documentation is defined as adequate if the information is understandable to a reasonably knowledgeable reviewer.

Further, the internal control assessment (ICA) questionnaire from A.I.D./Washington stated that there should be documentation showing how the conclusion for assessing each internal control technique was

determined. Included in this documentation should be a source for the information and the methodology used for the determination. Also, the ICA questionnaire provided that the methodology should be described in the work papers for the control technique, both for those techniques that are tested and those that are not.

As explained previously in the first problem area noted in this report (see page 7), while the ICA questionnaire's 173 internal control techniques required an assessment against a stated or unidentified criteria, the reviews of individual Mission offices to evaluate compliance with the criteria were not documented except in the case of 18 control techniques designated by the questionnaire for required testing. As a result, for most control techniques it was not clear whether they had been comprehensively evaluated against the appropriate criteria.

An additional effect resulting from this process was that the undocumented work of individual offices, other than the 18 documented tests mentioned above, could not be reviewed by other offices as a quality control measure. As a result there was no internal quality control process to assure individual Mission offices had adequately assessed each control technique against the appropriate criteria. This may in part explain why subsequent audits found deficiencies relating to internal control techniques which the Mission had rated as satisfactory.

In our opinion, the Mission's documentation of its internal control assessment process did not meet the requirements of OMB Circular A-123 or the instructions of the ICA questionnaire. Individual Mission offices should be required to document the criteria they considered for each control technique and the specific Mission control processes they reviewed to determine if the criteria was being met, and they should include in work papers for each control technique the pertinent details of the source documentation reviewed in reaching their conclusion. Further, as a quality control measure offices should perform quality reviews of each others documentation to determine if the conclusions are reasonable.

### **Addressing the Internal Control Technique in Its Entirety**

Mission responses did not always fully address the detail of the internal control techniques included in the A.I.D./Washington ICA questionnaire. We reviewed the Mission's responses to 94 internal control techniques corresponding to the first 8 sections of the ICA questionnaire and found that on 34 of the techniques the Mission provided general answers to detailed control techniques or that it did not directly answer each of the elements of the technique.

An example of this is illustrated by the control technique which states:

*USAID adequately monitors host country advertising, award, and contract negotiation procedures.*

The Mission offices provided written responses to this control technique as follows: "*Refer to our concurrent financial and compliance non-Federal audit program*"; "*PILs [project implementation letters] on file and agree with OFIN [controller's office] response*"; and "*review of host government solicitation documentations.*" The last of these responses was from the contracts office that actually has responsibility for assuring the control technique is met, however, not even that response specifically addresses the three parts of the question. Answers which do not fully address the question and provide direct reference to specific supporting documentation would appear to discourage inter office quality reviews of each others work.

Another, perhaps more typical, example, where most offices of the Mission expressed concern that an internal control technique was not established relates to the following control technique which provides:

*Guidance for project officer responsibilities for direct and host country contracts is incorporated into Mission standard operating procedures and consistently followed.*

The Mission's overall response was "*Project officers need additional training in monitoring direct and HC [host country] contracts.*" In this case there apparently was no examination of the Mission controls to ensure that A.I.D. guidance is being met. Also the Mission's response does not indicate that it plans to develop a Mission Order to provide direction to its project officers in this area.

With a view towards comprehensively assessing its internal controls, we believe the Mission's assessments of internal control techniques should be detailed reviews addressing the elements of the techniques in their entirety.

### **Using Audit Coverage to Rate Control Techniques**

The funds under the Nicaragua Assistance program are audited using different arrangements including:

- a) Internal audits performed by our office and the General Accounting Office.

- b) Mission-contracted financial audits of the implementing entities that maintain their records in-country. These audits are supervised by our office.
- c) Recipient-contracted financial audits of U.S.-based nonprofit organizations performed on an organization-wide basis with separate reporting on overall Federal funding received by the organization. These audits are conducted in compliance with Office of Management and Budget Circular A-133 and are desk reviewed by the cognizant U.S. Government audit agency.
- d) Financial audits of direct and/or indirect costs of U.S.-based contractors. The audits of these organizations are either performed or contracted by the cognizant audit agency. Contracted audits are desk reviewed by the cognizant audit agency.

As a part of its internal control assessment the Mission, in at least 15 cases, used the existence of an audit as a basis for determining that the internal control technique was adequately implemented. However, Mission comments overstated the scope of the audit coverage or misunderstood the arrangements for audit in 12 of the 15 cases.

For example, for the following control techniques related to food aid:

*Food aid project/program provide for adequate systems to monitor:*

*Warehousing/stock control.*

*Distribution/sales of food aid.*

*Generation and use of recipient contributions and empty container funds.*

*Transportation voucher/receipt.*

*All aspects of local currency accounting.*

The Mission's response was "To further ensure the adequacy of... systems and procedures... an independent non-Federal audit of both programs has been contracted for and are in the final stages of implementation... Upon receipt of the final reports the USAID will input them into its audit tracking/reporting system and ensure implementation of recommended improvements...."

However the statement of work for one of the Mission-contracted audits did not require the financial auditors to determine the accountability for food

aid and only minimal effort was expended in reviewing internal controls over the food distribution process. RIG/A/T's internal audit<sup>4</sup> later reported that the implementing entity did not restrict food distributions to agreed-upon beneficiaries.

A second example was for the control technique:

*Direct contract costs have been satisfactorily audited by the IG or cognizant U.S. agency.*

The Mission's response was "...Direct contract costs of U.S. firms are the responsibility of DCAA [Defense Contract Audit Agency]. No DCAA audit reports received as of September 30, 1991. RIG/A/T has been performing audits of all assistance provided under the Dire Supplemental Appropriations Act of 1990 and of all assistance provided in FY-91."

This example shows a misunderstanding of audit arrangements for U.S. contractors as well as overstates the scope of our audits. Our Washington audit office is responsible for performing or arranging audits of A.I.D.'s U.S. contractors and for providing these audit reports to A.I.D. Missions. However to assure that our Washington office is aware of the contract and the Mission's interest in it, the Mission should submit a request to that office.

The second part of the Mission's answer gives the false impression that RIG/A/T's internal audits or the Mission-contracted financial audits which we supervise have audited all direct contract costs. Our internal audits were not financially oriented and the financial audits that we supervised only covered those implementing entities that maintained their accounting records in Nicaragua. These locally-performed audits did not cover the direct costs of U.S.-based contractors such as the contractor implementing the Mission's textbooks project.

To summarize, the Mission should have knowledge of what has been audited and a very clear understanding of what was actually reviewed on those audits. Otherwise, the Mission may be relying upon an audit to support its assessment of an internal control technique when no audit has been scheduled or when the audit steps did not adequately address the specific control technique.

In conclusion, we believe that the Mission should develop a written policy statement directed at ensuring the quality of its annual internal control assessments which incorporate the areas discussed in the preceding pages.

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<sup>4</sup> Audit Report No. 1-524-92-007 dated July 16, 1992.

High quality internal control assessments should lead to the identification and correction of control weaknesses in the Mission's internal control systems with resulting increased assurance that Government resources are adequately protected and programs are effectively and efficiently managed to achieve Agency goals.

### **Management Comments and Our Evaluation**

The Mission agreed that its internal control assessments should be of the highest quality possible, but believed that its assessments already met this standard. Regarding part (1) of Recommendation No. 3, to include in work papers for each control technique the pertinent details of source documentation reviewed and have Mission offices perform quality reviews of each others work, the Mission stated the recommended actions were in place during its Fiscal Year 1991 assessment process and continue to be followed. Regarding part (2) of the recommendation, to address the full detail of each internal control technique, the Mission did not dispute the report's examples but nevertheless believed that it had sufficiently addressed all the techniques embodied in the A.I.D./Washington questionnaire. Regarding part (3) of the recommendation, to assure that audits have specifically reviewed a control technique before using audit as the basis for rating that control technique, the Mission took exception to our statement that in most of the 15 cases where audits were cited as a basis for determining that an internal control technique was adequately implemented, the Mission comments overstated the scope of the audit coverage or misunderstood the arrangements for audit.

As explained previously in this report and further under the first subheading of this problem area, we disagree that the Mission adequately documented its assessment process. Its documentation consisted of computer printouts of the answers of individual Mission offices to each control technique in the A.I.D./Washington questionnaire. However, there was no evidence separately maintained for each internal control technique assessed of the specific criteria considered, the specific documents reviewed, and specific information within those documents that supported each answer. Absent such evidence there is no way one mission office could do a quality review of another office to determine whether the evidence maintained by the reviewed office supports its answers. The quality review the Mission apparently is talking about in its comments is the Management Control Review Committee's consideration of each office's answer to a control technique in deciding upon the Mission's overall assessment. We agree that the Mission did these reviews, but this is different from what we are recommending. Appendix III responds to the Mission's comments on this subsection in greater detail.

As regards part (2) of the recommendation, we do not consider it necessary to add further to the information already included in the report to support the need for the recommendation. However, Appendix III expands somewhat upon our rationale for the recommended procedures.

Regarding part (3) of the recommendation, in Appendix III we respond to the Mission's disagreement with the two report examples for this subsection. As stated there, we consider that the examples demonstrate the need for the recommended procedures.

Since the Mission's comments did not state whether it agreed to implement the recommended procedures, RIG/A/T considers Recommendation No. 3 unresolved.

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# **REPORT ON INTERNAL CONTROLS**

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

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## **Scope of Our Internal Control Assessment**

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

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

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

We classified significant internal control policies and procedures applicable to our audit objective by categories. For each category, we obtained an understanding of the design of relevant policies and procedures, determined whether they had been placed in operation, and assessed control risk. We have reported these categories as well as any significant weaknesses under the section heading "Conclusion for the Audit Objective."

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## **General Background on Internal Controls**

Under the Federal Managers' Financial Integrity Act of 1982 and Office of Management and Budget (OMB) implementing policies, A.I.D. management is responsible for establishing and maintaining adequate internal controls. 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.

The objectives of internal controls and procedures for Federal foreign assistance are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, policies

and agreement terms; resources are safeguarded against waste, loss, and misuse; reliable data is obtained, maintained, and fairly disclosed in reports; and programs are efficiently and effectively carried out in accordance with applicable laws and management policy. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. 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.

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## **Conclusion for the Audit Objective**

### **Audit Objective**

Our audit objective was to determine if USAID/Nicaragua evaluated the internal accounting and administrative systems established to control the Assistance Program in accordance with A.I.D. policies and procedures.

In planning and performing this objective, we considered the guidance in the Federal Managers' Financial Integrity Act of 1982, the General Accounting Office's "Standards For Internal Controls In the Federal Government," OMB Circular A-123, "Internal Control Systems," A.I.D. Handbook 19, Appendix 1D, "A.I.D. Internal Control Directive," State cable 331258, dated October 5, 1991, "1991 Annual Certification," the instructions accompanying the A.I.D./Washington internal control assessment questionnaire, "Overseas Missions Internal Control Assessment Year 1991," and the procedures established by USAID/Nicaragua in conducting its assessment of its internal controls as of the end of Fiscal Year 1991.

For purposes of this report, we have classified the relevant policies and procedures into the following categories:

- 1) internal control assessment planning process,
- 2) internal control assessment data gathering and analysis process,
- 3) internal control assessment reporting process, and
- 4) the follow-up process on identified internal control weaknesses.

We reviewed USAID/Nicaragua's internal controls relating to the above processes. Our tests showed that the Mission's controls were logically designed and consistently applied except for the data gathering and analysis and the follow-up processes. We noted three weaknesses or areas which could be improved in these processes:

- For broadly stated internal control techniques in the A.I.D./Washington internal control assessment questionnaire (see Appendix VIII), USAID/Nicaragua did not identify and document the specific provisions of A.I.D. guidance that apply, identify the Mission control systems that implement such provisions, and assess the adequacy of the identified Mission control systems to achieve the results intended by the applicable A.I.D. guidance. As a result it was not clear whether the Mission had comprehensively assessed these internal control techniques.
  - Certain control problems were not assessed either because the A.I.D./Washington questionnaire was not comprehensive enough or the Mission did not interpret the questionnaire's internal control techniques broadly enough.
  - The overall quality of the assessment process could be improved by (1) including in the work papers for each control technique the pertinent details of the source documentation reviewed which support the conclusion on the adequacy of the technique and having Mission offices perform quality reviews of each others work, (2) addressing the full detail of each internal control technique, and (3) assuring that audits have specifically reviewed a control technique before using audit as the basis for rating that control technique.
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# **REPORT ON COMPLIANCE**

This section summarizes our conclusions on USAID/Nicaragua's compliance with applicable laws, regulations, binding policies, and agreement terms.

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## **Scope of Our Compliance Assessment**

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

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and
- report all significant instances of noncompliance and abuse, and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested USAID/Nicaragua's compliance with the provisions of Office of Management and Budget Circular A-123 as they affected our audit objective. However, our objective was not to provide an opinion on USAID/Nicaragua's overall compliance with the Circular.

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## **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 or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition of noncompliance 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 the laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior.

Compliance with provisions of Office of Management and Budget Circular A-123 applicable to the Mission's internal control systems is the responsibility of USAID/Nicaragua's management.

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### **Conclusions on Compliance**

In our opinion, USAID/Nicaragua complied with applicable provisions of OMB Circular A-123 except that its documentation of the assessment process that it followed in evaluating individual internal control techniques was insufficient to meet the standard established by the Circular (see pages 19 and 20).

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**SCOPE AND  
METHODOLOGY**

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**Scope**

We audited the Nicaragua Assistance Program<sup>5</sup> funded with \$300 million from Public Law 101-302 and \$217.7 million from Fiscal Year 1991 appropriations in accordance with generally accepted government auditing standards. We conducted our audit from May 15, 1992 through September 30, 1992. At March 31, 1992, this Assistance Program consisted of three cash transfer programs, fourteen development projects, two food aid programs, and assistance to repatriate and resettle the Nicaraguan Resistance and refugees. The audit reviewed whether USAID/Nicaragua evaluated its internal accounting and administrative systems established to control the Assistance Program in accordance with A.I.D. policies and procedures. We reviewed the Mission's assessment of its internal controls as of the end of Fiscal Year 1991 and the status of the Mission's corrective actions to address identified control weaknesses as of March 31 and September 30, 1992.

At March 31, 1992, Assistance Program obligations were \$515 million and accrued expenditures and disbursements were \$478 million. Fieldwork was conducted in the offices of USAID/Nicaragua, certain Government of Nicaragua agencies, and certain nongovernmental organizations located in the city of Managua which were implementing Assistance Program activities.

The audit did not cover the following areas:

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<sup>5</sup> For purposes of this audit we are defining the Nicaragua Assistance Program to be those activities funded by Public Law 101-302 (the Act) and Fiscal Year 1991 appropriations as it was these funds which we were requested to audit under the provisions of the Act and a Senate Appropriations Committee report. The total A.I.D. assistance to Nicaragua includes additional funding from pre-Act sources, debt forgiveness in Fiscal Year 1991 which was not charged to Fiscal Year 1991 appropriations, and further funding provided since the end of Fiscal Year 1991. As our audit objective for this period concerned USAID/Nicaragua's assessment of its internal control systems as of September 30, 1991, these other assistance sources would have also been included within our audit scope to the extent they were considered in the Mission's evaluation.

- We did not audit the assistance for the repatriation and resettlement of the Nicaraguan Resistance and refugees as it was our understanding that the Congress recognized that the international organizations implementing this assistance would be audited in accordance with their own standard audit policies and procedures.
- We did not audit USAID/Nicaragua's project development and support and operating expenses because we believed that the Congressional interest is to audit the direct assistance provided to Nicaragua.
- Except where otherwise indicated, we did not assess whether A.I.D./Washington followed A.I.D. policies and procedures since our fieldwork was conducted in Nicaragua.

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## **Methodology**

The methodology for the audit objective was as follows:

To accomplish our audit objective, we reviewed the guidance in the Federal Managers' Financial Integrity Act of 1982, the General Accounting Office's "Standards For Internal Controls In the Federal Government," OMB Circular A-123, "Internal Control Systems," A.I.D. Handbook 19, Appendix 1D, "A.I.D. Internal Control Directive," State cable 331258, dated October 5, 1991, "1991 Annual Certification," the instructions accompanying the A.I.D./Washington internal control assessment questionnaire, "Overseas Missions Internal Control Assessment Year 1991," and the procedures established by USAID/Nicaragua in conducting its assessment of its internal controls as of the end of Fiscal Year 1991.

We reviewed the Mission's planning and conduct of its internal control assessment, examined the degree of documentation supporting its assessments of internal control techniques and interviewed USAID/Nicaragua's office chiefs participating in the assessment process. We also evaluated, based upon our knowledge of the Mission gained on three prior internal audits and in light of audit findings subsequent to the date of the internal control assessment, the Mission's assessments of each internal control technique and the comprehensiveness of the A.I.D./Washington internal control assessment questionnaire.

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**MANAGEMENT COMMENTS**



JAN 14 1993

FROM: Janet Ballantyne *Janet Ballantyne* Director

TO: Lou Mundy, RIG/A/T

SUBJECT: Draft Audit Report for the fourth audit of the Nicaragua Assistance Program funded by Public Law 101-302 and Fiscal Year 1991 Appropriations as of March 31, 1992.

The Mission has reviewed the contents of the subject draft and takes exception to some of the comments and recommendations in the report. We note that an AID/W evaluation dated September 23, 1992 which included among other things a review of the Mission's Internal Control Assessment (ICA) for fiscal year 1991, favorably described the USAID/Nicaragua evaluation of its internal controls as follows:

"The MCRC became involved in the ICA early on, meetings were held and detailed instructions were issued. Throughout the process, the MCRC played an important part in this exercise. Based on our review, we feel that the ICA was extremely well prepared and testing adequately documented. The Mission was extremely candid in its responses, working papers were well prepared, and supporting documents were available. A follow-up system is in place and corrective actions have and continue to be taken."

Accordingly, we now want to restate that the Mission evaluated its internal controls in accordance with AID/W policies and procedures, particularly in using a centrally designed internal control questionnaire to carry out its assessment. Our comments generally follow the draft report's discussion of the audit findings.

Pursuant to your request, we are including the Mission's Representation Letter for this audit. We believe the Representation Letter complies with AID policies and audit requirements.

#### I. Executive Summary and Report of Audit Findings

On pages II through V of the Executive Summary and pages 8 through 11 on Report of Audit Findings, the draft report states that the Mission did not document the information and methodology in reaching its conclusions on the adequacy of most of its internal controls. These comments are incorrect. The Mission followed a well designed management control assessment and review program for performing its 1991 and 1992 assessments which included, among other things, the following:

**A.** The Mission Director's designation of a Management Control Review Committee (MCRC), chaired by the Deputy Mission Director, responsible for coordinating all assessment activities and for serving as a quality control point for the overall ICA process.

**B.** Once the Mission received guidance from AID/W on how the yearly ICA was to be performed and reported upon, the Mission developed a list of instructions and detailed activities that needed to be implemented by Mission personnel in assessing the status of the USAID's internal controls. AID/W guidelines and USAID internal procedures, hereinafter referred to as instructions, were then provided to each MCRC member for review and comments. The set of instructions provided to each MCRC member included, but was not limited to: 1) the AID/W guidelines; 2) the responsibilities of each office and officer involved in the assessment process; 3) the testing and documentation requirements in support of internal control techniques assessed; 4) reporting requirements and forms; 5) the requirement for submission by each office chief of a certification similar to that required by the Mission Director; 6) a software package for reporting on the status of each technique evaluated [techniques evaluated had to be rated as satisfactory (SA), satisfactory requiring improvement (SR), unsatisfactory but not material (UN) and unsatisfactory material (UM)].

**C.** After the ICA instructions were approved by the MCRC, a meeting was held to discuss the details involved in the performance of the assessment. Changes in the Mission's suggested approach to the assessment were made if so requested and agreed upon by the MCRC.

**D.** An automated data processing software package was developed for use by each office in responding to the internal control technique questionnaire. Each office's response to the questionnaire required among other things: 1) a rating of SA, SR, UN or UM for each technique assessed; 2) information on the basis used for rating the technique; 3) documentation reviewed in rating the technique; 4) recommended actions for techniques found unsatisfactory or satisfactory requiring improvement, and; 5) milestones and result indicators for evaluating progress toward accomplishing recommended actions.

**E.** Questionnaires, when completed, were submitted to the MCRC with the required working papers for review and consolidation. The status of each control technique and work performed by each evaluator was assessed and rated by the MCRC for the Mission. A consolidated response for the Mission was then prepared and reviewed by each MCRC member.

**F.** A summary report on the MCRC's final conclusions on the status of the Mission's internal controls was then prepared in conjunction with the Mission Director's certification and report

on unsatisfactory material and not material internal control weaknesses. After all MCRC members cleared the summary report and certification, the ICA package was presented to the Mission Director for final review and comments. When the Mission Director agreed with the contents of the ICA, then the certification and report were signed and forwarded to AID/W.

G. The Controller then prepared a memorandum for clearance by all MCRC members and signature by the Chairman of the MCRC requesting each office chief to act upon the deficiencies resulting from the assessment. The deficiencies requiring action by Mission management included those ICA techniques found unsatisfactory material and not material, and satisfactory requiring improvement. The Office of Finance monitored and reported upon the status of actions taken to correct deficiencies noted to MCRC members.

The Mission has implemented comprehensive and complete assessments of its internal accounting and administrative controls to provide reasonable assurance that:

- Obligations and costs comply with applicable law.
- Assets are safeguarded against waste, loss, unauthorized use and misappropriation.
- Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.
- Programs are efficiently and effectively carried out in accordance with applicable law and management policy.

The 1992 ICA process consumed over 460 person days of Mission line and staff personnel time. A similar estimate can be made for the FY-91 ICA which does not include the numerous hours spent in designing, testing and implementing the Mission's ICA automated package (see item I-D above).

## **II. The Specific A.I.D. Guidance That Internal Control Techniques Designed To Implement Should Be Identified And The Corresponding Implementing Mission Controls Assessed**

### **A. AID/W Internal Control Assessment Questionnaire:**

This section of the draft report criticizes AID/W on the lack of specific guidelines and broad internal control techniques which make it difficult to determine what controls were to be evaluated. The auditors state in the report that 51 of the 173

control techniques were so broadly stated that these control techniques could be narrowly interpreted or misunderstood and therefore inadequately assessed.

Based on the conclusions reached in the report regarding the AID/W questionnaire, the Mission recommends RIG/A/T advise AID/W of their concerns for consideration in the preparation of the final 1993 internal control assessment guidelines. We suggest this action in light that AID/W has already informed Missions that new instructions for performing internal control assessments are to be issued, including new forms to reduce paperwork by respondents. The draft report's recommendations appear to be contrary to AID/W plans since the RIG is recommending that additional procedures be performed over and beyond those used in past assessments, with a corresponding increase in paperwork and staff time.

#### **B. Recommendation No. 1 of the Draft Report:**

Recommendation No. 1 on page 12 and 13 calls for the Mission to assess the adequacy of Mission controls implementing internal control techniques included in A.I.D./Washington's ICA questionnaire and to establish written procedures which require the identification and documentation of the specific provision of A.I.D. guidance that apply to each control technique and to the Mission control systems that implement such guidance.

These procedures are already being followed by the Mission. The Fiscal Year (FY) 1991 and 1992 ICA assessed the adequacy of the Mission's controls implementing techniques included in AID/W's questionnaires. The Mission's instructions for the FY-92 ICA further stressed the requirements of FY-91 to identify and maintain adequate documentation on each control technique evaluated. In addition, when the Mission's MCRC met on October 15, 1992, to discuss the FY-92 ICA instructions, emphasis was again made on the need to identify the specific AID/W and Mission guidelines that apply to specific internal control techniques. On October 22, 1992 Office Chiefs were formally advised by the MCRC that each evaluation had to provide the guidance used in assessing the applicable internal control technique (e.g. A.I.D. Handbook Number and section, AID/W guidance cable/memorandum number and date, etc). The FY-92 ICA summary report shows the guidelines which were identified, and applied as appropriate, to each control technique. The Mission also documented, when appropriate, the testing of the control techniques.

Considering the actions already taken by the Mission, we request that this recommendation be shown as resolved and closed in the final report.

### **III. Apparent Misunderstanding of Control Techniques**

Throughout the report, especially in the discussion related to Recommendation 1, the report makes references to initial responses from various offices to the AID/W questionnaire that were part of the "first cut" of the ICA process of the Mission. The use of such references in substantiating audit findings is analogous to holding the author of a book accountable for aspects of a first draft that never made it into print. The ICA process was designed to bring out areas of confusion, uncertainty, disagreement and address them appropriately at the MCRC meetings. The use of this material in an audit report will be a serious disincentive to frank and open comments in future assessments.

The Mission strongly feels that draft statements provided by USAID officers should have never been used out of context and much less as the basis for concluding on the adequacy of the Mission's understanding of the AID/W internal control techniques. These statements should have been used only as evidence of the time consuming process the Mission went through to ensure a clear and complete understanding of the AID/W guidance and to document each of the steps it performed in the implementation of its internal control assessment.

The following example evidences the extent to which the Mission not only addressed the control technique as written but went beyond this requirement to ensure that any other item(s) relating to a specific control objective was/were properly addressed and corrected.

During fiscal year 1991 the Government of Nicaragua was facing serious problems in meeting the origin documentation requirements in our Cash Transfer Programs. These problems were so critical that AID/W's immediate attention was warranted to ensure that imports were not declared ineligible and subject to refund because of the lack of clarity in Agency policy. This deficiency was what prompted one of the USAID offices to state "Policy guidance for cash transfer assistance is not clear in regard to source and origin requirements nor eligibility criteria that should apply" in responding to technique No. II(e) of the AID/W questionnaire, and not because of a misunderstanding of the technique itself.

Clear guidance was later received by AID/W on the application of strict source and origin requirements for Cash Transfer assistance programs, and the deficiency reported by the USAID office in its draft response to the ICA questionnaire was solved.

The auditors failed to provide in their report the Mission's final summary response to technique No. II(e) which stated

"Project and non-project documentation is being prepared in accordance with agency guidance. Refer to NPD's, PAAD's and PP's prepared through 09/30/91."

On page 16 it appears as if the report goes beyond the technique itself when commenting on the adequacy of Agency policy for the development of CPs for each funding tranche of the Cash Grant Assistance Programs. The control technique basically asked if Agency policy regarding CPs was incorporated into Mission standard operating procedures and consistently followed, and not whether Agency policy was adequate or not. As we noted in verbal responses to the audit, Agency policy is formulated in AID/W and not in the field.

In addition, since AID Handbook (HB) 4 is part of Agency and Mission standard operating procedures, the USAID should not have to issue a Mission Order to ensure compliance with the established procedures and be able to rate the technique as satisfactory. The requirement for duplicative orders and regulations simply increases paperwork and serves to reduce the efficiency of Mission operations, aside from being contrary to the government wide mandate to reduce unnecessary bureaucratic procedures.

In responding to this technique, the Mission not only determined that Agency policy was followed in the development of the CPs for its Cash Transfer Programs (all approved by Senior Management in AID/W) but also in their actual implementation prior to the disbursement of funds.

Based on the above I request this section of the report be changed to reflect the Mission's comments or deleted in its entirety.

#### **IV. Adequacy of the Assessment Process**

On page 17 and top of page 18, the report discusses a control technique concerning host country entities, contractors and nonprofit organizations maintaining records on arrival, use, storage and disposition of commodities. The auditors questioned the rating given by the MCRC and indicated that subsequent audits found problems. The report should be revised to show that at the time of the 1991 ICA only one Procurement Services Agent contract had been awarded. Reports on hand from the contractor and the Project Coordinator under the Public Sector Commodity Support Project at that time indicated that the systems in place to control and monitor the receipt, storage and distribution of the commodities under this project were adequate. These assurances in combination with other actions taken by the Mission to ensure the adequacy of the management over AID-funded commodities, were the basis for the Mission to rate the control technique as satisfactory.

On page 18, the auditors cite a second example of an overly broad control technique, which states "Food AID projects/programs meet the relevant criteria of USG legislation, policies and regulations". The Mission rated the technique as satisfactory. The auditors questioned this rating because of the pricing policy used for one commodity under a monetization program and the food ration sizes for a Title II direct feeding project, which in the opinion of the auditors were not in accordance with USG guidelines. These programs were authorized, negotiated and approved by AID/W prior to the Mission start up in 1990. In addition, AID/W approved the sale of commodities at GON prices under the Title II monetization program. These circumstances prompted the satisfactory rating of this technique as of September 30, 1991. Due to recognized personnel limitations identified by the Mission during 1990 and 1991, and a desire to ensure full compliance by implementing organizations to USG regulations, in May 1991 the Mission contracted the audit services of Price Waterhouse to evaluate its food aid programs. As reflected in our monthly reports to the RIG and AID/W on the status of open audit recommendations, the Mission has promptly acted upon the results of the RIG's continuous Federal and Non-Federal audit program in Nicaragua.

#### **V. Applicable Criteria Not Adequately Researched**

On pages 19 and 20 of the report, the auditors state that "the designers of the AID/W questionnaire or the Mission were not aware of the AID guidance for a particular internal control

technique". This comment was based on two specific cases. The first involved a certification for the USDH officer handling food aid and the second was in the participant training area. Based on these two cases, the auditors concluded that "the Mission's apparent failure to identify the specific requirements of AID guidance and implementing Mission controls may have also lowered the quality of the Mission's assessment process". We disagree with this conclusion. If anything, the two cases cited illustrate the Mission's thoroughness in researching specific criteria and the high quality of the Mission's internal control assessment process. In the first case, and as indicated by the auditors in their report, this control technique was rated by the Mission in its FY-91 ICA as unsatisfactory because, despite our thorough research at the time of the ICA, we did not find specific criteria that would invalidate the control technique.

However, during subsequent follow-up actions with AID/W and other field Missions, USAID/Nicaragua determined that the control technique as written, was no longer applicable.

Regarding the second case, the auditors did not take issue with the Mission's satisfactory rating for this control technique, which, as indicated in the report, was based on applicable

criteria provided in HB-10 guidance and alternative planing documentation. The auditors comment relates to the Mission's subsequent efforts to develop a Country Training Plan (CTP). The report states that "in researching the AID guidance the Mission project officer apparently did not locate the applicable guidance (Handbook 10, supplement 3A) and therefore erroneously concluded that there is no specific requirement regarding the format or content of such plan". These comments appear to be based on a 7/30/92 memorandum written by the project officer on this subject. The memorandum specifically cites the applicable guidance (HB-10 Section 3-A) and correctly states that "There is no specific requirement regarding the format or content of such a plan". This statement was made by the officer not because of being unaware of HB-10 requirements, but because of AID/W's interpretation of such requirements. The statement provided by the officer accurately reflects the language in HB-10 and the interpretation by the Regional Field Training Advisor from the Office of International Training (OIT), the AID/W division responsible for the formulation and implementation of the policy requirements of HB-10. The handbook, in section 3A-2, states that "all CTPs should follow the outline presented in Exhibit 3A-1 unless special circumstances dictate that alternatives are needed". This language and subsequent interpretation sought from OIT staff led to the statement that **no specific format/content is required for such plan**. Again, this case clearly evidences the extent of the Mission's efforts to identify and secure an adequate interpretation of all applicable criteria.

Additionally, on page 21, the report states that "it was not possible for the Mission's Offices to independently review one another's work and conclusions". This statement is incorrect. The Mission documented its assessment process and maintained supporting documentation which enabled MCRC members to review one another's work in the process of developing its conclusions on the adequacy of Mission internal controls (see Section I-E above).

Also on page 21, the report states that "it is our opinion that most Missions will expend the minimum amount of effort to certify that their internal control systems are adequate." We are unable to determine the basis used by the auditors in reaching this conclusion. Based on this Mission's experience (see Section I above) we can categorically state that due diligence and substantial personnel resources, well above minimum requirements, were invested by this Mission in this effort.

Finally, on page 22, the auditors go on to conclude that "...while the AID/W questionnaire may not have been as well designed as possible, the Mission may not have been thorough in identifying the AID guidance and the Mission controls that implement that guidance for the varying situations found in the Mission's portfolio". As stated throughout this response,

USAID/Nicaragua is of the opinion that its FY-1991 and FY-1992 assessments not only complied with the AID/W guidance but were comprehensive enough to enable management to reasonably conclude on the status of its internal control environment.

Again, it is suggested that any recommendations relating to the adequacy of the ICA questionnaire be addressed to AID/W for consideration.

**VI. Known Problems not Covered by the AID/Washington Internal Control Questionnaire Should be Addressed and Reported**

During the 1991 and 1992 ICA process, USAID/Nicaragua followed and fully complied with the guidance received from AID/W and thoroughly assessed all applicable control techniques included in the AID/W questionnaire. However, page 22 of the report states that "the questionnaire did not address all the areas in which USAID/Nicaragua had control weaknesses either because the questionnaire was not comprehensive enough or the designers intended that its questions be interpreted very broadly." Additionally, in Recommendation No. 2, the auditors call for the Mission to go beyond the use of the AID/W questionnaire adding its own control techniques. More specifically, the report recommends that internal and financial audit report findings be evaluated in order to determine whether the AID/W questionnaire includes control techniques that address the control weaknesses identified in the audit findings.

**The concern that applicable audit findings be incorporated in the ICA questionnaire should be addressed to AID/W.**

The Mission has in place an effective audit management and resolution program to ensure that the results of all audit efforts are properly monitored and resolved on a timely basis. Therefore, the non-inclusion of audit findings in the ICA questionnaire does not lead to the conclusion that this is a management control risk.

In illustrating the need to add techniques to the ICA questionnaire, the report cites on pages 24 through 26 three cases with problem areas which in our opinion were properly addressed by the Mission during its assessments as follows:

On page 26, second paragraph, the report states that the Mission had not received copies of a contract for the procurement of three generators and this made it difficult for the project offices to monitor the contract. This is incorrect. There was no problem in monitoring the receipt of the generators. The contracting and project offices were aware of the procurement and their files contained the applicable shipping and receiving documentation.

The statement on page 26 which reads "as a result of the Mission not receiving timely and complete information about program obligations from A.I.D./Washington, the Mission and A.I.D./Washington may not have made available to Nicaragua the full amount of emergency funding provided under the Act." is totally subjective, as no evidence is provided supporting this assertion. It should be noted that the Mission has a comprehensive accounting system to ensure that all funds made available to it are properly obligated and reported to its offices in Washington D.C. which, in turn, ensures that all assistance is properly allocated to the recipient countries.

On page 26 the report claims that "as a result of the inadequate flow of information concerning the expenditures of the PVO the Mission's ability to fulfill its monitoring responsibilities was restricted." The ADRA (Adventist Development and Relief Agency) example used in support of this claim was the result of effective monitoring by the Mission, which not only identified the problem, but also submitted a request for a Non-Federal audit of the program.

Based on the above, we request recommendation No. 2 be addressed to AID/W for consideration in the development of procedures for the FY-93 ICA or shown as resolved and closed for the Mission.

#### **VII. The Quality of the Mission's Internal Control Assessment Process Could be Improved**

In this section, the auditors state that "USAID/Nicaragua should assure that its internal control assessments are of the highest quality possible". We fully agree with this statement and note the fact that our 1991 and 1992 ICAs were performed using high standards of quality. Nevertheless, the auditors noted three areas where the "overall quality" of the assessment process could be improved. In recommendation No. 3 the Mission is being asked to establish written procedures to:

**A. Include in working papers for each control technique the pertinent details of source documentation reviewed which support the conclusion on the adequacy of the technique and have Mission offices perform quality reviews of each other's work.**

As noted through out this memorandum, the above recommended actions were in place and continue to be followed in the assessment of the Mission's internal controls.

On page 31, the auditors state that "for nearly all of the control techniques it was not clear whether they had been comprehensively evaluated against the proper criteria". This comment is apparently based on the auditors impression that most of the techniques were not evaluated against the appropriate criteria and/or not adequately documented. The Mission disagrees

with this comment and the auditor's expressed opinion on pages 31 and 45 that the Mission's documentation of its ICA process did not meet the requirements of OMB Circular A-123 nor the instructions provided in the AID/W questionnaire. Although the Mission agrees that its computer generated summary sheets do not identify every criteria and/or document reviewed in assessing the status of the individual control techniques, this should have never been construed as non compliance with the standards of OMB Circular A-123. Therefore, we request these comments be deleted from the final report.

**B. Address the full detail of each internal control technique.**

On page 32, the auditors state that they "reviewed the Mission's responses to 94 internal control techniques corresponding to the first 8 sections of the ICA questionnaire and that on 34 of the techniques the Mission provided general answers to detailed control techniques or that it did not directly answer each of the elements of the technique". As reflected below and in other sections of this memorandum the Mission feels that it sufficiently addressed all techniques embodied in the AID/W questionnaire and that its 1991 and 1992 assessments were comprehensive and well documented. As reflected in Section I of this memorandum, summary responses provided by Mission personnel in the automated control technique questionnaire were only one part of the overall assessments process. MCRC conclusions regarding the status of our internal controls and the quality of the Mission's ICA were made on the basis of the overall process that followed and not from only one element of it.

In summary, an assessment of the overall quality of the Mission's ICA through an evaluation limited only to the responses in the AID/W questionnaire and/or to the individual techniques within the questionnaire itself, without giving due consideration to the context within which these responses were given, may have led to an erroneous conclusion on the quality of the work performed by the Mission. In addition, the ICA questionnaire has been designed so that many of the responses to individual control techniques can be provided within the context of each control objective.

**C. Using Audit Coverage to Rate Control Techniques**

The Mission takes exception to the assertions made in pages 33 through 36 suggesting that, in at least 15 cases, the Mission had no basis to rely on audit in evaluating control techniques. The auditors also make the inference that audit was the only basis on which such internal control techniques were assessed.

In reference to the cases cited on page 35, the report states that "in most of these cases the Mission's comments overstated the scope of the audit coverage or misunderstood the arrangements

for the audit" and, thereby, reached the conclusion that audit was not an appropriate basis of reliance. Due to the fact that the report only cited two cases to support this opinion, it is very difficult to respond specifically to each case. However, in the first example, the control technique being evaluated related to food aid project/program provisions for monitoring:

- Warehousing/stock control
- Distribution/sales of food aid
- Generation and use of recipient contributions and empty container funds
- Transportation voucher/receipt
- All aspects of local currency accounting

The report cites that "the statement of work for one of the Mission-contracted audits did not require the financial auditors to determine the accountability for food aid and only minimal effort was expended in reviewing internal controls over the food distribution process." The audit was conducted by Price Waterhouse for the period April 20, 1990 through April 25, 1991 on Nicaragua's Primary Health Care and Supplemental Food Program managed by ADRA.

The scope of work provided to Price Waterhouse specifically included the determination of the adequacy of the internal controls over the distribution process of the ADRA Title II food program.

The audit was to include tests of the accounting records necessary to determine whether the internal control structure of ADRA was adequate to manage the program's operations and to ensure that ADRA complied with agreement terms, and applicable laws and regulations which affect the program. Applicable regulations included Regulation 11, which specifically addresses the control techniques mentioned above.

Therefore, based on the terms and conditions of the scope of work supporting this audit, it was indeed reasonable to place reliance on this audit regarding the adequacy of the aforementioned controls. Moreover, the report fails to mention that the Mission, in addition to this audit, considered other inputs in the assessment process relating to subject controls.

In the second example, the control technique required that all direct contract costs be audited by the IG or cognizant U.S. agency. The ICA response stated that all institutional direct contract costs paid to local vendor CISCONCO had been audited by Price Waterhouse. In addition, it stated that direct contract costs of U.S. firms would be subject to audit by DCAA (Defense Contract Audit Agency). Because most contracts with these firms had not been in existence long enough to have required an audit as of September 30, 1991, the Mission did not rate this technique

as unsatisfactory as of the above mentioned date. There was no misunderstanding of audit arrangements to be made for U.S. contractors as the report indicates.

It is clear from an impartial examination of the two specific cases cited that, in sharp contrast to the assertions made in the draft audit report, the tool of audit was not misapplied.

Management is extremely cognizant of the importance of the ICA process and, therefore, makes every effort to properly take into consideration all factors impacting on the evaluation of the Mission's internal control environment.

In view of the above we request that recommendation No.3 be shown as resolved and closed in the final report.

### VIII. Appendix III

In appendix III, pages 50 through 57, the auditors detailed the implementation status, as of 9/30/92, of control techniques identified by the Mission in its FY-91 ICA as requiring improvements. Although this appendix accurately reflects the MCRC's conclusions on the status of the techniques as of September 30, 1992, we would suggest that the "Assessment Rating" column be footnoted for the following techniques to show the changes in rating awarded by the Mission as of the above mentioned date:

<u>CONTROL TECHNIQUE NO.</u>	<u>RATING CHANGES</u>	
	<u>FROM</u>	<u>TO</u>
II-A	Unsat. Material	Unsat. Not Material
II-B	Unsat. Material	Unsat. Not Material
IV-J	Unsat. Material	Sat. Req. Improvement
VIII-C	Unsat. Not Material	Not Applicable
VIII-E	Unsat. Not Material	Sat. Req. Improvement
IX- 1-H	Unsat. Not Material	Sat. Req. Improvement
XI-F	Unsat. Not Material	Sat. Req. Improvement

### IX. Appendix V

The draft report on pages 64 through 68 comments on: a) the local currency generated from ESF cash transfers; b) Food for Progress assistance; c) legal interpretations on generating and accounting for local currency; d) recent controversies on local currency loans, and: e) allegations of uncollectible loans to Sandinista-front organizations. Appendix V should be deleted from the report, because using the local currency appendix as an example of weak internal controls is confusing, not pertinent, and, as the report states on page 68 "It technically is not an example of an internal control weakness." Further, some of the comments on the interpretation of whether local currency is generated were

discussed in a prior I.G. audit report. This issue was resolved in the Mission's favor when an A.I.D. General Counsel opinion indicated that the Mission complied with Agency guidance on managing local currency. In addition, including in the report unfounded allegations on doubtful loans made by the GON with their own funds is unacceptable, inappropriate and in no way relevant to a review of the ICA process. There has been no evidence submitted nor verification provided that AID funds were or have ever been directly used for loans to Sandinista-Front organizations.

## **X. Conclusion**

As the AID/W evaluation report cited at the beginning of our comments and your own draft report recognizes, the Mission's ICA was performed in an organized manner and in accordance with AID/W guidelines. The ICA represented thousands of work hours by a group of dedicated U.S. Government employees committed to the appropriate and responsible management of USG resources and should be so recognized.

I want to thank you and your staff for the continuing audit support, and ask that our comments and requested actions be considered in coming up with the final report on the results of your evaluation.

If you should need any additional information concerning the contents of this memorandum, please do not hesitate in letting me know.

Amemb. Managua USAID  
Unit 2712 Box 9  
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Pista Sub Urbana  
Apartado Postal C-167, Managua  
ZP 13

February 3, 1993

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

Dear Mr. Mundy:

This letter of representation is in regard to the audit which you have recently completed on the Nicaragua Assistance Program during the period from October 1, 1991 through March 31, 1992 funded by Public Law 101-302 and Fiscal Year 1991 appropriations, referred to in your draft audit report, which was received on December 2, 1992, as the Nicaragua Assistance Program. As reflected in your draft report, the audit effort was intended to answer the following audit objective:

Did USAID/Nicaragua evaluate the internal accounting and administrative systems established to control the Assistance Program in accordance with A.I.D. policies and procedures?

In this regard, Mr. Kenneth G. Schofield, the former Deputy Mission Director at USAID/Nicaragua, chaired the Mission's Management Control Review Committee (MCRC) responsible for the USAID's fiscal year 1991 Internal Control Assessment (ICA), which is the main subject of the above mentioned audit, and provided the required ICA annual certification to the Assistant Administrator of the LAC Bureau on November 27, 1991. Mr. Mark Silverman, the current Deputy Mission Director reviewed and commented on your preliminary draft audit report on November 17, 1992.

During fiscal year 1991, among other techniques of internal control we relied extensively on the audit work performed by contracted private independent audit firms, A.I.D.'s office of the Inspector General, and GAO as primary elements of internal control, to determine compliance with applicable laws, policies and regulations, and to ensure the accuracy of accounting and management information.

This representation letter is provided based on the results of the above extensive and continuous audit efforts of the Nicaragua Assistance Program and on information provided to me by members of your staff and the Mission.

On this basis, and to the best of my knowledge and belief, I make the following representations:

1. USAID/Nicaragua is responsible for and has performed comprehensive assessments of its internal accounting and administrative controls for fiscal years 1991 and 1992 to provide reasonable assurance that:

- Obligations and costs comply with applicable law.
- Assets are safeguarded against waste, loss, unauthorized use and misappropriation.
- Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.
- Programs are efficiently and effectively carried out in accordance with applicable law and management policy.

2. USAID/Nicaragua is not responsible for assistance to repatriate the Nicaragua resistance and refugees funded through FAA section 632 (a) transfers from A.I.D. to the Department of State nor for food assistance activities managed by the U.S. Department of Agriculture.

3. USAID/Nicaragua employees have provided full access to all financial and management information available in the Mission associated with the Nicaragua Assistance Program and the ICA for fiscal year 1991.

4. USAID/Nicaragua has disclosed any known weaknesses in its internal control systems for the fiscal year ending September 30, 1991 which it considered material and involving Mission management and employees with internal control responsibilities or organizations that could materially effect its internal control structure.

5. USAID/Nicaragua is not aware of any material instances attributable to internal control deficiencies where financial or management information was not properly and accurately recorded or reported through its ICA process, internal/external evaluations and federal and non-federal continuous audit activities.

6. USAID/Nicaragua has not knowingly and intentionally withheld information about material noncompliance with AID policies and procedures or violations of U.S. laws and regulations.

7. Based on the documents and information provided by your staff, including the draft audit report cited in the first paragraph of this letter, I am aware that you plan to make certain recommendations requiring the Mission to establish procedures for:

- a. Identifying and documenting the specific provisions of guidance that apply to each internal control technique evaluated and to the control systems that implement such guidance.
- b. Mission offices to report on any control weakness which they do not believe are covered by an A.I.D./Washington-specified internal control technique.
- c. Identifying source documentation reviewed in support of conclusions on the adequacy of any given internal control technique, having Mission offices perform quality reviews of each other's work, addressing the full detail of each internal control technique, and for assuring that audits have specifically reviewed a control technique before using audit as the basis for rating a control technique.

8. I disagree with some of the conclusions reached in your report. After a review of such audit report and consultation with my staff, I know of no other facts (other than those expressed in our Management Comments to the draft report and in our fiscal year 1992 ICA) which, to the best of my knowledge and belief, would materially alter the conclusions reached in the draft report.

This letter was cleared by the members of the USAID's Management Control Review Committee who were involved in the review of your draft audit report and in the performance of the Mission's ICA for fiscal year 1992.

This letter is being submitted in this form at the request of RIG/A/T in the understanding that failure to do so would result in the audit report being qualified.

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,

*Janet C. Ballantyne*

Janet C. Ballantyne  
Mission Director

**CLEARANCES:**

M. Velazquez, LA	<i>[Signature]</i>
R. Layton, OFIN	<i>[Signature]</i>
B. Rudert, ARDO	<i>[Signature]</i>
J. Corley, CO	<i>[Signature]</i>
E. Aker, EXO	<i>[Signature]</i>
L. Odle, PDIS	<i>[Signature]</i>
L. Ayalde, GDO	<i>[Signature]</i>
T. Amani, PEPS	<i>[Signature]</i>
M. Silverman, DDIR	<i>[Signature]</i>

**RIG/A/T DETAILED RESPONSE TO MISSION COMMENTS  
ON INDIVIDUAL REPORT SECTIONS AND EXAMPLES**

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In its comments to the draft report (see Appendix II) the Mission disagreed that most of the report sections and examples supported there was a problem with its assessment process. In this Appendix we provide our detailed response to the Mission's comments in these areas. The sections and examples are presented in the order that they appear in the report.

**Problem Area No. 1:**

**The Mission Should Identify the Specific  
A.I.D. Guidance for which Internal Control  
Techniques Were Designed To Implement  
and Assess Its Implementing Controls**

In our draft report, problem area No. 1 (see page 7) contained six examples under three subsections. The Mission's comments on the examples and our response follows:

**Apparent Misunderstanding of Control Techniques**

For the control technique:

*...[Policy] guidance for the proper preparation and approval of NPDs, PAIPs, PAADs, PIDs and PPs<sup>6</sup> clearly and completely outline the rationale, justification and goals and objectives for the project idea.*

The Mission states that the response for one of its offices, "Policy guidance for cash transfer assistance is not clear in regard to source and origin requirements nor eligibility criteria that should apply", does not show a misunderstanding of the control technique but actually goes beyond the technique in identifying a serious problem that faced the Mission because of the lack of clarity in Agency policy. Also, it notes that we did not quote the Mission's overall assessment for this technique which included the statement "Project and non-project documentation is being prepared in accordance with agency guidance. Refer to NPD's, PAAD's and PP's prepared through 09/30/91."

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<sup>6</sup> See footnote 2, page 9.

Our example simply quoted from the responses of the individual Mission office's in this case. Not all responses showed a misunderstanding of the control technique. However, it was not clear to us how exactly this particular response was meant to fit within this internal control technique. The control technique refers to policy guidance for the preparation and approval of the final planning documents for project and nonproject assistance, while the office response talks about source and origin requirements and eligibility criteria for cash transfer-financed imports. Any relation of the office response to the control technique in this case is tangential at best. However, this example does clearly show the need to define the limits of what the control technique means before attempting an answer.

In its comments to the report, the Mission itself expressed the opinion that its answer in this case went beyond the control technique. Evidently it believes it was creating a new control technique to address a control weakness not adequately addressed by the other control techniques in the A.I.D./Washington questionnaire. Such an action would be in tune with our recommendation for the second problem area discussed in this report.

Regarding the point that we did not quote the Mission's final answer for this control technique, we note that we stated that the Mission's final answer was based on the office response "*follow HB [handbook], controller guidance, payment verification procedures*". What further value the Mission believes there would have been in quoting its final answer is unclear. Apparently it considers the reference to "*... NPD's, PAAD's and PP's prepared through 09/30/91.*" to be supporting documentation for its response. However, we do not consider a general reference to planning documents to be evidence that the planning documents met Agency policy. Given that the Mission should have control systems to assure A.I.D. guidance is followed, it should have a control system that identifies the Agency's requirements for such planning documents and which documents that the requirements are met, say through a control checklist system. The checklists, cross referenced to sections within the planning documents themselves, would then document compliance with Agency requirements.

For the control technique:

*Agency policy for development of CPs [conditions precedent] for each funding tranche of the Cash Grant Assistance Programs is incorporated into the Mission standard operating procedures and consistently followed.*

The Mission portrays its assessment which did not relate to the rated internal control technique, not as a mistake, but as an example of going beyond the requirements of the technique. Additionally, it criticizes the

auditors for commenting on the vague and obsolescent nature of the Agency guidance and finally concludes that although the technique asks whether the Mission has standard operating procedures for this area, the Mission has no obligation to develop such procedures because the Agency's procedures are in A.I.D. Handbook 4.

Not knowing the Mission thought process used in arriving at its overall assessment in this case, we are not in a position to judge the Mission's comment that it actually went beyond the requirements of the control technique in answering this technique. As noted in the report, the Mission's answer did not relate to the control technique. We note that the Mission did not dispute that the A.I.D. guidance in this area was vague and obsolescent, it only criticized us for having brought the matter up. Because the guidance is vague and obsolescent, it was not clear to us what, if anything, was still required or whether it was being followed.

We disagree with the Mission's rationale that since the Agency guidance is in Handbook 4 the Mission should not have to issue a mission order to ensure compliance. Assuming the Handbook 4 procedures that we referred to are the only Agency guidance that exists for this area (we do not know whether this is in fact the case), we believe it is incumbent upon the Mission to have implementing Mission controls to assure the A.I.D. guidance is followed. Absent such a control system, the A.I.D. guidance (whatever it is) may be overlooked when conditions precedent are formulated for future cash transfer programs.

#### **Adequacy of the Assessment Process**

For the control technique:

*Host country entities, contractors and nonprofit organizations maintain complete records on the arrival, use, storage and disposition of commodities held and financed by A.I.D. and is periodically inspected.*

The Mission states that the report should be revised to show that at the time of the 1991 internal control assessment only one procurement services agent contract had been awarded and that reports from this contractor and the project coordinator under the Public Sector Commodity Support Subproject indicated that systems in place to monitor this subproject were adequate. The Mission cites these indications along with unspecified other actions taken by the Mission as its basis to rate the control technique as satisfactory.

The Mission comment apparently is meant to show that it did consider one contractor in its assessment of this control technique although the

Mission's response only referred to host country and nonprofit entities. The subproject employing the procurement service agent was the one monitored by the contracting officer for which our subsequent audit found problems. Additionally, there was another subproject involving textbooks that used a contractor and subsequent audits found problems on that subproject as well. In fact, audits subsequent to the Mission's internal control assessment noted problems with the control of commodities on six projects or subprojects.

The point of the example is to raise a question regarding how thorough the Mission's assessment process was in this case. Since no documentation was maintained regarding the A.I.D. requirements which were considered in reviewing this control technique, we could not determine the extent of the Mission's review. However, the subsequent audits give some indication that certain A.I.D. requirements were not considered. For example, our audit of the subproject employing the procurement service agent found unsatisfactory implementation of the A.I.D. Handbook 15, Chapter 10 provisions on commodity arrival and disposition. This control technique is a good example of one that could be further refined (defined) by listing the requirements of the various A.I.D. handbooks as subtechniques to the overall control technique and specifically assessing whether the requirement embodied in each subtechnique is being met.

For the control technique:

*Food aid project/programs meet the relevant criteria of USG legislation, policies and regulations.*

The Mission indicates that the subsequent audit findings mentioned in the report relate only to one commodity monetized (sold) below the A.I.D. target price and to commodity ration sizes for a Title II direct feeding program which in the opinion of the auditors were not in accordance with USG guidelines. The Mission noted both of these programs had been approved prior to the start up of the Mission and that the sales of the Title II commodity below the target price had been approved by A.I.D. Washington. It stated that these circumstances had prompted a satisfactory rating by the Mission as of the date of the internal control assessment. Also, it noted that due to recognized personnel limitations and a desire to ensure full compliance by the implementing entities with USG regulations it contracted non-Federal auditors to evaluate the two Title II programs.

Long before the date of the Fiscal Year 1991 assessment, the responsibility for the Mission's two Title II programs had been transferred from A.I.D./ Washington to the Mission. The Mission therefore had responsibility to assess and correct the control weaknesses.

Subsequent audit findings--which the Mission agreed with--noted that: (1) the Mission agreed with a Government of Nicaragua pricing policy for donated U.S. food commodities that undercut the price that could be obtained for the commodity used in the Mission's Title II monetization program, (2) the food commodity ration sizes for the Mission's Title II direct feeding program had not been justified in accordance with A.I.D.'s methodology, and (3) the implementing entity for the Mission's direct feeding program, with the Mission's knowledge, was providing commodities to unauthorized beneficiaries.<sup>7</sup>

Further, we noted that the Mission requested A.I.D./Washington's approval of the sale of the donated Title II commodity below the A.I.D. policy target price citing the Mission's intention of price normalization in the future. However, there was little likelihood that if the Government of Nicaragua continued with its pricing policy for this commodity that the A.I.D. target price could be obtained in the future, and the Mission apparently had no plans to switch to another Title II commodity which could be sold at the A.I.D. target price. These circumstances indicated a problem with the Mission's adherence to A.I.D.'s pricing policy and our prior audit reported it as such.

The subsequent audit findings in this example call into question the adequacy of the Mission's assessment process. Since the Mission did not document its assessment of the specific A.I.D. requirements that it considered in assessing this control technique, we have no basis to conclude it comprehensively assessed the technique.

### **Applicable Criteria Not Adequately Researched**

For the control technique:

*USDH [U.S. Direct Hire] officials responsible for food aid are Food Aid Certified.*

The Mission states that despite its thorough research it did not find the criteria that applied to this control technique. Therefore, it concludes that the example shows how thorough its research was-- not that its research was inadequate.

We only note the Mission's comment that at the time of the Mission's final assessment it had not found that there was no such certification. Obviously, in later seeking to resolve the indicated control weakness the

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<sup>7</sup> Regarding (3) above, it should be noted that providing food commodities to other than the intended beneficiaries is directly contrary to one of A.I.D.'s two stated control objectives for food aid.

Mission would discover that there was no such certification. The fact that the Mission eventually discovered this does not demonstrate thorough research at the time of conducting its assessment.

For the control technique:

*Agency procedures for developing the Country Training Plan are incorporated into the Mission standard operating procedures and consistently followed.*

The Mission explains that it was aware of the applicable criteria for this control technique but the criteria allows for deviations if dictated by special circumstances.

The Mission is correct that we relied on its memorandum in concluding that the project officer apparently did not locate the applicable guidance in this case. The memorandum did not reference to the 15 pages of handbook guidance for developing a Country Training Plan (Handbook 10, Supplement 3A). Instead it referred to paragraph 3A of that handbook which states the A.I.D. policy that a mission prepare and maintain a Country Training Plan. We further note that the memorandum did not mention the normal requirement or explain what special circumstances dictated the Mission's deviation from the guidance. However, based on the Mission's further explanation, it appears that its decision not to follow the applicable guidance was a conscious one and not done in ignorance of the normal requirement. Therefore we deleted this example from the final report.

## **Problem Area No. 2:**

### **Known Internal Control Problems Not Covered by the A.I.D./Washington Questionnaire Should Be Addressed and Reported**

This problem area (see page 14) contains three examples without subsections. The Mission's comments on the three examples and our evaluation follows:

For our first example regarding the inadequacy, for Mission monitoring purposes, of summary financial information submitted by a U.S. private voluntary organization, the Mission believes the example shows effective monitoring. Since the Mission did not receive detailed accounting reports from the grantee and did not notice an anomaly until more than a year after the situation started, we do not know on what basis it considers that its monitoring was effective. However the point of the example is the inadequacy of the flow of information. First, the entity was not supplying

accounting reports to assist the Mission in its monitoring, and second, even when we requested information from the entity, it was not provided.

In the second example the Mission disagrees with our contention that not having the contract on the three generators made it more difficult to monitor compliance with the contract. We consider it to be a matter of logic that if the Mission does not have the specifics on the contract then it is somewhat in the dark when items under the contract start arriving. Apparently the Mission believes that eventually it will receive a copy of the contract, and at that time it will be in a position to detect and rectify any problems noted. However, for ease of monitoring it would clearly be more convenient to receive the contract before the items start arriving in Nicaragua.

For our third example the Mission notes that since we were not able to determine whether the final \$3 million of Act funds provided for Nicaragua had been obligated, our statement that these funds may not have been obligated is speculative. We agree that the statement is speculative. However, as noted in the example despite our attempts to obtain the information from A.I.D./Washington we were not provided sufficient information to verify the actual situation. The problem was not that A.I.D./Washington was uncooperative, rather summary information was provided with no basis to reconcile to information reported by the Mission. Again, this third example shows a problem with the flow of information from U.S.-based organizations.

Although not mentioned in the third example, we note the Mission itself has acknowledged (in Managua 003624, dated May 2, 1992) its problem with the flow of information on projects where the accounting is done in Washington, and that it therefore requested that A.I.D./Washington's Nicaraguan desk officer serve as a central point for gathering information on these projects from A.I.D./Washington records for transmission to the Mission. However, as this problem area illustrates, the problem is somewhat larger in scope in that there needs to be a mechanism to get timely information as needed from U.S.-based implementing entities as well.

### **Problem Area No. 3:**

#### **The Quality of the Mission's Internal Control Assessment Process Could be Improved**

This problem area (see page 19) contains three subsections and four examples relating only to the last two subsections. The Mission's comments on the three subsections including its comments on specific examples follow:

## **Maintaining Written Evidence of the Assessment Process and Performing Internal Quality Reviews**

The Mission considered that its documentation of its assessment process has and continues to satisfy the recommended action to include in work papers for each control technique the pertinent details of source documentation reviewed.

Despite Mission procedures and instructions designed to ensure that its internal control assessment process was adequately documented, except for 18 control techniques designated for mandatory testing, the only documentation separately maintained by the Mission to support its assessments were computer printouts--one showing the responses of individual Mission offices to individual internal control techniques and another showing the overall Mission assessment for each control technique. In other words, the documentation maintained to support the Mission's answers were the answers themselves. As explained throughout the report we do not consider such documentation to be sufficient.

The Mission apparently intended that the documentation supporting the answers of the individual Mission offices would be maintained by the respective offices. However, we interviewed 7 of 9 office chiefs involved in the assessment process and found that there was no supporting documentation separately maintained. All the offices considered the answers reflected on the computer printouts as their documentation. This is not to say that the offices had not reviewed other documents in formulating their answers, only that they did not document, for each control technique reviewed, the criteria they considered, the specific documents they reviewed, and the specifics of the information they used from the reviewed documents which led them to the conclusion that the criteria was satisfied. To illustrate, in certifying to the adequacy of its overall review of 92 internal control techniques, one office stated that it reviewed project files for 17 different projects and current mission orders. Supporting documentation of the specifics of the review made on each control technique was not maintained.

Problem area No. 1 of this report further explains the lack of Mission documentation of the criteria it considered in assessing each internal control technique. The Mission's procedures in this area have been and continue to be inadequate. To explain, in its Fiscal Year 1991 assessment process, in a number of cases it identified the handbook number or other guidance it relied upon for its criteria in assessing a control technique, but in no case did it document the specific requirements that it considered within the identified guidance. As part of its Fiscal Year 1992 assessment process it issued instructions requiring its individual Mission offices to identify the applicable handbook or cable number. However merely citing

the applicable handbook number provides no evidence that the A.I.D. requirements included in the handbook were determined and assessed.

For example, the A.I.D. requirements for the control technique:

*Host country entities, contractors and nonprofit organizations maintain complete records on the arrival, use, storage and disposition of commodities held and financed by A.I.D. and is periodically inspected.*

may be found in:

- A. Handbook 1, Supplement B, Chapter 24
- B. Handbook 3, Chapters 6 and 11 and Supplements A and B
- C. Handbook 13, Chapters 1 and 4
- D. Handbook 15, Chapter 10
- E. Handbook 14, and the Federal Acquisition Regulation
- F. Handbook 19, Chapters 1 and 7

Each of the above general references may cite one or more specific A.I.D. requirements. An example of a specific A.I.D. requirement would be as stated at Handbook 15, Chapter 10, Paragraph E:

*Each USAID [Mission] is responsible for maintaining a current description, approved by the USAID Controller, of the B/G's [Borrower/Grantee's] commodity arrival and disposition system(s), the USAID's evaluation of the system(s), and the monitoring procedures established by the USAID....*

To show that it reviewed the A.I.D. requirements applicable to the above mentioned internal control technique, the Mission would need to maintain evidence to the level of the specific requirements.

Since the Mission uses a computer based system for arraying its answers to individual control techniques, it could easily list the specific A.I.D. requirements that apply to a broadly stated control technique as subtechniques. Then by assessing each subtechnique it would document that all A.I.D. requirements were considered.

To complete the documentation process individual Mission offices would then need to separately maintain, for each internal control technique and

subtechnique reviewed, evidence of the specific documents they reviewed and the specifics of the information in the reviewed documents which led them to the conclusion that the applicable criteria was satisfied. While this task may sound formidable, it simply means writing down the information that was relied upon and cross referencing that information to its location within the source documents.

Only when such documentation is maintained will the Mission's individual offices be in a position to review the detail of each others work to determine the extent of each office's review and whether the office answers are backed with supporting documentation.

### **Addressing the Internal Control Technique in Its Entirety**

The Mission did not disagree with the report's examples for this subsection, but only stated its belief that all techniques had been sufficiently addressed and well documented. This area was included as part of the recommendation so as to promote a general increase in the quality of the Mission's assessments with a corresponding improvement in Mission controls. For example, a full answer to a control technique which asks whether the Mission has established standard operating procedures to control an area and whether the procedures are consistently followed should result in (1) an assessment of whether applicable A.I.D.-level guidance has been followed, with corresponding identification of needed improvements and (2), if the Mission has not developed standard operating procedures, a decision to develop such procedures to implement the A.I.D. guidance, or an explanation to A.I.D./Washington as to why a control system to assure implementation of the A.I.D. guidance is not needed.

### **Using Audit Coverage to Rate Control Techniques**

For this subsection the Mission takes issue with the two report examples where it cited audits as one of the bases for its overall assessment. In the first example, involving five internal control techniques for food aid, the Mission notes that the scope of work for the one of the audits required the financial auditors to determine the adequacy of internal controls over the food distribution process. Therefore based on the scope of work for the audit the Mission believed it was reasonable to have placed its reliance on the audit.

What happened on this audit, however, was that the auditors concentrated nearly all their effort on the main steps of the audit scope of work which was to review the financial accountability for a grant implementing a health care program. A superficial review was made of the controls over the food distribution process with the result that the auditors did not become aware that the implementing entity was providing food to unauthorized

beneficiaries. (Additionally, there may be further problems that we are not aware of.) One of the reasons we attribute this superficial review to was that the scope of work did not include a requirement for the financial auditors to determine the accountability for food aid.

This example shows that the Mission's expectations for the depth of the financial auditors' review varied greatly from the financial auditors' expectations. Hence it is a good example to illustrate our point that the Mission should have a clear understanding of what was actually reviewed on audits. Otherwise it may be relying upon an audit to support its assessment of an internal control technique when the audit steps did not adequately address the control technique.

Additionally, we wish to point out that the draft report for the audit mentioned in this example was reviewed by the Mission before it conducted its Fiscal Year 1991 internal control assessment and the report discussed only the audited health care program grant. There was no mention of internal controls over food aid. Hence the Mission had ample opportunity before it conducted its assessment to determine the limited nature of the review that was done.

Regarding the second example in this subsection, for the control technique:

*Direct contract costs have been satisfactorily audited by the IG or cognizant U.S. Agency.*

The Mission takes issue with our statement that the portion of the Mission's response "...Direct contract costs of U.S. firms are the responsibility of DCAA [Defense Contract Audit Agency]. No DCAA audit reports received as of September 30, 1991." shows a misunderstanding of audit arrangements for U.S. contractors. The Mission in responding to the audit report now indicates what it actually meant was that its contracts with U.S. firms had not been in existence long enough to have required an audit as of September 30, 1991, and with regard to contracts with U.S. organizations it was on this basis that it rated the control technique as satisfactory.

Our example was based on what the Mission said, not what it now indicates it meant. To assure that the Mission's U.S. contracts are audited and that the Mission receives copies of the reports, it should contact our Washington office and express its interest. The audits will be arranged by the cognizant audit agency and, depending on the arrangements, the DCAA may or may not perform the audit. Additionally it should be noted that the audits are typically of all the contracts with a contractor. Even though the Mission believed that its various contractual relationships with U.S. firms had not been established long enough to need an audit, it should be noted

that the firms may be scheduled for audit based upon contracts that the Mission is not involved with. Depending upon the contractors' other contracts, the audit cycles applied to the contractors, and the applicable audit cut off dates, it is conceivable that costs under the Mission's contracts may have already been subjected to audit. Since the Mission may not be knowledgeable of the above details, we again suggest that it provide our Washington office with the information on its contractors and determine what the plans are for auditing costs under its contracts.

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**REVIEW OF INTERNAL CONTROLS  
OVER LOCAL CURRENCY**

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Through September 30, 1992, the local currency accruing to the Government of Nicaragua (GON) from U.S. assistance was the result of two programs--cash transfers and Food for Progress (FFPr) food aid<sup>8</sup>. By that date the U.S. had three cash transfer and three FFPr agreements with the GON totaling \$437.1 million<sup>9</sup>.

The nature of the above programs is that, for the most part, private entities give local currency to the GON in exchange for being able to finance imports with the cash transfer dollars or to receive food commodities under the FFPr program. Therefore there is a real flow of local currency to the GON.

Under A.I.D.'s interpretation of laws governing cash transfer assistance in effect at the time of signing its agreements with the GON, A.I.D. considered that it was required to account for local currency only if its agreements required the GON to "generate"<sup>10</sup> local currency. A.I.D. decided that only under the third cash transfer agreement was it obligated to require the GON to "generate" local currency. Therefore when assessing an ICA

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<sup>8</sup> Since February 25, 1991, the FFPr program has been the complete responsibility of the Department of Agriculture (USDA).

<sup>9</sup> This amount includes \$25 million of Fiscal Year 1992 funds that were added to the third cash transfer program.

<sup>10</sup> Prior to Fiscal Year 1991, A.I.D. used the term "generate" to describe the action taken by a host government in response to cash transfer agreement terms. If required to do so by the agreement, at the time of A.I.D.'s disbursement of dollars under the agreement, the host government would be required to deposit an amount of local currency equivalent to the dollars disbursed into a noncommingled bank account for joint programming by the host government and A.I.D.

In Fiscal Year 1991, as a result of a legal change, A.I.D./Washington's Office of the General Counsel opined that the concept of when local currency was considered to be generated should be broadened to include any circumstance where the use of cash transfer dollars results in the receipt of local currency by the recipient government, as in the case, for example, where private sector importers use local currency to purchase dollars to finance their import transactions.

Under new A.I.D. guidance issued subsequently, assistance agreements must require the deposit of local currency at least equal to the amounts received by the host government as a result of the agreements. However the guidance does not require a specific accounting for the local currency received by a host government from individual import transactions. In the case of its third cash transfer agreement with the GON, A.I.D. simply required the GON to deposit an equivalent amount of local currency to the A.I.D. dollars disbursed.

questionnaire internal control technique regarding controlling local currency funds through a special noncommingled bank account, the Mission responded only in terms of the local currency "generated" under the third cash transfer agreement. This is as opposed to responding in terms of the flow of local currency to the GON from individual import transactions under all three cash transfer programs. Also, A.I.D. exercised its policy discretion to allow the local currency "generated" under the third cash transfer agreement to be applied towards general uses (e.g. budget support to the GON) rather than maintaining trackability of the funds to a more detailed level.

Similarly for FFPr assistance, A.I.D. determined that there is no legal requirement to account for the local currency proceeds resulting from the sale of the donated food commodities. Although the second of the three agreements included a provision to apply the sales proceeds to specified uses, management responsibility was transferred to USDA.

OMB Circular A-123 states that internal control does not encompass the statutory interpretation or discretionary policy making processes in an agency.

One of the recent controversies surrounding U.S. aid to Nicaragua has been spurred by the revelation by the Central Bank of Nicaragua that in 1991 Nicaragua's state-owned banks made \$110.1 million<sup>11</sup> of local currency loans considered to have 50 percent or less probability of collection. Further, allegations have been made that some of these doubtfully collectible loans were given to Sandinista-front organizations and that the loans were made with local currency generated by U.S. foreign assistance funds. USAID/Nicaragua denied that the local currency "generated" by its assistance directly went to state banking system loans.

When we reviewed this issue we found that A.I.D. had done as much as it was required to do under its interpretation of applicable law and considering its policy options for programming local currency. Before releasing funds under the third cash transfer agreement USAID/Nicaragua reviewed the GON's accounting systems to assure that those systems were adequate to account for the "generated" local currency to the point of application to the agreed-upon general uses, and we noted that the GON's records indicated that such funds were applied to the approved general uses.

However, even though A.I.D. followed its interpretation of law and its policy and procedure with regard to its cash transfer programs, still A.I.D.

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<sup>11</sup> Other reports have set his figure at \$167 million.

guidance did not require the Mission to specifically account for the flow of local currency to the GON from private sector transactions under any of the cash transfer or Food for Progress programs. There was a definite flow of resources to the GON from such private sector transactions. While we have no information on how the GON applied these resources, their existence may have given rise to the above mentioned allegations.

Even though it technically is not an example of an internal control weakness, the above example indicates some of the legal and policy considerations that enter into the assessment of whether internal control systems have been properly established and are operating as they should.

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**Financial Status of the Nicaragua Assistance Program  
As of March 31, 1992 1/**

**Economic Support Fund Program Funded under the  
Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act  
(Unaudited)**

Program/ Project Number	Title	Implementing Organization (Primary, Sub) 2/	Budgeted Amount (000s)	Obligated Amount (000s)	Accrued Expenses (000s)	Disbursed Amount (000s)
	<b>CASH TRANSFERS:</b>					
524-0300	ECONOMIC RECOVERY PROGRAM I	BCN	\$60,000	\$60,000	\$0	\$60,000
524-0311	ECONOMIC RECOVERY PROGRAM II Commodity Imports Repayment of GON Debt Arrearages	BCN	68,000 50,000	68,000 50,000	0 0	68,000 50,000
	<b>SUBTOTAL CASH TRANSFERS</b>		<b>\$178,000</b>	<b>\$178,000</b>	<b>\$0</b>	<b>\$178,000</b>
	<b>DEVELOPMENT PROJECTS:</b>					
524-0301	ECONOMIC GROWTH AND DEVELOPMENT					
524-0301.01	Technical Assistance and Training	INCAE	\$3,190	\$3,190	\$70	\$2,311
524-0301.03	Employment Generation	FISE	20,900	20,900	3,001	10,515
524-0301.04	Public Sector Support	MOP, AMEG	7,780	7,780	1,726	3,129
524-0301.05	Medicines	USPHS, MOH	1,500	1,500	1,250	0
524-0301.22	Community Hospitals	P. Hope, MOH	2,500	2,500	981	1,384
524-0301.23	Textbooks	Aguirre, MOE, CONAPRO	12,200	12,200	0	12,200
524-0308	AMERICAN INSTITUTE FOR FREE LABOR DEV.	AIFLD	700	700	0	700
524-0309	NATIONAL ENDOWMENT FOR DEMOCRACY	NED, Delphi	235	235	8	193
524-0310	SALESIAN VOCATIONAL EDUCATION	Salesians	1,700	1,700	237	1,200
524-0314	NATURAL RESOURCES MANAGEMENT	IRENA, PVOs	8,000	8,000	47	0
524-0315	PRIVATE AGRICULTURAL SERVICES	UPANIC, APENN	1,600	1,500	110	201
524-0316	STRENGTHENING DEMOCRATIC INSTITUTIONS	MOEC, PVOs	3,000	3,000	792	150
524-0317	PRIVATE SECTOR SUPPORT	MOEC, MOED INDE	1,000	1,000	94	0
524-0318	DEVELOPMENT TRAINING AND SUPPORT	MOEC	2,000	2,000	100	53
	<b>SUBTOTAL DEVELOPMENT PROJECTS</b>		<b>\$66,205</b>	<b>\$66,205</b>	<b>\$4,416</b>	<b>\$32,036</b>
524-0307	REPATRIATION OF NICARAGUAN RESISTANCE AND REFUGEES	State, OAS, UN	\$45,000	\$43,750	\$0	\$43,750
	<b>SUBTOTAL REPATRIATION</b>		<b>\$45,000</b>	<b>\$43,750</b>	<b>\$0</b>	<b>\$43,750</b>
	<b>USAID MISSION EXPENSES:</b>					
524-0301.02	PROJECT DEVELOPMENT AND SUPPORT	A.I.D.	\$4,065	\$3,951	\$803	\$2,704
	OPERATING EXPENSES	A.I.D.	6,730	5,032	200	4,725
	<b>SUBTOTAL MISSION EXPENSES</b>		<b>\$10,795</b>	<b>\$8,983</b>	<b>\$1,003</b>	<b>\$7,429</b>
	<b>TOTAL FY 1990 DIRE SUPPLEMENTAL</b>		<b>\$300,000</b>	<b>\$296,938</b>	<b>\$6,419</b>	<b>\$251,215</b>

1/ Based on USAID/Nicaragua records. Some of this information is not included in the Mission's accounting system because some projects are managed and accounted for by A.I.D./Washington.

2/ See page 71 for a glossary of acronyms used in this column.

**Financial Status of the Nicaragua Assistance Program  
As of March 31, 1992 1/**

**Economic Support Fund, Development Assistance, and Food Aid Programs  
Funded Under Fiscal Year 1991 Appropriations  
(Unaudited)**

Program/ Project Number	Title	Implementing Organizations (Primary, Sub) 2/	Budgeted Amount (000s)	Obligated Amount (000s)	Accrued Expendi- tures (000s)	Disbursed Amount (000s)
524-0319	<b>CASH TRANSFERS:</b> ECONOMIC RECOVERY PROGRAM I.1 Commodity Imports Repayment of GON Debt Arreages	BCN	\$137,500 25,000	\$137,500 25,000	0	\$137,500 25,000
	<b>SUBTOTAL CASH TRANSFERS</b>		<b>\$162,500</b>	<b>\$162,500</b>	<b>\$0</b>	<b>\$162,500</b>
524-0301 524-0301.01	<b>DEVELOPMENT PROJECTS:</b> ECONOMIC GROWTH AND DEVELOPMENT Technical Assistance and Training	INCAE	\$110	\$110 3/		\$0
524-0312	FAMILY PLANNING	PROFAMILIA	1,000	1,000	147	392
524-0313	PVO CO-FINANCING	PVOs	4,281	4,281	6	59
524-0317	PRIVATE SECTOR SUPPORT	MOEC, MOED, INDE	300	300 3/	51	28
524-0321	IMMUNIZATION ASSISTANCE	PAHO	1,219	1,219	828	390
524-0324	RURAL ELECTRIFICATION	INE, NRECA	5,000	5,000	300	0
598-0780	CARIBBEAN CONSERVATION	CCC	150	150	60	0
	<b>SUBTOTAL DEVELOPMENT PROJECTS</b>		<b>\$12,060</b>	<b>\$12,060</b>	<b>\$1,392</b>	<b>\$869</b>
524-0307	REPATRIATION OF NICARAGUAN RESISTANCE AND REFUGEES	State Dept., OAS, UN	\$11,600	\$11,600		\$11,600
	<b>SUBTOTAL REPATRIATION</b>		<b>\$11,600</b>	<b>\$11,600</b>	<b>\$0</b>	<b>\$11,600</b>
524-0301.02	<b>USAID MISSION EXPENSES:</b> Project Development and Support	A.I.D.	\$100	\$100	80	12
	<b>SUBTOTAL MISSION EXPENSES</b>		<b>\$100</b>	<b>\$100</b>	<b>\$80</b>	<b>\$12</b>
	<b>FOOD AID PROGRAMS: 4/</b>					
	FOOD FOR PROGRESS	GON	\$28,800	\$28,800	\$0	\$28,800
	FOOD FOR PEACE	CARE ADRA	2,181 443	2,181 443	0 0	2,181 443
	<b>SUBTOTAL FOOD AID</b>		<b>\$31,424</b>	<b>\$31,424</b>	<b>\$0</b>	<b>\$31,424</b>
	<b>TOTAL FY 1991 ESF, DA, AND FOOD AID</b>		<b>\$217,684</b>	<b>\$217,684</b>	<b>\$1,472</b>	<b>\$206,406</b>
	<b>TOTAL FY 1990 DRE SUPPLEMENTAL AND FY 1991 APPROPRIATIONS</b>		<b>\$517,684</b>	<b>\$514,602</b>	<b>\$10,891</b>	<b>\$467,620</b>

1/ Based on USAID/Nicaragua records. Some of this information is not included in the Mission's accounting system because some projects are managed and accounted for by A.I.D./Washington.

2/ See page 71 for a glossary of acronyms used in this column.

3/ This is Fiscal Year 1991 funding increment. Act funds are also budgeted for the project.

4/ Food aid figures are based upon the Fiscal Year 1991 Food for Progress agreement and bill of lading amounts for Public Law 480 Title II shipments delivered in Fiscal Year 1991.

**FINANCIAL STATUS OF THE NICARAGUA ASSISTANCE PROGRAM  
AS OF MARCH 31, 1992**

**GLOSSARY**

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ADRA	Adventist Development and Relief Agency
Aguirre	Aguirre International, Inc.
A.I.D.	Agency for International Development
AIFLD	American Institute for Free Labor Development
AMEG	American Manufacturers Export Group
APENN	Nicaraguan Association of Non-Traditional Export Producers
BCN	Central Bank of Nicaragua
CARE	Cooperative for American Relief Everywhere, Inc.
CCC	Caribbean Conservation Corporation
CONAPRO	Confederation of Nicaraguan Professional Associations
Delphi	Delphi International
FISE	Social Emergency Investment Fund
GON	Government of Nicaragua
INCAE	Central American Institute of Business Administration
INDE	Nicaraguan Development Institute
INE	Nicaraguan Institute of Electricity
IRENA	Nicaraguan Institute for Natural Resources and the Environment
MOE	Nicaragua's Ministry of Education
MOEC	Nicaragua's Ministry of External Cooperation
MOED	Nicaragua's Ministry of Economy and Development
MOH	Nicaragua's Ministry of Health
MOP	Nicaragua's Ministry of the Presidency
NED	National Endowment for Democracy
NRECA	National Rural Electric Cooperative Association
OAS	Organization of American States
PAHO	PanAmerican Health Organization
PROFAMILIA	Nicaraguan Association for Family Well-Being
Project Hope	People-to-People Health Foundation, Inc.
PVOs	Private Voluntary Organizations
Salesians	Salesian Society, Inc./Salesian Missions
STATE	U.S. Department of State
UN	The United Nations
UPANIC	Nicaraguan Union of Agricultural Producers
USPHS	U.S. Public Health Service

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**INTERNAL AND FINANCIAL AUDITS  
ISSUED THROUGH REPORT DATE**

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In addition to the present audit, our office has performed three internal and supervised nine financial audits of the Assistance Program. A brief discussion of these audits is presented below.

**Internal Audits:**

Audit Report No.1-524-91-004, dated February 8, 1991, covered the first six months (May 25, 1990 through November 30, 1990) of the Assistance Program's implementation. That internal audit provided our preliminary assessment of vulnerability for each program and project activity, based upon the actual or planned controls to be incorporated into the agreements with external implementing entities.

Audit Report No. 1-524-91-012, dated August 23, 1991, was our second semiannual audit covering Assistance Program activities through May 31, 1991. That internal audit examined whether A.I.D. designed the Assistance Program to meet the requirements of the Act and additional Congressional guidance and whether it followed its policies and procedures in implementing, monitoring, and accounting for Assistance Program activities.

Audit Report No. 1-524-92-007, dated July 16, 1992, was our third audit of the Assistance Program covering activities through September 30, 1991. That internal audit examined whether A.I.D. established and maintained financial and administrative systems to ensure that the cash transfer, development project, and food aid activities under the Assistance Program were implemented in accordance with A.I.D. policies and procedures.

**Financial Audits:**

As of our report date, we have issued nine Mission-contracted financial audits as shown in the table on page 74. The results of the first seven financial audits were described in our previous internal audit reports. The results of the latest two audits are summarized on pages 74-75.

**Mission-Contracted Financial Audits  
Issued Through September 30, 1992**

<u>Report No. &amp; Date</u>	<u>Title</u>	<u>Period Covered</u>
1-524-91-30-N 5/22/91	Award Survey of the Central Bank of Nicaragua Economic Stabilization and Recovery Program Administered by USAID/Nicaragua	as of 12/7/90
1-524-91-31-N 5/24/91	Pre Award Survey of the Capability of the Family Planning Association of Nicaragua to Manage the Family Planning Expansion and Regionalization Project	as of 2/12/91
1-524-91-32-N 5/24/91	Audit of USAID/Nicaragua's Economic Support Fund Program May 31, 1990 to November 30, 1990	5/31/91 to 11/30/90
1-524-92-15-N 1/13/92	Audit of USAID/Nicaragua's Public Law 480 Title II Monetization Program Managed by the Cooperative for American Relief Everywhere September 1, 1990 to May 25, 1991	9/1/90 to 5/25/91
1-524-92-19-N 1/17/92	Audit of USAID/Nicaragua's Primary Health Care and Supplemental Food Program Managed by Adventist Development and Relief Agency April 20, 1990 to April 25, 1991	4/20/90 to 4/25/91
1-524-92-20-N 1/21/91	Audit of USAID/Nicaragua's Economic Support Fund Program Funded by the Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act December 1, 1990 to May 31, 1991	12/1/90 to 5/31/91
1-524-92-39-N 6/26/92	Audit of USAID/Nicaragua's Economic Support Fund Program funded by the Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act and Fiscal Year 1991 Appropriations June 1, 1991 to September 30, 1991	6/1/91 to 9/30/91
1-524-93-11-N 1/26/93	Audit of Overhead Charges made to USAID/Nicaragua's Urban Community Development Project Managed by the Cooperative for American Relief Everywhere-Nicaragua	7/1/91 to 6/30/92
1-524-93-13-N 2/5/93	Audit of USAID/Nicaragua's Assistance Program, Funded by Public Law 101-302 and Fiscal Year 1991 Appropriations, for the Period October 1, 1991 to March 31, 1992	10/1/91 to 3/31/92

Audit Report No. 1-524-93-11-N, dated January 26, 1993, was a review of overhead charges made to the Urban Community Development Project managed by the Cooperative for American Relief Everywhere, Inc. (CARE)

and funded by USAID/Nicaragua's Public Law 480 Title II Monetization Program. The audit period was July 1, 1991 to June 30, 1992.

The auditors found that CARE-Nicaragua had used a locally-developed allocation formula which resulted in an overhead charge of \$215,177. The auditors concluded that this was not the most reasonable allocation method and using an alternate formula contained in CARE's International Manual, and after questioning certain indirect costs not considered to be allowable under the provisions of Office and Management and Budget Circular A-122, determined that \$19,812 of excess charges had been made to the project. The auditors also noted that CARE could not provide evidence that its budget modifications were approved by USAID/Nicaragua. No material internal control weaknesses were noted.

Audit Report No. 1-524-93-13-N, dated February 5, 1993, was a review of Assistance Program expenditures which could be verified from records available in Nicaragua. The audit period was October 1, 1991 to March 31, 1992 and the amount audited was \$72.9 million.

The audit found that the consolidated fund accountability statement of the implementing entities was fairly presented except for \$14.5 million of questionable costs, all relating to commodity import transactions managed by the Central Bank of Nicaragua and participating banks. Most of the questionable costs related to petroleum imports in excess of the approved budget (\$7.5 million), imports by Nicaragua's public sector which were not eligible under the agreement (\$4.0 million), imports from ineligible countries or of ineligible products (\$1.2 million), and transactions not fully supported with appropriate documentation (\$1.5 million).

Material control weaknesses were noted regarding Nicaragua's Central Bank and participating banks not having adequate procedures for cash transfer import transactions to ensure adequate filing and safeguarding of supporting documentation, proper recording and classification of transactions, and proper determination of each transaction's eligibility under the agreement terms. Material weaknesses were also noted for the control of donated equipment under one project and of medicines under two projects, and on another project it was noted that the implementing entity had requested reimbursement for an unallowable expense item.

Material instances of noncompliance with agreement terms were noted for cash transfers related to the above mentioned control weaknesses and for one development project as a result of the implementing entity's failure to abide by the approved budget for salaries and to obtain prior approval of international travel.

**IMPLEMENTATION STATUS OF INTERNAL CONTROL TECHNIQUES ASSESSED AS  
REQUIRING IMPROVEMENT**

CONTROL TECHNIQUE	ASSESSMENT RATING 1/	CORRECTIVE ACTION	CORRECTIVE ACTION COMPLETED BY	
			2/31/82	8/30/82
II-A Mission is adequately staffed to monitor and evaluate project/program activities and duties or positions are revised, deleted, or added to meet changes in mission goals or priorities.	UM	Identify FSN positions and fill them with qualified personnel.	N	N
II-E Mission personnel have received training commensurate with their responsibilities for program planning, project design, implementation and evaluation.	UM	Assess training needs and develop training.	N	N
IV-J When USAID provides support services for project funded contractor, all such support costs are clearly identifiable and charged to project funds.	UM	Procedures and controls established and implemented to ensure correct allocation of general support costs.	N	N
X-A Adequate protection provided against access to inventories by outsiders or unauthorized employees.	UM	Restricted access to the warehouse and appropriate operating procedures in place.	Y	Y
III-P Project financial reports are beneficial, accurate and timely.	UNM	Mission Accounting Computerized Systems reports issued for Mission use for period ending December 11, 1991	Y	Y
IV-H Responsible USAID employees adequately monitor direct contract services.	UNM	Contractor performance evaluated and properly documented.	N	Y
VII-B Agency procedures for property programming and monitoring cash transfer dollar funds and related local currency are incorporated into the Mission standard operating procedures and consistently followed.	UNM	Additional personnel hired, evaluations completed and Mission orders issued.	Y	Y

1/ Legend: **UM - Unsatisfactory Material**  
**UNM - Unsatisfactory Not Material**  
**SRI - Satisfactory Requiring Improvement**

IMPLEMENTATION STATUS OF INTERNAL CONTROL TECHNIQUES ASSESSED AS REQUIRING IMPROVEMENT

CONTROL TECHNIQUE	ASSESSMENT RATING 1/	CORRECTIVE ACTION	CORRECTIVE ACTION COMPLETED BY	
			3/31/92	9/30/92
VIII-A USAID has an up-to-date and complete Food Aid Management Plan.	UNM	Food Aid Management Plan developed and maintained.	N	N
VIII-C USDH officials responsible for food aid are Food Aid Certified.	UNM	Certification of food aid officers obtained.	Y	Y
VIII-E USAID has clear, written guidance of each office's food aid responsibilities to ensure complete coverage.	UNM	Mission order and Food Aid Management plan issued.	N	N
IX.1-H Project agreements contain realistic project budgets with line item elements reasonably detailed and descriptive.	UNM	Project budgets properly prepared and supported by budget breakdowns in grant. New amendments include obligations by project budget and projected totals for life of agreement.	N	Y
IX.1-K USAID financial reports compare projected with actual expenditures by project line item and submitted to AID/W on a timely basis.	UNM	Accounting reports reflecting planned vs actual expenditures generated on a quarterly basis.	N	N
XI-F Administrative support services are sufficiently monitored to ensure that the operations are economical and efficient.	UNM	Establish procedures to monitor administrative services and cost allocation.	N	N
IX.2-A Travel orders prepared for all travel and authorized by responsible officials.	UNM	A system is developed to ensure that personal services contractor (PSC) travel is adequately approved and controlled. All PSCs are informed of requirements of A.I.D. funded travel. The availability of travel funds under PSC contracts is verified prior to approval of travel.	N	Y
IX.2-H Outstanding advances are liquidated promptly following trip completion, reviewed periodically, and collected when no longer needed.	UNM	Review and reduce outstanding travel advances	N	N
I-B Documentation is on file which supports and justifies the rationale and level of funding requested.	SFI	Operating expense budget review updated and properly documented.	Y	Y

IMPLEMENTATION STATUS OF INTERNAL CONTROL TECHNIQUES ASSESSED AS REQUIRING IMPROVEMENT

CONTROL TECHNIQUE	ASSESSMENT RATING 1/	CORRECTIVE ACTION	CORRECTIVE ACTION COMPLETED BY	
			3/31/92	9/30/92
III-C Mission has a system which effectively tracks and reports the status on CPs, Covenants and PACDs for every project.	SRI	Tracking and reporting system developed and functioning.	N	N
III-D Funds are not released unless CPs have been met, within time limitations as appropriate.	SRI	Tracking and reporting system developed and functioning.	N	N
III-E The mission monitors and assures host country provides written assurance that it would provide a specified contribution amount.	SRI	Information in Semiannual Reviews concerning host country contributions adequately evaluated.	N	N
III-F Mission formally designates project officers.	SRI	A list of project officers published in October and April of each year is maintained up to date.	Y	Y
III-G Guidance for project officer responsibilities for direct and host country contracts is incorporated into Mission standard operating procedures and consistently followed.	SRI	Seminars given for monitoring host country and direct contracts.	N	N
III-L Agency policy for HC employee salary supplements is incorporated into the Mission standard operating procedures and consistently followed.	SRI	Staff notice issued on the host country employee salary supplementation issue.	Y	Y
III-R Agency policy for program/project evaluation, reporting and follow-up is incorporated into the Mission standard operating procedures and consistently followed.	SRI	Mission order issued for establishing the USAID's project/program evaluation and monitoring process.	Y	Y
III-S All Agency PACD and project phase-out procedures are followed and a completion report is prepared for each project.	SRI	Mission order issued for establishing the USAID's project/ program evaluation and monitoring process.	Y	Y

**IMPLEMENTATION STATUS OF INTERNAL CONTROL TECHNIQUES ASSESSED AS REQUIRING IMPROVEMENT**

CONTROL TECHNIQUE	ASSESSMENT RATING 1/	CORRECTIVE ACTION	CORRECTIVE ACTION COMPLETED BY	
			3/31/92	9/30/92
IV-B Clear assignments of responsibility are made available to all persons involved in a particular contracting process.	SRI	In-house seminars for all Mission staff involved in the contracting process.	N	Y
IV-K Contractor's reporting requirements are contained in the contract, monitored and appropriate follow-up action taken.	SRI	A system is developed to ensure compliance with, and follow-up on contractor reporting.	N	N
IV-L Project officer responsibilities for direct and host country contracts are incorporated into Mission standard operating procedures and consistently followed.	SRI	Seminars given for monitoring host country and direct contracts.	N	N
V-A Agency policy for the review, approval and maintenance of PVO registration is incorporated into the Mission standard operating procedures and consistently followed.	SRI	Procedures are issued in written form.	Y	Y
V-B The Mission utilizes an appropriate and systematic proposal review and approval process which is incorporated into the Mission standard operating procedures and consistently followed.	SRI	Mission order on proposal revision, approval and grant authorization process issued.	N	Y
V-C Agency procedures for properly authorizing and negotiating the grant/cooperative agreement are incorporated into the Mission standard operating procedures and consistently followed.	SRI	Mission order on proposal revision, approval and grant authorization process issued.	N	Y
V-D Per Agency guidance, all appropriate authorization, administrative, financial and legal provisions are incorporated into grant/cooperative agreement and are reviewed by an Agency Legal Officer and Controller in a systematic clearance process.	SRI	Mission order on proposal revision, approval and grant authorization process issued.	N	Y
V-E All grant/cooperative agreements are signed by an authorized officer only after funds have been administratively approved.	SRI	Mission order on proposal revision, approval and grant authorization process issued.	N	Y

IMPLEMENTATION STATUS OF INTERNAL CONTROL TECHNIQUES ASSESSED AS REQUIRING IMPROVEMENT

CONTROL TECHNIQUE	ASSESSMENT RATING 1/	CORRECTIVE ACTION	CORRECTIVE ACTION COMPLETED BY	
			3/31/92	9/30/92
V-L Agency procedures for properly closing out nonprofit grant/cooperative agreements are incorporated into the Mission standard operating procedures and consistently followed.	SRI	Mission order issued in final form.	Y	Y
VI-C The Mission has established and is fully utilizing a participant training management system to track and report performance.	SRI	Participant Management Information System established and being utilized.	N	N
VI-D Agency procedures for the selection, cost review, processing, monitoring of progress and evaluation of the participant training program are incorporated into the Mission standard operating procedures and consistently followed.	SRI	Institutional contractor implementing Computerized Training Cost Analysis and adequately monitoring and reporting upon development training program.	N	Y
VIII-B Both US and FSN officials responsible for food aid have received training commensurate with their responsibilities.	SRI	Food aid officials receive training.	N	N
VIII-D A senior USAID official has overall responsibility of the food aid program and the program is centrally coordinated at this point.	SRI	A list of project officers published in October and April of each year and is maintained up to date.	Y	Y
VIII-G USAID is adequately staffed to monitor and implement all aspects of the food aid program.	SRI	Foreign Service National is selected and hired.	N	N
VIII-J Financial provision in PL 480 agreements are reviewed by the Controller for adequacy.	SRI	Establish and implement tracking system for Public Law 480 Title II local currency generations.	N	Y
VIII-K PL 480 agreements contain specific provision for determining how much local currency should be generated for development use, deposit requirements, and exchange rates to be applied.	SRI	Establish and implement tracking system for Public Law 480 Title II local currency generations.	N	Y
VIII-O Site visits are made on a regular basis.	SRI	Foreign Service National hired and site visits performed at least quarterly.	N	Y

**IMPLEMENTATION STATUS OF INTERNAL CONTROL TECHNIQUES AS ASSESSED AS REQUIRING IMPROVEMENT**

CONTROL TECHNIQUE	ASSESSMENT RATING 1/	CORRECTIVE ACTION	CORRECTIVE ACTION COMPLETED BY	
			3/31/92	9/30/92
Food aid project/programs provide for adequate systems to monitor:				
VIII-P Warehousing/stock control.	SRI	Implementation of recommendations resulting from non-Federal audit reports and Food Aid Management Plan developed and maintained.	N	Y
VIII-Q Distribution/sales of food aid.	SRI	Implementation of recommendations resulting from non-Federal audit reports and Food Aid Management Plan developed and maintained.	N	Y
VIII-R Generation and use of recipient contributions and empty containers funds.	SRI	Implementation of recommendations resulting from non-Federal audit reports and Food Aid Management Plan developed and maintained.	N	N
VIII-S Transportation voucher/receipt.	SRI	Food Aid Management Plan developed and maintained.	N	N
VIII-T All aspects of local currency accounting.	SRI	Implementation of recommendations resulting from non-Federal audit reports and Food Aid Management Plan developed and maintained.	N	Y
IX.1-B Clear written USAID instructions on Mission clearance process for all types of obligating and funding documents.	SRI	Mission order on proposal revision, approval and grant authorization process issued.	Y	Y
IX.1-F Unliquidated commitments and obligations are reviewed and results documented at least every 6 months to ensure that all outstanding obligations are valid.	SRI	Mission Executive Office actively participates in 1311 reviews.	Y	Y
IX.1-H PILs are issued to revise project budgets which are cleared by the Controller and entered into the Mission's accounting system.	SRI	Project implementation letters issued and entered into Mission's computerized accounting system.	N	Y
IX.2-D Effective procedures in place to obtain transportation discounts and avoid personal use of any official bonus travel.	SRI	Evaluation of travel services in Nicaragua and selection of best travel agent.	N	N

IMPLEMENTATION STATUS OF INTERNAL CONTROL TECHNIQUES ASSESSED AS REQUIRING IMPROVEMENT

CONTROL TECHNIQUE	ASSESSMENT RATING 1/	CORRECTIVE ACTION	CORRECTIVE ACTION COMPLETED BY	
			3/31/92	9/30/92
IX.2.-E All GTRs are properly safeguarded, authorized, and utilized.	SRI	Government transportation request records and physical inventories reconciled on a monthly basis.	Y	Y
IX.2-L Unused transportation tickets are controlled and returned promptly to the carriers for refund.	SRI	Forms for returning unused tickets received and used.	Y	Y
IX.3-K Treasury Disbursing Office SF-1221 reconciled monthly to USAID disbursement records.	SRI	USAID Tegucigalpa completes and documents its 1221 reconciliations for USAID/Nicaragua transactions through 9/30/91.	N	Y
X-E Annual inventory reconciled with the Controller's accounts and adjustments to the property ledger approved by a survey board.	SRI	Annual inventory for FY-91 completed and property survey board established.	N	Y
XI-B USAID maintains an organization chart which reflects current organization structure, position description for all DH-PSCs and functional statements.	SRI	All staffing pattern action requests completed by the end of March.	Y	Y
XI-C USAID policies and procedures are in writing and are systematically organized.	SRI	All important mission orders issued by 09/30/92.	Y	Y
XI-D USAID has clear, formal delegations of authority for all operations especially for procurement, contracting, and other actions which obligate or commit funds.	SRI	All delegation of authority properly documented and published.	N	Y
XI-E Embassy-prepared FAA submissions are reviewed and cost allocations examined by the USAID before concurrence is given.	SRI	Foreign affairs administration support submission reviewed in complete form.	Y	Y
XI-G Adequate procedures in place to ensure that all residential telephone charges for personal long distance call, and charges are recovered from employees.	SRI	Individual call "accounts" have been established. And new hardware installed to permit the tracking of long-distance calls to specific numbers.	N	Y
XI-H USAID monitors the reasonableness of utility bills and other housing costs and investigates apparent excessive costs.	SRI	Mission Executive Office performs first review and reports on results.	N	Y

**IMPLEMENTATION STATUS OF INTERNAL CONTROL TECHNIQUES ASSESSED AS REQUIRING IMPROVEMENT**

CONTROL TECHNIQUE	ASSESSMENT RATING 1/	CORRECTIVE ACTION	CORRECTIVE ACTION COMPLETED BY	
			3/31/92	9/30/92
XII-C USAID uses the services of competent accounting firms to perform audit services, if required.	SRI	The base of competent CPA firms performing audits in Nicaragua is expanded.	N	Y
XII-J Mission/IG identified competent firms/agencies to conduct NF audits.	SRI	The base of competent CPA firms performing audits in Nicaragua is expanded.	N	Y

**BROADLY STATED INTERNAL CONTROL TECHNIQUES  
WHICH DID NOT IDENTIFY APPLICABLE A.I.D. GUIDANCE**

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<b>Technique No.</b>	<b>Internal Control Technique</b>
I - a	Policy guidance for the development and submission of the ABS is incorporated into Mission standard operating procedures and consistently applied.
c	Policy guidance for the development and submission of the OYB is incorporated into Mission standard operating procedures.
d	Policy guidance for the development and submission of the Congressional Presentation is incorporated into Mission standard operating procedures and consistently followed.
II- c	Documents are on file that record and justify the CDSS rationale.
e	Policy guidance for the proper preparation and approval of NPDs, PAIPs, PAADs, PIDs and PPs clearly and completely outline the rationale, justification and goals and objectives for the project idea.
f	The PPs clearly and completely outline all appropriate analyses and contain full implementation plans, including evaluation and audit responsibilities.
g	Agency procedures for properly authorizing and negotiating the project are incorporated into the Mission standard operating procedures and are consistently followed.
h	Per Agency guidance, all appropriate legal, administrative and financial provisions are incorporated into Project Agreements and are reviewed by an Agency Legal Officer and Controller in a systematic clearance process.

**Technique  
No.**

**Internal Control Technique**

- III- a Agency guidance for the proper use, preparation and approval of CPs, Covenants and PILs is incorporated into Mission standard operating procedures and consistently followed.
- g Guidance for project officer responsibilities for direct and host country contracts is incorporated into Mission standard operating procedures and consistently followed.
- k Host country entities, contractors and nonprofit organizations maintain complete records on the arrival, use, storage and disposition of commodities held and financed by AID and is periodically inspected.
- l Agency policy for HC employee salary supplements is incorporated into the Mission standard operating procedures and consistently followed.
- m Site visits are undertaken on a periodic basis with reporting and follow-up as appropriate.
- q AID/W centrally-funded projects are adequately monitored.
- r Agency policy for program/project evaluation, reporting and follow-up is incorporated into the Mission standard operating procedures and consistently followed.
- s All Agency PACD and project phase-out procedures are followed and a completion report is prepared for each project.
- IV- c Direct and host country contracts are competitively awarded after proper advertising.
- e USAID evaluates the contracting and contract management capabilities of all host country agencies who are responsible for AID-funded contracts.
- f USAID adequately monitors host country advertising, award, and contract negotiation procedures.

**Technique  
No.**

**Internal Control Technique**

- l Project officer responsibilities for direct and host country contracts are incorporated into Mission standard operating procedures and consistently followed.
- V- a Agency policy for the review, approval and maintenance of PVO registration is incorporated into the Mission standard operating procedures and consistently followed.
- b The Mission utilizes an appropriate and systematic proposal review and approval process which is incorporated into the Mission standard operating procedures and consistently followed.
- c Agency procedures for properly authorizing and negotiating the grant/cooperative agreement are incorporated into the Mission standard operating procedures and consistently followed.
- d Per Agency guidance, all appropriate authorization, administrative, financial and legal provisions are incorporated into grant/cooperative agreements and are reviewed by an Agency Legal Officer and Controller in a systematic clearance process.
- g Nonprofit contributions are verified by the Mission or Bureau.
- i Nonprofit organizations' procurement policies and procedures are reviewed if warranted by significant procurement activities.
- j Policy guidance for the fulfillment of all audit responsibilities of nonprofits is incorporated into Mission standard operating procedures and all grant/cooperative agreements and consistently followed.
- k Documentation and approval of all deviations and extensions follow Agency policy.

**Technique  
No.**

**Internal Control Technique**

- 1 Agency procedures for properly closing out nonprofit grant/cooperative agreements are incorporated into the Mission standard operating procedures and consistently followed.
  
- VI- a Agency procedures for developing the Country Training Plan are incorporated into the Mission standard operating procedures and consistently followed.
  
- b Design documents, related to training needs, clearly and completely outline all appropriate analyses and contain full implementation plans, including evaluation responsibilities.
  
- d Agency procedures for the selection, cost review, processing, monitoring of progress and evaluation of the participant training program are incorporated into the Mission standard operating procedures and consistently followed.
  
- VII- a Agency procedures for properly preparing documentation, authorizing and negotiating cash transfers/CIPs/sector assistance are incorporated into the Mission standard operating procedures and consistently followed.
  
- b Agency procedures for properly programming and monitoring cash transfer dollar funds and related local currency are incorporated into the Mission standard operating procedures and consistently followed.
  
- d Agency policy for development of CPs for each funding tranche of the Cash Grant Assistance Programs is incorporated into the Mission standard operating procedures and consistently followed.
  
- f Counterpart funds generated by CIP, SLC, PL 480, cash transfer, or other forms of assistance are controlled by the host country through a special account.
  
- VIII- a USAID has an up-to-date and complete Food Aid Management Plan.

**Technique  
No.**

**Internal Control Technique**

- c USDH officials responsible for food aid are Food Aid Certified.
- f Handbooks No. 8 and 9 are completed and up-to-date, latest food aid guidance, policy determinations, and regulations are centrally compiled.
- l Food aid project/programs meet the relevant criteria of USG legislation, policies, and regulations.  
  
Food aid project/programs provide for adequate systems to monitor:
  - p Warehousing/stock control
  - q Distribution/sales of food aid
  - r Generation and use of recipient contributions and empty containers funds
  - s Transportation voucher/receipt
  - t All aspects of local currency accounting
- IX.1 a Proper safeguards, reviewed annually, established to preclude violation of the Anti-Deficiency Act.
  - f Unliquidated commitments and obligations are reviewed and results documented at least every 6 months to ensure that all outstanding obligations are valid.
  - m OE trust funds are appropriately budgeted, classified, and accounted for to ensure that they are used for agreed-upon purposes.
- IX.2-m USAID has adequate written policies and procedures used in administering travel functions in accordance with USG regulations.

**Technique  
No.**

**Internal Control Technique**

- XI- m USAID has established procedures concerning safeguarding classified materials and all employees with access to those materials are required to become familiar with those procedures.
  - o Form 1099 reporting requirements to IRS are followed for all non-wage payments to individuals, including those funded through Purchase Orders.
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## **APPENDIX IX**

### **REPORT DISTRIBUTION**

The Honorable Robert C. Byrd Chairman, Committee on Appropriations United States Senate	1
The Honorable Claiborne Pell Chairman, Committee on Foreign Relations United States Senate	1
The Honorable William H. Natcher Chairman, Committee on Appropriations House of Representatives	1
The Honorable Lee Hamilton Chairman, Committee on Foreign Affairs House of Representatives	1
James H. Michel Acting Administrator Agency for International Development	1