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INTERNAL CONTROL GUIDANCE FOR AUDITING A.I.D. SYSTEMS

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Part IV - Bilateral NonProject Assistance

Part V - Housing Guaranty Program

Part VI - Grants and Cooperative Agreements

Part VII - Participant Training Program

Part VIII- PL 480 Program

Volume 1 contains Parts I through III

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PART IV

BILATERAL NONPROJECT ASSISTANCE

INTRODUCTION

A.I.D. Handbook 4, Chapter 1A, defines nonproject assistance as a mechanism generally concerned with the transfer of resources (commodities or dollars) to alleviate balance of payments or budgetary problems of lesser developed countries. These commodity or dollar resources are often provided to lesser developed countries on the condition that they undertake specified stabilization and policy reform actions to address the obstacles which are the cause of the balance of payments or budgetary problems. As a former A.I.D. Administrator said in Congressional hearings:

> "If we provided massive balance-of-payments assistance without requiring the host government to take any corrective measures to reduce their balance-of-payments and fiscal deficits, there would be no end to [their] dependence... on the U.S.... Such dependence is much more likely to increase than to diminish as budget deficits expand, exchange rates become increasingly overvalued, and imports increase."

Chapter 1B of Handbook 4 cites four programs which are used to provide nonproject assistance:

"1. Commodity Import Programs (CIP)

Provide dollar exchange for the importation of specified categories of commodities under grant or loan agreements. A.I.D. makes dollars available to a less developed country for financing commodity imports in order to meet deficits in the external resources of that country. In this way, commodities most needed for development may be acquired. The local currency generated by the foreign exchange transaction is available to the cooperating government."

"2. Public Law 480, Title I

Finances sales of a limited range of agricultural commodities through private trade channels. To the extent possible, this assistance is linked to specific development objectives and targets in the cooperating country. Moreover, the local currency generated by P. L. 480, Title I sales, are used for a variety of developmental purposes."

"3. Cash Transfer

A form of nonproject assistance used to purchase local currency for budget support or to provide balance of payments support on an emergency basis when the particular A.I.D. purpose cannot be accomplished through other instruments. It involves the release of funds to a cooperating government in the absence of, or in advance of, requirements for documentation evidencing actual use of the funds."

"4. Sector Assistance

Sector assistance is designed, programmed, and approved as project assistance in accordance with procedures described in Handbook 3. However, from time to time, such assistance will include significant commodity imports. In such instances, nonproject implementation procedures as set forth in Chapter 5 are prescribed."

Of these four programs, all but Public Law 480, Title I are discussed in Part IV. The Public Law 480, Title I program is discussed in a later part of this survey document.

Nonproject assistance has been traditionally funded from the Economic Support Fund appropriation. The reason for this is that, unlike the Development Assistance appropriation, which has a long-term development orientation, the Economic Support Fund appropriation has an immediate political orientation.

In this regard, it is designed to promote political or economic stability in areas where the U.S. has special foreign policy interests and where the U.S. has determined that it can be useful in averting major economic or political crises. Although the primary purpose of the Economic Support Fund appropriation is to meet political objectives, Congress has mandated that it be used to the extent possible to promote development efforts. Accordingly, about one-third of the Economic Support Fund is programmed for development assistance projects; the remaining two-thirds is programmed for nonproject assistance activities.

Because of the political nature of the Economic Support Fund, it is presented as security assistance in the Department of State's (State) budget presentation and as economic assistance in A.I.D.'s budget proposal. Both State and A.I.D. thus have roles in the management of the Economic Support Fund appropriation. State is responsible for determining country assistance allocations, justifying the assistance, and handling policy-related matters. A.I.D. is responsible for administering the assistance.

A.I.D. guidance for administering nonproject assistance is contained in Handbook 4. But much of this Handbook has not been updated since the mid-1970's. Since most nonproject assistance was provided through CIP up to the mid-1970's, the handbook basically describes

CIP. It contains little guidance on cash transfers, since these were seldom used. Nor does it contain any guidance on sector assistance, since this assistance was considered little more than what is now referred to as project-related CIP.

Starting in FY 1979, cash transfers replaced CIP as the primary program for providing nonproject assistance. One reason for this shift was the high percentage of Economic Support Fund assistance provided to Israel in the form of cash transfers. Another reason was the more than doubling of Economic Support Fund assistance between FY 1979 and FY 1985, most of which was provided in the form of cash transfers to support a growing number of countries in Central America, the Caribbean, and elsewhere around the world. By the end of FY 1985, cash transfers accounted for about 90 percent of all nonproject assistance and CIP for about 10 percent.

Starting in FY 1986, sector assistance became an increasingly important form of nonproject assistance. Sector assistance can be provided in the form of cash transfers, CIP and project assistance. As currently used, it most often involves a large cash transfer input and a smaller technical assistance and/or participant training input. What distinguishes sector assistance from cash transfer and CIP assistance is the fact that sector assistance is specifically conditioned on the host country undertaking specific policy reforms whereas cash transfer and CIP assistance are specifically designed to address resource needs.

The impetus for sector assistance has come from the African Economic Policy Reform Program which was funded with Development Assistance funds allocated to the Bureau for Africa under the functional accounts. It gained further momentum in FY 1988, when Congress established the Development Fund for Africa, which is funded from the Development Assistance appropriation. In establishing the Development Fund for Africa, Congress provided the Africa Bureau with more flexibility by eliminating the functional accounts. This action enabled the Africa Bureau to shift its resources to address its number one development priority: policy reform. In shifting its resources to address this priority, the Africa Bureau also concentrated its resources in fewer countries where the potential for success was higher.

The Bureau for Asia, Near East and Europe is beginning to use sector assistance selectively in a few countries. Though the Bureau for Latin America and the Caribbean has not yet started to use it, they are considering doing so.

There are indications that sector assistance will continue to increase in importance in the years ahead. Support for this is to be found in an A.I.D. report entitled "Development and the National Interest." This report concludes that no-growth policies and heavy-handed government control have impeded developing country attempts to alleviate poverty for more than 25 years. The report also concludes that traditional modes of delivering foreign aid are in need of change. What the report suggests is that developing countries must be encouraged to adopt policies which will translate into growth. Sector assistance is rapidly

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gaining recognition as the vehicle for encouraging developing countries to make the needed policy reforms.

Though cash transfers and sector assistance grants have become increasingly important forms of nonproject assistance, A.I.D. has not formally defined and documented the policies, procedures, and controls applicable to this assistance. A.I.D. recognizes that it needs to update Handbook 4, but it does not seem to feel that the absence of this guidance has undermined the integrity of the planning, implementation, and monitoring of such assistance. A discussion of the systems, procedures, and controls relating to cash transfers, CIP, and sector grants is provided in the following chapters. Much of what follows is based on discussion with officials of various A.I.D. bureaus and a review of the bureaus' systems, procedures, and documents.

Management Structure

Under the Agency's decentralized organizational structure, missions have been delegated certain authorities to approve, authorize, negotiate, and implement projects and nonprojects. The smaller missions and offices have generally been delegated only negotiating and implementing authorities. In the case of these smaller missions and offices, approval and authorization authority remains with the bureau.*

A.I.D. expends millions of dollars annually in operating expense funds to maintain overseas missions to plan and manage country specific portfolios of project and nonproject assistance. Depending on the size of the portfolio, these missions and offices range in size from one or two to more than one hundred U.S. direct-hires.

Since there is no prescribed Agency pattern of organization, mission and office directors have considerable latitude in organizing their staffs. This lack of uniformity in organizational structure is due to the varying size of the missions and offices; the character of the portfolios; and the varying composition of the staffs.

Since the management of nonproject activities other than CIPs is not adequately addressed in A.I.D. Handbook 4, the Agency utilizes the policies and procedures of Handbook 3 for U.S. nonproject activities. Under A.I.D. Handbook 3, Agency policy requires that the mission and office Directors appoint a Project Officer for each project. In most missions and offices, particularly the larger ones, the mission and office Directors will also appoint a Project Committee. The Project Officer and Project Committee will be responsible for

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* The Africa Bureau has established Regional Economic Development Services Offices (REDSOs) in Abidjan and Nairobi. These offices assist the smaller missions in developing and implementing programs and projects. The Africa Bureau has delegated limited review and authorization authority to these offices.

administering each active nonproject activity.* In smaller missions and offices, the establishment of a Project Committee may not be considered practical. In such cases, the purpose of the Project Committee may be achieved by direct consultation with the technical support staff.

Regardless of the organizational structure used, the mission and/or office Director must ensure that an adequate monitoring, reporting, and evaluation system is in place. Agency policy requires that this system be articulated in the form of a Mission Order so the staff is clear about their responsibilities.

Under the mission's or office's monitoring, reporting, and evaluation system, results must be continuously reviewed through completion of the activity. In reviewing project results, A.I.D. Handbook 3, Chapter 11E states the system should:

- monitor host country compliance with legislative, regulatory, and A.I.D. policies, procedures, and regulations;
- ensure timely and coordinated provision of A.I.D. financing and/or inputs;
- gather timely information on inputs, outputs, and actions which are critical to project success for the purpose of identifying potential problems and issues;
- assure that A.I.D.-financed commodities and services are utilized effectively to produce the intended benefits;
- identify implementation problems;
- determine the continuing appropriateness of the project design and the need for in-depth evaluations;
- collect data and information for subsequent analyses and evaluations; and
- prepare periodic reports for the mission and bureau review.

The Project Officer is the key element in this system. This officer is not only the focal point for all contact with the host country entity, contractors, and others but also the funnel through which all communications flow. In this sense, the Project Officer can call upon the

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* Project Officers are appointed and Project Committees are usually established during the project development stage. Over time, the composition of the Project Committee changes to reflect the expertise needed during implementation. In practice, the Project Officer generally identifies the mission personnel who should constitute the committee for a particular program or project.

Project Committee and/or mission technical support staff for assistance and advice. Through the geographic bureau Project Backstop Officer, the Project Officer can also call upon the bureau's technical resources. The Project Officer thus acts as coordinator for tracking implementation and ensuring problems and issues are identified and dealt with as they arise.

According to A.I.D. Handbook 3, Chapter 8.B.5.d., the Project Committee is used to ensure that appropriate organizational units within the mission or office are kept informed of the progress of implementation and that administrative or implementation actions are taken by those who are best qualified to do so by virtue of their functional responsibilities and experience. Project Committees may include members from the mission's or office's technical staff, Management Office, and/or the mission, office or regional Accounting Officer, Engineering Advisor, Legal Advisor, Contracting Officer and Commodity/Logistics Officer. The composition of the Project Committee for any given nonproject activity depends on the type of expertise needed for its implementation and on the size and composition of the mission's or office's staff. Any member may be assigned to one or more committees at a given time. The committee is chaired by the Project Officer who is responsible for reaching decisions and recommending actions to the director. Though the Project Committee can operate without formal meetings, members are, nonetheless, responsible for keeping themselves current on nonproject activities and performing functions for which they are responsible in a timely and professional manner.

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CHAPTER 1

PROGRAMMING AND BUDGETING FOR BILATERAL NONPROJECT ASSISTANCE

The programming function translates the Agency's goals and objectives into country-specific strategies which identify the macro and sector problems to be addressed within specified annual funding levels. Based on these strategic considerations, programming decisions are made regarding the mix of nonproject (and project) assistance. A series of three documents is then used to develop and justify the specific nonproject activities. The end result of this documentary process is the authorization of the nonproject activities which are then negotiated under specific agreements with the host countries.

The budgeting function, which provides the funding for the programming decisions, involves two documentary processes. The first documentary process is the missions' and bureaus' preparation of the Annual Budget Submissions (ABSs), which are used by the Office of Management and Budget (OMB) to establish the proposed funding levels for the Economic Support Fund and Development Assistance appropriations. The second is the missions' and bureaus' preparation of the Congressional Presentation containing the narrative data which is merged with the financial data contained in the ABSs. The Congressional Presentation is then submitted to the Congress in January as part of the President's International Affairs Budget.

After reviewing and holding hearings on the budget request, Congress authorizes funds under the Economic Support Fund and the Development Assistance appropriations. Because the funds provided in the appropriations legislation may differ from A.I.D.'s budget request, A.I.D must prepare a final budget reflecting the provisions of the new legislation. This final budget is called the Operating Year Budget (OYB). Based on the OYB, A.I.D. notifies Congress (within 30 days) of each country receiving funds under each appropriation.

When Congress passes and the President signs the appropriations legislation, the U.S. Department of the Treasury (Treasury) makes the funds available to the Office of the President. Upon OMB concurrence, A.I.D. then requests Treasury to transfer the funds from the Office of the President to A.I.D. After A.I.D. requests and OMB apportions the funds to A.I.D., A.I.D. allots the funds to the bureaus. Upon receipt of the allotments, the bureaus provide budget allowances to the missions for funding the cash transfers, CIPs and sector grants in accordance with the OYB. Upon advice of the allowances, the missions can then negotiate agreements with the host governments. These agreements obligate the funds allowed to the missions from the bureaus' allotments.

From this overview, it is evident that the Agency has processes in place to ensure that nonproject assistance is planned, developed, authorized and funded in accordance with established procedures. The procedures within these processes constitute the system of

internal control leading up to the negotiation of the nonproject agreements. A discussion of this system of internal control is presented below.

A. COUNTRY DEVELOPMENT STRATEGY STATEMENT (CDSS) PROCESS

The purpose of the CDSS process is to provide an analytical basis for the proposed assistance strategy. To achieve this purpose, the CDSS must provide a thorough, realistic and insightful analysis of the host country's development prospects and problems, both macroeconomic and sector specific. In preparing the CDSS, the mission and/or office must think through its assessment of the basic problems faced by the host country and the role A.I.D. can play.

A basic premise of the programming function is that the mission and/or office must have an approved CDSS before new assistance activities (and funding for these activities) can be approved. There will be instances when the need for nonproject assistance may arise unexpectedly subsequent to the preparation and submission of the CDSS. When such instances do occur, cash transfer or CIP assistance is provided to fund the unexpected balance of payments or budget support needs. However, in the case of sector grants, no new sector assistance should be approved without an approved CDSS.

Whenever possible, nonproject assistance should be planned within the framework of a CDSS. There are exceptions under which nonproject assistance is provided to countries without CDSSs.* These exceptions include such countries as Israel, Ireland, Portugal, Spain and Turkey, where A.I.D has no mission or office. In the case of these countries, the geographic bureaus handle the budgeting and programming functions.

A.I.D. policy requires that every mission and office develop a CDSS covering a five-year period.** When political, economic and social conditions change, a revised or new CDSS may be warranted. Both the geographic bureau and mission and/or

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* These are countries with whom the U.S. has Base Rights and other security related agreements.

** In the Africa region, small missions and offices of the A.I.D. Representative may develop "Small Program Strategy Plans". These contain a less detailed strategy explanation than is generally contained in a CDSS. The Class I missions prepare a Country Program Strategic Plan which combines the CDSS and Action Plan.

office will mutually determine whether such changes are sufficient to warrant a revised or new CDSS.

Each year, the Bureau for Program and Policy Coordination (PPC) issues cable guidance to the missions and offices for preparing the CDSS. When missions and offices are required to prepare a revised or new CDSS, they must adhere to the PPC guidance and any supplemental guidance provided by the geographic bureaus.

Working in coordination with the host country and other donors, the mission and/or office prepares the CDSS in accordance with the following outline.

1. An assessment of the overall political and economic environment in the country.

2. A description and analysis of such key problem areas as inadequate economic growth, health deficiencies (especially infant and child mortality), education deficiencies and population pressures.

3. A description of host country and other donor efforts and an explanation of those problem areas selected by the mission and/or office as well as the strategy of program assistance to be used in addressing the problem areas.

4. A discussion of U.S. and other donor resources that may be available during the period.

The end product of this analysis is the determination of the overall objectives for the period and a program of varying types of assistance to achieve them. When the CDSS has been prepared, the mission and/or office forwards it to the appropriate geographic bureau for review and approval.

When approved, the CDSS becomes the basic planning document in providing economic assistance to individual countries. In this sense, the CDSS:

- Sets forth what A.I.D expects to achieve in a country and how it intends to achieve it.

- Provides the general framework for the geographic bureau's review of nonproject and project assistance.

- Provides the basis for long-term planning - overall levels, sectoral emphases, program modalities and program sources.

- Serves as the basic reference document used by geographic bureaus for overall country program reviews.

Because of its importance, the CDSS is subject to an intensive and high-level review in Washington. The review committee, chaired by the Assistant Administrator or his/her designee, is comprised of the office directors of the geographic bureaus, representatives from the Bureau for Policy and Program Coordination, the Bureau for Science and Technology, the State Department, the Department of the Treasury and the Office of Management and Budget. The committee's broad composition of expertise enables it to review critically the socioeconomic, political, technical and funding analyses of the document. Upon completion of the review, the committee will approve or disapprove the CDSS. In most instances, the CDSSs are approved subject to certain reservations. These reservations may require further clarification and analyses of a particular sector and so on. A cable is then sent to the mission and/or office indicating the review committee's determinations. When the approval is subject to reservations, the mission and/or office should address the issues raised. Only after these reservations have been addressed by the mission and/or office and approved by the committee is the CDSS considered approved.

New or updated CDSSs should be submitted to Washington by January 31 and reviewed and approved by March 31. Since the CDSSs are used by the missions and/or offices as a guide for budget preparation and project selection, this timeframe is required to meet the May 31 due date for the Annual Budget Submission.

The control objective of this process is to give reasonable assurance that viable country specific strategy documents have been prepared and approved for use in programming and budgeting assistance. To achieve this objective, the process uses the following control techniques:

- **The policy guidance for preparing the CDSSs outlined in cable guidance (this guidance should be incorporated in the A.I.D. Handbook).**

- **The CDSS documents which record and justify the rationale for the assistance.**

- **The separation of duties whereby missions and/or offices prepare the CDSS and the geographic bureaus review and approve the CDSSs.**

B. ACTION PAPER PROCESS

Commencing in Fiscal Year 1985, A.I.D. required that missions and/or offices start preparing Action Plans on an annual basis. These plans are to be submitted to the

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geographic bureaus in Washington prior to the preparation of the Annual Budget Submissions in May. Action Plans are intended to serve as a bridge between the missions' and offices' CDSSs and their operational programs. In doing so, they are designed to focus management attention on important issues affecting the program and the effectiveness of the program in achieving CDSS goals. Thus, in the case of nonproject assistance, Action Plans should discuss any conditions or policy reforms under which the assistance was made available and the host countries' progress in achieving the reforms.

A geographic bureau review committee, similar in composition to the CDSS review committee, is responsible for reviewing the Action Plans with the director of each mission and/or office for a full week. This week-long review is referred to as Program Week. Because of the time and effort required in the preparation and review of these plans, differences have evolved in the way these plans are prepared and reviewed among the geographic bureaus. Although the Action Plan is still an Agency requirement, the character of the plan, the timing, and the focus of the reviews now differ among the geographic bureaus.

In the Bureau for Asia, Near East and Europe (ANE), the Action Plan is concerned with the progress being made toward CDSS goals. In this regard, it focuses on such issues as:

- Changed circumstances which necessitate that the CDSS, or a portion of the CDSS, be examined.

- Indications of the overall impact of the mission and/or office program that confirms the strategy and its implementation are valid and working.

- Major events which have been completed since the last Action Plan or are planned for the current year which have a significant impact on the achievement of CDSS goals.

There is no established schedule for Action Plans in the ANE Bureau nor is it required that one be submitted each year. The decision to require an Action Plan is made annually and based on whether there are any significant issues which would require one. When a decision is made by the bureau to require an Action Plan, the bureau and mission negotiate the content at least six months before it is due. The purpose of doing this is to structure the Action Plan around a set of issues specific to the country and mission and/or office program. The content of the Action Plan thus depends on the issues identified.

The Program Week is also structured around the issues. If the issues are predominantly sectoral and technical, Program Week will center on a series of meetings with the bureau's technical offices. If the issues are more strategic in nature, then a review by senior bureau staff, chaired by the Assistant Administrator, may be held.

Commencing in calendar year 1990, Bureau for Africa (AFR) Category I and II missions (i.e, the larger missions) are to develop Country Program Strategic Plans (CSPSs) every five to seven years.

The bureau divides its missions and/or offices into three categories. Category I and II missions and/or offices generally receive at least $5 million in annual funding for bilateral assistance. Though there are a large number of Category III missions and/or offices, about 24 as of 1987, these programs are small, place substantial reliance on private voluntary organizations and Regional Development Offices for program management, and address a single major development problem. These Category III missions and/or offices should prepare Limited Program Strategic Plans. The bureau reviews these plans on an ad hoc basis.

The CSPS will combine elements of the CDSS and Action Plan, and replace both documents. It will address both the country-specific strategy previously contained in the CDSS, and the tactics the mission will use to implement the strategy, as previously found in the Action Plan, and contain:

- An overview of the environment for sustainable, broad-based, and market-oriented economic growth.

- An in-depth analysis of key constraints to growth and opportunities for realizing a better life for the next generation of Africans.

- A description of the actions other organizations (donors, PVO's, etc.) are taking to address these constraints and take advantage of these opportunities.

- A description of A.I.D.'s role and experience in addressing these constraints and exploiting these opportunities.

- The proposed country development assistance strategy "Program Logical Framework" including goals, strategic objectives, targets, and benchmarks.

- Plans for implementation, including level and use of resources, monitoring, reporting and evaluation, and policy agenda.

Although the Africa Bureau foresees that CPSP development will, at least initially, be labor intensive, it also sees it as a step away from bureau micro-management of mission programs. It believes it is likely that the CPSP will provide a basis for greater delegation of specific project and nonproject authorization and approval authority to the missions.

Not withstanding any anticipated redelegation of authority, CPSPs, will undergo extensive bureau review prior to approval. The bureau anticipates a higher level of management review of each CPSP along the lines of the bureau's current Program Week reviews, and lasting approximately the same length of time. Bureau Assistance Administrators will provide final authorization and approval.* See STATE 403039 dated December 20, 1989 for a complete description of the Bureau for Africa's revised programming and reporting process.

The Bureau for Latin America and the Caribbean (LAC) has developed a detailed and highly structured format for its missions' Action Plans. As with the other geographic bureaus, LAC uses the Action Plan as a core document for discussing country programs and issues during each mission's and/or office's Program Week. The Action Plans should:

- reflect changes in CDSS strategy,
- assess the previous year's progress toward each LAC goal,
- discuss anticipated progress toward LAC goals during the upcoming year, and
- highlight critical program and policy issues requiring A.I.D./W attention.

LAC notifies its missions and/or offices in December of the upcoming Action Plan submission and Program Week schedules. Each mission or office submits a Plan each year between January and May. The Program Weeks are scheduled to take place approximately one month after a mission and/or office's Action Plan submission deadline.

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* As a corollary to this new process, Africa bureau missions will develop and submit for bureau review annual Assessments of Program Impact (APIs) rather than semi-annual Project Implementation Reports (PIRs). The API will this become the mission's tool for assessing and reporting on progress toward attainment of strategic objectives and targets. Missions may continue to produce and review PIRs at the mission level, if desired. If PIRs are produced, copies showed be sent to the Bureau's backstop Project Officer for inclusion in bureau files.

Bureau and mission and/or office officials meet twice during the week preceding the mission's and/or office's Program Week. During the meeting, the officials review new projects which the mission and/or office wishes to add to its portfolio. During the second meeting, they attempt to identify critical issues before the Program Week meetings of senior officials begin. In this way, LAC tries to keep Program Week discussions focused upon only the most critical management and program issues facing the mission and/or office.

The control objective of the Action Plan is to ensure that the CDSS remains a valid document based on changing host country conditions, funding resources and program implementation. To achieve this objective, the following control techniques are used:

- **The annual cable policy guidance for preparing the Action Plan.**
- **The Action Plan which records and documents progress toward CDSS goals, actual and anticipated implementation problems and issues requiring mission and/or office and bureau attention.**
- **The separation of duties whereby missions and/or offices prepare the Action Plans and the geographic bureaus review and use them as a framework for Program Week reviews.**

C. DOCUMENTARY PROGRAMMING PROCESS

When the type and amount of nonproject assistance has been determined, the mission and/or office must obtain geographic bureau approval by justifying the need for the assistance. This approval is obtained through a three-step documentary process, which starts with the mission and/or office preparing a New Project Description (NPD). Upon geographic bureau review and approval of the NPD, the mission and/or office prepares the Program Assistance Initial Proposal (PAIP). Upon geographic bureau review and approval of the PAIP, the mission and/or office prepares the Program Assistance Approval Document (PAAD). Upon approval of the PAAD*, the mission and/or office can then negotiate the nonproject assistance agreement with the host country.

Not only does the PAAD provide an updated description, analysis and justification for the nonproject assistance previously submitted with the NPD and PAIP, but it

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* The PAAD is reviewed, approved and authorized by the mission and/or office only if it has been delegated authority to do so.

also sets forth the requirements and conditions which the mission and/or office must include in the nonproject assistance agreement with the host country. In auditing nonproject assistance, the auditor is essentially auditing the provisions of the agreement. The auditor must therefore ensure that the applicable legislative, regulatory, policy, and procedural requirements have been analyzed, reviewed and approved within the context of the documentary process and included, as necessary, in the provisions of the agreement and related implementation letters. These requirements usually include:

- policy reforms and other host country actions incorporated as conditions precedent or covenants;
- deposit of A.I.D. dollars in special accounts and records documenting the use of the A.I.D. dollars;
- deposit of local currency to special accounts;
- programming and reporting the use of local currency deposits; and
- compliance with source, origin and competitive procurement practices.

1. **New Project Description Process**

The New Project Description (NPD) is the first in a series of three documents prepared by the missions and/or offices which lead to the approval of a specific type of nonproject assistance. The NPD provides a short, one to five page, description of the assistance concept and the funding implications. Though it may be submitted to the geographic bureau earlier, it should be submitted no later than the Annual Budget Submission (ABS). In either case, the funding implications are included in the details of the ABS. In this sense, the NPD directly links and ties the program analyses in the CDSS with the funding decisions of the ABS.

In the case of cash transfer and CIP assistance, the NPD will usually consist of one to two pages of narrative. Though there is no specified format, the NPD should provide:

- a brief statement of the problem(s) to be addressed, e.g., balance of payments deficit or critical budget resource shortages;
- the specific conditionality attached to the assistance, i.e., policy reforms; and

- the dollar amount of assistance required.

In reviewing the NPD, the geographic bureaus will generally focus on the conditionality or policy reform actions to be obtained from the host country. In doing so, the bureaus will want to know if sufficient conditionality is to be obtained and if the conditionality is consistent with U.S. objectives in the country.

In the case of sector assistance, the NPD will usually provide a more detailed and longer, about five pages, narrative description of the sector problems, the sector reforms needed and the level of funding required. In reviewing the NPD, the geographic bureau will want to determine whether the sector assistance is consistent with the CDSS, whether the concept of the sector assistance is sound and capable of being achieved and whether sufficient resources are available to fund the assistance.

In approving the NPD, the geographic bureau will inform the mission and/or office to continue with the next phase. However, if the geographic bureau finds fault with the conditionality or concept, it can defer approval until the mission and/or office has provided additional clarification.

The control objective of the NPD is to ensure that nonproject assistance is prepared and reviewed within the framework of the CDSS. To achieve this objective, the process uses the following control techniques:

- **The NPD document recording the mission and/or office rationale and justification for the nonproject assistance.**

- **The geographic bureau's review and approval of the NPD.**

The lack of a documentary control technique in the form of detailed handbook guidance is an internal control weakness that needs to be addressed. Without such detailed guidance, there is no consistency in the way the NPD should be prepared or reviewed by the geographic bureau.

2. <u>Program Assistance Initial Proposal (PAIP) Process</u>

The PAIP is the second in a series of three programming documents prepared by the mission and/or office. In preparing the PAIP, the mission and/or office should provide a detailed description and justification for the assistance. Though the specific content of the PAIP will vary with the type of assistance, it should describe the objectives to be achieved; provide support for the

proposed level of funding; provide financial analyses of the host country's fiscal, monetary and foreign exchange situation; analyze major economic and social issues; describe how the assistance is to be implemented; specify the conditions precedent and covenants to be imposed on the host country; and describe any procurement requirements. Since the PAIP is subject to an intensive geographic bureau review, it should provide detailed analyses of the need for the assistance. When design issues need to be further clarified, particularly in the case of sector grants, the PAIP should specify the requirements for expert design assistance needed from the geographic bureau, other bureaus and the private sector.

A.I.D. guidance requires that mission and/or office Directors designate a Project Officer who will be responsible for developing the PAIP. According to the guidance, the recommended practice is to form a Project Committee for the preparation of the PAIP under the leadership of the Project Officer. The composition of this committee should include personnel possessing the necessary skills to design the nonproject assistance.

In developing the basic PAIP, the Project Committee should collaborate with host country officials, but this collaboration should not result in commitments being made on behalf of the Agency. Upon completion, the mission and/or office forwards the PAIP to the geographic bureau. When the PAIP is received in A.I.D./Washington, the geographic bureau designates a Project Officer and Project Committee to provide backstop support to the mission and/or office Project Officer and Project Committee. This Project Officer manages the A.I.D./W review process.

In the geographic bureau, the PAIP is subjected to an intensive two-stage review. Initial technical review committee members are identified by the Project Officer who serve as the Program backstop and who will chair the committee meeting(s). This committee reviews the PAIP and develops an issues paper which will serve as an agenda for the second stage management level committee review. This committee is chaired by the Assistant Administrator or his/her designee and may consist of both technical personnel and office Directors and representatives from other bureaus and offices. The committee focuses on such issues as:

- consistency of the PAIP with applicable statutory and policy criteria;
- identification of deficiencies, if any, in the preliminary nonproject concept and methodology;

- lessons learned from previous experience with similar assistance;
- capacity of the grantee to implement the proposed assistance, (i.e. personnel, financial, and institutional); and
- capability of the mission and/or office to monitor implementation.

Some issues raised during the PAIP review may not be resolvable at the PAIP stage. If they are to be addressed later, appropriate recommendations of the review committee must be incorporated in the geographic bureau's message to the mission and/or office. If there are any major disagreements between committee members about issues or the final decision to approve or disapprove the PAIP which cannot be resolved between members of the review committee, such disagreements should be referred to the Administrator or his/her Deputy for final resolution.

Geographic bureau management will make a decision on the document based on the committee's recommendations and, if appropriate, on supplementary information thereto. The decision will usually be one of the following:

- approval with appropriate guidance for nonproject design;
- conditional approval with explicit requirements for granting full approval;
- approval and guidance on nonproject design, but withholding final PAAD approval for A.I.D./W; or
- disapproval, including the basis for rejection.

As a general rule, the geographic bureau's decision should be made within 30 working days after receipt of the PAIP. Notification of the geographic bureau's decision and any PAIP guidance is given by cable. The Bureau for Program and Policy Coordination (PPC) must clear the decision and guidance cable to the field.*

Each bureau is required to maintain a log on PAIPs received and actions taken on them and report such information to PPC. As required, PPC will

* PPC maintains a computerized system for tracking all PAIPs.

prepare periodic reports for the Administrator summarizing the geographic bureaus' PAIP review and approval activities.

PAIP approval means that the geographic bureau has given its approval to the mission and/or office to proceed with the development of a PAAD based on the concepts defined in the PAIP. The approval may draw attention to certain issues in the PAIP document and require the mission and/or office to make adjustments in the concept or take actions to address specific design matters during development of the PAAD.

The control objective for the PAIP is to ensure that the nonproject assistance is soundly developed to address specific objectives. To achieve this objective, the process uses the following control techniques:

- **The policy guidance contained in A.I.D. Handbook 4 requiring that the mission and/or office prepare the PAIP.**
- **The review and approval of the PAIP by the geographic bureau.**
- **The geographic bureau's authorization to proceed with the PAAD, including its comments on issues which need to be addressed in detail.**
- **The PAIP document recording and justifying the rationale for the nonproject assistance.**

The lack of a documentary control technique in the form of detailed handbook guidance is an internal control weakness that needs to be addressed. Without such detailed guidance, there is no consistency in the way the PAIP should be prepared or reviewed by the geographic bureau. This lack of detailed guidance can result in reform and required actions not being spelled out in detail and appropriate criteria not being developed for assessing progress and impact.

3. <u>Program Assistance Approval Documents (PAAD) Process</u>

Upon geographic bureau approval of the PAIP, the mission and/or office prepares the PAAD. The project committee, under the guidance of the Project Officer, is responsible for preparing the PAAD. In preparing the PAAD, the Project Officer coordinates any needed technical assistance with the geographic bureau Project Backstop Officer and the geographic bureau desk officer for the particular country.

The PAAD serves the following purposes:

- It is the instrument by which the authorizing official (the A.I.D. Administrator, the Assistant Administrator of the geographic bureau or the mission Director) approves the nonproject assistance;

- It authorizes the obligation of funds for the nonproject assistance; and

- It provides a historical record of the rationale for the assistance; a description of the nonproject inputs, analyses supporting the proposed design, an implementation plan, a monitoring plan, an evaluation plan and other required data.

The PAAD is analogous to the Project Paper. It consists of a face sheet,* accompanied by supporting analyses, including a detailed description and justification of the proposed activity. The PAAD brings together, in one document, the updated and current explanations and justifications which were previously submitted with the NPD and PAIP.

Though the specific content is determined by the type of assistance, the missions and/or offices of the various geographic bureaus prepare the PAAD in roughly the same format. The following data is generally provided in the PAAD:

- Summary and Recommendations - A brief overview of the justification for the assistance and a recommendation that a specific amount of funding be approved. Any extraordinary actions requiring the authorizing official's approval would be noted here.

- Political Background - A brief summary of the U.S.-host country political relationship and the purpose of the U.S. Economic Assistance Program to the host country.

- Economic Situation - A macroeconomic analysis which identifies the constraints impeding economic growth.

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* In the case of a PAAD authorizing a sector grant which contains a project element, a project facesheet would also be attached.

- Sector Situation - An in-depth analysis of the particular sector which is to be addressed by the assistance. This analysis should identify the problems and constraints impeding development in the sector.

- Proposed U.S. Assistance - A description of the problems to be addressed; a description of the U.S. resources needed to address the problems; a discussion of the programming, management and accountability of the local currency resources to be generated by the U.S. assistance; a description of the key conditionality concepts to be attached to the U.S. assistance; a discussion linking the proposed U.S. assistance to the CDSS and mission portfolio; a discussion relating the U.S. assistance to any standing agreements with the International Monetary Fund or structural adjustment programs of the World Bank; and a discussion of the past performance of similar nonproject assistance.

- Implementation and Administration - A discussion of the implementation of the proposed U.S. assistance which describes such things as: the implementation plan; monitoring and evaluation responsibilities; establishment and management of dollar and local currency special accounts; administrative responsibilities; staffing requirements; and procurement and contractual arrangements.

- Annexes - These annexes include the statutory checklists to ensure that all legislative requirements have been met; economic statistical tables; and additional analyses of the program.

It is apparent from this description that the PAAD should describe the nonproject assistance in detail--how it will be implemented, what impact it is expected to have on CDSS objectives, how it will be integrated with other donor assistance, and what contribution the host country will make to it. The host country's technical, administrative and financial capabilities should also be reviewed and assessed, as needed. The mission and/or office must also ensure that the nonproject assistance is consistent with Agency policy and legislative requirements.

When completed, the PAAD is subject to an intensive review. This review may take place at the mission, provided it:

- falls within the mission's delegated authority;

- does not raise significant issues requiring higher level approval; and

- was not identified at the PAIP stage as having special policy implications requiring review by the geographic bureau.

As a general rule, most PAADs prepared by missions are reviewed and approved in the field, whereas PAADs prepared by overseas offices are generally reviewed and approved by the geographic bureaus. If the PAAD is to be approved by A.I.D./W, it undergoes a two-stage review as described above for the PAIP.

The geographic bureau review committee, chaired by the Assistant Administrator or his/her designee, consists of office Directors and representatives from other bureaus and offices. In the case of field missions, the review committee is chaired by the mission Director or his/her designee and consists of senior level officers from the appropriate technical, legal, financial and contract offices.

Like the PAIP, the PAAD is initially reviewed by members of the technical committee to develop a paper on the salient design features, risks and issues which require attention during the management review. In general, the committee focuses on such matters as:

- compliance with bureau-specific guidelines for format and content;
- the soundness of the design and supporting analyses; and
- the need for processing actions such as Congressional Notifications, budget adjustments, waivers, and so on.

Based on this review, the management review committee will recommend that the PAAD be approved or disapproved. The committee may withhold its approval if it feels additional analyses are required. Under these circumstances, the committee would not make its recommendation until the additional analyses have been done.

When the PAAD has been approved, a PAAD authorization package is prepared for the review and approval of the authorizing official. This authorization package consists of the following:

- An Action Memorandum - which summarizes the substance of what is proposed for signature.

- The Authorization Facesheet - which must be included as part of the PAAD after it has been signed.

- The PAAD - which contains the discussion, justification and analyses.

- Waiver Requests and Justifications - which should be prepared for those regulations and procedures to be waived.

The documents in this package are usually prepared by the mission Project Committee responsible for drafting the PAAD and reviewed by members of the PAAD Review Committee.

Since authorization gives permission to negotiate a grant (or loan) agreement, the content of the authorization document must:

- Be made subject to the availability of funds in accordance with the Agency's Operating Year Budget (OYB) process. This "subject to" reservation affects all funds planned for the nonproject, whether it is to be fully funded at the outset or is to be funded incrementally. If the agreement initially does not fully fund the assistance, so that a subsequent increment or increments of funds must be added to complete the authorized life-of-project funding planned, this "subject to" must also be expressed in the program agreement.

- Identify the estimated life-of-project period. This is the period during which A.I.D.-financed resources are being provided to the activity. This period runs from the date of signature of the nonproject agreement or other obligating document to the Project Assistance Completion Date (PACD).

- Identify the approved source and origin of goods and the nationality of services to be financed. To allow for possible unforeseen circumstances, the authorization reserves authority for A.I.D. to agree to finance commodities or services from an otherwise ineligible source, origin, or nationality. Waivers known to be essential to the nonproject's implementation at time of authorization should be presented for approval as part of the authorization package or in parallel to the appropriate approving official.

- Be consistent with information in the body of the PAAD. The description must be brief and clear so that it can form the basis of the nonproject agreement to be negotiated with the grantee. It must also

be sufficiently specific to indicate the limits of the approval and the constraints on nonproject implementation.

- Contain only essential conditions and covenants. Such conditions and covenants would normally be very few in number and would be the ones which the authorizing office does not want modified without its prior approval.

When the authorization has been approved and signed, negotiations with the host country entity are then initiated to conclude an agreement. In this regard, the Assistant Administrators have generally delegated to Directors of missions and offices the authority to negotiate, execute, and implement such agreements.

The control objective for the PAAD is to ensure that all relevant aspects of the nonproject assistance have been thoroughly studied, analyzed, and assessed to ensure that all areas of weaknesses have been identified and addressed before being authorized. To achieve this objective, the process uses the following control techniques:

- **The policy guidance contained in A.I.D. Handbook 4 requiring that the mission and/or office prepare the PAAD.**

- **The PAAD document recording and justifying the rationale for the nonproject assistance and the purpose, conditions, etc. to be included in the nonproject agreement.**

- **The separation of responsibilities for preparing the PAAD and the review and approval of the PAAD.**

- **The approval of the PAAD by a senior level authorizing official.**

The lack of a documentary control technique in the form of detailed handbook guidance is an internal control weakness that needs to be addressed. Without such detailed guidance, there is no consistency in the way the PAAD should be prepared nor reviewed by the geographic bureau. This lack of detailed guidance can result in reform actions not being spelled out in detail and other required appropriate criteria not being developed for assessing progress and impact. When this detail is not included in the PAAD, it will not be included in the agreement.

D. BUDGETING PROCESS

Before the PAAD is signed, funds must be reserved. Upon making this reservation of funds, the PAAD can be signed and the mission and/or office can then negotiate the nonproject agreement with the host country. When signed, the agreement becomes the obligating document, thereby converting the reservation of funds to an obligation of funds. This section reviews the budget processes which make the funds available to A.I.D. for obligation and use.

1. Annual Budget Submission (ABS)

Establishing a budget for the Foreign Assistance Program is an annual process which begins in April when PPC issues detailed guidance for the preparation of the ABS. This detailed guidance is preceded by separate cable guidance from PPC on the Approved Annual Program Levels (AAPL)* for Development Assistance, Economic Support Fund, and PL 480 assistance, as well as the Personnel Planning levels. Supplementary guidance may also be provided by the geographic bureaus, e.g., emphasizing the importance of particular aspects of Agency policy or legislative requirements which should be discussed in the ABS. Based on this guidance, each of the missions and/or offices then updates the estimates for the current year program and develops the funding requirements for the fiscal year in question, as well as projected funding requirements for the four subsequent years. This information is presented in tabular form with a minimum of narrative and represents the best estimate of funds needed to implement the program for the year in question. These estimates should not exceed the AAPLs for the various assistance programs.

The purpose of the ABS is to present the financial aspects of the proposed program for the fiscal year which will be carried out in line with the approved CDSS strategy. In this sense, the ABS serves as the link between the CDSS, the Action Plan, and the specific mix of nonproject and project assistance to be implemented. The ABS also serves as a source document for statistical budget information.

In brief, the ABS contains several annexes providing the following data:

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* The AAPLs are based in part on OMB's budget mark for future year funding and the Agency's projected funding needs reflected in the ABSs and the CDSSs.

- A table on the long-range plan which summarizes, by appropriation account, the actual and projected estimates for certain specified years. These long-range projections should tie into the AAPLs.

- The key element of the ABS is the project budget data which provide the detail for the long-range plan. This data includes a listing of each nonproject and project by appropriation and functional account; budget estimates for the current, forthcoming, and planning years; beginning and end of project; total project cost authorized and planned; pipeline as of prior year; mortgage as of the end of current year; percentage of funds channeled through private voluntary organizations; coding sub-category classification of nonproject and project assistance; and Project Assistance Completion Date. This data is designed to assist the geographic bureaus and PPC in understanding the financial basis for the missions' and/or offices' decisions on the planning year funding for ongoing projects, the implications of future funding needs of new nonproject and project assistance the missions and/or offices plan to fund incrementally, and the proportion of new projects the missions and/or offices plan to fully fund.

- Instructions for the preparation of New Project Descriptions (NPDs) which are to be included in the ABS. These should be prepared for each new nonproject and project which is to be funded in the planning year; each new current year nonproject and project not included in the current year Congressional Presentation; and each new current year nonproject and project substantially changed from the Congressional Presentation description. If these NPDs have been submitted earlier, they should not be included in the ABS (but should be included in the Congressional Presentation).

- A local currency use plan when local currency is generated from commodity import programs, cash transfers, sector grants and PL 480 programs. A narrative for use of the generations is to be submitted along with a table on the generation and planned use of the funds. The narrative should describe the sources and intended uses of the local currency in terms of the CDSS strategy.

- A schedule of planned evaluations.

- A table on PL 480 requirements by title.

- A prioritization plan identifying proper mode in implementing the Agency's goal of at least two privatization activities per mission.

- Priority ranking of projects.

- Summary data on overseas operating expense data.

The ABS should be prepared and transmitted to the geographic bureaus by May 30. The geographic bureaus are then responsible for reviewing and analyzing the submissions from its respective missions and/or offices. These reviews occur from May 31 to July 5, at which time the geographic bureaus must submit a consolidated budget proposal to PPC.

When the nonproject assistance is to be funded from the Economic Support Fund, the budget submission (for Economic Support Funds) would be reviewed by the Security Assistance Program Review Working Group (SAPRWG). SAPRWG operates under the leadership of the Department of State and includes A.I.D., the Office of Management and Budget and Treasury. When the nonproject assistance is to be funded from Development Assistance, i.e., the Development Fund for Africa or the Functional Accounts, the review would be conducted by the respective geographic bureaus.

In conducting the review of the missions' and/or offices' submissions, copies of the ABS are circulated to office directors within the geographic bureaus, other bureaus and Agencies such as PPC, OMB, Department of State, Peace Corps, etcetera. These reviews generally focus on such things as:

- the consistency of the ABS with the CDSS strategy;

- an analysis of current funding requirements;

- an analysis of the pipeline on projects which is the difference between the amount obligated for the project and the amount disbursed;

- an analysis of the New Project Descriptions; and

- a review of ongoing activities to ensure they are performing according to plan.

By July 5, the geographic bureau must develop a consolidated budget proposal of the Development Assistance and Economic Support Fund and submit it to PPC. This submission includes:

- a certification that the planning documents required of the missions and/or offices continue to be valid;

- a discussion of the major issues the geographic bureau expects to confront in implementing its requested program;

- a list of new projects; and

- a request for dollar resources necessary to implement the program.

In developing the ABS, it is not uncommon for the geographic bureaus to deviate from the AAPLs. Thus, when PPC receives the geographic bureaus' budget submissions, it performs in-depth analyses and reviews of the submissions. These analyses and reviews are facilitated by using the ABS data which the geographic bureaus input into the Agency-level Congressional Presentation Data Base system. Using the data in this system and data maintained by bureaus outside the system, PPC performs the necessary reviews and analyses to ensure the ABSs meet Congressional directives such as earmarks for private voluntary organizations, and so on. Among other things, it also calculates the level of funding by appropriation account requested by the bureaus. Based on these and other reviews and analyses, it identifies issues which need to be discussed with the bureaus.

When budgetary issues cannot be resolved at the bureau level, they are then raised to the Administrator level. These issues can include such budget matters as the allocation of funds for specific countries and so on. To resolve these matters, PPC will develop policy options on the issues which need to be resolved by the Administrator. The Administrator will then review these issues and make the necessary decisions. Any matter regarding Economic Support Funds must be resolved by the Administrator with the Department of State. Once these decisions on the Agency budget have been made, PPC is responsible for assembling the bureau submissions into an overall budget for the Agency. This Agency budget includes:

- A program and appropriation request for the budget year including:

  - Fiscal data, total program proposal, new obligational authority, estimated recoveries of prior year obligations, and estimated transfers. The request is normally presented in the form of two alternatives: A "low" level within the OMB planning target, and a "recommended" level.

-- A brief narrative rationale.

- An item-by-item listing of proposed new projects for the budget year, indicating which activities would be funded at the recommended level.

- A discussion of the long-range direction which A.I.D. intends to pursue, together with a long-range projection of resource requirements.

- An estimate of the manpower needs.

After the A.I.D. budget has been assembled and approved by the Administrator, PPC integrates it with the International Development Cooperation Agency (IDCA) budget. Upon completion of the IDCA budget, PPC collaborates with the Department of State and other agencies in integrating the IDCA budget into the overall Foreign Affairs Assistance Budget. When the Foreign Affairs Assistance Budget has been developed, it is presented to the Secretary of State for review. Only after this budget has been reviewed and approved by the Secretary of State is the IDCA budget, which includes the Agency budget, transmitted to OMB. OMB requires that the budget be transmitted by September 15.

In OMB, the Agency's budget proposal for the budget year is again reviewed. As a general practice, OMB examiners, who are familiar with the program issues, participate in the review. OMB decides on the budget level in mid-November and this decision is communicated to the Agency in the form of a limitation on budget authority and outlays. If there is fundamental disagreement with the OMB decision, the Agency may appeal, setting forth in a letter to the Director of OMB, its case for additional funding. OMB then presents its budget recommendations, together with the Agency's appeal, to the President. A final budgetary level decision is received by early December which is called the budget "mark".

The budget mark will set one gross figure for the development assistance functional program and other line items and another for Economic Support Fund assistance. In other words, the budget mark does not establish budget levels for the individual functional accounts such as Section 103, 104, etcetera. Nor does it establish levels for individual countries. Thus, when the Agency receives the budget mark, it has the flexibility to determine by country and functional account where the adjustments will be made to meet the budget mark. In making these adjustments, PPC meets with the Administrator, SAPRWG and the geographic bureaus to work out how and where the adjustments will be made. The geographic bureaus will in turn work out the

needed adjustments with the mission and/or offices as it affects their respective budgets. The ABS process is completed when all the adjustments have been made.

The control objective of the ABS process is to develop, within the framework of an Agency budget, specific budgets for each of the geographic bureaus' missions and/or offices which enable them to carry out the nonproject and project assistance justified by the CDSSs and authorized by specific programming decisions. To achieve this objective, a number of control techniques have been put in place, the more important being:

- **The resource allocation targets, including the AAPLs, established by PPC.**
- **The ABS policy guidance developed by PPC for preparing the ABS.**
- **The ABS documents which record and justify the level of funding requested.**
- **The separation of duties whereby the missions and/or offices prepare the ABS documents and the geographic bureaus and SAPRWG analyze, review and consolidate them.**
- **The analyses and reviews performed by PPC of the geographic bureaus' submissions.**
- **The review and approval of the final ABS budget by the Administrator.**
- **The discussion and decisions taking place among the geographic bureaus, SAPRWG, PPC and the Administrator to meet the budget mark.**

When PPC provides guidance for preparing the ABS, it includes an attachment providing Functional Subcategory Definitions. These definitions are used by the missions and/or offices for coding the classification of the nonproject and project assistance. For nonproject assistance, there are categories for cash transfers and CIP, but there is no subcategory for sector grants. The result is that sector grants are classified as project assistance under such subcategories as Agricultural Inputs (FNAI) and Health Education (HEEH). Because sector grants are not shown as a separate subcategory, there is no formal record-keeping for the number and kind of sector grants obligated. This is an internal control deficiency which PPC needs to address.

2. Congressional Presentation Process

The preparation of the annual Congressional Presentation is designed to further justify and explain the Agency's budget request. This process commences in September with the issuance of cable guidance to the field by the Bureau for Legislative Affairs indicating how the budget data should be organized and developed for presentation to the Congress.

Preparation of the Congressional Presentation entails the missions and/or offices developing narrative and tabular material describing and justifying the budget proposal. In this process, summary program information and supporting data concentrate on programming, policy, performance and accomplishments and emphasize proposed activities to be implemented. This narrative and tabular material should reflect the decisions made when the ABS was approved. When the required material for the mission and/or office program has been prepared, it is submitted to the geographic bureau.

The geographic bureaus are responsible for reviewing the material. In doing so, the geographic bureaus must ensure the budget conforms with the approved ABS and the needed adjustments have been made to conform with the budget mark. This adjustment is necessary since the Congressional Presentation process starts well before the OMB budget mark is provided in early December. The material is then consolidated into an overall Congressional Presentation budget for the geographic bureau. When completed, it is forwarded to PPC.

PPC in turn reviews the geographic bureaus' presentations and develops an Agency Congressional Presentation that is approved by the Administrator. This Agency Congressional Presentation is incorporated into the IDCA presentation which is included in the State Department's Foreign Affairs Assistance Budget. In January, the Foreign Affairs Assistance Budget is sent to OMB, which transmits it to the Congress as part of the President's Budget.

The control objective of this process is to ensure that the Agency's budget proposal is formulated and presented in accordance with Congressional needs. To achieve this objective, the following control techniques are used:

- **The policy guidance for preparing the Congressional Presentation outlined in cable guidance.**

- **The separation of duties whereby missions and/or offices prepare the Congressional Presentation and the geographic bureaus review and**

approve them and then prepare a consolidated Congressional Presentation for the bureau.

- **The review, consolidation, and preparation by PPC of an Agency Congressional Presentation, which is approved by the Administrator.**

3. Legislative Process

In the Congressional system, the authorization (policy direction) and appropriation (fiscal) functions are kept distinct. The Senate takes the lead in authorizations while the House of Representatives initiates appropriations. Both bills must be approved by both Houses, so there can be up to four sets of Congressional hearings each year.

The legislative process begins with hearings on the program of assistance described in the Congressional Presentation. This dialogue normally is carried out by committees of both the House of Representatives and the Senate responsible for authorizing foreign assistance programs. In effect, these are the policy-making committees for foreign assistance. Representatives of A.I.D., the State Department, other agencies of the government, and the private sector are called to testify on various aspects of the program. The Congress, when it resolves all issues with the program, passes legislation authorizing the President to use his authority to implement the foreign assistance program and authorizing Congress to appropriate funds for foreign aid purposes. In separate appropriations legislation, Congress prescribes the amount of government funds to be made available for the Foreign Assistance Program for that particular fiscal year. When appropriations legislation has been signed by the President, a budget for the fiscal year has been established.

4. Operating Year Budget Process

Because of the actions Congress may have taken in the process of passing legislation, the funds provided in the appropriations legislation may differ from the Agency's budget proposal included in the President's budget request. Therefore, once the legislation is passed and signed into law, the Agency must prepare a budget reflecting the provisions of the new legislation. This final budget, developed from a Congressionally approved program as reflected in the legislation, is called the Operating Year Budget (OYB). This budget is prepared by PPC in conjunction with the geographic bureaus and approved by the Administrator.

If, by October 1, the Congress has not passed the authorization/appropriation legislation, it passes a Joint Resolution, commonly referred to as a Continuing Resolution. When signed by the President, the Continuing Resolution permits continuation of operations until a specified date or enactment of the authorization/appropriation bills, whichever comes first. The Continuing Resolution usually permits continuation of operations at the rate of the previous fiscal year or the budget request, whichever is lower. In such cases, the Bureau for Legislative Affairs transmits a circular telegram informing the missions and/or offices when the Continuing Resolution has been passed and signed by the President and authorizing continuation of essential nondeferable operations pending receipt of further detailed guidelines.

PPC and the Office of Financial Management jointly compute the rate of operations for each appropriation category during the Continuing Resolution period. Within these limits, an interim OYB is prepared, which establishes funding levels by appropriation and Agency bureau. Upon enactment of the authorization/appropriation legislation, the OYB is prepared.

Under Section 653(a) of the Foreign Assistance Act, the Agency must notify the Congress within 30 days after passage of the legislation of each country which will receive funds under the legislation and the amount of funds to be provided to that country by appropriation account. This legislative reporting requirement is based on the establishment of the OYB. Thus, to meet this requirement, the OYB must be established as soon as the authorization/appropriation budget reconciliation process has been completed by Congress and signed into law. In doing this, PPC will determine the funding levels for use in preparing the OYB to bring it in line with the legislatively approved budget. These funding levels will be based on the Congressional Presentation and the geographic bureaus' submissions to PPC. The levels include funding by appropriation account, bureau, country, etcetera. PPC will then present any bureau requests for relief from the funding level to the Administrator with its recommendations. The Department of State will handle those cases involving Economic Support Funds.

Starting in FY 1988, Congress also required that A.I.D. submit a Global Report within 30 days after the submission of the 653(a) Report. The Global Report updates the CP estimates of planned spending for individual nonproject and project assistance activities in each country.

After the Administrator's and/or State's review and decisions have been made, the OYB is established. When established, the OYB will contain the approved planning level allocated to each bureau for each country and

interregional program in each appropriation account. This information, as well as a listing of approved and new activities, is submitted to Congress.

In establishing the OYB, the proposed funding for specific nonproject and project assistance may be affected which requires a subsequent adjustment of the OYB. Thus, when necessary, the OYB may be revised. These revisions are subject to the following procedures.

- Within each appropriation category, geographic bureaus may shift funds so long as no individual country or program listed in the OYB is changed by more than $1 million.

- Within overall availability, PPC may shift funds among bureaus and appropriation categories so long as no individual bureau program or appropriation category is changed by more than $5 million. Changes which exceed $5 million require the Administrator's approval.

To keep Congress informed of these OYB changes, PPC prepares a quarterly Section 634 Report. This reporting requirement keeps Congress advised of all funding changes to the OYB. In addition, the Agency must also notify Congress in the case of new or substantially revised nonproject and project activities which were not approved during the legislative process.

When Congress appropriates funds and the President signs the legislation, the Treasury issues warrants for each appropriation account to the Office of the President. Upon OMB approval, the Agency is then responsible for requesting Treasury to transfer the warrants for each account from the Office of the President to the Agency. Since the appropriation accounts may include funds for other agencies, the Agency will also request the Treasury to allocate the funds provided under the appropriation accounts to the respective agencies. Upon making this allocation and transfer, the Treasury will specify the accounting symbols the Agency should use when drawing funds from the individual appropriation accounts.

Before the Agency can obligate and draw down funds from the appropriation accounts at Treasury, it must request an apportionment of funds from OMB. Apportionment is the process whereby OMB provides the Agency with the authority to obligate funds up to a specified level for each appropriation account at Treasury. Under this process, A.I.D. will request an immediate apportionment of all Development Assistance Funds. For Economic Support Funds, A.I.D. must first clear any request for apportionment through the Department of State. After obtaining State approval, A.I.D. then forwards the

request to OMB. In requesting apportionment of Economic Support Funds, State procedures require that the funds be requested and apportioned on an activity-by-activity basis for each country.

The Agency has established a funds control system to ensure that the appropriations made available to carry out the OYB program are used as intended. This funds control system is fully integrated with the Agency's accounting system. Under this system, the Office of Financial Management controls the funds apportioned by OMB under the appropriation accounts by issuing allotments to the assistant administrators of the geographic bureaus. These allotments are made to the assistant administrators for those funds apportioned under each appropriation for which they have operational responsibility.

After the Office of Financial Management allots funds to the geographic bureaus, the respective bureaus will prepare Requests for Advice of Allowance to fund the specific activities of the missions and/or offices. These Requests for Advice of Allowance are recorded in the geographic bureaus' allotment control records, which provide a running total of the Requests for the Advices of Allowance made to the missions and/or offices under each allotment. The geographic bureaus in turn send the Requests for Advice of Allowance to the Office of Financial Management which reviews the requests to ensure the data is correct and conforms with the OYB. When approved, the Office of Financial Management charges the Advices of Allowance to the allotment ledgers maintained for each bureau allotment. The Office of Financial Management then cables the missions and/or offices advising them of the nonproject and project activities for which Advices of Allowance have been authorized.

Since the accounting records for nonproject assistance are maintained by the Office of Financial Management in A.I.D./Washington, it will establish and record the amount of the allowance to the nonproject ledger account and the budget allowance ledger for the appropriation. With this budget allowance, the Office of Financial Management is then able to prevalidate documents for availability of funds. The Office of Financial Management reviews and approves the PAAD facesheet prior to its authorization by the A.I.D. Administrator or the Assistant Administrator of the given geographic or functional bureau. Thus, upon authorization of the PAAD, the Office of Financial Management will record the amount of the reservation of funds. When the mission and/or office signs the agreement, the Office of Financial Management will record the obligation to the nonproject ledger.

When the nonproject assistance activity includes a project element, as often happens in sector grants, the Office of Financial Management cables the mission and/or office advising them of the Advice of Allowance for the project portion of the sector activity. The mission then accounts for this project element in the same way as it does for other project assistance.

The control objective of this process is to ensure that an OYB is prepared and carried out in accordance with the appropriations legislated by Congress and signed by the President. Among the control techniques used to achieve this objective are the following:

- **The guidance contained in Handbooks 3 and 19 outlining the procedures for establishing and controlling the OYB.**
- **The OYB document prepared by PPC and approved by the Administrator.**
- **The execution of OYB transactions by authorized officials e.g., PPC, FM, geographic bureaus, etcetera.**
- **The prompt recording and proper classification of OYB transactions by PPC, FM, the geographic bureaus, and missions and/or offices.**
- **The separation of key duties and responsibilities in authorizing, processing, recording, and reviewing transactions.**

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

OCT - 5 1990

MEMORANDUM

TO: See Distribution

FROM: DAA/PPC, John S. Blackton

SUBJECT: A.I.D. Local Currency Policy

Attached for your comments and clearance is a draft policy statement that modifies A.I.D.'s current local currency policy.

The modified policy draws heavily on the proposals outlined in the Action Memorandum which Mr. Edelman approved on August 21. As directed in his approval, we shared the proposals with appropriate staff of key Congressional committees as well as with the IG. Their response was positive.

I believe we are now in a position to complete this process. Please provide your comments or clearance to me (647-5191) or Don McClelland (647-7028) by COB Friday, October 12, 1990.

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SUBJECT: SUPPLEMENTAL GUIDANCE ON PROGRAMMING AND MANAGING HOST COUNTRY-OWNED LOCAL CURRENCY

REFS: {A} 87 STATE 325792 {B} 87 STATE 327494 {C} FY 1990 FOREIGN ASSISTANCE APPROPRIATIONS ACT {PL 101-167, TITLE V, SECTION 592{A}} {D} SENATE APPROPRIATIONS COMMITTEE REPORT 101-131, PP. 32-34

1.0 THE PURPOSE OF THIS CABLE IS TO PROVIDE GUIDANCE TO MISSIONS ON THE PROGRAMMING AND MANAGEMENT OF HOST COUNTRY-OWNED LOCAL CURRENCY ASSOCIATED WITH ESF, DA OR DFA NON-PROJECT ASSISTANCE PROGRAMS. THIS GUIDANCE SUPERCEDES REF (B) FOR THESE PROGRAMS, BUT NOT FOR P.L. 480 PROGRAMS. NEW GUIDANCE WITH REGARD TO LOCAL CURRENCY ASSOCIATED WITH P.L. 480 PROGRAMS WILL BE ISSUED SEPARATELY.

1.1 THIS CABLE CONSTITUTES GUIDANCE SUPPLEMENTAL TO POLICY DETERMINATION NUMBER 5 (PD-5), QUOTE PROGRAMMING PL 480 LOCAL CURRENCY GENERATIONS UNQUOTE. PD-5 WAS EXTENDED IN 1984 TO COVER COMMODITY IMPORT PROGRAMS

(CIPS) AND CASH TRANSFERS, AND THIS GUIDANCE EXTENDS PD-5 TO INCLUDE SECTORAL ASSISTANCE PROGRAMS UNDER ALL SOURCES OF FUNDING INCLUDING ESF, DA, AND DFA. THE EXPERIENCE WITH CURRENT GUIDANCE, ESPECIALLY WITH THE GUIDANCE CONTAINED IN REF(B), ALONG WITH GROWING CONCERN IN CONGRESS AND OF THE IG WITH REGARD TO HOW LOCAL CURRENCY IS PROGRAMMED, MONITORED AND AUDITED, REQUIRES THAT REF(B) BE REPLACED WITH CLEARER DIRECTIVES. IN ADDITION, NEW LEGISLATIVE REQUIREMENTS RELATED TO THE SPECIAL ACCOUNTS FOR HOST COUNTRY-OWNED LOCAL CURRENCY GENERATED UNDER ESF, DA OR DFA PROGRAMS WERE CONTAINED IN THE FY1990 APPROPRIATIONS ACT, AND THIS GUIDANCE ADDRESSES THESE.

1.2 THIS GUIDANCE APPLIES TO LOCAL CURRENCY GENERATIONS OR DEPOSITS UNDER: CIP, SECTOR ASSISTANCE, OR ESF CASH TRANSFER PROGRAMS AND DA-OR DFA-FUNDED NONPROJECT ASSISTANCE. THIS INCLUDES LOCAL CURRENCIES MADE AVAILABLE UNDER THESE SOURCES, BUT HELD BY NGOS OR PVOS. THIS GUIDANCE ALSO COVERS LOCAL CURRENCIES HELD UNDER TRUST FUND AGREEMENTS. HOWEVER, THIS IS COVERED AS A SEPARATE ITEM. ONLY THE GUIDANCE UNDER SECTION 11, TRUST FUNDS, APPLIES TO LOCAL CURRENCIES PROGRAMMED IN THIS MANNER.

1.3 EXCEPT FOR THE PROVISIONS THAT ARE CONTAINED IN REF B, THIS GUIDANCE IS NOT RETROACTIVE: IT APPLIES ONLY TO NON-PROJECT ASSISTANCE AGREEMENTS SIGNED AFTER THE DATE OF THIS GUIDANCE.

2.0 AID POLICY ON PROGRAMMING LOCAL CURRENCY

AGENCY POLICY EXPLICITLY ENCOURAGES AID PARTICIPATION IN THE PROGRAMMING OF HOST COUNTRY-OWNED LOCAL CURRENCY TO ACHIEVE DEVELOPMENTAL OBJECTIVES. AGENCY POLICY ALSO ENCOURAGES THE INTEGRATION OF LOCAL CURRENCY WITH EXTERNAL RESOURCES PRIMARILY FROM THE ECONOMIC SUPPORT FUND, DEVELOPMENT ASSISTANCE AND PL 480 (FOOD AID) TO HELP ACHIEVE SPECIFIC PROGRAM AND POLICY OBJECTIVES AND TO ENHANCE THE DEVELOPMENTAL IMPACT OF THE EXTERNAL RESOURCES.

2.1 FURTHER, THE FY 1990 APPROPROPRIATIONS ACT EXPLICITLY REQUIRES AID TO ENTER INTO AN AGREEMENT WITH THE HOST GOVERNMENT REGARDING HOW LOCAL CURRENCY WILL BE UTILIZED. THE NEW REQUIREMENTS OF THE APPROPRIATIONS ACT ARE DETAILED BELOW UNDER SECTION 3.

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2.2 AID POLICY RECOGNIZES THAT THE RECIPIENT GOVERNMENT ASSUMES PRIMARY RESPONSIBILITY FOR ALLOCATING ITS OWN BUDGETARY RESOURCES. HOWEVER, SINCE AID MUST NEGOTIATE WITH THE HOST COUNTRY GOVERNMENT IN ORDER TO COME TO AGREEMENT AS TO HOW THE LOCAL CURRENCIES ASSOCIATED WITH AID PROGRAMS WILL BE UTILIZED, AID IN EFFECT MUST PARTICIPATE IN PROGRAMMING THE CURRENCIES. THE VARIOUS METHODS OF PROGAMMING LOCAL CURRENCY, ALONG WITH THE ACCOUNTABILITY REQUIREMENTS ASSOCIATED WITH EACH, ARE DISCUSSED BELOW.

3.0 LEGISLATION WITH REGARD TO LOCAL CURRENCY. THE FY 1990 APPROPRIATIONS ACT EXTENDS THE STATUTORY SPECIAL ACCOUNT REQUIREMENT FOR HOST COUNTRY-OWNED LOCAL CURRENCY DEPOSITED PURSUANT TO AN ESF OR DFA PROGRAM TO LOCAL CURRENCY DEPOSITED PURSUANT TO DA PROGRAMS. A.I.D. HAS BEEN REQUIRING THIS AS A MATTER OF POLICY {REFTEL {B}}.

3.1 SECTION 592{A}{1} OF THE FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS ACT, 1990 STATES THAT COUNTRIES RECEIVING ASSISTANCE UNDER CHAPTER 1 OF PART I {DA AND DFA} OR CHAPTER 4 OF PART II {ESF} OF THE FAA, UNDER ARRANGEMENTS WHICH RESULT IN A GENERATION OF LOCAL CURRENCIES OF THAT COUNTRY, MUST DEPOSIT THE RESULTANT LOCAL CURRENCIES INTO A SEPARATE ACCOUNT. IN ADDITION, THE LEGISLATION REQUIRES A.I.D. TO ENTER INTO AN AGREEMENT WITH THE HOST GOVERNMENT WHICH SETS FORTH {A} THE AMOUNT OF LOCAL CURRENCIES TO BE GENERATED AND {B} THE TERMS AND CONDITIONS UNDER WHICH THE CURRENCIES SO DEPOSITED MAY BE UTILIZED. ALSO, A.I.D. MUST ESTABLISH BY AGREEMENT WITH THAT GOVERNMENT THE RESPONSIBILITIES OF A.I.D. AND THE GOVERNMENT TO MONITOR AND ACCOUNT FOR DEPOSITS INTO AND DISBURSEMENTS FROM THE SPECIAL ACCOUNT. STANDARD CLAUSES FOR THESE REQUIREMENTS WILL BE DEVELOPED AND INCORPORATED INTO HANDBOOK 4.

3.2 SECTION 592{A}{2} REQUIRES THE LOCAL CURRENCIES GENERATED UNDER THESE PROGRAMS OR AN EQUIVALENT AMOUNT TO BE USED ONLY TO CARRY OUT CHAPTER 1 OF PART I OR CHAPTER 4 OF PART II OF THE F.A.A., OR FOR THE ADMINISTRATIVE REQUIREMENTS OF THE U.S. GOVERNMENT.

3.3 SECTION 592{A}{3} REQUIRES A.I.D. TO TAKE ALL THE APPROPRIATE STEPS TO ENSURE THAT THE EQUIVALENT OF THE LOCAL CURRENCIES DISBURSED FROM THE SPECIAL ACCOUNT ARE USED FOR THE PURPOSES AGREED UPON.

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3.4 SECTION 592(A)(4) REQUIRES THAT UPON TERMINATION OF ASSISTANCE TO A COUNTRY, ANY UNENCUMBERED BALANCES OF FUNDS WHICH REMAIN IN A SPECIAL ACCOUNT SHALL BE DISPOSED OF FOR SUCH PURPOSES AS MAY BE AGREED TO BY THE HOST COUNTRY GOVERNMENT AND THE U.S. GOVERNMENT.

3.5 THE FY90 APPROPRIATIONS ACT DOES NOT PROVIDE FOR EXCEPTIONS TO THE ESTABLISHMENT OF SPECIAL ACCOUNTS. THEREFORE, NO EXCEPTIONS MAY BE GRANTED, WHICH IS A CHANGE FROM THE POLICY ESTABLISHED IN REF(B). THE LEGISLATION DOES PROVIDE, HOWEVER, FOR AN EXEMPTION IN THE CASE OF NONPROJECT SECTOR ASSISTANCE PROGRAMS. THESE MAY BE EXEMPTED FROM GENERATING LOCAL CURRENCY (FROM THE REQUIREMENT THAT A.I.D. AGREE WITH THE HOST COUNTRY ON THE AMOUNT OF LOCAL CURRENCIES TO BE GENERATED). SUCH AN EXEMPTION MAY ONLY BE GRANTED THROUGH A CONGRESSIONAL NOTIFICATION.

4.0 ACCOUNTABILITY FOR LOCAL CURRENCY. THE NEW LEGISLATION CITED ABOVE CLEARLY INTENDS THAT A.I.D. WILL HAVE NOT ONLY PROGRAMMING RESPONSIBILITY FOR LOCAL CURRENCY BUT ALSO INCREASED RESPONSIBILITY FOR THE ACCOUNTABILITY (ENSURING THE USE FOR AGREED-UPON PURPOSES) OF THE LOCAL CURRENCY. THERE ARE DIFFERENT LEVELS OF ACCOUNTABILITY FOR HOST COUNTRY-OWNED LOCAL CURRENCY: THE SPECIAL ACCOUNT MUST BE MANAGED SO THAT THE LOCAL CURRENCY IS DEPOSITED AND DISBURSED IN THE AGREED-UPON MANNER. THERE IS ALSO A LEVEL OF ACCOUNTABILITY INVOLVING USING THE LOCAL CURRENCIES FOR INTENDED PURPOSES ONCE THEY ARE DISBURSED FROM THE SPECIAL ACCOUNT. FINALLY, THE IMPACT OF THE LOCAL CURRENCY EXPENDITURES, WHICH COULD BE CALLED PERFORMANCE ACCOUNTABILITY, NEEDS TO BE CONSIDERED. THE FOLLOWING GUIDANCE ADDRESSES ALL OF THESE LEVELS, BEGINNING WITH THE SPECIAL ACCOUNT.

5.0 SPECIAL ACCOUNTS. WHILE MISSIONS NEED NOT ESTABLISH A NEW SPECIAL ACCOUNT FOR EACH NON-PROJECT ASSISTANCE AGREEMENT AND ONE SPECIAL ACCOUNT CAN BE USED ON A NON-FISCAL YEAR BASIS, MISSIONS SHOULD NOT COMMINGLE LOCAL CURRENCIES FROM DIFFERENT SOURCES IN THE SAME SPECIAL ACCOUNT. THUS LOCAL CURRENCY REQUIRED TO BE DEPOSITED UNDER A ESF CASH TRANSFER SHOULD NOT BE COMMINGLED WITH LOCAL CURRENCIES GENERATED UNDER A CIP PROGRAM. SIMILARLY, PL 480 LOCAL CURRENCY GENERATIONS SHOULD NOT BE COMMINGLED WITH OTHER LOCAL CURRENCIES ASSOCIATED WITH U.S. ASSISTANCE. IT IS WORTH EMPHASIZING THAT THE REQUIREMENT FOR A SPECIAL ACCOUNT

DOES NOT IMPLY THAT HOST COUNTRY-OWNED LOCAL CURRENCY MAY NEVER BE COMMINGLED. ONCE THE LOCAL CURRENCY IS DISBURSED FROM THE SPECIAL ACCOUNT FOR THE AGREED-UPON PURPOSE, IT MAY BE COMMINGLED. THE FY90 APPROPRIATIONS LEGISLATION STATES, IN FACT, THAT QUOTE THE EQUIVALENT OF THE LOCAL CURRENCIES DISBURSED UNQUOTE MUST BE USED TO CARRY OUT THE AIMS EMBODIED IN THE FOREIGN ASSISTANCE ACT. THIS IMPLIES THAT A.I.D. IS NOT EXPECTED TO ENSURE THAT THE ACTUAL LOCAL CURRENCIES DISBURSED FROM THE SPECIAL ACCOUNT ARE SPENT FOR THE AGREED-UPON PURPOSES. THE ONLY WAY TO ENSURE THIS WOULD BE TO MAINTAIN SEPARATE ACCOUNTS TO END USE, AND THIS WOULD BE COUNTERPRODUCTIVE IN CASES SUCH AS GRANTS TO PVO'S WHERE THE COST OF SUCH SEGREGATION OF FUNDS WOULD OUTWEIGHT THE BENEFIT OF INCREASED ACCOUNTABILITY.

5.1 JOINTLY PROGRAMMED LOCAL CURRENCY SHOULD BE DISBURSED AS QUICKLY AS IS CONSISTENT WITH SOUND PROGRAMMING AND PREVAILING ECONOMIC CONDITIONS IN THE RECIPIENT COUNTRY, TAKING INTO ACCOUNT THE CONDITIONS OF AN ECONOMIC STABILIZATION PROGRAM THAT MAY HAVE BEEN NEGOTIATED. HOWEVER, DISBURSEMENT DELAYS DO OCCUR ON OCCASION UNAVOIDABLY. THEREFORE, AID POLICY FAVORS THAT LOCAL CURRENCY BE PLACED INTO AN INTEREST-BEARING ACCOUNT IN A DEPOSIT-TAKING INSTITUTION, WITH ANY INTEREST PROGRAMMED AS IF IT WERE PRINCIPAL, SO LONG AS SUCH ACCOUNTS ARE PERMITTED UNDER HOST COUNTRY LAW AND REGULATION AND DO NOT UNDERMINE INTERNATIONALLY-SUPPORTED STABILIZATION AGREEMENTS AND SOUND MONETARY POLICY. A WRITTEN DETERMINATION NOT TO FOLLOW AID'S PREFERENCE FOR INTEREST-BEARING ACCOUNTS MAY BE MADE BY THE HIGHEST AID OFFICIAL AT POST. COPIES OF EACH DETERMINATION SHALL BE RETAINED BY THE MISSION.

5.2 THE FOLLOWING REQUIREMENTS CONSTITUTE MINIMUM STANDARDS FOR MANAGING LOCAL CURRENCY SPECIAL ACCOUNTS. THESE STANDARDS ARE BASED UPON THE PRECEPT THAT THE DEGREE OF MISSION INVOLVEMENT IN MANAGING SPECIAL ACCOUNTS WILL DEPEND ON THE CAPABILITIES OF THE HOST GOVERNMENT AGENCY OR AGENCIES RESPONSIBLE FOR THEM. MISSIONS SHOULD HAVE THE HOST GOVERNMENT EXERCISE AS MUCH RESPONSIBILITY OVER THE SPECIAL ACCOUNTS AS POSSIBLE. LOCAL CURRENCIES SHOULD BE DISBURSED ONLY FOR PURPOSES AGREED UPON BY THE HOST COUNTRY AND THE MISSION.

5.2.A FINANCIAL ASSESSMENTS. IF A NONPROJECT ASSISTANCE AGREEMENT WILL CAUSE LOCAL CURRENCIES TO BE GENERATED OR DEPOSITED, THEN THE PROGRAM ASSISTANCE

APPROVAL DOCUMENT, THE PAAD, MUST IDENTIFY THE HOST COUNTRY AGENCY OR THE SPECIFIC UNIT WITHIN AN AGENCY RESPONSIBLE FOR THE MANAGEMENT OF THE LOCAL CURRENCY SPECIAL ACCOUNT AND MUST CONTAIN A CONCLUSION AS TO THE CAPABILITY OF THAT HOST COUNTRY AGENCY TO EFFECTIVELY MANAGE THE SPECIAL ACCOUNT, INCLUDING THE ABILITY OF THE HOST COUNTRY UNIT TO ARRANGE FOR OR PERFORM FINANCIAL ASSESSMENTS AND AUDITS OF RECIPIENT ORGANIZATIONS IF SPECIAL ACCOUNT FUNDS WERE TO BE USED TO SUPPORT LOCAL CURRENCY PROJECTS.

5.2.A.1 THE CONCLUSION AS TO THE CAPABILITY OF THE HOST COUNTRY AGENCY MAY BE BASED ON AN INDEPENDENT REVIEW OF THE FINANCIAL SYSTEMS OF THE AGENCY (A FORMAL ASSESSMENT) OR MAY BE BASED ON THE MISSION'S PAST EXPERIENCE WITH THE AGENCY'S PERFORMANCE (AN INFORMAL ASSESSMENT). IF AN AGENCY OR HOST GOVERNMENT UNIT WHICH HAS NOT PREVIOUSLY MANAGED A SPECIAL ACCOUNT IS TO BE REPONSIBLE, A FORMAL FINANCIAL ASSESSMENT SHOULD BE PERFORMED. ALSO, IF THE HOST GOVERNMENT AGENCY HAS MANAGED A SPECIAL ACCOUNT PREVIOUSLY AND HAS A POOR RECORD (INDICATED BY NEGATIVE AUDITS; UNTIMELY, INCOMPLETE OR INACCURATE REPORTS; ETC.) THEN A FORMAL FINANCIAL ASSESSMENT SHOULD BE PERFORMED. THAT IS, THE ACCOUNTING AND FINANCIAL SYSTEMS OF THE AGENCY OR UNIT SHOULD BE REVIEWED AND TESTED IN ORDER TO DETERMINE WHETHER SUFFICIENT PERSONNEL, INTERNAL CONTROLS, ETC. EXIST TO ADEQUATELY MANAGE THE SPECIAL ACCOUNT.

5.2.A.2 A FORMAL FINANCIAL ASSESSMENT MAY BE PERFORMED BY EITHER AN INDEPENDENT ENTITY OR BY MISSION PERSONNEL. ASSESSMENTS PERFORMED BY INDEPENDENT ENTITIES MAY BE FUNDED BY PROGRAM DEVELOPMENT AND SUPPORT FUNDS (PD&S) IN ACCORDANCE WITH GUIDANCE PROVIDED IN HANDBOOK 3, CHAPTER 1(D). IF THE AGENCY OR UNIT IS ALREADY INVOLVED IN MANAGING A SPECIAL ACCOUNT UNDER AN A.I.D. PROGRAM OR PROJECT, THEN LOCAL CURRENCY OR DOLLARS FROM THE CURRENT PROGRAM OR PROJECT MAY BE USED. LOCAL CURRENCY IS PREFERABLE TO DOLLARS, BUT EITHER OPTION REQUIRES NEGOTIATION BETWEEN THE MISSION AND THE HOST COUNTRY, AND SHOULD BE INCLUDED IN AN AGREEMENT WITH THE HOST GOVERNMENT.

5.2.A.3 IF THE DESIGNATED HOST COUNTRY AGENCY HAS EXPERIENCE IN MANAGING SPECIAL ACCOUNTS, THEN THE MISSION MAY CHOOSE TO RELY ON ITS RECORD AS AN INDICATOR OF CAPABILITY. THE MISSION WOULD THEN STATE IN THE THE PROGRAM DESIGN DOCUMENT THE EXPERIENCE WHICH IT HAS HAD

WITH THE AGENCY AND ITS REASONS FOR BELIEVING THAT THE SPECIAL ACCOUNT WILL BE ADEQUATELY MANAGED, SUFFICIENT TO JUSTIFY WAIVING A FORMAL ASSESSMENT.

5.2.A.4 IF THE CONCLUSION REACHED IN THE PAAD IS THAT A HOST COUNTRY AGENCY HAS LESS THAN SUFFICIENT CAPABILITY TO MANAGE THE LOCAL CURRENCY SPECIAL ACCOUNT, THE MISSION MAY CONSIDER TECHNICAL ASSISTANCE OR ANY OTHER MEANS TO STRENGTHEN THE AGENCY'S FINANCIAL MANAGEMENT ABILITIES PRIOR TO DISBURSEMENT OF FUNDS FROM THE SPECIAL ACCOUNT. IN SUCH A CASE THE MISSION SHOULD SEEK AGREEMENT WITH THE HOST COUNTRY ON A TIMETABLE FOR IMPROVEMENTS.

5.2.B REPORTING ON THE SPECIAL ACCOUNT. THE PROGRAM AGREEMENT MUST PROVIDE FOR APPROPRIATE REPORTING BY THE HOST COUNTRY AGENCY RESPONSIBLE FOR MANAGING THE LOCAL CURRENCY SPECIAL ACCOUNT. AT A MINIMUM, THE PROGRAM AGREEMENT MUST REQUIRE THAT REPORTS ON THE STATUS OF SPECIAL ACCOUNT ACTIVITY BE SUBMITTED TO THE MISSION ON A QUARTERLY BASIS.

5.2.B.1. REPORTING FORMAT AND CONTENT SHOULD BE OUTLINED IN A PIL SOON AFTER THE PROGRAM AGREEMENT IS SIGNED. REPORTS SHOULD PROVIDE INFORMATION ON DEPOSITS TO, WITHDRAWALS FROM, AND DISPOSITION OF LOCAL CURRENCY FROM THE SPECIAL ACCOUNT. THE PIL SHOULD ALSO IDENTIFY THE DOCUMENTATION WHICH THE HOST COUNTRY AGENCY MUST SUBMIT TO THE MISSION TO SUBSTANTIATE REPORTS. THE MISSION SHOULD ALSO ARRANGE TO RECEIVE STATEMENTS ON THE SPECIAL ACCOUNT DIRECTLY FROM THE BANK.

5.2.B.2 MISSIONS MUST DEVELOP A PLAN TO VERIFY THE ACCURACY OF THE HOST COUNTRY REPORTS ON THE LOCAL CURRENCY SPECIAL ACCOUNT. AT A MINIMUM, AT LEAST ONE REPORT SHOULD BE VERIFIED ON AN ANNUAL BASIS. THE FREQUENCY AND SCOPE OF VERIFICATION OF THE HOST COUNTRY REPORTS SHOULD BE ADDRESSED IN THE PAAD AND SHOULD BE BASED ON THE FINANCIAL MANAGEMENT CAPABILITY OF THE HOST COUNTRY AGENCY AS DETERMINED BY THE FINANCIAL ASSESSMENTS PERFORMED BY THE MISSION. THE MISSION SHOULD NOT RELY SOLELY ON HOST GOVERNMENT AGENCY REPORTING FOR ITS INFORMATION NEEDS. RATHER, THE MISSION SHOULD INDEPENDENTLY POST MEMORANDUM ACCOUNTING RECORDS FROM SOURCE DOCUMENTS, SUCH AS BANK STATEMENTS.

5.2.C AUDITS. MISSIONS SHOULD ENSURE THAT LOCAL CURRENCY SPECIAL ACCOUNTS ARE AUDITED PERIODICALLY. AT

THE PAAD STAGE, MISSIONS SHOULD DISCUSS WITH THE HOST GOVERNMENT THE REQUIREMENTS WITH REGARD TO AUDITING THE SPECIAL ACCOUNT AND THE SUBSEQUENT PROGRAM AGREEMENT SHOULD CONTAIN SPECIFIC LANGUAGE CONCERNING AUDIT RESPONSIBILITIES, FREQUENCY, AND FUNDING. PROGRAM AGREEMENTS MUST ALSO RESERVE AUDIT RIGHTS IN THE U.S. AND STATE THAT A.I.D. AUDIT RIGHTS WILL NOT BE SUBORDINATED OR INFRINGED BY ARRANGEMENTS FOR AUDITS BY THE HOST COUNTRY OR OUTSIDE AUDITORS.

5.2.C.1 SINCE THE LOCAL CURRENCIES ARE HOST COUNTRY-OWNED, THE AUDITS OF THESE LOCAL CURRENCIES DO NOT NECESSARILY HAVE TO ADHERE TO U.S. GAO AUDITING STANDARDS. HOWEVER, AUDITS SHOULD BE PROFESSIONALLY EXECUTED ACCORDING TO GENERALLY ACCEPTED AUDITING STANDARDS AND ACCOUNTING PRINCIPLES THAT HAVE BEEN PRESCRIBED BY THE HOST COUNTRY'S LAW, OR THAT HAVE BEEN ADOPTED BY PUBLIC ACCOUNTANTS OR ASSOCIATIONS OF PUBLIC ACCOUNTANTS IN THE HOST COUNTRY, TOGETHER WITH GENERALLY ACCEPTED INTERNATIONAL AUDITING STANDARDS, WHERE FEASIBLE. AUDITS MAY BE PERFORMED BY EITHER AN INDEPENDENT FIRM OR THE HOST COUNTRY'S CENTRAL AUDIT AGENCY. THE PAAD SHOULD CONTAIN A DISCUSSION OF WHETHER PUBLIC OR PRIVATE ENTITIES WILL PERFORM THE AUDIT OF THE SPECIAL ACCOUNT AND SHOULD CONTAIN A CONCLUSION AS TO THEIR COMPETENCY AND ABILITY TO CONDUCT A PROFESSIONAL AUDIT. IF THE HOST COUNTRY CENTRAL AUDIT AGENCY IS TO PERFORM THE AUDIT, THEN THE PAAD SHOULD CONTAIN A DISCUSSION OF THE HOST COUNTRY AUDIT AGENCY'S ABILITY TO CONDUCT AN INDEPENDENT, FAIR AND IMPARTIAL AUDIT. IN GENERAL, A GOVERNMENT AUDITOR WHO DOES NOT CONTROL, AND IS NOT UNDER THE CONTROL OF, A DEPARTMENT OR AGENCY OF GOVERNMENT TO BE AUDITED, AND WHO IS NOT INVOLVED IN ANY ASPECTS OF ITS MANAGEMENT, IS LIKELY TO BE CONSIDERED INDEPENDENT.

5.2.C.2 LOCAL CURRENCY ASSOCIATED WITH THE PROGRAM IS THE PREFERABLE SOURCE OF FUNDING FOR AUDIT. WHILE LESS PREFERABLE, APPROPRIATED DOLLAR PROGRAM FUNDS MAY ALSO BE BUDGETED FOR AUDIT. EITHER OF THESE OPTIONS REQUIRES NEGOTIATION BETWEEN THE MISSION AND THE HOST COUNTRY, AND THE SOURCE OF FUNDING TO BE USED SHOULD BE STATED IN THE PROGRAM AGREEMENT. A FINAL, BUT LEAST FAVORABLE SOURCE OF FUNDING FOR AUDIT IS PD&S FUNDS, WHICH SHOULD BE ADMINISTERED IN ACCORDANCE WITH THE GUIDANCE PROVIDED IN HANDBOOK 3, CHAPTER 1(D). FUNDING SOURCES FOR AUDITS OF SPECIAL ACCOUNTS SHOULD BE FULLY DISCUSSED IN THE PAAD, AND BE EXPLICITLY STATED IN THE SUBSEQUENT PROGRAM

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AGREEMENT.

6.0 ACCOUNTABILITY FOR LOCAL CURRENCY USE. THIS SECTION ADDRESSES THE SECOND LEVEL OF ACCOUNTABILITY FOR LOCAL CURRENCY, NAMELY THE DEVELOPMENT OF ASSURANCE THAT LOCAL CURRENCIES, ONCE DISBURSED FROM THE SPECIAL ACCOUNT, WERE USED FOR AGREED-UPON PURPOSES. WHILE CURRENT GUIDANCE DOES REQUIRE MONITORING, REPORTING AND AUDITING OF LOCAL CURRENCY ACTIVITIES, THERE ARE NO MINIMUM STANDARDS REGARDING HOW OFTEN AND UNDER WHAT CIRCUMSTANCES MISSIONS SHOULD CARRY OUT THESE ACTIVITIES. THE FOLLOWING IS INTENDED TO PROVIDE MINIMUM STANDARDS FOR FINANCIAL ASSESSMENTS, MONITORING AND VERIFICATION, AND AUDIT OF THE USES OF LOCAL CURRENCY.

6.1 THE ESSENCE OF AGENCY POLICY REGARDING LOCAL CURRENCY WILL REMAIN THE SAME: THE EXTENT TO WHICH MONITORING AND VERIFICATION OF USES OF LOCAL CURRENCY MUST BE PERFORMED WILL DEPEND ON WHICH MODE OF PROGRAMMING MISSIONS EMPLOY. THEREFORE, THE MISSION'S INVOLVEMENT IN MONITORING THE LOCAL CURRENCY WILL INCREASE AS THE LOCAL CURRENCY IS PROGRAMMED FOR MORE SPECIFIC USES. PROGRAMMING OF LOCAL CURRENCY FOR INDIVIDUAL DEVELOPMENT PROJECTS, FOR EXAMPLE, WILL REQUIRE MORE MISSION MONITORING THAN PROGRAMMING LOCAL CURRENCY FOR GENERAL SUPPORT OF A SECTOR OR MINISTRY.

6.2 HOWEVER, THE PRIMARY CRITERION WHICH MISSIONS SHOULD USE IN DECIDING WHICH TYPE OF PROGRAMMING TO EMPLOY IS WHETHER THE METHOD WILL RESULT IN AN ACCEPTABLE LEVEL OF ACCOUNTABILITY FOR THE LOCAL CURRENCY. THIS GUIDANCE PROPOSES PROCEDURES FOR ASSESSING THE HOST GOVERNMENT ACCOUNTABILITY ENVIRONMENT WHICH ARE AIMED AT ENSURING THAT MISSIONS CHOOSE MODES OF PROGRAMMING WHICH ARE CONSISTENT WITH THE ENVIRONMENT AND THUS LIKELY TO LEAD TO ACCOUNTABILITY FOR THE LOCAL CURRENCY. THESE PROCEDURES WOULD BE FOLLOWED AS PART OF A "GENERAL ASSESSMENT," WHICH MISSIONS HAVE PREVIOUSLY PERFORMED AS PART OF PROJECT ASSISTANCE PLANNING, AND WHICH WILL NOW BE PERFORMED AS PART OF THE NONPROJECT ASSISTANCE PLANNING PROCESS. THE GENERAL ASSESSMENT IS DESCRIBED IN SECTION 7.0 BELOW.

6.3 MISSIONS WILL HENCEFORTH BE EXPECTED TO DEVELOP "PERFORMANCE INDICATORS" TO GUIDE THEIR PROGRAMMING OF LOCAL CURRENCY BY MEASURING THE TANGIBLE RESULTS OF THE PROGRAMMING (AND THUS ADDRESSING THE THIRD TYPE OF

ACCOUNTABILITY, WHICH IS PERFORMANCE ACCOUNTABILITY). A PERFORMANCE INDICATOR IS A STATEMENT THAT CERTAIN GOODS OR SERVICES WILL BE PROVIDED USING THE LOCAL CURRENCY. THE PERFORMANCE INDICATOR MUST BE WRITTEN IN SUCH A WAY THAT IT IS VERIFIABLE. A PERFORMANCE INDICATOR COULD BE A STATEMENT THAT "THE AGRICULTURAL INVESTMENT BUDGET WILL INCREASE BY 15%", FOR EXAMPLE, OR "THE MINISTRY OF HEALTH WILL BUILD 15 HOSPITALS." MISSIONS MUST DECIDE WHAT ARE APPROPRIATE PERFORMANCE INDICATORS AND EITHER THE PAAD, THE PROGRAM AGREEMENT, OR OTHER SUBSEQUENT AGREEMENTS SHOULD IDENTIFY SPECIFIC PERFORMANCE INDICATORS AND DISCUSS HOW THESE INDICATORS WILL BE MEASURED OR EVALUATED.

6.4 PERFORMANCE INDICATORS, LIKE MONITORING RESPONSIBILITIES, WILL LIKELY REFLECT THE COMPLEXITY OF THE PROGRAMMING WHICH THEY ARE INTENDED TO EVALUATE. THUS, PERFORMANCE INDICATORS FOR PROJECTS WILL LIKELY BE VERY SPECIFIC MEASURES OF PROJECT OUTPUTS, WHILE THOSE FOR GENERAL SECTOR SUPPORT MAY SIMPLY DEMONSTRATE AN INCREASE IN A LEVEL OF FUNDING FOR A SECTOR. AGAIN, MISSIONS SHOULD DEVELOP PERFORMANCE INDICATORS TO SUIT THE HOST COUNTRY ENVIRONMENT AND THE GOALS WHICH THEY ARE TRYING TO ACHIEVE THROUGH THE USE OF LOCAL CURRENCY, KEEPING IN MIND THAT THESE INDICATORS MUST BE VERIFIED.

6.5 PERFORMANCE INDICATORS WILL BE REQUIRED FOR ALL TYPES OF PROGRAMMING, EXCEPT FOR TRUST FUNDS. MISSIONS SHOULD THEN REVIEW THEIR LOCAL CURRENCY PORTFOLIO EACH YEAR AND MAKE DECISIONS ABOUT THE BEST METHODS OF PROGRAMMING BASED UPON PAST SUCCESS AND FAILURE. THIS ANALYSIS SHOULD ALSO BE INCLUDED IN THE PROGRAM DESIGN DOCUMENT AS DISCUSSED IN SECTION 8.0.

7.0 THE GENERAL ASSESSMENT. SINCE 1983, MISSIONS HAVE BEEN SUBJECT TO PAYMENT VERIFICATION POLICY STATEMENTS WHICH REQUIRE THEM TO PERFORM, AMONG OTHER THINGS, A GENERAL ASSESSMENT OF THE HOST GOVERNMENT'S SYSTEMS OF FINANCIAL MANAGEMENT, CONTRACTING, ETC. THE GENERAL ASSESSMENT IS INTENDED TO IDENTIFY WHICH METHODS OF IMPLEMENTING AGENCY PROJECTS AND PROGRAMS ARE SUITABLE IN THAT HOST COUNTRY ENVIRONMENT. ON A PERIODIC BASIS MISSIONS WILL BE ASKED TO PERFORM A GENERAL ASSESSMENT, SIMILAR TO THAT PRESCRIBED IN PAYMENT VERIFICATION POLICY NO. 1, BUT EXPANDED TO INCLUDE ALL NONPROJECT ASSISTANCE AND LOCAL CURRENCY PROGRAMMING. WHEN A TIMETABLE IS FINALIZED, IMPLEMENTING GUIDANCE ON PERFORMING THE GENERAL ASSESSMENT WILL BE SENT TO

MISSIONS. THE GENERAL ASSESSMENT WILL BE REQUIRED TO BE PERFORMED PERIODICALLY, A MINIMUM OF AT LEAST ONCE EVERY FIVE YEARS, AND CERTAINLY IF AND WHEN CIRCUMSTANCES IN THE HOST COUNTRY CHANGE SUBSTANTIALLY (SUCH AS WITH THE ADVENT OF A NEW ADMINISTRATION).

7.1 THE GENERAL ASSESSMENT WILL BE FULLY-INTEGRATED INTO THE MISSION'S INTERNAL CONTROL PROCESS. THE MANAGEMENT CONTROL REVIEW COMMITTEE, FORMERLY THE ICOC, WILL BE RESPONSIBLE FOR APPROVING THE STANDARDS AND CONTENT OF THE GENERAL ASSESSMENT IN ACCORDANCE WITH HANDBOOK 19, CHAPTER ONE, APPENDIX 1D AND WILL BE RESPONSIBLE FOR SEEING THAT GENERAL ASSESSMENTS ARE PERFORMED AND THEIR RESULTS AGGREGATED.

7.2 THE PURPOSE OF THE EXPANDED GENERAL ASSESSMENT IS TO ASSESS THE GENERAL ACCOUNTABILITY ENVIRONMENT WITHIN WHICH THE MISSION MUST OPERATE IN THE HOST COUNTRY. THE GENERAL ASSESSMENT WILL FORM THE BASIS FOR THE REQUIRED SPECIFIC ASSESSMENTS REQUIRED IN EVERY PROJECT AND PROGRAM DESIGN DOCUMENT. THE GENERAL ASSESSMENT SHOULD BE FORWARD-LOOKING, DEVELOPING STRATEGIES FOR OVERCOMING OBSTACLES TO ACCOUNTABILITY SO THAT A.I.D.'S PROJECTS AND PROGRAMS MAY BE IMPLEMENTED WITH AS LITTLE WASTE, FRAUD AND/OR ABUSE AS POSSIBLE.

7.3 THE GENERAL ASSESSMENT SHOULD INCLUDE A OVERVIEW OF THE HOST COUNTRY'S BUDGETING AND FINANCIAL MANAGEMENT SYSTEMS. IT SHOULD ALSO INCLUDE AN ANALYSIS OF THE FINANCIAL SYSTEMS OF INDIVIDUAL HOST GOVERNMENT MINISTRIES OR AGENCIES', IN ORDER TO DETERMINE WHICH AGENCIES MIGHT BE MORE OR LESS ABLE TO ENSURE ACCOUNTABILITY FOR HOST COUNTRY-OWNED LOCAL CURRENCY. THE FORTHCOMING GUIDANCE WILL PROVIDE MISSIONS WITH A LIST OF FACTORS WHICH THEY SHOULD EXAMINE, SUCH AS THE GENERAL FINANCIAL MANAGEMENT CAPABILITIES OF THE HOST GOVERNMENT, THE QUALITY OF ACCOUNTING AND FINANCIAL MANAGEMENT PERSONNEL WITHIN THE HOST GOVERNMENT, THE SYSTEMS IN PLACE TO ALLOCATE AND EXPEND THE NATIONAL BUDGET, EXTERNAL ECONOMIC FACTORS WHICH MIGHT INFLUENCE THE USE OF LOCAL CURRENCY, AND THE MISSION'S PRIOR EXPERIENCE WITH ENSURING ACCOUNTABILITY FOR A.I.D. RESOURCES AND LOCAL CURRENCY IN THAT COUNTRY.

7.4 UPON EXAMINING RELEVANT FACTORS, MISSIONS SHOULD COME TO A CONCLUSION IN THE GENERAL ASSESSMENT AS TO THE DESIRABILITY OF PROGRAMMING HOST COUNTRY-OWNED LOCAL CURRENCY FOR GENERAL BUDGET SUPPORT, FOR GENERAL SECTOR

SUPPORT, FOR COUNTERPART TO A.I.D. OR OTHER DONOR PROJECTS PROVIDED THROUGH THE HOST COUNTRY BUDGET, OR FOR HOST COUNTRY PROJECTS OR PRIVATE SECTOR ACTIVITIES FUNDED OUTSIDE OF THE HOST COUNTRY BUDGET.

8.0 IDEALLY, MISSIONS WOULD HAVE CONCLUDED NEGOTIATIONS WITH THE HOST COUNTRY ON LOCAL CURRENCY PROGRAMMING AT THE PROGRAM DESIGN STAGE AND THUS BE ABLE TO DISCUSS SPECIFIC PROGRAMMING MODES IN THE PAAD. EVEN IF NEGOTIATIONS WITH THE HOST COUNTRY ON PROGRAMMING LOCAL CURRENCY HAVE NOT COMMENCED, EACH PAAD WILL INCLUDE AS PART OF THE FINANCIAL ANALYSIS SECTION A DETAILED ASSESSMENT OF APPROPRIATE PROGRAMMING ALTERNATIVES, I.E., A BUDGET SUPPORT PROGRAM, AVAILABLE TO THE MISSION BASED ON THE GENERAL ASSESSMENT. (THIS WOULD BE ANALOGOUS TO A DISCUSSION IN A PROJECT PAPER OF THE APPROPRIATENESS OF USING THE HOST COUNTRY CONTRACTING METHOD OF IMPLEMENTATION IN A PROJECT.) THE APPROVAL OF THIS SECTION OF THE PAAD WILL PROVIDE THE BASIC APPROVAL FOR SUBSEQUENT PROGRAMMING OF LOCAL CURRENCIES, PARTICULARLY FOR BUDGET SUPPORT PROGRAMS.

9.0 LOCAL CURRENCY PROGRAMMED FOR BUDGET SUPPORT. BUDGETARY RESOURCES ARE FUNGIBLE, AND THEREFORE MISSIONS SHOULD BE ALERT TO ENSURE THAT ABSENT SPECIAL CIRCUMSTANCES THE RECIPIENT GOVERNMENT DOES NOT ALLOCATE FEWER RESOURCES TO SUPPORT PRIORITY ACTIVITIES FINANCED BY JOINTLY PROGRAMMED LOCAL CURRENCY. EVEN WHEN THE OVERALL GOVERNMENT BUDGET REMAINS CONSTANT OR IS REDUCED FROM PREVIOUS ANNUAL LEVELS, MISSION MONITORING CAN HELP TO ENSURE THAT THESE IMPORTANT ACTIVITIES CONTINUE TO RECEIVE AN APPROPRIATE SHARE OF THE REDUCED LEVEL OF RESOURCES, A SHARE MADE POSSIBLE BY THE LOCAL CURRENCY ASSOCIATED WITH THE U.S. FOREIGN ASSISTANCE PROGRAM.

9.1 MISSIONS SHOULD NOTE THAT WHILE A.I.D.'S RESPONSIBILITIES FOR MONITORING THE DISPOSITION OF LOCAL CURRENCY ARE LESS INTENSIVE WHEN LOCAL CURRENCY IS PROGRAMMED FOR BUDGET SUPPORT, THIS DOES NOT IMPLY THAT A LOWER STANDARD OF ACCOUNTABILITY IS REQUIRED FOR THIS TYPE OF PROGRAMMING. THE CONTRARY IS TRUE: THE ASSUMPTION BEHIND BUDGET SUPPORT PROGRAMMING IS THAT ONCE LOCAL CURRENCIES REACH A DESIGNATED AGENCY OR PROGRAM, THEY WILL BE USED APPROPRIATELY AND WILL HAVE THE INTENDED DEVELOPMENT IMPACT. IF THIS WERE NOT TRUE, THERE WOULD BE NO JUSTIFICATION FOR THIS TYPE OF PROGRAMMING.

9.2 THUS, A DECISION IN FAVOR OF BUDGET SUPPORT PROGRAMMING IN A HOST COUNTRY WOULD BE BASED UPON EVIDENCE IN THE GENERAL ASSESSMENT OF A RATIONAL BUDGETARY ALLOCATION AND EXPENDITURE SYSTEM, ADEQUATE TO REPORT BOTH BUDGET ALLOCATIONS AND EXPENDITURES FROM THE GENERAL FUND, WITH BUILT-IN CONTROLS TO PREVENT FRAUD OR DIVERSION OF FUNDS. OTHER FACTORS WOULD BE AN ADEQUATE LEVEL OF HOST GOVERNMENT PERSONNEL SKILLED IN FINANCIAL MANAGEMENT, A HOST GOVERNMENT TRADITION OF ACCOUNTING FOR AND REPORTING ON THE USE OF EXTERNAL RESOURCES, ETC.

9.3 THE GUIDANCE WITH REGARD TO PERFORMING GENERAL ASSESSMENTS WILL CLARIFY THE FACTORS TO CONSIDER IN DETERMINING IN FAVOR OF ANY TYPE OF BUDGET SUPPORT PROGRAMMING IN A GIVEN COUNTRY. IF A DETERMINATION IS MADE IN THE GENERAL ASSESSMENT IN FAVOR OF THIS TYPE OF PROGRAMMING, ANY SUBSEQUENT LOCAL CURRENCY DESIGN DOCUMENTS SHOULD SIMPLY REFER TO THE GENERAL ASSESSMENT AND TO THE SPECIFIC ASSESSMENT CONTAINED IN THE PAAD AS DISCUSSED IN SECTION 8.D.

9.4 IF AS A RESULT OF THE GENERAL ASSESSMENT, A DETERMINATION AGAINST BUDGETARY SUPPORT PROGRAMMING IS MADE, BUT IN AN INDIVIDUAL CASE THE MISSION WANTED TO USE THIS METHOD, THEN A JUSTIFICATION WOULD HAVE TO BE PROVIDED IN EITHER THE PAAD OR LOCAL CURRENCY DESIGN DOCUMENT, ALONG WITH A DESCRIPTION OF THE METHODS BY WHICH THE MISSION WILL ENSURE THAT ACCOUNTABILITY FOR THE LOCAL CURRENCY IS MAINTAINED.

9.5 WITHIN THE CATEGORY OF BUDGET SUPPORT PROGRAMMING, THERE ARE MORE SPECIFIC WAYS OF PROGRAMMING THE LOCAL CURRENCY, WITH THEIR OWN UNIQUE ACCOUNTABILITY ISSUES. REGARDLESS OF WHICH TYPE OF PROGRAMMING IS CHOSEN, A.I.D. SHOULD RETAIN THE RIGHT TO RECEIVE REPORTS, MONITOR AND APPROVE ACTIVITIES, ADEQUATE TO ENSURE THAT A.I.D. WITH TIMELY ACCESS CAN TAKEN AN INDEPENDENT LOOK AT SUPPORTING DOCUMENTATION TO VERIFY THAT THE AGREEMENT ON USES OF LOCAL CURRENCY HAS NOT BEEN VIOLATED. (UNDER TYPICAL P.L. 480 TITLE I AGREEMENTS, HOWEVER, REPORTS CERTIFIED BY THE COUNTRY ARE OBTAINED, RATHER THAN REQUIRING INDEPENDENT ACCESS TO THE SUPPORTING DOCUMENTATION ON THE USES OF THE LOCAL CURRENCY.

9.6 THE GENERAL TYPES OF PROGRAMMING ALONG WITH THEIR ASSOCIATED ACCOUNTABILITY REQUIREMENTS ARE AS FOLLOWS:

9.6.A.1 GENERAL BUDGET SUPPORT. GENERAL BUDGET SUPPORT

IMPLIES SUPPORT TO A HOST GOVERNMENT BUDGET AT THE LEVEL OF THE GENERAL FUND. THUS, THERE IS NO SPECIFIC DIRECTION OF THE FUNDS, APART FROM THE PROHIBITION AGAINST USING THE FUNDS FOR PURPOSES FOR WHICH A.I.D. APPROPRIATED DOLLARS WOULD NOT BE ALLOWED.

9.6.A.2 IN ORDER TO PROGRAM LOCAL CURRENCIES FOR GENERAL BUDGET SUPPORT, MISSIONS MUST HAVE A HIGH DEGREE OF CONFIDENCE THAT LOCAL CURRENCIES WILL NOT BE DIVERTED AND/OR USED FOR UNAUTHORIZED PURPOSES. THE GENERAL ASSESSMENT WILL BE THE BASIS FOR THIS DETERMINATION.

9.6.A.3 IN BOTH THE PROGRAM DESIGN DOCUMENT AND IN A SEPARATE JUSTIFICATION TO THE REGIONAL BUREAU, A MISSION MUST JUSTIFY WHY LOCAL CURRENCY IS BEING PROGRAMMED FOR GENERAL BUDGET SUPPORT RATHER THAN FOR A SPECIFIC SECTOR OR FOR PROJECTIZED ACTIVITIES.

9.6.B.1 GENERAL SECTOR SUPPORT

THIS TYPE OF PROGRAMMING INVOLVES SUPPORT TO A GOVERNMENT'S BUDGET AT THE LEVEL OF A MINISTRY OR A LINE-ITEM (I.E. MINISTRY OF AGRICULTURE, OR PRIMARY SCHOOL MATERIALS). IN ORDER TO PROGRAM LOCAL CURRENCY FOR GENERAL SECTOR SUPPORT, A MISSION SHOULD HAVE A MEDIUM TO HIGH LEVEL OF CONFIDENCE IN THE FINANCIAL AND BUDGETING SYSTEMS OF THE HOST GOVERNMENT AND OF THE AGENCIES TO RECEIVE THE LOCAL CURRENCY. THIS CONFIDENCE IS NECESSARY IS BECAUSE UNDER THIS TYPE OF PROGAMMING, THE MISSION NEED NOT TRACE THE FUNDS TO SPECIFIC BUDGETARY OR END-USE ITEMS SINCE AID'S DEVELOPMENT GOAL IS A LEVEL OF OVERALL FINANCIAL SUPPORT TO A PROGAM OR INSTITUTION; INDEED, ONCE TRANSFERRED FROM A SEPARATE ACCOUNT TO A PROGRAM OR INSTITUTION, THE FUNDS WILL GENERALLY HAVE BEEN COMBINED WITH OTHER BUDGETARY FUNDS AND WILL NOT BE TRACEABLE.

9.6.B.2 ANY AGREEMENT BETWEEN THE HOST GOVERNMENT AND AID CONCERNING USE OF LOCAL CURRENCY FOR GENERAL SECTOR SUPPORT SHOULD SPECIFY THE FORMAT AND FREQUENCY OF REPORTS TO BE MADE TO A.I.D. UNDER THIS TYPE OF PROGRAMMING, THE AGENCY MANAGING THE SEPARATE ACCOUNT WILL BE RESPONSIBLE FOR VERIFYING THAT DOCUMENTATION EXISTS DEMONSTRATING THAT THE LOCAL CURRENCY INDEED WAS TRANSFERRED TO A MINISTRY'S ACCOUNT AND REPORTING THIS TO A.I.D. THE REPORTS SHOULD REFLECT BOTH BUDGET ALLOCATION AND EXPENDITURE OF FUNDS FROM THE GENERAL FUND.

9.6.C.1. SPECIFIC SECTOR SUPPORT. JOINTLY PROGRAMMED LOCAL CURRENY MAY BE USED TO HELP MEET THE HOST COUNTRY'S CONTRIBUTION TO AID DA AND ESF PROJECTS, INCLUDING THE MANDATORY CONTRIBUTION REQUIRED UNDER FAA SECTION 110. LOCAL CURRENCY MAY ALSO BE USED TO SUPPORT ACTIVITIES FUNDED BY OTHER OECD AND MULTILATERAL DONORS. A DECISION TO ALLOCATE LOCAL CURRENCY TO AID AND OTHER DONORS' PROJECTS, IN FACT, MAY BE ESPECIALLY WISE WHEN THE MISSION DETERMINES THA A MORE DIRECT INVOLVEMENT AT THE PROJECT OR LINE ITEM LEVEL IS APPROPRIATE. IN ADDITION TO FUNDING A.I.D. OR OTHER DONOR PROJECTS, FUNDING OF HOST COUNTRY PROJECTS OR OF A BUDGET LINE-ITEM IN CONNECTION WITH A.I.D. NONPROJECT ASSISTANCE, WHEN SUCH SUPPORT IS PROVIDED THROUGH NORMAL BUDGETARY CHANNELS, WOULD BE CONSIDERED SPECIFIC SECTOR SUPPORT.

9.6.C.2 IN ORDER TO PROGRAM LOCAL CURRENCY FOR SPECIFIC SECTOR SUPPORT, A MISSION SHOULD HAVE A MEDIUM TO HIGH LEVEL OF CONFIDENCE, ASCERTAINED FROM THE GENERAL ASSESSMENT, IN THE FINANCIAL AND BUDGETARY SYSTEMS OF THE HOST GOVERNMENT. IN ADDITION, IF AN AGENCY OR AGENCIES OTHER THAN THE AGENCY RESPONSIBLE FOR THE SEPARATE ACCOUNT IS TO MONITOR SPECIFIC SUPPORT ACTIVITIES, THEN THE LOCAL CURRENCY PROGRAM DESIGN DOCUMENT SHOULD IDENTIFY THIS AGENCY OR AGENCIES, AND DESCRIBE HOW RESPONSIBILITY FOR MONITORING THESE ACTIVITIES WILL BE SHARED. IN SUCH A CASE, THE AGENCY MANAGING THE SEPARATE ACCOUNT SHOULD PERFORM OR ARRANGE FOR THE PERFORMANCE OF A FINANCIAL ASSESSMENT OF THAT AGENCY OR AGENCIES TO ESTABLISH REASONABLE ASSURANCE THAT IT WILL BE ABLE TO MONITOR THE LOCAL CURRENCY EXPENDITURES, AUDIT THE PROJECT(S), AND REPORT ON EXPENDITURES AND PROGRESS IN MEETING PROJECT OBJECTIVES TO THE AGENCY MANAGING THE SEPARATE ACCOUNT.

9.6.C.3 REGARDLESS OF WHICH ORGANIZATION IS TO RECEIVE THE LOCAL CURRENCY, THE HOST GOVERNMENT AND AID SHOULD ASSURE THEMSELVES THAT PROJECTS TO BE FINANCED BY LOCAL CURRENCY THROUGH THE HOST COUNTRY BUDGET MEET ACCEPTABLE TECHNICAL, FINANCIAL AND ADMINISTRATIVE STANDARDS AND THAT LOCAL CURRENCY ALLOCATIONS TO SUPPORT THESE PROJECTS ARE THEREFORE LIKELY TO BE EFFECTIVELY UTILIZED. PROJECTS THAT ARE FUNDED AND MONITORED BY AID WOULD PROVIDE SUCH EVIDENCE. SIMILARLY, THE FACT THAT PROJECTS WERE FUNDED AND MONITORED BY OTHER DONORS OR UNDERTAKEN BY STRONG, HIGHLY RESPECTED HOST GOVERNMENT OR PRIVATE SECTOR INSTITUTIONS WOULD GENERALLY PROVIDE

SUCH ASSURANCES.

9.6.C.4 ANY AGREEMENT BETWEEN THE HOST GOVERNMENT AND AID CONCERNING USE OF LOCAL CURRENCY FOR SPECIFIC SECTOR SUPPORT SHOULD SPECIFY, BY PROJECT OR BY BUDGET LINE ITEM, THE FORMAT AND FREQUENCY OF REPORTS. THE REPORTS SHOULD REFLECT BOTH BUDGET ALLOCATION AND EXPENDITURE OF FUNDS FROM THE GENERAL FUND.

9.6.C.5 REPORTING ON LOCAL-CURRENCY FUNDED PROJECTS SHOULD, AT A MINIMUM, BE SUFFICIENT TO DEMONSTRATE ALLOCATION OF THE LOCAL CURRENCY TO THE PROJECT(S). THE MISSION SHOULD CONSIDER WHETHER TO REQUIRE THAT REPORTS TO THE AGENCY MANAGING THE SEPARATE ACCOUNT ALSO CONTAIN INFORMATION ABOUT EXPENDITURES OF THE LOCAL CURRENCY WITHIN THE PROJECT.

9.6.C.6 THE OBJECTIVES OF PROJECTS FUNDED BY LOCAL CURRENCY SHOULD BECOME THE "PERFORMANCE INDICATORS" FOR THE PROGRAMMING OF THE LOCAL CURRENCY, AND THE RECIPIENT ORGANIZATIONS SHOULD REPORT AS TO WHETHER THE INDICATORS WERE ACHIEVED.

9.6.C.6 REPORTS CONCERNING LOCAL CURRENCY FUNDS PROGRAMMED IN SUPPORT OF A.I.D. PROJECTS SHOULD BE SUBMITTED ON A QUARTERLY RECURRING BASIS AND SHOULD BE FORMATTED SO AS TO ENSURE THAT THESE FUNDS ARE USED TO SUPPORT PROJECT OBJECTIVES.

10.0 LOCAL CURRENCY PROGRAMMED FOR ACTIVITIES ON AN EXTRA-BUDGETARY BASIS. AT TIMES, LOCAL CURRENCY IS PROGRAMMED FOR ACTIVITIES OUTSIDE OF THE HOST GOVERNMENT'S REGULAR BUDGET. SUCH ACTIVITIES ARE USUALLY "PROJECTS" OF SOME KIND. IF LOCAL CURRENCIES ARE PROGRAMMED FOR DISCRETE ACTIVITIES OUTSIDE OF THE HOST GOVERNMENT'S BUDGET, THE DEGREE OF MISSION INVOLVEMENT IN MONITORING THESE ACTIVITIES WILL DEPEND ON THE CAPABILITY OF THE HOST GOVERNMENT UNIT RESPONSIBLE FOR THE SEPARATE ACCOUNT. THE FOLLOWING ARE MINIMUM STANDARDS WHICH MUST BE MET BY THE HOST GOVERNMENT (AND IF NOT, THEN BY THE MISSION) WITH REGARD TO MONITORING LOCAL CURRENCY PROGRAMMED IN THIS FASHION. THE PRECEPT BEHIND THESE STANDARDS IS THAT ONE AGENCY WITHIN THE HOST GOVERNMENT WILL BE RESPONSIBLE FOR DISBURSING FUNDS TO A RECIPIENT ORGANIZATION(S), ACCOUNTING FOR THE FUNDS, AND VERIFYING REPORTS AND AUDITS OF THE RECIPIENT ORGANIZATION(S).

10.1 FINANCIAL ASSESSMENT OF RECIPIENT ORGANIZATIONS. WHEN LOCAL CURRENCY IS PROGRAMMED FOR PROJECT ACTIVITIES, THE MISSION IN COOPERATION WITH THE HOST GOVERNMENT SHOULD DETERMINE TO WHAT EXTENT FINANCIAL ASSESSMENTS OF THE RECIPIENT ORGANIZATIONS WILL BE NECESSARY. A FINANCIAL ASSESSMENT WOULD BE NECESSARY IF THERE WAS NO REASONABLE ASSURANCE THAT THE ORGANIZATION HAD ADEQUATE FINANCIAL MANAGEMENT SYSTEMS IN PLACE TO ACCOUNT FOR THE LOCAL CURRENCY. PRIOR EXPERIENCE WITH THE ORGANIZATION WOULD PROVIDE REASONABLE ASSURANCE. IF A U.S. PVO OR ANOTHER DONOR'S PROJECT IS BEING FUNDED, FOR EXAMPLE, THE MISSION MAY ADVISE THE HOST COUNTRY THAT A FORMAL FINANCIAL ASSESSMENT IS NOT REQUIRED. LIKEWISE, IF THE MISSION AND THE HOST GOVERNMENT HAVE HAD EXPERIENCE WORKING WITH A RECIPIENT ORGANIZATION, THEY MAY MAKE A DETERMINATION THAT A FINANCIAL ASSESSMENT IS NOT NECESSARY BASED ON PREVIOUS GOOD PERFORMANCE.

10.2 IF THE MISSION DETERMINES THAT THE HOST COUNTRY AGENCY RESPONSIBLE FOR THE MANAGEMENT OF THE SEPARATE ACCOUNT HAS THE CAPABILITY TO PERFORM OR ARRANGE FOR PERFORMANCE OF FINANCIAL ASSESSMENTS OF RECIPIENT ORGANIZATIONS, THEN THE MISSION SHOULD RELY ON THE AGENCY TO DO THIS. IF NOT, THEN ALTERNATIVE WAYS TO ASSESS RECIPIENT ORGANIZATIONS SHOULD BE DEVELOPED.

10.3 PROGRAM DESIGN DOCUMENTATION SHOULD CONTAIN A FULL DISCUSSION AND DETERMINATION OF HOW ASSESSMENT OF RECIPIENT ORGANIZATIONS WILL PROCEED.

10.4 REPORTING AND VERIFICATION. REPORTING ON LOCAL-CURRENCY FUNDED ACTIVITIES SHOULD, AT A MINIMUM, BE SUFFICIENT TO DEMONSTRATE ALLOCATION OF THE LOCAL CURRENCY TO THE ACTIVITIES. THE MISSION SHOULD CONSIDER WHETHER TO REQUIRE THAT REPORTS TO THE AGENCY MANAGING THE SEPARATE ACCOUNT ALSO CONTAIN INFORMATION ABOUT EXPENDITURES OF THE LOCAL CURRENCY WITHIN THE PROJECT.

10.5 WHEN LOCAL CURRENCY IS PROGRAMMED FOR SPECIFIC ACTIVITIES OUTSIDE OF THE HOST COUNTRY BUDGET, MISSIONS SHOULD ENSURE THAT FORMAL REPORTING MECHANISMS EXIST OR WILL BE INSTITUTED FROM THE RECIPIENT ORGANIZATIONS TO THE RESPONSIBLE HOST COUNTRY AGENCY, AND FROM THE HOST COUNTRY AGENCY TO THE MISSION. MISSIONS SHOULD ENSURE THAT THE REPORTING REQUIREMENTS ARE CONTAINED IN ALL AGREEMENTS BETWEEN THE HOST COUNTRY AND RECIPIENT ORGANIZATIONS, AND CONTAIN SPECIFIC REMEDIAL ACTIONS TO

BE TAKEN IN CASES OF REPORTING NON-COMPLIANCE. REPORT FREQUENCY, FORMAT, AND DOCUMENTATION REQUIREMENTS WILL DEPEND ON THE TYPES OF ACTIVITIES BEING FUNDED.

10.6 IT IS CRITICAL THAT THE HOST GOVERNMENT AGREE TO VERIFY REPORTS FROM VARIOUS HOST COUNTRY AGENCIES WHICH RECEIVE LOCAL CURRENCIES FROM SEPARATE ACCOUNTS. IF HOST GOVERNMENTS FAIL TO APPROVE VERIFICATION OF REPORTS, THEN MISSIONS SHOULD DEVELOP ALTERNATIVE APPROACHES FOR REPORT VERIFICATION SUCH AS MORE FREQUENT AUDITS.

10.7 IF, AS A RESULT OF VERIFICATION, REPORTS ARE FOUND TO BE INACCURATE OR WITHOUT BASIS, THE MISSION SHOULD TAKE IMMEDIATE ACTION TO ENSURE COMPLIANCE. THIS MAY ENTAIL CONTRACTING TECHNICAL ASSISTANCE TO CORRECT DEFICIENCIES AND/OR THE MISSION ASSUMING A GREATER RESPONSIBILITY IN MANAGING THE SEPARATE ACCOUNT(S) UNTIL DEFICIENCIES ARE CORRECTED. IF PROBLEMS PERSIST AND THE HOST GOVERNMENT IS NOT COOPERATIVE IN ATTEMPTING TO CORRECT THEM, THE MISSION SHOULD CONSIDER APPROPRIATE RESPONSES RELATED TO THE MISSION'S PORTFOLIO OF PROGRAMS AS A WHOLE (I.E. DISBURSEMENT OF FUNDS UNDER FUTURE PROGRAMS COULD BE CONTINGENT UPON RESOLVING THE ISSUE).

10.8 AS A GENERAL RULE, MISSIONS WILL NOT BE REQUIRED TO VERIFY REPORTS OF LOCAL CURRENCY RECIPIENT ORGANIZATIONS. HOWEVER, IF IT IS FOUND THAT THE HOST COUNTRY HAS WEAK FINANCIAL MANAGEMENT CONTROLS, THEN THE MISSION SHOULD PLAN NOT ONLY TO VERIFY THE REPORTS FROM THE HOST COUNTRY AGENCY TO THE MISSION, BUT ALSO TO ARRANGE FOR THE VERIFICATION OF A SAMPLE OF RECIPIENT ORGANIZATIONS' REPORTS. IF THE HOST COUNTRY AGENCY IS FOUND TO HAVE ADEQUATE FINANCIAL MANAGEMENT CONTROLS, THEN REPORT VERIFICATION CAN BE PERFORMED AT A MINIMUM LEVEL. AGAIN, THE MISSION'S REPORT VERIFICATION PLAN SHOULD BE ADDRESSED IN THE PROGRAM DESIGN DOCUMENTATION.

10.9 NORMALLY, REPORT VERIFICATION WILL REQUIRE A MISSION INSPECTION OF THE RESPONSIBLE HOST COUNTRY AGENCY'S ACCOUNTING RECORDS PERTAINING TO THE SPECIAL ACCOUNT ACTIVITIES, INCLUDING A RECONCILIATION OF REPORTS FROM RECIPIENT ORGANIZATIONS ON USES OF LOCAL CURRENCY. IN DETERMINING THE NUMBER OF RECIPIENT ORGANIZATIONS TO RECEIVE SPECIAL ACCOUNT FUNDS, THE MISSION AND THE HOST GOVERNMENT SHOULD CONSIDER THE ABILITY OF THE HOST COUNTRY AGENCY RESPONSIBLE FOR THE SPECIAL ACCOUNT TO MONITOR THESE RESOURCES.

10.10 AUDIT. MISSIONS, IN COORDINATION WITH THE HOST COUNTRY, MUST ENSURE THAT LOCAL CURRENCY RECIPIENT ORGANIZATIONS ARE AUDITED ON A PERIODIC BASIS. IF CAPABLE OF DOING SO, THE HOST COUNTRY AGENCY RESPONSIBLE FOR THE MANAGEMENT OF THE SEPARATE ACCOUNT SHOULD ARRANGE FOR THESE FINANCIAL AUDITS UTILIZING LOCAL CURRENCY. IF THE HOST COUNTRY AGENCY IS NOT CAPABLE OF DOING SO, THEN THE MISSION MUST TAKE A MORE ACTIVE ROLE TO ARRANGE FOR THESE AUDITS. THE ROLE OF THE MISSION AND THE DEGREE OF ITS INVOLVEMENT IN ARRANGING FOR AUDITS SHOULD BE ADDRESSED IN THE PAAD OR LOCAL CURRENCY PROGRAM DESIGN DOCUMENTATION. IN ADDITION, ALL AGREEMENTS TO UTILIZE SPECIAL ACCOUNT LOCAL CURRENCIES MUST SPECIFY AUDIT REQUIREMENTS, AUDIT RESPONSIBILITIES, AND SOURCE OF FUNDING FOR AUDIT OF THE ACTIVITIES TO BE FUNDED.

11.0 FINANCIAL REVIEWS. A LIMITED NUMBER OF MISSIONS HAVE STRONG AND CAPABLE FINANCIAL ANALYSIS STAFFS WHICH ARE ABLE TO PERFORM FINANCIAL REVIEWS OF LOCAL CURRENCY TRANSACTIONS. IN SOME CASES, THESE FINANCIAL REVIEWS HAVE BEEN PERFORMED IN LIEU OF AUDITS. SINCE THE INSPECTOR GENERAL IS RESPONSIBLE BY LAW FOR ALL AUDITS, MISSIONS' SHOULD OBTAIN THE CONCURRENCE OF THE REGIONAL INSPECTOR GENERAL BEFORE UNDERTAKING A FINANCIAL REVIEW PROGRAM THAT WILL BE USED IN LIEU OF FORMAL AUDITS. IN ADDITION, THE MISSION'S AUDIT PLAN SHOULD MAKE SPECIFIC REFERENCE TO THE FACT THAT A FINANCIAL REVIEW WILL BE PERFORMED BY THE MISSION AND SHOULD BE CLOSELY COORDINATED WITH THE MISSION'S REGIONAL INSPECTOR GENERAL AND THE HOST COUNTRY.

12.0 TRUST FUNDS AID HAS AUTHORITY TO ESTABLISH TRUST ACCOUNTS FOR HOST COUNTRY-OWNED LOCAL CURRENCIES. IF A.I.D. MANAGES OR ADMINISTERS LOCAL CURRENCY FUNDS OWNED BY THE HOST GOVERNMENT FOR ANY REASON, THIS CAN BE DONE ONLY PURSUANT TO A TRUST FUND AGREEMENT. THE TRUST FUND AGREEMENT ENTERED INTO BETWEEN A.I.D. AND THE HOST GOVERNMENT DEFINES THE USES TO WHICH TRUST FUNDS MAY BE PUT. THE USES MUST ALSO BE CONSISTENT WITH ANY SPECIFIC STATUTORY REQUIREMENTS (E.G., SECTION 609 OF THE FAA) WHICH MAY BE APPLICABLE TO LOCAL CURRENCIES WHICH HAVE BEEN GENERATED OR HAVE OTHERWISE ACCRUED AS A RESULT OF A FOREIGN ASSISTANCE PROGRAM AND DEPOSITED IN THE TRUST ACCOUNT. SINCE THESE LOCAL CURRENCIES ARE ADMINISTERED BY A.I.D. AS A TRUSTEE AND ARE NOT JOINTLY PROGRAMMED WITH THE HOST GOVERNMENT, AID OWES A DUTY TO THE HOST GOVERNMENT TO ACCOUNT FOR AND REPORT PERIODICALLY TO THE

HOST GOVERNMENT ON THE USES OF THE TRUST FUNDS. THIS REPORTING AND ACCOUNTING REQUIREMENT IS DESCRIBED IN CHAPTER 5, HANDBOOK 19.

12.1 TRUST FUNDS ARE PRIMARILY USED BY AID TO HELP MEET THE ADMINISTRATIVE COSTS OF ITS OVERSEAS MISSIONS. IN ADDITION, THEY HAVE PROVEN TO BE A USEFUL TOOL, FOR EXAMPLE, WHEN USED LIKE PD AND S FUNDS TO FACILITATE PROJECT DESIGN AND IMPLEMENTATION OF PROJECTS. IT IS EXPECTED THAT TRUST FUNDS WILL CONTINUE TO BE MADE AVAILABLE PRIMARILY FOR THESE PURPOSES.

12.2 TRUST FUNDS UTILIZED TO FINANCE DISCRETE NEW PROJECTS OR ACTIVITIES ARE GENERALLY NOT FAVORED BUT IT IS RECOGNIZED THAT UNDER EXCEPTIONAL CIRCUMSTANCES THEIR USE FOR THIS PURPOSE MAY BE WARRANTED. THE USE OF TRUST FUNDS TO FINANCE PROJECTS MUST BE PERMISSIBLE UNDER THE TERMS OF THE TRUST FUND AGREEMENT BETWEEN THE HOST GOVERNMENT AND AID.

12.3 LOCAL CURRENCIES HELD IN TRUST, WHETHER USED FOR ADMINISTRATIVE OR PROGRAM PURPOSES, ARE NOT U. S. OWNED LOCAL CURRENCIES AND THEREFORE STATUTORY RESTRICTIONS (EXCEPT AS NOTED IN PARAGRAPH 4.10) THAT APPLY TO APPROPRIATED FUNDS DO NOT AS A MATTER OF LAW APPLY TO THEIR USE UNLESS SPECIFICALLY APPLICABLE TO LOCAL CURRENCY PROGRAMMING. BECAUSE AID EXERCISES VIRTUALLY COMPLETE CONTROL OVER THE USE OF TRUST FUNDS, WHILE STILL OWING A FIDUCIARY RESPONSIBILITY TO THE HOST GOVERNMENT, AID WILL APPLY CERTAIN PROCEDURAL REQUIREMENTS ON THEIR USE. HANDBOOK 19 DESCRIBES REPORTING REQUIREMENTS. IN ADDITION, AS A MATTER OF POLICY, AID WILL APPLY THE FEDERAL ACQUISITION REGULATIONS (FAR) AND AID ACQUISITION REGULATIONS (AIDAR) TO ANY CONTRACT ACTION PERFORMED BY AID WITH SUCH FUNDS. WHEN TRUST FUNDS ARE UTILIZED TO SUPPORT DISCRETE NEW PROJECTS OR ACTIVITIES, MISSIONS MUST DEVELOP, ANALYZE, JUSTIFY, AND IMPLEMENT THE ACTIVITY AS IF IT WERE AN AID PROJECT, INCLUDING THE USE OF A PPLIKE AUTHORIZATION DOCUMENT. ENVIRONMENTAL CONSIDERATIONS ARE ADDRESSED IN PARAGRAPH 5.00. IT IS NOT THE INTENTION OF THIS GUIDANCE TO MAKE APPLICABLE TO TRUST FUNDS THE ENTIRE RANGE OF LIMITATIONS AND

12.4 RESTRICTIONS CONTAINED IN UNDERLYING LEGISLATION. HOWEVER, IN UTILIZING TRUST FUNDS FOR PROJECT ACTIVITIES, MISSIONS MUST BE AWARE OF STATUTORY LIMITATIONS WHICH MAY APPLY TO THE USE OF APPROPRIATED

FUNDS FOR A COUNTRY OR PURPOSE AND AID POLICY IMPLEMENTING SUCH LEGISLATION, AND ARE ENCOURAGED TO EXERCISE CARE IN ASSURING THAT THE USES OF TRUST FUNDS ARE CONSISTENT WITH THE LEGISLATION AND POLICY. IN THIS REGARD, SECTION 2.48 OF THIS GUIDANCE SHOULD BE VIEWED AS APPLYING AS WELL TO TRUST FUNDS. GIVEN THE SIGNIFICANT BURDEN ON LIMITED MISSION STAFFS ASSOCIATED WITH SUCH TRUST FUND PROJECTS, TRUST FUNDS MAY BE UTILIZED FOR THIS PURPOSE ONLY WITH THE APPROVAL OF THE APPROPRIATE REGIONAL ASSISTANT ADMINISTRATOR.

13.0 ENVIRONMENTAL SAFEGUARDS UNDER LOCAL CURRENCY PROGRAMMING

RESPONSIBLE SAFEGUARDS ENSURING THAT ENVIRONMENTAL CONCERNS WILL BE TAKEN INTO ACCOUNT IN THE DESIGN AND IMPLEMENTATION OF PROJECTS AND PROGRAMS SUPPORTED BY JOINTLY PROGRAMMED LOCAL CURRENCY AND TRUST FUNDS ARE APPROPRIATE. ACCORDINGLY, SPECIFIC POLICY GUIDANCE ON THIS SUBJECT IS BEING PREPARED AND WILL BE SENT OUT FOR COMMENT SOON. IN THE INTERIM, MISSIONS ARE URGED TO PAY PARTICULAR ATTENTION TO HOST COUNTRY ENVIRONMENTAL PROTECTION AND MITIGATION PROCEDURES IN THE LOCAL CURRENCY PROGRAMMING PROCESS. 44

CLEARANCES CONTINUED

FM/CONT. P. AMOS

Agency for International Development
Washington, D.C. 20523

August 17, 1990

MEMORANDUM

TO: IG, Herbert Beckington

FROM: FM/C, Michael Usnick

SUBJECT: Draft FM Guidance on Programming and Managing Host Country-Owned Local Currency

Attached are three copies of FM's most recent version of a draft cable providing new supplemental guidance on the monitoring and accountability over host country-owned local currency. Yesterday, I sent this version to all of the AAs asking for their comments by Wednesday of next week.

This draft cable is one component of the larger policy review of local currency by the Local Currency Task Force. I consider this to be at the minimum a penultimate draft of the FM guidance, since the Administrator has not yet approved the overall policy context upon which this guidance is based. For example, the guidance does not mention treatment of local currencies that are sterilized or used for deficit financing, if that decision were to be made. At the same time, it does talk about general budget support, even though we may opt against such usage in the final policy statement.

Regardless of how the final policy document comes out, the draft cable outlines a new and more rigorous set of responsibilities for both A.I.D. Missions and host country governments and institutions with respect to the programming and management of local currency. I would like the views of your office, either formally or informally, on the adequacy of these new requirements. My assumption is that there are a number of items in the draft cable that will require further clarification, discussion and negotiation. Hopefully, this first round will get these issues out on the table. My objective is to arrive at guidance acceptable to you, mission managers, and Congressional staff.

My timeframe is flexible for receiving your comments, but it would be helpful if they can be provided over the next several weeks.

Attachments: a/s

cc: AIG/A, John Competello

DRAFT

Memorandum for Executive Staff from the Administrator

Subject: A.I.D. Local Currency Policy

Reference: (A) Policy Determination No. 5 (February 1983);
(B) 87 State 327494 (October 1987);
(C) State _____ [FM Accountability Guidelines]

1.0 Summary

1.1 This cable advises missions of important modifications in the Agency's policy governing the generation, programming, and accountability requirements associated with host country-owned local currency. The modified policy is different from existing Agency policy [refs. (A) and (B)] in three respects: (a) the modified policy does not require that local currency be generated in all country situations, but only when required by statute or when desired by the mission; (b) it explicitly permits missions to jointly program local currency to help fund a government's deficit; and (c) it imposes more rigorous accountability standards for managing local currency as explained in detailed operational guidance issued by M/FM [ref. (C)].

1.2 The key elements of the modified policy are summarized in the attached "Local Currency Decision Tree." The decision tree depicts a logical sequence for considering: (a) options for generating local currency; (b) options for programming local currency that has been generated; and (c) accountability requirements linked to each programming option. Although Operating Expense (OE) Trust Funds and Program Trust Funds are not included in the "decision tree," both types of trust funds are permitted, but not encouraged, under the modified policy [Section 11.0 of ref. (C)].

2.0 Background

2.1 The Agency has repeatedly been criticized by the Inspector General (IG), the General Accounting Office (GAO) and key Congressional subcommittees for the way in which host country-owned local currency is managed. The management problem appears to be most serious when local currency is jointly programmed as budget or sectoral support rather than as support for discrete projects where the impact of the funding

is easier to document. The problem is most visible in countries where a relatively large proportion of U.S. economic assistance is in the form of program (as distinct from project) assistance, and where U.S. assistance is driven in large part by political considerations (as in Egypt, El Salvador, Pakistan and the Philippines).

2.2 A.I.D. participation in programming and accounting for host country-owned local currency has changed substantially over the past 20 years. In 1972 A.I.D. policy was not to participate in local currency programming. Beginning in 1983 A.I.D. policy required more active participation in local currency programming [ref. (A)]. Greater A.I.D. involvement has led to greater A.I.D. accountability [ref. (B)]. In countries where we continue our active participation, we need to handle the accountability concerns of the IG and the GAO more effectively [ref. (C)].

2.3 The modified policy requires that each mission assess annually the merits of generating and programming host country-owned local currency. Those missions that are required to, or that choose to, generate local currency will be expected to jointly program the local currency to support one or more of the four types of activities outlined below and to comply with the new accountability standards issued by M/FM.

3.0 Generating Local Currency

3.1 The modified policy continues to encourage missions to generate local currency, but only in countries where it makes programmatic sense and where it will not have a negative effect on economic stability. It encourages missions not to generate local currency, or to sterlize local currency that has already been generated, when:

(a) the local currency would have a negative effect on overall economic stability, for example, by fueling inflation; and/or

(b) the accountability requirements imposed by the new operational guidelines cannot be implemented because, inter alia, the mission has inadequate staff to monitor the use of the local currency; and/or

(c) other, country-specific factors persuasively argue against generating local currency, or argue in favor of sterilizing it when it has aleady been generated.

3.2 Local currency is always generated when the private sector purchases commodities (including foreign exchange) provided by A.I.D. Examples of such transactions include food aid sold

under the PL 480 Title I program, fertilizer sold under a Commodity Import Program (CIP), or cash auctioned under a Cash Transfer Program. If local currency were not generated under such circumstances, it would mean that the U.S. government had donated the commodities to private firms or individuals in the recipient country.

3.3 A.I.D. also provides commodities to the public sector of recipient countries. This occurs, for example, when earth moving equipment is supplied under a CIP to the Ministry of Public Works of a particular government. In such cases, local currency would normally be generated as long as the resources to purchase the earth moving equipment had been included in the government budget and had been made available to the Ministry of Public Works. Local currency would not be generated if the resources to purchase the earth moving equipment had not been included in the government budget. Indeed, when a donor requires that local currency be generated in spite of the fact that budgetary resources have not been made available, the government then must (a) reduce expenditures for other activities that have been included in the budget; (b) increase revenues from taxation or borrowing; and/or (c) print money.

3.4 Local currency is normally not generated when the external assistance (typically a cash transfer) is used by the recipient government to service external debt. In addition, local currency is normally not generated when the U.S. has no economic development interest (as distinct from foreign policy interest) in the recipient country as, for example, in Israel, Portugal and Turkey.

4.0 Programming Local Currency

4.1 When local currency is generated or when it has to be generated (as in the case of PL 480 Title I programs or private sector CIPs), missions have four basic programming choices. The local currency may be programmed to support more than one of these four options, even though it was generated from a single assistance source (such as the PL 480 Title I program). Each programming choice is associated with certain accountability requirements which are set forth in the operational guidelines [ref. (C)]. The four programming choices, keyed to the relevant sections of the operational guidelines, are listed below.

(a) developmentally sound projects [Section 8.6.C. of ref. (C)];

(b) specific sectors of the government's budget [Section 8.6.B. of ref. (C)];

(c) the government's deficit [Section 8.6.A. of ref. (C)];

and/or

(d) local currency may be "sterilized" (that is, demonetized and withdrawn from the economy) [Section _____ of ref. (C)].

4.2 When local currency is generated, it must be programmed to support economic development objectives as defined in current legislation [the Foreign Assistance Act (FAA), the Agricultural Trade Development and Assistance Act (PL 480), or the Agriculture Act of 1949 (Section 416)]. Sterilization, or demonetization, is a legitimate and appropriate way to program local currency (a) when this "use" is necessary to help stabilize the economy of the recipient country, (b) when it would be imprudent to inject local currency into the money supply, and (c) when the government has the budgetary discipline to adhere to strict monetary guidelines and will not simply print money equal to the amount of local currency that has been demonetized. Sterilization is typically accomplished by depositing the local currency into a blocked account, which eventually must be liquidated using a timetable consistent with changes in the money supply and overall stabilization requirements.

4.3 Local currency can also be used to help fund the government's deficit, the effect of which is to reduce public sector borrowing from what it otherwise would be and to make those funds available for private sector borrowing. This use, which has the effect of supporting the government's overall budget, would not be applicable in a country where the government was not borrowing and had no deficit.

4.4 Sterilizing local currency or programming local currency to help fund the public sector deficit is normally appropriate only in countries implementing an IMF-sponsored stabilization program, under which the domestic money supply and credit ceilings (for both public and private sector borrowing) are firmly extablished. When missions determine that it is appropriate to program local currency to help fund the government's deficit, this use must first be approved by the Assistant Administrator (AA) of the relevant geographic bureau.

5.0 Managing Local Currency

5.1 Missions that generate and program local currency will be required to establish special accounts [Section 5.0 of ref. (C)], provide regular reports, conduct audits, and monitor the implementation of local currency-financed activities, as is now required. However, the modified policy requires missions to implement more rigorous accountability standards. These new standards should have a negligible impact on staffing

requirements when local currency is sterilized or used to help fund the government's deficit.

6.0 Pros and Cons of the Modified Policy

6.1 This modified local currency policy was approved subsequent to careful consideration of its various pros and cons. These pros and cons are enumerated below to provide missions with a clearer understanding of the considerations that prompted this modified policy.

6.2 Pros

(a) The modified policy does not require A.I.D. missions to negotiate a counterpart program in all countries, only where required by statute or where such a program would advance U.S. objectives.

(b) It reduces the potential for misunderstanding and criticism from Congress, auditors and the public concerning the management and impact of local currency programs.

(c) It permits (under the sterilization and deficit funding options) a reduction in the level of personnel (or conversely, does not require an increase in the level of personnel) needed to negotiate, program, monitor, and audit agreements with recipient governments concerning local currency uses. It is consistent with a low official U.S. profile abroad, including smaller A.I.D. staffs and reduced A.I.D. budgets.

(d) It can simplify A.I.D. management of the U.S. economic assistance program.

(e) It implicitly recognizes that negotiation of the external assistance agreement -- not negotiation of local currency uses -- often constitutes the best opportunity for the U.S. to achieve its development assistance objectives, and that joint programming of local currency, undertaken as a separate exercise additional to negotiating the agreement, is usually not necessary to achieve U.S. objectives.

(f) It focuses A.I.D. attention on major policy issues; it emphasizes ends, rather than means.

(g) It recognizes that some governments are sensitive to allegations that the U.S. intervenes, or desires to intervene, in their domestic affairs by stipulating how their resources should be allocated.

(h) It recognizes that some recipient governments are more

likely to respond positively to our suggestions for changes in their budget allocations if attempts to persuade them to adopt these changes have low visibility.

(i) The new accountability standards make it easier for U.S. auditors to detect the possible misuse of host country-owned local currency by host country officials in those countries where A.I.D. jointly programs local currency.

6.3 Cons

(a) The modified policy appears to be driven more by accountability standards than by development objectives. As a result, some missions may decide not to generate local currency simply because they do not have the staff necessary to implement the new accountability standards.

(b) Conversely, some missions may need to hire additional staff in order to comply with the new accountability standards. For example, in the GAO's June 1990 draft report on El Salvador, the mission estimates that an additional 108 staff would be required if local currency were monitored in the same way as appropriated dollars.

(c) The modified policy will require additional staff time to prepare mission assessments of the pros and cons of generating and programming local currency, even for countries where it is readily apparent that local currency programming will not further U.S. goals.

(d) The modified policy may require a legislative change if, for example, it were decided that sterilizing local currency or using it to help fund the government's deficit did not constitute a legitimate "development objective" as defined in current legislation.

(e) Permitting missions to jointly program host country-owned local currency to fund a government's deficit may be difficult to explain to Congress, especially in view of the large USG deficit.

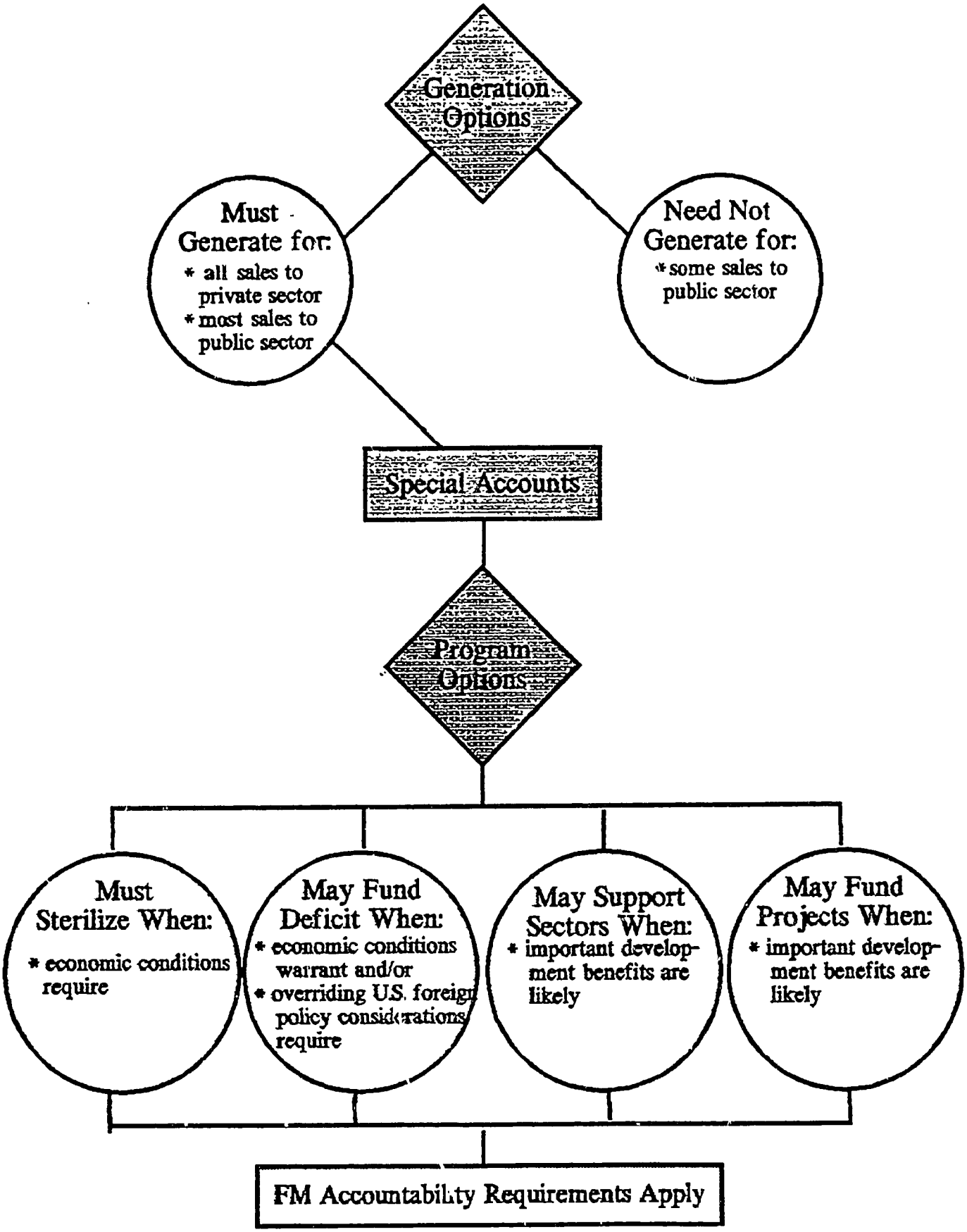
(f) The modified policy does not address programming and accountability problems in countries with corrupt governments.

6.4 These changes in the Agency's local currency policy have been developed in cooperation with staff of key Congressional committees as well as the Office of the Inspector General (IG). Although neither the Congress nor the IG has been asked to clear the elements of the policy outlined above, both are

supportive of the overall thrust of the policy.

6.5 This modified policy supplements current Agency policy on host country-owned local currency [refs. (A) and (B)] in Handbook 1. Questions concerning the modified local currency policy should be addressed to AA/PPC. Questions concerning the new accountability standards [ref. (C)] should be addressed to M/FM.

Chart 1 -- Local Currency Decision Tree



Clearance: DAA/AFR, LSaiers_____
DAA/APRE, GLaudato_____
DAA/ENE, DMerrill_____
DAA/LAC, FScheick_____
AA/FVA, MMankin_____
M/FM, MUsnick_____
D/GC, JMullen_____
LEG, BBennett_____
C/AID, RLove_____
AA/PPC, RBrown_____

PPC/PDPR, JvanderVeen (draft)
DAA/PPC, JSBlackton (draft)

Info.: IG, HBeckington

Drafted: PPC/PDPR:DGMcClelland:9253R:9/25/90

CHAPTER 2

CASH TRANSFER PROGRAM

According to A.I.D., there are a variety of circumstances affecting U.S. national interests which require the provision of cash transfer assistance. A.I.D. categorizes these circumstances into the following four general purposes:

- Security-related commitments with base-rights countries;
- U.S. political commitments to Israel and Egypt resulting from the Camp David Accord;
- Economic stabilization for those countries where U.S. has major security and/or political interests and which are experiencing serious balance of payments or domestic budgetary problems; and
- Economic policy reforms for those countries where U.S. has security and/or political interests and which are in need of structural adjustment reforms to achieve economic growth.

In providing cash transfer assistance, the A.I.D. strategy is to link this bilateral assistance to economic stabilization and policy reform whenever possible. Whatever conditions are attached to this assistance will vary depending on U.S. interests in the country and what is judged appropriate and/or negotiable.

In the case of base-rights countries, which view the cash transfer assistance as rent, A.I.D. does not condition the assistance on economic stabilization and policy reforms. In the case of Israel and Egypt, where the primary objective of the assistance is to promote peace in the Middle East, no economic policy conditions are attached to the cash transfer assistance to Israel, though conditions are attached to the cash transfers to Egypt. Conditions are usually attached to all other cases of cash transfer assistance. In these other cases, cooperation with multilateral donors is an important principle which underlies A.I.D.'s use of conditions. Since A.I.D. uses the International Monetary Fund (IMF) and World Bank analyses and studies to perform its own analyses for identifying needed adjustments and reforms, it is not unusual that A.I.D. coordinates its conditions with those of the IMF and World Bank.

In supporting IMF Standby Arrangements,* A.I.D. cash transfer resources are used to ease the pain of the austerity conditions and allow for a smoother transition during the restructuring of the economy.

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* A short-term program which may include adjustments in exchange rates, domestic credit, public sector spending, and foreign borrowing.

In supporting a World Bank Structural Adjustment Program* in a specific country, A.I.D. will coordinate with the World Bank to condition its cash transfer assistance on specific macroeconomic problems or a specific sector within the framework of the Bank's overall structural adjustment program.

In recent years, policymakers have generally realized that if U.S. balance of payments assistance is to be effective in promoting economic development, some countries need to redress the poor economic policies that deter development. Without requiring the host country to take any corrective measures to reduce its balance of payments and/or budgetary deficits, there would be no end to its dependence on U.S. assistance. A.I.D. has therefore adopted economic stabilization and policy reform as objectives in an increasing number of cash transfers.

When cash transfers are conditioned on host country policy reforms, these reforms should be specifically stated in the PAAD and then carried over to the nonproject agreement whenever possible. Specific criteria should also be developed in the PAAD for assessing host country progress in achieving the reforms and measuring the impact of the reforms on economic development. Because A.I.D. Handbook 4 is not complete, it does not provide any guidance on the need for providing a specific statement of the policy reforms and the criteria for assessing the progress and impact of the reforms in the PAAD.

This need for policy guidance was brought to A.I.D.'s attention in a June 1988 GAO audit report**, which indicated that A.I.D. has had mixed success in using cash transfers to encourage economic policy reforms. The report concluded that:

> "If cash transfers based on policy reform are to be justified, A.I.D. needs to demonstrate as precisely as possible what progress is being made. Although the difficulties in achieving and measuring reform progress and impact are clear, we believe that A.I.D. could improve the prospects for successful policy reform efforts by establishing sufficient criteria to guide its policy reform efforts.
>
> "To improve the prospects for successful policy reform efforts and facilitate measuring progress, we recommend that the A.I.D. "Administrator require

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* A long-term program designed to help developing countries carry out policy and institutional reform.

**See Report No. GAO/NSIAD-88-182 entitled "Foreign Aid: Improving the Impact and Control of Economic Support Funds".

that each internal A.I.D. program document justifying cash transfer programs seeking policy reforms:

- "clearly state the specific economic policy reforms the cash transfer is intended to encourage,
- "specify the anticipated timeframes or milestones for achieving these reforms, and
- "state the anticipated impacts of the reforms on economic development.

"Whenever country circumstances render it practical, A.I.D. should also include such details in grant agreements. Subsequent cash transfer program documents should include an assessment of reform progress and impact using the above criteria."

There is no evidence that A.I.D. has addressed this internal control need, though it responded to GAO that it would try to ensure that program authorization documents contain the information and that subsequent documents assess progress in relation to these criteria.*

Recognizing the importance of policy reform, Congress requires that, at least 15 days prior to obligating cash transfer assistance to a foreign country, A.I.D should submit a notification to Congress which:

- describes how the funds to be made available will be used;
- discusses the U.S. interests that will be served by the assistance; and as appropriate,
- describes the economic policy reforms that will be promoted by the cash transfer assistance.

The policy reforms reported to Congress should be those discussed in the PAAD and included in the cash transfer agreement as conditions precedent or covenants.

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* Some bureau officials have expressed the opinion that the specific A.I.D. impact upon policy may be extremely difficult, if not impossible, to measure, since A.I.D. is very often working in collaboration with multiple donors in an attempt to alter host country policy.

Until recently, few conditions, other than policy reforms, have been imposed on cash transfer assistance. Because the purpose of the cash transfer was to provide quick disbursing dollars to meet balance of payments and/or budgetary objectives, A.I.D. did not believe restrictive conditions should be placed on the assistance.

In recent years, Congress has voiced concern about A.I.D.'s lack of controls over the use of the dollars. Because A.I.D. disbursed the dollars to the host country's bank account where the funds were commingled with other sources of foreign exchange, it had no way of knowing how the dollars were used. Concerned that this lack of financial accountability could lead to funds being diverted for unauthorized purposes, the Congress enacted legislation in 1986 requiring all countries receiving cash transfers over $5 million after February 1, 1987 to maintain the funds in separate accounts and not commingle them with other foreign exchange. Appropriations legislation enacted in Fiscal Year 1988 now requires separate accounting for all cash transfers, regardless of the amount.

Congress has also voiced its concern about the need for better control over the deposit, programming, and monitoring of local currencies generated from cash transfers and CIP programs. When Congress enacted legislation requiring the host country to deposit the cash transfer dollars to special accounts, it included in that legislation a provision that the local currencies generated by the cash transfer and CIP dollar assistance be deposited in special accounts. These dollar and local currency legislative requirements should be discussed in the PAAD and included in the agreement.

The agreement is the basis for implementing cash transfer assistance. The agreement spells out the conditions and requirements which the host country agrees to undertake in return for the A.I.D. cash transfer dollars. This chapter discusses the processes and procedures for implementing the cash transfer agreement and accounting for A.I.D. funds. These processes and procedures thus constitute the internal control system for the implementation and accounting of cash transfer assistance.

A. NEGOTIATION OF AGREEMENT PROCESS

The Cash Transfer Agreement is a bilateral document which focuses on the purpose, amount, and major conditions of the assistance provided. Its purpose is to record the basic substantive decisions reached by A.I.D. and the host government in connection with the provision of the cash transfer assistance. The agreement is authorized by and gives effect to the related PAAD. When the cash transfer is provided in annual tranches, the agreement may refer only to that part of the cash transfer which is to be initially committed; or it may cover the whole amount of the cash transfer in general terms, but obligate only a stipulated portion with subsequent increases to be provided through amendments to the agreement.

In conjunction with the legal officer, the Project Officer should determine the format and content of the agreement. The agreement should usually state what is being provided by whom, for what, and subject to what conditions and restrictions. Accordingly, the agreement will usually include:

- A statement of the amount and nature of the assistance to be furnished by A.I.D.

- A statement of the conditions precedent which must be fulfilled prior to the disbursement of funds. The conditions precedent required by the PAAD should be covered verbatim or in substance in the agreement. These conditions may relate not only to such procedural acts as submission of a legal opinion that the agreement is duly authorized and executed but also such substantive actions as:

  -- Evidence that the host country is making progress in implementing specified policy reforms or stabilization adjustments.

  -- Evidence the host country has established a separate interest-bearing dollar account to be used solely for the cash transfer dollars and evidence that adequate accounting procedures are in place to track the sources of deposits into, and the uses of withdrawals from, this account.

  -- Evidence that the host country has established a separate interest-bearing local currency account to be used solely for the deposit of local currency and evidence that adequate accounting procedures are in place to track the sources of deposits into, and the uses of withdrawals from, this account.

- Terminal dates for compliance with the conditions precedent. The function of a terminal date for compliance with conditions precedent is to provide A.I.D. an opportunity to exercise the option of reexamining its positions vis-a-vis the grant, if the conditions have not been met by the prescribed date.

- A statement of the formal undertakings by the recipient which are to be included in the form of covenants. These may be general in nature, or may be particularly framed for the cash transfer. Covenants required by the PAAD must be covered verbatim or in substance in the agreement. These covenants can deal with specified stabilization and policy reforms, deposit of local currency to the special account at the highest exchange rate, how the local currencies are to be used, host country reporting on A.I.D. funds, and

the maintenance of financial records accounting for the use of the A.I.D. funds.

- A statement that A.I.D. will arrange for deposit of the proceeds to the separate account in the U.S. bank specified by the host country in writing.

- A statement on the eligible uses of the A.I.D. dollar funds. This statement should prohibit the use of A.I.D. funds for military, paramilitary police, and similar uses.

- Time controls based on a Project Assistance Completion Date (PACD), including a period for requesting disbursements.

- A statement that provisions of the agreement are to cover applicable statutory and regulatory requirements, e.g., record-keeping requirements and audit and inspection requirements. Such provisions also cover disbursement mechanics as well as remedies such as refund rights or default and termination provisions.

Since the agreement is viewed as the culmination of the negotiation process, its signing should be viewed as the mutual understanding and acceptance by the parties of all major elements of the cash transfer. Accordingly, significant issues should not be left for resolution during the implementation stage.

Normally, agreements are executed in the field pursuant to authority delegated to the mission Director or U.S. Ambassador. Often, authority to negotiate and sign are given together. Such delegations of authority may be existing or may be made by the Assistant Administrator only in connection with a given project. It should be noted that in the absence of an ad hoc delegation of authority, Ambassadors are not normally authorized to sign A.I.D. agreements.

Prior to signing the agreement, the Project Officer should obtain the mission and/or office accounting station's clearance that funds have been made available for obligating the cash transfer. The A.I.D. Regional Legal Advisor should also review the document before it is signed.

Immediately upon signing the cash transfer, the mission or office accounting station should send a cable to the Project/Nonproject Branch in the A.I.D./W Office of Financial Management. This cable should highlight the essential fiscal data for the agreement or any amendments thereto. This cable is used by the Branch as the basis for recording the obligation to the nonproject account in the Financial Accounting Control System (FACS). As soon as possible, a confirmed copy of the original

agreement should be sent to A.I.D./W. This copy of the agreement should be reviewed by the Office of the General Counsel ensuring that the agreement meets the obligation criteria under Section 1311 of the Supplemental Appropriation Act of 1955. After review, it should be provided to the Nonproject Branch as evidence of the obligation.

The control objective of this process is to ensure that a nonproject agreement containing all relevant cash transfer authorization and legal provisions is expeditiously negotiated. To achieve this objective, the process uses the following control techniques:

- **The guidance contained in A.I.D. Handbook 4 outlining the provisions to be included in the agreement and the procedures for negotiating the agreement.**
- **The review of the agreement in draft by an Agency Legal Officer.**
- **Clearance of the agreement by the mission and/or office accounting station to ensure funds are available and administratively reserved.**
- **The signing of the agreement by authorized officials of the U.S. and the host country which results in the obligation of funds.**

Handbook 4 does not provide a sample agreement for cash transfer assistance. This may account for the lack of uniformity in the provisions included in the agreement, e.g., some agreements specify the use of dollar and local currencies and others do not.

B. PROJECT IMPLEMENTATION LETTER PROCESS

Implementation commences when the cash transfer agreement has been signed by representatives of the Agency and the host government. Throughout the implementation phase, the Project Officer will be communicating with the host government implementing entity on matters relating to the prompt and efficient implementation of the cash transfer. This communication takes the official form of Project Implementation Letters, commonly referred to as PILs. The PILs must always be addressed to the person or organization designated by the host country in the section of the cash transfer agreement entitled "Communications." This requirement is necessary to ensure that the advice or notice contained in the PIL will be "deemed duly given" as provided for in the applicable clauses of the agreement.

After signature of the cash transfer agreement, the mission and/or office issues Implementation Letter No. 1, or the "Basic PIL." Subsequent PILs are serially

numbered to permit control and identification. The Basic PIL gives the host country more detailed guidance on matters covered in the project agreement. It explains specifically what documents are to be submitted to satisfy the conditions precedent set forth in the project agreement, including the format of the legal opinion to be submitted; it provides specific information on disbursement procedures; and it specifies what reports A.I.D. requires, defining their frequency, format, content, and so on.

Because the host country will be required to act promptly on some of the matters discussed in the PIL, these subjects should be discussed with the host country in detail before the cash transfer agreement is signed. It is desirable that the Basic PIL be prepared in draft shortly after the PAAD is completed. This allows detailed discussions with the host country during the interval between completion of the PAAD and signature of the agreement. The Basic PIL should be negotiated simultaneously with the agreement.

Subsequent PILs are used to document approvals by the mission and/or office of actions or intended actions by the host country, with recording such changes in the cash transfer agreement as can be made without formally amending it. These are changes in all clauses of annexes which contain the words "except as A.I.D. may agree otherwise." Clauses not containing these words can only be changed by a formal amendment of the agreement.

PILs frequently deal with subject matters which require the professional expertise of members of the mission and/or office staff other than the Project Officer. The "Basic PIL" is always in this category. The mission and/or office should thus establish procedures for clearing PILs by the Controller, Legal Advisor, Technical Specialist, etcetera.

A caveat is in order here. Since PILs are considered an official part of the project agreement, they should not be used to communicate mundane operational matters. Project Officers and PIL clearing officers within the missions and/or offices should thus have a clear understanding of the subject matter that should be communicated in the PIL. In other words, the PILs should not be used for micro-managing day-to-day operations.

The control objective of the PIL is to ensure that the host country is officially notified of all significant actions concerning the implementation of the cash transfer agreement. To achieve this control objective, the following control techniques are used:

- **The guidance for preparing the PIL outlined in A.I.D. Handbook 3.**

- **The serial numbering of PILs.**

- **The review and approval process for clearing PILs.**

PILs are not intended to be day-to-day management tools. A proliferation of PILs may indicate poor program design or the failure of the mission and host country to reach agreement on goals, objectives, and basic procedures prior to agreement authorization.

C. CONDITIONS PRECEDENT AND COVENANTS PROCESS

In developing the cash transfer, the designers will specify conditions precedent (CP) and covenants to be included in the cash transfer agreement. These CPs and Covenants are included in the agreement to ensure the host country undertakes specific actions in connection with the implementation of the cash transfer.

CPs are those provisions in the cash transfer agreement which are considered essential to program implementation. In this regard, CPs address specific actions which the host country must take in order to proceed with implementation or actions deemed necessary to optimize results and/or benefits. CPs are thus one-time actions which must be fulfilled within a specified period of time.

The Basic PIL sets forth the CPs to initial disbursement of funds. These initial CPs refer to such host country actions as a legal opinion on the validity of the agreement and the requirement to designate official representatives. In addition, the Basic PIL will usually indicate those specific CP actions which should be taken in regard to the disbursement of funds. A target date, ranging up to four months, will be established to fulfill these CPs. If the host country is unable to fulfill the CPs within the specified period, the mission and/or office can extend the period. Generally, the mission and/or office has the delegated authority to extend the CP period only up to a year, after which the geographic bureau's assistant administrator must approve any further extensions. Under no circumstances can the mission and/or office rescind and/or change the CP without the prior approval of the assistant administrator.

The Project Officer is responsible for monitoring the host country's compliance with the CPs. Thus, when the necessary documents have been received and reviewed, the Project Officer will notify the host country representative through a PIL that the initial CPs to disbursements of funds have been approved.

A covenant is a more continuous action required of the host country which is not directly related to implementation or disbursement of the cash transfer. Covenants

include such actions as undertaking specified policy changes, maintaining financial records, depositing A.I.D. dollars to a separate account, depositing local currencies to a separate account, and reporting on the use of the A.I.D. dollars. These actions are often critical to achieving the benefits to be derived from the program. It is therefore essential that the Project Officer monitor these covenants during the life of the project.

Whether policy reform is established as a condition precedent to disbursement or as a covenant will depend on the country's political sensitivities. Incorporating policy reforms as a CP is the most effective way of getting action, since the funds cannot be released until the CP has been fulfilled. Incorporating the policy reforms as a covenant is generally a less effective method of leveraging the cash transfer for undertaking reforms. Not incorporating the policy reform into the agreement at all is the weakest method. This latter method is used when the discussion of policy reform is particularly sensitive, as in the case of Egypt. In such cases, A.I.D. will include the reforms in a side letter.

It is A.I.D.'s policy to condition cash transfers on policy reforms whenever possible. Auditors should thus determine that A.I.D. uses the cash transfers to obtain such reforms to the extent possible and that A.I.D. is able to demonstrate what progress and impact these reforms are achieving. Because of political sensitivities, the Department of State may sometimes override A.I.D.'s efforts to press for the reforms, e.g., withholding the release of funds. When this occurs, the auditor should cite the circumstances.

The control objective of the CPs and covenants is to ensure that the host country undertakes specific actions which are considered essential to the implementation of the project. To achieve this objective, the following control techniques are used:

- **The guidance contained in A.I.D. Handbook 3 outlining the procedures for monitoring the CPs and covenants.**
- **The time limitations imposed on meeting the CPs.**
- **The approvals required for extending CPs up to a year at the mission and/or office level and the need for prior geographic bureau approval of extensions beyond a year.**
- **The policy requirement that only the geographic bureau can authorize changes to or waivers for CPs.**
- **The non-release of cash transfer funds until CPs have been met.**

- **Release of funds in segments (tranches), each of which may be predicated upon satisfaction of a separate set of CPs.**

D. PAYMENT PROCESS

Responsibility for disbursement of the cash transfer is shared by the mission and/or office and the Office of Financial Management in A.I.D/W. In sharing this responsibility, the mission and/or office is responsible for monitoring the host country's compliance with applicable disbursement provisions of the agreement. In monitoring these provisions, the mission or office must ensure that the host country has complied with the applicable conditions precedent to disbursement. This requires reviewing such host country evidence as the following to determine whether:

- the stabilization and/or economic policy reforms have been undertaken as required;

- a separate interest-bearing dollar account has been established for the deposit of the funds;

- a separate interest-bearing local currency account has been established for the deposit of the local currencies which the host country agreed to provide.

When the evidence submitted in compliance with the conditions precedent is found to be satisfactory, the mission or office should prepare the PIL notifying the host country of this action. This PIL may also contain instructions regarding the preparation of the Financing Request for a Cash Transfer. Generally, this Financing Request for a Cash Transfer is prepared by the mission or office and signed by the host country representative and the mission director. Though the Financing Request is authority to request disbursement of the cash transfer, it is not sent to the A.I.D./W Office of Financial Management since the necessary information is included in the agreement.

Upon receipt of the signed Financing Request, the mission or office accounting station should prepare a cable to the A.I.D./W Office of Financial Management requesting that the disbursement be made. This cable should provide the following information:

- The mission or office has issued a PIL advising the host country that it has complied with all CPs to disbursement.

- The mission or office requests that A.I.D./W authorize payment for the specified amount of dollar funds to the host country. In making this request, the mission or office should provide the following information:

  -- Grant Number
  -- Appropriation
  -- Budget Plan Code
  -- Payee Bank
  -- Address of Bank
  -- Bank Account Number
  -- Name of Account

- A statement by mission or office that evidence has been received confirming that the host country has established a separate interest-bearing dollar account and that the mission or office certifies it is in compliance with the CP requirements.

- The name of the A.I.D. officer responsible for monitoring the account.

This cable is sent to the Project/Nonproject Branch within the Office of Financial Management. Upon receipt of the cable, the Branch is responsible for ensuring that the mission or office has certified that a separate interest-bearing account has been opened for deposit of the cash transfer dollars. The Branch requires that the separate account be opened in either the Federal Reserve Bank or a U.S. commercial bank. The Branch also reviews the adequacy of the fiscal and payee bank information contained in the cable. When the Branch is satisfied with the data contained in the cable, it indicates on the cable the Disbursing Authorization Number and the amount of the disbursement. The Branch then forwards the cable to the Cash Management and Payment Division within the Office of Financial Management.

Upon receipt of the cable, the Cash Management and Payment Division schedules the transaction for payment. It does this by preparing an SF-1166. When the form has been prepared, it is then certified for payment. After being certified, the scheduled payment is then recorded to the nonproject account maintained in the computerized Financial Accounting Control System (FACS). The data includes the Disbursing Authorization Number, the Voucher Number, and the date scheduled for payment. The Division then sends the SF-1166 to Treasury for payment.

Treasury arranges for electronic transfer of the funds through the Treasury Financial Communication System. It does this by instructing the Federal Reserve Bank to deposit the requested amount of funds to the designated account at either the

Federal Reserve or a U.S. commercial bank. After the Federal Reserve makes the deposit, it notifies Treasury. Treasury then notifies A.I.D. Upon receipt of this notification of payment, A.I.D. then enters the amount and date of the payment to the FACS nonproject account.

After being notified of payment, the Nonproject Branch prepares a cable notifying the mission or office that payment has been made. The mission or office accounting station then enters the payment to the Memorandum Record it maintains for the cash transfer.

On a quarterly basis, FACS produces the 243 M Report. This report provides the current accumulated financial status of nonproject activity for cash transfers, CIPs, and sector grants. This report is used by both A.I.D./W and the mission and/or office for monitoring the financial status of the cash transfer.

The control objective of the disbursement process is to ensure that the cash transfer payment is made in accordance with applicable laws, regulations, and policies. To achieve this objective, the following control techniques are used:

- **The requirement that the mission provide a cable to A.I.D./W certifying it has examined all evidence submitted in support of the CPs and finds it to be adequate.**

- **The requirement that the A.I.D./W Project and Nonproject Branch review the cable for adequacy before approving the Disbursing Authorization.**

- **The separation of responsibilities whereby, after approval by the Nonproject Branch, the Cash Management and Payment Division schedules and certifies the cash transfer transaction for payment by Treasury.**

- **The posting of the scheduled payment transaction to the FACS account by the Cash Management and Payment Division and the posting of the actual disbursement by the Office of Information Resource Management.**

E. USE OF DOLLAR FUNDS PROCESS

The legislation contained in the FY 1987 Continuing Resolution requires that the use of funds deposited in the separate dollar account be trackable. In carrying out this legislative requirement, the mission and/or office should specify in the PAAD how the cash transfer funds are to be used. This approved use should then be included as a provision in the cash transfer agreement.

To assist the missions and offices in implementing the legislative requirements for tracking the A.I.D. dollars, A.I.D. Handbook 1, Part IV states:

> "Appropriate procedures for specifying and tracking uses of dollars released from the separate account and associated accountability arrangements will vary, depending upon the nature of the assistance, the recipient's foreign exchange and import regimes, the integrity of its accounting systems, the political environment, and other factors. A.I.D.'s overall preference is for U.S. import financing with ESF cash transfer dollars, whether through direct disbursement, reimbursement, or auction arrangements. Debt service is an alternative, as is a blending of import financing and debt service in some instances. In concert with the relevant regional bureau, preferably during the PAAD approval process, missions should review these regimes and make a judgment as to which most closely reflects the situation in their respective host countries and then proceed to tailor dollar use and accountability arrangements to suit the individual country context within the parameters of the basic regimes provided. Note that each of the approaches requires adequate monitoring and audit rights agreed to by the recipient, a monitoring commitment by A.I.D. staff, periodic substantive reporting by the recipient, and dollar redeposit or other remedial action in cases on noncompliance with the agreement on uses.
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> (a) "In those recipient countries where imports, foreign exchange allocations, and, presumably, exchange rates are strictly controlled by government or monetary authorities and where substantial liberalization of such controls is not underway or anticipated, A.I.D. prefers that cash transfer dollars be used to finance imports either directly or on a reimbursable basis. In the event this import financing arrangement is used:
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> (i) "Priority should be given to imports from the U.S., with imports permitted by the mission from other sources on a case-by-case basis.
>
> (ii) "Dollar use should normally be limited to raw materials, intermediate and capital goods, and essential consumer goods imports as approved by the mission, and dollars

must not be used to finance imports, such as military or police equipment, that A.I.D. could not procure directly.

(iii) "Where needed, the import approval and verification process should include a price-checking arrangement to assure that U.S. funds are not being used to effect capital flight through overinvoicing.

(iv) "Reimbursements must be for specific import transactions and should be part of a timely sequence for completing such transactions. This type of reimbursement is to be distinguished from ex post attribution made after release of dollars from the separate accounts, a procedure employed in some ESF-recipient countries."

(b) In those recipient countries where substantial liberalization of foreign exchange and import controls is underway or is at a relatively advanced stage of negotiation and A.I.D. wishes to avoid impeding or wishes to support host country moves toward open market forces, use of an auction or auction-like mechanism to disburse cash transfer dollars may be appropriate. Many auction systems have been developed as part of a successful multi-donor dialogue with the host government and are supported by those donors and general foreign exchange reserves of the recipient government. A.I.D. cash transfer dollars can be used to support an auction-like system if:

(i) Cash transfer dollars can remain segregated until utilized and can be tracked to identifiable import transactions.

(ii) Auction procedures permit the implementing authority to ensure that A.I.D. cash transfer dollars are not used for military, paramilitary, or luxury imports. This negative list should be at least as limiting as the A.I.D. Handbook 1, Supplement B, Chapter 4D listing of ineligible commodities (i.e., military equipment, surveillance equipment, police and law enforcement commodities and services, abortion equipment and services, luxury goods and gambling equipment and weather modification equipment).

(iii) The recipient government agrees to use cash transfer dollars, following each individual action, for financing of U.S. import transactions approved at the auction as first preference and other Free World transactions as second preference. Preferential financing of imports will not be used and is not meant to redirect the allocation of foreign exchange to any specific types or sources of imports in a manner inconsistent with the market-determined nature of the foreign exchange auction.

Because of the above provisions, totally unrestricted auction systems are not appropriate modes for the use of cash transfer dollars. Any auction of A.I.D. cash transfer dollars must permit the use of separate accounts and provide for trackability.

(c) In certain instances where recipient country debt service is a significant barrier to growth and development, or where institutional arrangements may preclude the traceable use of cash transfer dollars otherwise, cash transfer assistance may be used to effect debt service payments. The use of cash transfer dollars for debt service may be particularly justified when such servicing will have a significant effect on leveraging additional flows of development finance. However, A.I.D. does not consider appropriate the use of cash transfer dollars for servicing of certain categories of debt which might be perceived as having a non-developmental character. Therefore, debt service is permitted subject to the following provisions:

(i) Cash transfer dollars may not be used to cover the service of loans or credits that originally financed military imports of military requirements, e.g., Foreign Military Sales (FMS) debt, unless, as determined by the Administrator, such use of cash transfers in individual country cases is recognized by statute as amplified by legislative history as valid.

(ii) Service of debt known to have incurred to finance other (non-military) items that A.I.D. could not finance because of specific legal prohibitions, e.g., abortion equipment, is precluded. This prohibition has particular application to currently or recently contracted debt

where relevant information is or should be readily available to the mission and where it might be inferred that cash transfer financing of debt service could have been anticipated. It is not intended to require a review of the documents related to the loans to be serviced, a requirement which would not be administratively feasible.

(iii) Consistent with the agreed restructuring arrangements and payments scheduling of the Paris and London Clubs, where applicable, service of debt owed to the U.S. Government (exclusive of FMS debt) shall have first priority.

(iv) Cash transfer dollars may be used for servicing of debt owed to multilateral development banks and the IMF, subject to prior concurrence of the appropriate regional assistant administrator.

(v) Servicing of debt other than that covered in subparagraphs (i) through (iv) may be approved on an exceptional case-by-case basis by the appropriate regional assistant administrator in consultation with PPC.

(d) In the case of the relatively advanced ESF-recipient countries which have essentially market-determined foreign exchange allocation systems, liberal import regimes, and well-established standards of financial accountability, separate accounts and trackability are still required, but A.I.D. should avoid any accountability procedures which would have the effect of reimposing foreign exchange or import controls. Examples of such countries include the NATO allies which afford the United States with base or access rights and developing countries which have largely liberalized policies and institutions around market-oriented principles. Procedures used, determined on a case-by-case basis, should be simplified and de minimis but still permit segregation and tracking of dollars; use of cash transfer dollars for debt service of large scale import transactions would usually be appropriate in these instances. Simplified monitoring procedures are also appropriate in those countries where A.I.D. does not have a development presence.

To monitor the use of the cash transfer funds, the mission or office should ensure that a reporting provision is included in the agreement. In regard to this reporting requirement, A.I.D. Handbook 1, Part IV states:

> "Recipients will be required to periodically report on the disposition of dollar funds. Typically, the report should attest that financial documentation, books, and records covering the use of dollar funds are being maintained or caused to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, and are available for inspection by A.I.D. or any of its authorized representatives at all times as A.I.D. may reasonably require for a period of three (3) years after the date of last disbursement by A.I.D. under the cash transfer. Financial records shall be suitable, at a minimum, to document the withdrawal and disposition of dollar funds from the separate account and their tracking to final acceptable uses. For example, this may include central bank and commercial bank documents demonstrating that A.I.D. funds were transferred from a host country central "bank-controlled account to an account identified for external debt repayment, and that debt service payments actually were made with the transferred dollars."

The cash transfer assistance agreement should provide appropriate audit and redeposit provisions which will sufficiently protect the Agency. The agreement should require a redeposit to the separate account of funds applied to a disallowed use, thus permitting such funds to be reprogrammed for a permitted use.

The A.I.D. Handbooks contain no procedural guidance for monitoring the host country's use of the A.I.D. dollars. In the absence of A.I.D.-wide procedural guidance, each mission or office is responsible for developing its own procedures for ensuring the cash transfer is used for approved purposes. These procedures should be spelled out in the form of a Mission Order.

A.I.D. Handbook 4 does not contain a sample agreement for cash transfers. As a result, there is no requirement that the Host Country arrange for an audit of the dollar funds. The Host Country must, however, attest in its periodic reports that financial documentation books, and records covering the use of dollar funds are being maintained in accordance with generally accepted accounting principles and practices. This raises the question whether the OIG should request the Agency develop a model agreement for cash transfers that incorporate an audit clause for the uses of dollar funds.

The control objective of the use of the dollar funds process is to ensure that the cash transfer funds are used for the purposes intended. To achieve this objective, the following control techniques are used:

- **A.I.D. policy guidance requiring that each mission or office and the host country agree upon the uses of the cash transfers dollar funds and established procedures for tracking their use.**

- **A.I.D. policy guidance requiring that the host country periodically report on the use of the cash transfer dollar funds. This reporting requirement should be included as a provision in the cash transfer agreement.**

Each mission or office is responsible for developing specific procedures to monitor the host country's compliance with these policy requirements. To ensure these monitoring procedures are adequate, A.I.D. should develop specific procedural guidance. Since these monitoring procedures deal with accountability, they should be developed by the Office of Financial Management.

F. LOCAL CURRENCY DEPOSIT, USE, AND REPORTING PROCESS

In preparing the Annual Budget Submission (ABS) the mission or office is required to prepare an annex on the local currencies to be generated from the cash transfer. This annex should contain a table indicating the source of local currencies generated from cash transfers over the past three fiscal years and the amount for the proposed fiscal year. In addition to the actual and estimated amounts of local currencies, the table should indicate actual and estimated uses* and any unexpended balances at the end of each fiscal year. A narrative plan for the use of the generations is to be submitted with the table. At a minimum, the narrative should describe the source (DA, ESF, PL 480) and amounts of resources available to the host country and the intended uses of the local currency in terms of the development strategy and Action Plan.

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* The amounts programmed for uses should be shown under one or more of the following four categories:

Public Development Activities
Private Sector Programs
Public Sector Recurrent Budget
A.I.D. Operating Expense (Trust Fund)

In developing the PAIP and PAAD, the mission or office should indicate whether the cash transfer will generate local currency. Because there is no legal requirement for doing so, the mission or office has the option of determining whether to include a local currency component in the cash transfer. To maximize the development impact of the cash transfer, A.I.D. policy encourages missions or offices to include a local currency component whenever possible. Should the mission or office choose not to include such a component, the PAAD should then provide justification for not doing so.*

The Agency is currently in the process of revising its local currency policy. Appendix A and B of this chaper contains a draft of the revised policy and related deposit, programming and accounting procedures. When issued, this section will be revised.

1. Separate Account

When local currencies are to be generated from the cash transfer, legislation, contained in the Fiscal Year 1987 Continuing Resolution, requires the host country to deposit the local currencies into a special account. The funds in this separate account are to be trackable and not commingled with sources of funds from other agreements.

Concerned about the need for maximizing this resource, Congress has proposed additional legislation in the Fiscal Year 1990 appropriation legislation which would require the agreement to include the amount of the local currencies to be deposited; the terms and conditions under which the currencies may be used; and define A.I.D. and host country responsibilities to monitor and account for deposit into and disbursements from the special account.

To implement the current legislative requirements, A.I.D. policy* states:

> "The FY 1987 Continuing Resolution requires that local currency generated with funds provided as a cash transfer in excess of $5.0 million after February 1, 1987 be deposited into

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* An acceptable justification, for example, might be a negative effect of local currency generation upon an IMF or World Bank structural adjustment or monetary control activity in the host country.

* Refer to Policy Determination No. 5 and Supplemental Guidance in A.I.D. Handbook No. 1, Part IV A and I.

a special account and used in accordance with Section 609 of the FAA. Special provisions apply to El Salvador pursuant to the Continuing Resolution and Section 702(C) of the International Security and Development Cooperation Act of 1985.

"In addition to meeting the statutory requirements for separate local currency accounts, as a matter of general policy for jointly programmed local currency associated with or generated by funds provided under the FAA, missions should establish special accounts for all such local currency to facilitate monitoring and accountability. In the unlikely event that such accounts would be clearly counterproductive, a waiver may be granted by the appropriate regional bureau assistant administrator where special local currency accounts are not required by statute. The creation of a special account does not substitute for the need to separately determine the extent of programming involvement A.I.D. will assume in regard to the proceeds of such accounts. Although special accounts help tracking and accountability, they do not guarantee that appropriate budget allocation "decisions will be made by the recipient government, nor are they necessarily essential for a mission to be able to influence budget decisions.

"It cannot be emphasized too strongly that special accounts, once established, must be carefully monitored. Additional staff may or may not be required to carry out the additional management or control functions associated with these accounts. Missions must carefully examine their staff level and composition to determine if changes will be needed."

The PAAD should contain a discussion of the special account deposit requirements. This requirement should then be carried over to the cash transfer agreement as a condition precedent to disbursement. In other words, the mission or office should not approve disbursements of the cash transfer dollars until the host country has provided evidence that it has opened a separate account for deposit of the local currencies. As a matter of A.I.D. policy, this separate local currency account is to be interest bearing to the extent such accounts are permitted under host country law or regulation and do not undermine internationally supported stabilization agreements or sound monetary policy. Any interest earned on local currency accounts must be programmed and used as if it were principal.

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Upon A.I.D. disbursement of the dollar funds, the host country should deposit the local currency equivalent of the dollar grant to the separate account.

Pursuant to A.I.D. exchange rate policy,* this deposit of local currency to fulfill the conditions of the cash transfer shall be made at the highest rate per U.S. dollar not unlawful that is available to anyone in the host country.

This local currency deposit requirement is usually stated as a condition precedent in the agreement.

2. Use of Local Currencies

When local currencies are to be generated under the cash transfer, the mission or office should indicate in the FAIP and PAAD how the local currencies are to be used. This use should then be included as a provision in the agreement. When not included in the agreement, this usage should then be spelled out in either a PIL, a Memorandum of Understanding, or a Letter Agreement. Whatever legal form is used, A.I.D. policy requires that:

> "A.I.D. missions must make an initial judgment and reach agreement with the host government on what are eligible and ineligible uses of jointly programmed local currency. Local currency must be programmed consistent with the intent and purposes of the Foreign Assistance Act or PL 480. Although most statutory provisions of the FAA and PL 480 govern the use of appropriated funds and not local currency which is host country-owned, missions should be alert to Congressional concerns expressed in those provisions and refrain from jointly programming local "currency for specified actions prohibited by legislation governing appropriated funds. In addition, the appropriate agreement should prohibit the use of local currency generations for police training pursuant to FAA Section 660, as well as the use of jointly programmed local currency for paramilitary purposes."

Local currency deposits must be used in accordance with Sections 531(d) and 609 of the Foreign Assistance Act (FAA). Section 531(d) requires that at least 50 percent of the local currencies be used for objectives consistent with Sections 103 to 106 of the FAA. Section 609 requires that the local

* Refer to A.I.D. Handbook 1, Part VII (G)

currencies be used to carry out the purposes for which funds authorized by the FAA would themselves be available. Within the context of these requirements, the mission or office and host country can program the local currencies for a variety of uses such as specific projects, sector programs, host country budget support, and A.I.D. mission or office operating costs. In this regard, A.I.D. policy in Handbook 1 (Part VII) states:

> "If A.I.D. should choose to directly associate jointly programmed local currency with host government projects or private sector activities, the mission should have reasonable assurance that the activities have been designed in accordance with sound technical, financial, and environmental practices; that implementation and monitoring capabilities of the implementing entities are adequate; and that periodic audits of relevant activities will be undertaken.* Projects that are funded and monitored by A.I.D. would provide such evidence. Similarly, the fact that projects were funded and monitored by other donors or undertaken by strong, highly respected host government or private sector institutions would generally provide such assurances. Otherwise, missions should be prepared to take a more active role in implementation oversight in addition to reviewing the project documentation and host government procedures prior to approval of funding for the activity. If and when subsequent allocations of jointly programmed local currency for project level activities are being considered, the mission should take this opportunity to review progress in moving toward project completion. Periodic reporting by the host government should be required, and field visits may be useful in monitoring.
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> "If A.I.D. and the recipient government program the local currency for more general purposes, for example, an agreement that local currency will be used to meet development budget requirements of, say, the Ministry of Agriculture, the role of A.I.D. may be limited to ensuring that documentation exists demonstrating that the local currency indeed was transferred to the Ministry's development account.

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* The Host Country should arrange for these audits. These audits are to be used by the Project Officers for verifying local currencies were used as intended.

"The mission need not trace the funds to specific budgetary or end-use items since A.I.D.'s development goal is a level of overall financial support to a program or institution; indeed, once transferred from a special account to a program or institution, the funds will generally have been combined with other "budgetary funds and will not be traceable. However, the mission should generally be satisfied on the quality of overall program activities and the technical and administrative capabilities of the implementing entity or entities to carry out the program. Furthermore, periodic reports on budgetary allocations should be required over the period of the agreement to enable the mission to assess compliance with agreed priorities. Finally, the mission should assure itself post hoc that the government has accorded an appropriate emphasis to priority programs. This can then be used as a basis for making judgments about future local currency allocation decisions.

"A.I.D.'s retention of monitoring and approval rights, as well as the right to receive reports, is directly related to the programming burden that A.I.D. assumes for itself in the agreement describing how local currency will be used. Retention of these rights in the agreement should be consistent, then, with the agreed-upon programming responsibilities of A.I.D. but, at a minimum, should be adequate to ensure that A.I.D., with timely access, can take an independent look at supporting documentation to verify that the agreement on uses of local currency has not been violated."

3. **Accounting**

The host country has responsibility for maintaining detailed records as a basis for accounting for and reporting on local currencies. The mission or office is responsible for reviewing the adequacy of these record-keeping and reporting procedures with the host country. If the procedures need improvement, a portion of the local currencies should be used to develop the necessary procedures. The mission or office and the host country should work out these procedures during the PAIP or PAAD development process.

According to the A.I.D. Controller Guidebook (Chapter 10), the mission or office accounting station should establish memorandum records to control the local currencies in the separate account. Each mission or office is responsible for developing the format and content of these records as appropriate to its

needs. These records should indicate the bank name and account where the separate account is located and the amount of funds deposited. The records should also indicate the withdrawals from the separate account.

In monitoring the separate account, the accounting station is responsible for ensuring that the local currency to be generated from the cash transfer is deposited as required. Appropriate records should be maintained to document these deposits. These deposits would usually be documented in the form of bank statements.

Withdrawals from the separate account may be based on PILs, negotiated agreements, or letters. Appropriate records should be maintained for those documents authorizing the withdrawals. Since withdrawal of local currency is reported in the bank statement of the administering depository, these withdrawals from the special account should be verified to the release agreements.

Though the mission or office accounting station is not required to duplicate the detailed records maintained by the host country, it is required to establish sufficient controls to monitor the deposit and use of the local currencies in accordance with the agreement and release agreements. Depending on the specific purposes for which the local currency is used, auditors will have to use judgment in determining the adequacy of the accounting station's records and procedures.

Section 625(h) of the FAA authorizes A.I.D. to enter into arrangements with host countries for sharing the cost of performing functions authorized by the Act. The trust fund provides a means for a host country to make a contribution of its own currency to the economic assistance program where it is more convenient for the mission or office, rather than the host country government, to administer the contribution. The account in which the contribution is deposited is administered by the mission or office under a trust agreement with the host country.*

The general characteristics of trust funds are:

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* Geographic bureau policy is generally strongly in favor of establishing local currency trust funds, particularly to help defray mission operating expense costs. A.I.D./W reviewers often demand justifications if local currency generation are not to be used for such purposes.

- trust fund sources are primarily local currency accruing from nonproject assistance grants;

- funds are deposited directly to A.I.D.'s foreign currency accounts and are available under automatic allotment authority of the mission or office;

- costs to be financed from the trust account are stated in the trust agreement;

- funds in the trust account revert to the cooperating country when the A.I.D. program is terminated; and

- trust funds exclude funds for program activities where disbursement is made by the host country.

a. **Mission or Office Responsibility with Respect to Trust Funds**

The mission serves as trustee over funds in the trust account and renders reports as required to the cooperating country pursuant to the trust agreement. Additionally, under the trust agreement, the mission has stewardship accountability for the funds in the trust account held in the name of the host country. The mission or office reports on the use of the trust fund as set forth in the agreement and related arrangements thereunder to assure complete reporting to the cooperating country on financial management aspects and administration of the trust fund. In some cases, the mission or office may be required to permit access to trust fund accounts and supporting records to designated representatives of the cooperating country.

b. **Mission or Office Operating Procedures for Trust Funds**

Each year, an annual trust fund budget is agreed upon between the mission and the cooperating country for the financing of certain local currency ceilings or targets for monitoring the implementation of trust fund financed activities and projects, including the cost of mission operations. The annual mission or office Operating Expense Budget submitted by A.I.D./W also includes requirements against the local currency trust fund as governed by the underlying agreements.

The Annual Budget Plan expenditure proposals must be compatible with the approved Operating Year Budget or other program levels

established by A.I.D. For any part of the trust fund derived from local currency, the mission or office assures that the local currency project release record is appropriately annotated to preclude duplication in the release of counterpart to the projects concerned.

The mission or office periodically requests the host country to make the agreed-upon contribution to the trust fund to meet anticipated requirements under the annual budget to which the country has agreed. In some cases, initial advances of local currency may be made by the country for use as working capital on a revolving fund basis with periodic replenishment for expenses actually paid by the mission or office. Both regular contributions and advances are deposited to A.I.D. accounts. Deposits to and payments from the trust account are effected by the U.S. Disbursing Office (USDO) in accordance with normal standard collection, certification, and accounting procedures.

Disbursements from the trust fund are made to cover the costs of U.S. assistance programs, including costs of administration thereof, in the cooperating country in accordance with the provisions of the trust agreement.

Missions do not at any time incur obligations in excess of the amount available in the trust fund.

c. **Reporting on Trust Funds**

(1) Reports to A.I.D./Washington

A trial balance of the trust fund general ledger accounts is prepared monthly. Trust fund financial statements are prepared quarterly from the balances in the trial balance. The mission or office reports quarterly to A.I.D. on cash receipts and disbursements and on commitments (obligations) for mission or office operations. The Statement of Financial Condition (Balance Sheet) shows the trust fund investment in cash and property plus the accumulated net income (or deficit) from operations as the differences between asset and liability balances. Missions or offices adapt generally accepted commercial accounting practices in preparing the presentations in the Statement of Financial Condition for management use or information to officials of the cooperating country having an interest. The Statement of Income and Expenses, reflecting the

Host Country-owned Local Currency: Sources, Uses and Accountability

TABLE 1.–Sources of Host Country-owned Local Currency and Special Account and Conversion Rate Requirements

	Foreign Assistance Act			Public Law 480					Section 416
	ESF		DA (Sector Assistance)	Title I	Title II		Title III	Food for Progress	G-to-G and PVOs
A. Sources of L/C	CIPs	Cash Transfers			Sections 206 and 202 (G-to-G)	Section 207 (PVOs)			
B. Special Account Requirements	Yes, if grant funded; by Statute [Sec. 609]	Yes; by Statute	DPA: Yes; by Statute; Other DA: Yes; by Policy	Yes; by Policy	Yes; by Policy	Yes; by Policy	Yes, where Practicable; by Statute	No; by Policy	Yes; by Policy

TABLE 2.–Authorized/Required Uses and Prohibited Uses of Host Country-owned Local Currency

	Foreign Assistance Act		Public Law 480					Section 416
	ESF	DA (Sector Assistance)	Title I	Title II		Title III	Food for Progress	G-to-G and PVOs
				Sections 206 and 202 (G-to-G)	Section 207 (PVOs)			
A. Authorized/ Required Uses	Not less than 50% of L/C must support activities consistent with the objectives of Sec. 103-106 of the FAA. [Sec. 531(d)] In El Salvador, all L/C must be used for projects assisting agrarian reform and the agricultural sector; judicial reform; employment generation; health, education, and other social services; infrastructure repair; or credit and other support to the private sector. [Sec. 702(e)]		L/C must support economic development, with an emphasis on: improving the lives of the poorest; programs in agriculture and rural development, nutrition, and population planning; farmer-to-farmer program [Sec. 406(a)(1)]; and private sector development. [Sec. 106(b)] L/C may be used to implement self-help measures, consistent with above criteria.	Section 206. L/C must be used for: (1) alleviating the causes of the need for assistance, consistent with PAA Sec. 103; (2) increasing the effectiveness of food distribution and the availability of food commodities provided under Section 206 to the neediest individuals; or (3) improving health (including immunization). Section 202. L/C must be used to meet famine or other urgent or extraordinary relief requirements.	L/C must be used by nonprofit voluntary agency or cooperative to (1) transport, store, and distribute the commodities provided under Title II, or (2) implement income generating, community development, health, nutrition, cooperative development, agricultural programs, and other developmental activities.	L/C must be used for purposes described in the approved country Food for Development Program [Sec. 305(a)], which should support agriculture and rural development, nutrition, health (including immunization), population planning, and the farmer-to-farmer program [Sec. 406(a)(1)] as described in Sec. 201 (b).	L/C is not available for joint programming [DCC]	L/C must be used: (1) for activities consistent with providing food assistance to needy people; (2) to transport, store, distribute, handle, and process the commodities provided under Sec. 416; or (3) by nonprofit voluntary agencies or cooperatives, to implement income generating, community development, health, nutrition, cooperative development, agricultural programs, and other developmental activities, as long as L/C is expended within one year (unless waived) [Sec. 416(b)(7)]
	Uses must be consistent with the intent and purposes of the FAA. [Sec. 609]		Uses must be consistent with the intent and purposes of PL 480.					
B. Prohibited Uses	Police training [Sec. 660(a)] and military or paramilitary purposes or pensions; OE Trust Funds in Senegal. (GC/AFR; 1/27/88)		OE Trust Funds (CG; 3/7/88)					Operating and overhead expenses (except those of local cooperatives) [Sec. 416 (b)(7)]; OE Tr[illegible]nds

TABLE 3.–Accountability and Reporting Requirements for Host Country-owned Local Currency

	Foreign Assistance Act and Public Law 480			Section 416
	A.I.D.; Other Donor; and Strong, Highly Respected Private or Public Institutions	All Other Projects	Food for Progress	G-to-G and PVOs
A. Project Support (including budget line items)	1. Given their involvement with these entities, Missions can normally be assured that: a. technical, financial, administrative, and accounting standards are acceptable; b. implementing entities are adequate; c. periodic audits and field visits will be conducted.	1. Missions should assure themselves through documentation review or other means that: a. technical, financial, administrative, and accounting standards are acceptable; b. implementing entities are adequate; c. periodic audits will be undertaken by host country or independent auditors. 2. Missions should be prepared to take a more active role in implementation oversight.	N/A	FAA and PL 480 requirements apply. Host government must submit summary statement on how L/C was used. USDA must submit report to Congress on L/C uses annually. [Sec. 416(b)(9)]
	2. Missions should review with the host government the specific procedures for programming, releasing, and controlling the L/C, and for monitoring and evaluating implementation of specific activities (including reporting requirements). These procedures should be reflected in the Agreement. For all activities at the project level, periodic reporting by the host country should be required; site visits may be useful in Mission monitoring.			
B. Non-Project Support (sub-sectoral, sectoral, and budget support)	1. Missions must be satisfied that: a. the quality of the overall programs (including sectoral activities) and the technical and administrative capability of the implementing entities are satisfactory; b. the host government's programming and budgeting system provides reasonable assurance that mutually agreed upon objectives will be achieved; and c. the host government will not allocate fewer other resources to priorities financed by jointly programmed L/C, and that these priority activities continue to receive an appropriate share of resourses even when the overall government budget remains constant or is reduced, based on progress reports on budgetary allocations required periodically. 2. Missions should review with the host government the general procedures for programming, releasing, and controlling the L/C, and for monitoring and evaluating implementation of the program (including reporting requirements). These procedures should be reflected in the Agreement. 3. Missions need not trace funds to ultimate end use, but documentation must exist demonstrating that L/C was transferred from the special account to the appropriate program's or institution's account at which point funds become combined. 4. For PL 480 (Titles I, II, and III) host government must submit report to U.S. on proceeds collected and expended; U.S. can review records to assure L/C was used for agreed upon purposes; a report on L/C uses must be submitted to Congress.			
	Foreign Assistance Act	Public Law 480		
C. OE Trust Funds	1. Missions must report on uses of trust funds to host country. (HB 19, Chap. 5) 2. FAR applies.	Prohibited		Prohibited
D. Program Trust Funds	1. Missions must report on uses of trust funds to host country. (HB 19, Chap. 5) 2. Program approval process should be similar to that for appropriated funds. 3. FAR applies.	L/C may be placed in A.I.D.-controlled trust funds for use in financing contract costs for distribution, or monitoring distribution, of PL 480 commodities (GC; 3/7/88); however, the DCC has not approved such uses as a matter of policy.		(See PL 480)

Note: This matrix is a summary of more detailed legislation (FAA, PL 480, and Section 416) and policy (PD-5 and 87 State 327494). Readers should consult the primary sources for additional detail and clarification.

Source: A.I.D./PPC/PDPR; April 24, 1989.

results of operations, is also prepared in accordance with similar standards of commercial accounting as meaningful for use by mission or office management or host country officials. Financial statements are submitted to A.I.D./W if specifically requested.

(2) Reports to Cooperating Country

Periodic reports to the cooperating country of the uses made of funds deposited under trust agreement, as provided therein, are based on and supported by the detailed records and accounts prescribed by this system. As required, the categories of costs and other expenditures for which trust fund monies are used are developed by analysis of the accounts and subsidiary records. If specified in the trust agreement, the report to the cooperating country shows the distribution of costs and other expenditures between program and administrative requirements.

The control objective of the local currency deposit, use, and reporting process is to ensure that local currencies generated from cash transfers are deposited to special accounts as required and used for approved purposes. To achieve this objective, the following control techniques are used:

- **The policy guidance provided in A.I.D. Handbook No.1, Part IV.A and I outlining the requirements for establishing special accounts.**
- **The policy guidance provided in A.I.D. Handbook No. 1, Part VII outlining the approved uses of the local currency.**
- **The procedural guidance contained in A.I.D. Controllers Guidebook, Chapter 10 outlining the procedures for monitoring the deposit, withdrawal, and use of the local currencies from the special account.**

It should be noted that the procedures in the Controllers Guidebook predate the recent legislative requirements. The Office of Financial Management needs to update this guidance.

G. PROGRAM ASSISTANCE COMPLETION DATE PROCESS

All agreements contain time controls based on a Program Assistance Completion Date (PACD). The PACD is defined as the date, agreed upon by the parties in the agreement, by which the parties estimate that all A.I.D.-financed assistance will be

complete. It should be noted that the PACD defines the length of A.I.D.'s official involvement in financing the cash transfer program. It does not mean that A.I.D.'s responsibilities or activities are completed, e.g., monitoring, nor does it have any implications regarding host country actions or responsibilities to complete the program and ensure that it generates the benefits intended.

The purpose of the PACD is to motivate the parties to complete the program as effectively and expeditiously as possible. Under the agreement, A.I.D. could decline to finance any input delivered or provided subsequent to the PACD. If A.I.D. desires to finance such inputs after the PACD, it may extend the PACD. Relatively short extensions of the PACD (e.g., 30-60 days) can usually be agreed upon informally between the Project Officer, the accounting station, and the host country. If longer extensions of the PACD become necessary, they should be effected by the issuance of a Project Implementation Letter. Mission and/or office directors may approve extensions of the PACD for cumulative periods as specified in their delegation of authority from the geographic bureau. Geographic bureau Assistant Administrators may extend the PACD when the cumulative life of project does not exceed a total of ten years from the date of initial obligation. The Administrator authorizes all extensions when the life of project exceeds the cumulative ten-year period.

The PACD provision in the agreement also contains what is in effect a terminal date for requesting disbursements. This terminal disbursement date is nine months following the PACD. Beyond this time, A.I.D. may decline to accept requests for disbursement and may initiate deobligation procedures and deobligate. Passage of the period does not automatically effect deobligation, however, deobligation requires a written notice to the host country in accordance with the provisions of the agreement.

The control objective of the PACD is to motivate the parties to the agreement to complete the program as expeditiously as possible. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 3, Chapter 6, outlining the procedures of the PACD.**
- **The requirement that the PACD can only be extended by authorized officials pursuant to their delegated powers of authority.**
- **The requirement that no disbursing authorization can be issued after the PACD.**

CHAPTER 3

COMMODITY IMPORT PROGRAM (CIP)

Commencing with the Marshall Plan in the 1950's, CIP has been an integral part of the U.S. foreign assistance program. Because of its capability to provide large and rapid infusions of needed commodities into the economies of developing countries, it has been a popular program, accounting for more than 40 percent of all economic assistance. CIP has also been a good program for promoting U.S. exports.

CIPs are designed to provide developing countries with balance of payments support. In addressing this balance of payments support, A.I.D. makes dollars available to host countries for financing the exchange costs of procuring and shipping a vast array of commodities utilized by the agricultural, business, and industrial sectors of the economy. Although CIPs are primarily designed to address balance of payment problems, Congress has indicated that, to the extent feasible, CIP assistance should also support development activities in recipient countries. This requires that A.I.D. target the commodities to those activities supporting its development strategy in the recipient country.

In providing CIP assistance, A.I.D.'s strategy is to link the bilateral assistance to economic stabilization and policy reform whenever possible. In recent years, policy makers have generally realized that, if U.S. balance of payments is to be effective in promoting economic development, some countries need to redress the poor economic policies that deter development. Without requiring the host country to take any corrective measures to reduce its balance of payments deficits, there would be no end to its dependence on U.S. assistance. A.I.D. therefore includes economic stabilization and policy reforms as objectives in CIP assistance.

Since A.I.D. uses International Monetary Fund (IMF) and World Bank analyses and studies to perform its own analyses for identifying needed adjustments and reforms, it is not unusual that A.I.D. coordinates its conditions with those of the IMF and World Bank. In supporting IMF Standby Arrangements,* A.I.D. uses CIP to ease the pain of the austerity conditions and allow smooth transition during the restructuring of the economy. In supporting the World Bank's Structural Adjustment Program,** A.I.D. conditions its CIP assistance on specific host country macroeconomic reforms or specific sector reforms within the framework of the Bank's overall structural adjustment program.

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* A short term program which may include adjustments in exchange rates, domestic credit, public sector spending, and foreign borrowing.

** A long-term program designed to help developing countries carry out policy and institutional reform.

When CIP assistance is conditioned on specific host country policy reforms, these reforms should be specifically stated in the PAAD and then carried over to the CIP agreement whenever possible. The extent to which the specific policy changes were carried out as stipulated in the PAAD and CIP agreement would be determined by an evaluation scheduled in accordance with A.I.D. Handbook 4, Chapter 9.

CIP may be used for public and private sector procurement. In the case of public sector procurement, the host country allocates the CIP funds among government agencies. These procurements are then subject to formal competitive bidding procedures under which Invitation for Bids are prepared and circulated to U.S. suppliers. Upon award of the procurement to the lowest and most responsive supplier, the host country arranges for payment. If the procurement is significant in amount, the host country may request A.I.D. to pay the supplier directly under a Direct Letter of Commitment. Otherwise, the procurement may be processed through a host country bank participating in the program with a U.S. Letter of Commitment Bank.

In the case of private sector procurement, importers obtain two or three quotes from U.S. suppliers. If importers are dealers, they may use suppliers without quotes. When required, importers obtain import licenses for the procurements. Importers then go to the participating host country bank(s) with the import licenses and quotes to open letters of credit in favor of U.S. suppliers. The host country bank(s) opens letters of credit and has U.S. Letter of Commitment Bank(s) confirm letters of credit which they then send to U.S. suppliers. When suppliers have filled and shipped procurement orders, the U.S. Letter of Commitment Bank(s) pay suppliers upon presentation of documents. After paying suppliers, the U.S. Bank(s) sends the documents to the host country bank(s) which provide them to importers upon payment of a dollar equivalent in local currency. A.I.D. reimburses the U.S. Letter of Commitment Bank for the transactions.

Missions and offices are responsible for ensuring that host country systems are maintained to verify that the commodities are received and promptly cleared through the port, and that the host country properly accounts for local currency deposits and uses the deposits for mutually agreed purposes. To the extent possible, missions are to rely on host country accounting systems to provide this information. However, if these systems are deemed inadequate, the missions and offices are expected to develop their own systems. In monitoring these systems, the mission is expected to include some end-use checking of commodities to ensure that they are being used as intended.

The Foreign Assistance Act specifies that, to the extent feasible, CIPs should be used to generate local currencies. CIPs generate local currencies when imported commodities are sold. The Act specifies that these local currency proceeds must be deposited into special accounts and at least 50 percent of the funds must be made available to support development. Missions and offices participate to varying degrees in the host country's

programming of these currencies and monitor the host government's use of the funds to ensure that the funds are used for the intended purposes.

Less than 10 percent of all nonproject assistance is presently provided through CIP. This minimal usage of CIP is due in part to the extensive administrative responsibilities involved. According to A.I.D., these administrative responsibilities have strained the capacity of missions and offices to administer CIP assistance. In view of these administrative requirements, it remains conjectural whether CIP will regain its former prominence. One need only compare the complexity of the CIP requirements described below with the minimal requirements of cash transfers.

A. NEGOTIATION OF AGREEMENT PROCESS (Handbook 4, Appendix 4A)

The Commodity Import Agreement is a bilateral document which obligates A.I.D. and the host country, wherein A.I.D. agrees to finance certain categories of commodities, subject to prescribed A.I.D. rules and regulations, for the purpose of meeting certain specific objectives, such as balance of payments. In this regard, the agreement focuses on the purpose, amount, and major conditions of the assistance provided. Its purpose is to record the basic substantive decisions reached by A.I.D. and the host government in connection with the provision of the CIP assistance. The agreement is authorized by and gives effect to the related PAAD. When the CIP is provided in tranches, the agreement may refer only to that part of the CIP which is to be initially committed; or it may cover the whole amount of CIP, in general terms, but obligate only a stipulated portion with subsequent increases to be provided through amendments to the agreement.

In conjunction with the legal officer, the Project Officer should determine the format and content of the agreement. The Commodity Import Agreement should include the following basic provisions in accordance with the terms of the authorizing PAAD:

- A statement of the amount and nature of the assistance to be furnished by A.I.D., including (1) language prescribing which categories of commodities are eligible for financing and (2) authorized source for procurement of commodities and related services.

- Statement of conditions precedent to the issuance of Disbursing Authorizations under the agreement. These conditions may relate not only to such procedural acts as submission of a legal opinion that the agreement is duly authorized and executed but also to such substantive actions as self-help measures relating to the overall country economy.

- Terminal dates for compliance with conditions precedent. The function of a terminal date for compliance with conditions precedent is to provide A.I.D. an opportunity to exercise the option of reexamining its positions vis-a-vis the loan or grant, if the conditions have not been met by the prescribed date.

- Statement of the applicable commodity financing procedures and conditions governing the procurement of commodities. For instance, if Standard Commodity Financing procedures utilizing A.I.D. Regulation 1 are applied, the agreement is to stipulate that A.I.D. Regulation 1 will be applicable and incorporate it by reference. Alternatively, the agreement may stipulate that the Commodity Procurement Instruction (CPI) will spell out the procedures governing procurement. Thus, the CPI may incorporate A.I.D. Regulation 1 by reference, state what parts of it are applicable, or state those special provisions governing the procurement of commodities or commodity-related services which are to apply in lieu of A.I.D. Regulation 1 or portions thereof.

- A statement of the host country's obligation for the effective use of commodities financed under the agreement.

- A Statement indicating the minimum dollar amount per transaction which may be submitted in substantiation of claims for A.I.D. financing.

- A Statement of the method of financing (Bank Letter of Commitment, etc.) to be used.

- A statement of limitations (e.g., the eligibility date and terminal disbursement date) on the time period which funds under the agreement will be available to finance commodity transactions. Any extension of an agreement's terminal disbursement date should be accomplished before the date has passed.

- A terminal date for issuance of, and disbursement under, disbursing authorizations. The terminal date of a disbursing authorization may coincide with, but usually precedes, the terminal disbursement date of the agreement. It may never be later than that date.

- Where applicable, clauses concerning the deposit of local currency generated as a result of the assistance and, as necessary, the use of such currency.

- A Statement concerning the responsibilities of the host country (1) to maintain for a specified period of time, records adequate to document the arrival and disposition of commodities financed by A.I.D.; (2) to identify the importer (or first purchaser) or transferee if the commodity is imported by

host country; and (3) to permit A.I.D. or its authorized representatives to inspect the commodities at any point, including the point of use, and to inspect all records and documents pertaining to such commodities.

- A Description of remedies and rights, e.g., termination clauses, refund rights if not covered by A.I.D. Regulation 1, and nonavailability of refunds for automatic reprogramming.

Since the agreement is viewed as the culmination of the negotiation process, its signing should be viewed as the mutual understanding and acceptance by the parties of all major elements of the CIP. Accordingly, significant issues should not be left for resolution during the implementation stage.

Normally, agreements are executed in the field pursuant to authority delegated to the mission director or U.S. Ambassador. Often, authority to negotiate and sign are given together. Such delegations of authority may be existing or may be made by the Assistant Administrator only in connection with a given program. It should be noted that in the absence of an ad hoc delegation of authority, ambassadors are not normally authorized to sign A.I.D. agreements.

Prior to signing the agreement, the Project Officer should obtain the mission and/or office accounting station clearance that funds have been made available for obligating the CIP

Immediately upon signing the CIP agreement, the mission or office accounting station should send a cable to the Project/Nonproject Branch in the A.I.D./W Office of Financial Management. This cable should highlight the essential fiscal data for the agreement or any amendments thereto. This cable is used by the Branch as the basis for recording the obligation to the nonproject activity account in the Financial Accounting Control System (FACS). As soon as possible, a confirmed copy of the original agreement should be sent to A.I.D./W. This copy of the agreement should be reviewed by the Office of the General Counsel ensuring that the agreement meets the obligation criteria under Section 1311 of the Supplemental Appropriation Act of 1955. After review, it should be provided to the Nonproject Branch as evidence of the obligation.

The control objective of this process is to ensure that a nonproject agreement containing all relevant CIP authorization and legal provisions is expeditiously negotiated. To achieve this objective, the process uses the following control techniques:

- **The guidance contained in A.I.D. Handbook 4 outlining the provisions to be included in the agreement and the procedures for negotiating the agreement.**

- **The review of the agreement in draft by an Agency Legal Officer.**

- **Clearance of the agreement by the mission and/or office accounting station to ensure funds are available and administratively reserved.**

- **The signing of the agreement by authorized officials of the U.S. and the host country which results in the obligation of funds.**

B. PROJECT IMPLEMENTATION LETTER PROCESS (Handbook 3, Chapter 8C and Handbook 4, Appendix 5A)

Implementation commences when the CIP agreement has been signed by representatives of the Agency and the host government. Throughout the implementation phase, the Project Officer will be communicating with the host government implementing entity on matters relating to the prompt and efficient implementation of the CIP assistance. This communication takes the official form of Project Implementation Letters, commonly referred to as PILs. The PILs must always be addressed to the person or organization designated by the host country in the section of the CIP transfer agreement entitled "Communications." This requirement is necessary to ensure that the advice or notice contained in the PIL will be "deemed duly given" as provided for in the applicable clauses of the agreement.

After signature of the CIP agreement, the mission and/or office issues Implementation Letter No. 1, or the "Basic PIL." Subsequent PILs are serially numbered to permit control and identification. The Basic PIL gives the host country more detailed guidance on matters covered in the CIP agreement. It explains specifically what documents are to be submitted to satisfy the conditions precedent set forth in the project agreement, including the format of the legal opinion to be submitted; it provides specific information on disbursement procedures; and it specifies what reports A.I.D. requires, defining their frequency, format, content, and so on. The "Basic PIL" generally includes the following:

- Introduction

  Following an opening statement citing the agreement under which the Implementation Letter is being issued, a short summary of the purpose and scope of the grant (or loan) agreement is set forth.

- **Conditions Precedent to Disbursement**

The conditions precedent are specific actions which must be accomplished prior to authorization of disbursement. Such actions, which are prescribed in the agreement and instructions for compliance by the host country, are explained in detail in the Implementation Letter. Terminal dates for compliance are stipulated in the Implementation Letter. Among the conditions precedent to be satisfied prior to the authorization of disbursements are:

-- **Submission of Legal Opinions Concerning Validity of the Agreement**

This is an opinion of either a host country Ministry or other counsel satisfactory to A.I.D. that the agreement has been duly authorized or satisfied by and executed on behalf of the host country and constitutes a valid and legally binding obligation of the host country in accordance with its terms.

-- **Designation of Host Country Authorized Representatives and Submission of Specimen Signatures**

The host country must furnish a written statement with the legal opinion above that represents and warrants to A.I.D. that the persons signing the documents on its behalf have the authority to act in the capacities specified in connection with the execution and operation of the agreement.

- **Procurement Plan**

A.I.D. and the host country agree generally on the commodities to be financed. The appropriate agency of the host country prepares a procurement plan identifying the commodities to be A.I.D.-financed, the criteria and procedures for determining importer eligibility, the mechanism for publicizing procurement and making awards, the method of financing to be used, and arrangements to insure arrival and disposition of the commodities.

- **Ineligible Supplier Lists**

The names of suppliers suspended, debarred, or subject to prior review by A.I.D./W must be made available to the host country. The latest list of such ineligible suppliers should be included as an attachment to the Implementation Letter.

- **Shipping Instructions**

  These instructions list A.I.D. requirements governing responsibilities of the host country in regard to shipment of A.I.D.-financed commodities. They also include guidance as to how the host country may comply with these requirements.

- **Financing Requests**

  The Financing Request (FR), Form AID-1130-2, is the form used by the host country to request the issuance of a specific disbursing authorization to initiate detailed financing arrangements for the procurement of commodities and commodity-related services authorized by the Agreement and the Commodity Procurement Instruction (CPI).

Because the host country will be required to act promptly on some of the matters discussed in the PIL, these subjects should be discussed with the host country in detail before the CIP agreement is signed. It is desirable that the Basic PIL be prepared in draft shortly after the PAAD is completed. This allows detailed discussions with the host country during the interval between completion of the PAAD and signature of the agreement. The Basic PIL should be negotiated simultaneously with the agreement.

Subsequent PILs are used to document approvals by the mission and/or office of actions or intended actions by the host country, with the recording of such changes in the CIP agreement as can be made without formally amending it. These are changes in all clauses or annexes which contain the words "except as A.I.D. may agree otherwise." Clauses not containing these words can only be changed by a formal amendment of the agreement.

PILs frequently deal with subject matters which require the professional expertise of members of the mission and/or office staff other than the Project Officer. The "Basic PIL" is always in this category. The mission and/or office should thus establish procedures for clearing PILs by the Controller, Legal Advisor, Technical Specialists, etcetera.

A caveat is in order here. Since PILs are considered an official part of the project agreement, they should not be used to communicate mundane operational matters. Project Officers and PIL clearing officers within the missions and/or offices should thus have a clear understanding of the subject matter that should be communicated in the PIL. In other words, the PILs should not be used for micromanaging day-to-day operations.

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The control objective of the PIL is to ensure that the host country is officially notified of all significant actions concerning the implementation of the CIP agreement. To achieve this control objective, the following control techniques are used:

- **The guidance for preparing the PIL outlined in A.I.D. Handbooks 3 and 4.**
- **The serial numbering of PILs.**
- **The review and approval process for clearing PILs.**

Since PILs should not be used for day-to-day operations, a proliferation of PILs may indicate that the CIP was poorly planned or that the mission and host country failed to agree on the CIP's policy and/or procedures during the design phase.

C. CONDITIONS PRECEDENT AND COVENANTS PROCESS (Handbook 3, Chapters 6F AND 11 B)

In developing the CIP, the designers will specify the conditions precedent (CP) and covenants to be included in the CIP agreement. These CPs and covenants are included in the agreement to ensure the host country undertakes specific actions in connection with the implementation of the CIP assistance.

CPs are those provisions in the CIP agreement which are considered essential to implementation. In this regard, CPs address specific actions which the host country must take in order to proceed with implementation or actions deemed necessary to optimize results and/or benefits. CPs are thus one-time actions which must be fulfilled within a specified period of time.

The Basic PIL sets forth the CPs to initial disbursement of funds. These initial CPs refer to such host country actions as a legal opinion on the validity of the agreement and the requirement to designate official representatives. In addition, the Basic PIL will usually indicate those specific CP actions which should be taken in regard to the disbursement of funds. A target date, ranging up to four months, will be established to fulfill these CPs. If the host country is unable to fulfill the CPs within the specified period, the mission and/or office can extend the period. Generally, only the mission and/or office has the delegated authority to extend the CP period up to a year, after which the geographic bureau's assistant administrator must approve any further extensions. Under no circumstances can the mission and/or office rescind and/or change the CP without the prior approval of the assistant administrator.

The Project Officer is responsible for monitoring the host country's compliance with the CPs. Thus, when the necessary documents have been received and reviewed, the Project Officer will notify the host country representative through a PIL that the initial CPs to disbursement of funds have been satisfied.

A covenant is a more continuous action required of the host country which is not directly related to implementation or disbursement of the cash transfer. Covenants include such actions as undertaking specified policy changes, maintaining financial records, depositing A.I.D. dollars to a separate account, depositing local currencies to a separate account, and reporting on the use of the A.I.D. dollars. These actions are often critical to achieving the benefits to be derived from the program. It is therefore essential that the Project Officer monitor these covenants during the life of the program.

Whether policy reform is established as a condition precedent to disbursement or as a covenant will depend on the country's political sensitivities. Incorporating policy reforms as a CP is the most effective way of getting action, since the funds cannot be released until the CP has been fulfilled. Incorporating the policy reforms as a covenant is a less effective method of leveraging the CIP for undertaking reforms. Not incorporating the policy reform into the agreement at all is the weakest method. This latter method is used when the discussion of policy reform is particularly sensitive, as in the case of Egypt. In such cases, A.I.D. will include the reforms in a policy dialogue and/or a side letter.

It is A.I.D.'s policy to condition CIPs on policy reforms whenever possible. Auditors should thus determine that A.I.D. uses the CIP to obtain such reforms to the extent possible and that A.I.D. is able to demonstrate what progress and impact these reforms are achieving. Because of political sensitivities, the Department of State may sometimes override A.I.D.'s efforts to press for the reforms, e.g., withholding the release of funds. When this occurs, the auditor should cite the overriding importance of the political circumstances.

The control objective of the CPs and covenants is to ensure that the host country undertakes specific actions which are considered essential to the implementation of the CIP. To achieve this objective, the following control techniques are used:

- **The guidance contained in A.I.D. Handbook 3 outlining the procedures for monitoring the CPs and covenants.**

- **The time limitations imposed on meeting the CPs.**

- **The approvals required for extending CPs up to a year at the mission and/or office level and the need for prior geographic bureau approval of extensions beyond a year.**

- **The policy requirement that only the geographic bureau can authorize changes to or waivers for CPs.**

- **The nonrelease of cash transfer funds until CPs have been met.**

D. COMMODITY PROCUREMENT IMPLEMENTATION PROCESS (Handbook 4, Chapter 5; Handbook 15, Chapters 1-9 and Appendix A; and Handbook 1 Supplement)

Under a CIP. the host country allocates the foreign exchange provided by the A.I.D. grant (or loan) among its importers in the public and private sectors to finance the purchase of products and equipment through regular commercial trade channels. A.I.D. does not participate directly in procuring or determining the specific items to be purchased or selecting the suppliers. Transactions are negotiated directly between American suppliers and foreign importers. Selling commodities under A.I.D.-financed programs is thus essentially the same process as selling through normal commercial channels with one important difference: The procurement is subject to A.I.D. procurement regulations.

Accordingly, the CIP agreements with a foreign country must specify the range of commodities which can be procured, the countries from which they may be purchased, A.I.D. marking and labeling requirements, price, commission, shipping instructions, and other applicable conditions.

To ensure the host country understands and complies with these regulations, A.I.D. prepares a Commodity Procurement Instruction which sets forth the "ground rules." These procurement requirements are also incorporated into the financing documents. Thus, if the procurements do not conform with the procurement requirements, they are not eligible for A.I.D. financing. The A.I.D. documents discussed below spell out the procurement requirements which are cited in and accompany the "Basic PIL."

1. Commodity Procurement Instruction (CPI)

The Commodity Procurement Instruction (CPI) is an A.I.D. form prepared by the Office of Procurement in A.I.D./W or the mission and/or office, which is used to standardize the presentation of the principal commodity elements of nonproject assistance. It provides information in a uniform format for ready reference by the host country on commodity eligibility, source, dollar

value, restrictive dates, applicable rules and procedures, and other materials often scattered throughout the agreement, amendments, and related correspondence. It serves as a basic attachment to all letters of commitment and other financing documents. Normally, one CPI under each agreement is issued to the host country under cover of the initial Implementation Letter. However, circumstances may warrant the issuance of more than one CPI. CPIs may not exceed the value of the grant (or loan) agreement.

The CPI face sheet (Form AID-1130-1) includes such data as the following (Handbook 4, Section 5.C.5.d.2):

- CPI Number - The CPI number is assigned by the issuing office.

- Allotment and Appropriation Symbols

- Eligible Items and Schedule B Commodity Codes: Ocean Freight - A list of commodities by Schedule B Codes or an attachment which provides the list (see Handbook 15 - A.I.D.-Financed Commodities, Appendix B). Agency preference is to indicate, by Schedule B Codes, the commodities to be financed.

- CPI Amount - the dollar value of A.I.D. financing authorized under the agreement or, if more than one CPI is to be issued under the agreement, amount subauthorized by the CPI.

- Area of Source and Code - the eligible geographic area of source by title and code. For guidance on applicable source codes, see Chapter 5 of Handbook 1, Supplement B.

- Eligibility Date - The initial date on which transactions are eligible for financing. This date is usually the date of the agreement and may not precede the date on which the PAAD was approved without a waiver by the Administrator.

- Contracting Period - The earliest date on which contracting may begin. This may not precede the eligibility date. The final date by which contracting must be concluded. This may not postdate the terminal disbursement date and should precede such date by at least 30 days.

- Shipping Period - The earliest date on which the shipment of commodities may begin. This may not precede the contracting date. The final date by which the shipment of commodities must be concluded. This may not postdate the terminal disbursement date and should precede such date by at least 30 days.

- Terminal Disbursement Date - The final date after which funds under the agreement will not be available to finance commodity transactions.

- Methods of Financing - The Letter of Commitment or other method of financing authorized.

- A.I.D. Commodity Financing Procedures - The financing arrangements under which the CPI is to be implemented. In addition, the degree of applicability of A.I.D. Regulation 1. If A.I.D. Regulation 1 is not applicable, show in an attachment, the precise procedures which apply in lieu thereof.

- Special Provisions

- Signature - The approval official should sign prior to reproduction of copies.

- Date - The date of A.I.D. preparation of CPI, original or amendment.

Continuation sheets are used to incorporate special provisions. These special provisions are developed by the Office of Procurement in A.I.D/W, the geographic bureau or the mission and/or office in consultation with each other and the A.I.D./W Office of Financial Management. These special provisions need to be incorporated into instructions to importers issued by the host country and with disbursing authorizations issued by A.I.D./W. Following are special provisions generally included in CPIs (Handbook 4, Chapter 5, Appendix 5A, Attachment 1):

- Letter of commitment coverage (e.g., commodities, insurance, ocean transportation costs, delivery service, and banking charges).

- Applicable source(s) for commodity procurement

- Minimum Size of Transactions (Letters of Credit must generally be in an amount no less than $10,000*)

- Eligibility Dates

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* In line with this policy, the standard minimum value for each A.I.D.-financed transaction is $5,000. Based upon the size and nature of the nonproject assistance and other relevant circumstances, the Mission is to endeavor to increase the minimum level of $10,000 in any country or program when this is feasible and would not tend to defeat A.I.D.'s objectives.

- A statement that the supplier's invoice required under Section 201.52 of A.I.D. Regulation 1 shall, in addition to other required information, contain a statement by the supplier to the effect that he has airmailed to the A.I.D. Representative, c/o American Embassy, (Name of Country), Attn: _____, one copy of each of the ocean or charter party bill of lading, supplier's invoice and packing list.

- Responsibilities of the U.S. Banking Institution, including the issuing, advising, or confirming of letters of credit and the obtaining of any other documentation required for reimbursement.

- Responsibilities of the U.S. Banking Institution to provide A.I.D. with reports on total dollar amounts disbursed by the bank and the amounts reimbursed by A.I.D. to the bank under the Letters of Commitment.

- A statement that when submitting documentation for reimbursement hereunder, the Voucher, SF 1034, must cite the transaction to "APPROPRIATION SYMBOL NO. 72-XXXXXXX PROGRAM."

A CPI is finalized or issued when it is approved for A.I.D. by signature of the A.I.D. Director of the Office of Procurement or the mission and/or office director. CPIs for the total value of the agreement are issued to the host government with the Initial Implementation Letter unless other arrangements have been authorized in the PAAD.

Issued CPIs are transmitted by the mission to the host government under cover of an Implementation Letter. The issuing office also transmits copies, together with copies of the covering Implementation Letter, to A.I.D. offices.

Revisions to CPIs are initiated to reflect any changes in dates, amounts, method of financing, special provisions, or other information contained in the CPI. Revisions which may be initiated are limited to the extent flexibility is provided in the agreement. They are usually initiated at the request of the host country, or of the mission in consultation with the host country, for the purpose of facilitating the utilization of the funds provided under the agreement.

The clearance of the Office of Financial Management is required if the proposed revision would affect Financing Requests already transmitted to Financial Management under the CPI or disbursing authorizations issued by A.I.D.

Revisions are issued and distributed in the same manner as original CPIs. All revisions are to be prepared in accordance with the following instructions, as the document is to be used by the host country in advising importers and by A.I.D. in issuing instructions to U.S. banking institutions.

For each revision, a complete new CPI face sheet (Form AID 1130-1) is to be prepared. Any change in the amount of the CPI is to be reflected in Block 7. For all other blocks on the face sheet, if the previous entry is not changed, the previous entry is repeated; if there is a change, the changed entry is inserted and underlined to indicate that a change has been made.

For changes in the special provisions attached to the CPI, a new page (or pages) is prepared on the CPI continuation sheet (Form AID 1130-1A). Each revised page is underlined in the upper right-hand corner with the words "Revised page (No.) (Date)" and the words "see revised pages nos. ___, ___" are entered and underlined in Block 15 of the face sheet. If the effective date of any change differs from that in Block 17 of the CPI revision, the effective date is stated in the text of the change.

2. **Commodity Eligibility Listing** (Handbook 4, Section 5.C.7)

It is A.I.D. policy to finance only those commodities which it has determined are "eligible" in terms of general and specific program objectives. A.I.D. wants to assure that the commodities it finances make a positive contribution to development, so it has established broad limitations on the categories of commodities that are eligible for financing. Thus, there are restrictions on the financing of luxury goods, unsafe or ineffective products, used equipment, etc. A.I.D. uses the U.S. Department of Commerce Schedule B numbers (seven-digit codes used for reporting exports from the United States) as a means of classifying commodities in order to define commodity eligibility or special provisions and to record commodity transactions. A specified Schedule B number and commodity description must be stated in CIP documents submitted to A.I.D. for payment.

The A.I.D. Commodity Eligibility Listing in its entirety may be incorporated into implementing documents, or, in some cases, a specific list of eligible commodities may be provided. The nonproject assistance agreement, implementation letters, or CPI must specify the U.S. Department of Commerce Schedule B identification codes of commodities to be financed. Incorporation of the Commodity Eligibility Listing satisfies this requirement. The CPI provides the rules, procedures, documentation, and mechanics governing authorized procurement. Agreements listing or referencing CPIs,

which list commodities by codes, should add the clause "or such other commodities as A.I.D. may agree in writing to finance." This will permit subsequent addition of codes not included in the original agreement.

On occasion, an eligible Schedule B code may encompass luxury or nonessential items or other commodities that should not be financed with A.I.D. funds. In other instances, a normally eligible commodity, such as a basic industrial chemical, may be rejected for A.I.D. financing because it generates end-use problems.

When commodities are identified as unsuitable for A.I.D. financing, such unsuitable commodities are deleted from subsequent issues of the A.I.D. Commodity Eligibility Listing (Handbook 15, Appendix B). If instructed by A.I.D./W, the mission and/or office arranges with the host country to discontinue licensing the unsuitable commodities and negotiates amendments to existing agreements to formalize the arrangement.

In exceptional cases, A.I.D. may have to take unilateral action to deny financing for newly noted objectionable commodities. This could occur if an item falling within an authorized Schedule B code is potentially so damaging to the achievement of A.I.D. objectives that its financing must be stopped immediately; e.g., previously unknown information regarding danger or effectiveness may become available for a given pharmaceutical. To exercise effective control in such instances, A.I.D. reserves authority to decline to finance such commodities even when they are included in the list of eligible commodities. This authority is reserved by including the provision given below in each nonproject assistance agreement:

> "A.I.D. reserves the right in exceptional situations to delete commodity categories or items within commodity categories described by Schedule B codes on the positive list. Such right will be exercised at a point in time no later than commodity prevalidation by A.I.D. (Form 11 approval) or, if no commodity prevalidation is required, no later than the date on which an irrevocable Letter of Credit covering U.S.-source procurement of the commodity is confirmed by a U.S. bank in favor of the supplier or, with respect to non-U.S. procurement, the date of which the credit is opened in favor of the supplier. If no prevalidation is required and payment is not by Letter of Credit, A.I.D. will exercise this right no later than the date on which it expends funds made available to the borrower/grantee under this agreement for the financing of the commodity. In

> any event, however, the borrower/grantee will be notified through the A.I.D. mission in its country of any decision by A.I.D. to exercise this right pursuant to a determination that financing the commodity would adversely affect A.I.D. or foreign policy objectives of the United States or could jeopardize the safety or health of people in the importing country."

The above provision may be omitted only on a finding by the appropriate Assistant Administrator and the A.I.D./W Director of the Office of Procurement that inclusion of the provision would adversely affect the negotiation or implementation of the specific agreement concerned. Control is exercised as indicated in the text of the provision, with prompt notification to the host country. However, action to decline financing is taken only with the concurrence of the Office of Procurement and the geographic bureau concerned, or on instruction from the Administrator.

3. **Regulation No. 1** (Handbook 15, Appendix A)

A.I.D. Regulation 1, "Rules and Procedures Applicable to Commodity Transactions," is the governing regulation for procurement under Commodity Import Programs. In preparing the CPI, A.I.D. will usually cite this regulation as the commodity financing procedure to be followed. The host country is then responsible for ensuring the commercial banks, importers, and exporters comply with the regulation. Unless the host country has had prior experience with the program, the A.I.D. mission needs to work closely with the host country in developing the operational details for implementing the program. These details are usually provided in the form of an information and guidance bulletin or circular spelling out the procedural aspects of the program. These bulletins thus cover such aspects as allocation of funds, A.I.D. Regulation 1, source of procurement, procurement procedures (private and public), notice to suppliers, ineligible suppliers, financing procedures, shipping, and so on.

A.I.D. Regulation 1 incorporates the legislative requirements affecting program implementation. To audit a CIP, auditors should be familiar with the Regulation. Following are some of the procurement requirements contained in Regulation 1:

a. **Methods of Procurement**

CIPs provide allocations to two difference categories of importers. CIPs may be used to provide foreign exchange to private sectors of the

cooperating country for regular commercial purchases. Much like project assistance, CIPs may also be used to provide foreign exchange to the public sectors of the cooperating country for procurement of commodities required by their specific activities. The implementing document will specify the procurement conditions which must be followed.

(1) Private Sector

Section 201.23 of A.I.D. Regulation 1 contains the informal procedures that are used by the private sector. Procurement under this section must be in accord with good commercial practices. It requires only that the importer solicit offers from a reasonable number of prospective suppliers and fairly considers all offers received. This allows considerable flexibility in the way procurement is conducted. Procedures for small value purchases may be as informal as requesting potential suppliers by phone, letter, telex or other means to quote a price on the item to be purchased and then selecting the most advantageous offer. A.I.D. reserves the right under Section 201.23 to require the importer to furnish information on all the offers received.

The requirement that offers be solicited from a reasonable number of prospective suppliers does not apply when a "special supplier-importer relationship," as described in Section 201.23(e) of A.I.D. Regulation 1, exists. In these types of purchases, when an importer is authorized as exclusive dealer or distributor for a particular supplier, the importer is not required to obtain offers from any one other than that supplier and no waiver of competition is required. A.I.D. may require an importer to furnish proof of such a relationship.

Advertising of private sector procurements is not required but may be undertaken at the U.S.A.I.D.'s or importer's request. A.I.D. normally relies on more general publicizing methods to assist interested U.S. suppliers in participating in A.I.D.-financed procurements. A.I.D.'s publicizing techniques, such as making available to the U.S. business community lists of potential importers in countries with active private sector CIPs, are discussed in Handbook 1, Supplement B, Chapter 23.

A.I.D. Regulation 1 requires suppliers to submit to the A.I.D./W Office of Procurement an Application for Approval of Commodity Eligibility, Form AID-11, which describes each commodity transaction. This affords A.I.D. an opportunity to comply with Section 604(f) of the FAA by reviewing the transaction prior to payment for commodity eligibility and suitability and possibly identify other problems such as price and componentry.

To monitor private sector procurement, the mission or office may require that procurements be approved by A.I.D. prior to financing.

(2) **Public Sector**

It is A.I.D.'s policy to apply the procurement procedures in Handbook 11, Chapter 3, "Procurement of Equipment and Materials," specifically Section 2.2 on contracting method and Section 2.3 on advertising, to public sector entities under CIPs. Implementing documents should specify that public sector procurements are subject to the requirements in these two sections of Handbook 11, in lieu of the requirements in Sections 201.22 and 201.23 of A.I.D. Regulation 1. The remaining provisions of A.I.D. Regulation 1 still apply, and the documents required for payment are those listed in Section 201.52 of A.I.D. Regulation 1, including the Form AID-11 and the FORM AID-282 (rather than Form AID-1450-4). Importers should be required to submit to the A.I.D./W Office of Procurement an Abstract of Bids within 30 days after the award of a contract.

The guidance, procedures, and responsibilities in Sections 2.2 and 2.3 of Handbook 11, Chapter 3 apply as well. This means that the criteria and authorities for waiver of provisions under these sections apply rather than those established in Regulation 1. Guidance in other chapters of Handbook 15 supplements guidance in Handbook 11, Chapter 3, particularly with respect to eligibility, cargo preference, marine insurance, marking and commodity arrival and disposition. By requiring the supplier's execution of the Form 282 which incorporates A.I.D. Regulation 1 by reference, the A.I.D. Regulation 1 price

and commission rules apply (see Handbook 1, Supplement B, Chapter 17).

An important requirement for effective use of competitive bidding as provided for in Handbook 11, Chapter 3 is a firm and sufficiently detailed specification which is not unduly restrictive, so that a reasonable number of bidders may compete on the same basis. It is also important to have terms and conditions which best effectuate the procurement but contain no unnecessarily restrictive requirements. Missions requiring assistance in writing specifications or having any questions about competitive bidding or appropriate terms and conditions should consult with the A.I.D./W Office of Procurement.

To monitor public sector procurement, A.I.D. requires that the Invitation for Bids (IFB) be reviewed and approved by A.I.D. prior to circulation to the export community. A.I.D. also reviews the award to the lowest responsive bidder.

b. **Source of Commodities**

A.I.D.'s policy limits the countries from which commodities may be purchased. Many A.I.D. agreements require that commodities be purchased from the United States; other A.I.D. agreements allow purchases from the United States and from selected Free World countries (excluding the developed countries).

To meet A.I.D. source requirements, a commodity must be shipped from an eligible country; must be mined, grown, or produced in an eligible country; and may not include components from non-Free World countries. Components from Free World countries are eligible within specific limits, usually up to 50% of the lowest price at which the supplier makes the commodity available for export sale.

c. **Commodity Eligibility**

A.I.D.'s commodity eligibility policies are keyed to two basic objectives: (1) that the commodities A.I.D. finances make a positive contribution to development; and (2) that A.I.D. procurement programs are carried out in full accord with relevant policies and laws.

To promote these objectives, commodities are ineligible for A.I.D. financing if they are:

- Unsafe or ineffective products, such as certain pesticides or pharmaceuticals.

- Luxury goods, such as recreational supplies and equipment, alcoholic beverages and equipment for their production and use, equipment or supplies for gambling facilities, jewelry, stamps, coins, furs, and the more expensive luxury textiles.

- Surplus or used items, unless inspected and approved in accordance with procedures approved by A.I.D.

- Items for military use.

- Surveillance equipment of microminiature design for audio surveillance activities.

- Weather modification equipment.

- Commodities and equipment for the purpose of inducing abortions as a method of family planning.

- Commodities for support of police and other law enforcement activities.

For monitoring commodity eligibility, A.I.D. Regulation 1 requires the supplier of a proposed A.I.D.-financed transaction to submit a Form AID-11 to the A.I.D./W Office of Procurement. This is usually done after the supplier has received a letter of credit or direct Letter of Commitment, but before shipment of the commodity. If the supplier does not have a letter of credit, it must present other evidence that it has a firm contract to furnish the commodity for which it seeks A.I.D. approval. The Form AID-11 provides space for the commodity description, including Schedule B seven-digit code, commodity condition, source, componentry, and other data pertinent to the review of the Application and required for certain statistical purposes.

A Form AID-11 will be approved if the commodity is eligible under the implementing document and if the commodity meets the eligibility criteria established in the A.I.D. Commodity Eligibility Listing.

One of the criteria for commodity eligibility is that the purchase price of the commodity satisfies the price rules set forth in Subpart G of A.I.D. Regulation 1. A determination that the price criteria are met need not be made at the time the Form AID-11 is acted upon. A.I.D. always has the right of post-audit under the terms of the Supplier's Certificate and Agreement with the Agency for International Development (Form AID-282) which the supplier executes at the time of payment However, where it is apparent that the price shown on the Form AID-11 does not meet the requirements of Subpart G of A.I.D. Regulation 1, the Form AID-11 will not be approved in order to avoid probable refund action or litigation subsequent to financing.

The procedure for approval of commodity eligibility is also used to monitor the eligibility of suppliers. Eligibility status of the supplier is determined by reference to the List of Debarred, Suspended, and Ineligible Awardees.

d. **Cargo Carriers' Eligibility**

A.I.D. requires that at least 50% of the gross tonnage of all commodities financed with the A.I.D. funds and transported to the cooperating country on ocean vessels be shipped on privately owned U.S. flag commercial vessels, if available.

Additionally, all agreements provide that the funds may be used to finance transportation costs for shipping the A.I.D.-financed commodities on U.S. flag vessels or aircraft, and in some instances, on certain designated foreign flag vessels or aircraft.

Buyers advise prospective suppliers as to what shipping must be used for a particular transaction when they solicit offers, and the authorized eligible shipping is included in the successful supplier's letter of credit or letter of commitment.

The Cargo Preference Act requires participation by U.S. flag vessels "to the extent such vessels are available," and this qualification is included in A.I.D.'s agreements with host countries. The Office of Procurement's Transportation Division may make determinations, when circumstances warrant, that U.S. flag commercial vessels are not available. Authority to make such determinations is not delegated to host countries. These determinations of nonavailability may be made for individual shipments of liner parcels or full shiploads, or for all

liner shipments for a period of time from certain ports or a range of ports in a geographic area to the destination country.

Air and sea charters, whether or not financed by A.I.D., must have prior approval of A.I.D./Washington in order to move A.I.D.-financed cargo. Requests for charter approvals must be submitted to and approved by the Transportation Division of the Office of Procurement.

In accordance with Section 201.11, A.I.D. Regulation 1, commodities otherwise eligible for financing will not be financed if shipped on transportation owned, operated, or under the control of any of the following countries:

> Albania, Bulgaria, People's Republic of China, Cuba, Czechoslovakia, Estonia, East Germany, Hungary, North Korea, Latvia, Lithuania, Outer Mongolia, Poland, Romania, North Vietnam, and the Union of Soviet Socialist Republics (USSR).

Host countries are responsible for ensuring that A.I.D.-financed commodities are shipped aboard ocean vessels in accordance with cargo preference provisions which are incorporated into each CIP agreement. The agreement may require that the host country provide A.I.D. with a quarterly report accounting for shipments in accordance with the Cargo Preference Act.

The A.I.D./W Transportation Division is responsible for compliance with the provisions of the Cargo Preference Act and for compliance with U.S. Maritime Administration (MARAD) rules applicable to transactions governed by the Act. In this regard, the Transportation Division is responsible for such things as:

- Assuring that U.S. flag vessel participation in the movement of A.I.D.-financed commodities is in compliance with requirements of the Cargo Preference Act and with applicable MARAD rules;

- Reviewing individual country and borrower/grantee performance for compliance with the provisions of the act;

- Preparing statements to geographic bureaus to advise them of deficient host country performance and of possible corrective measures;

- Determining the indicated need for, and the amounts of, refunds to A.I.D. for inadequate compliance;

- Initiating requests for refunds for inadequate compliance. Such requests are subject to clearance with the appropriate geographic bureau, the Office of Financial Management, and the General Counsel;

- Making determinations of nonavailability of U.S. flag vessel service;

- Preparing reports as necessary or appropriate to the Administrator, MARAD, or to the Congress, as to A.I.D.'s compliance with the provisions of the Cargo Preference Act and MARAD's rules applicable to Agency responsibilities under the Act;

- Maintaining statistics as to cargo preference performance for each cooperating country and loan and grant; and

- Assisting other A.I.D./W offices and U.S.A.I.D.s in interpretation of the Cargo Preference Act as it is administered by A.I.D.

e. **Commodity Price Rules**

A.I.D. Regulation 1 provides for the implementation in CIP transactions of the price requirements of the Foreign Assistance Act. It clearly identifies specific tests which a supplier's price must meet if a transaction is to be eligible for A.I.D. financing and imposes a requirement upon the host country to ensure that the importer procures in accordance with A.I.D. rules. In short, a price violation on the part of a supplier may provide the basis for recourse by A.I.D. against the supplier (or, alternatively, the host country) because the importer has not procured at the lowest available competitive price.

A supplier is subject to A.I.D. Regulation 1 price rules when it signs a Supplier's Certificate and Agreement with A.I.D. (Form AID-282).

The document contains a general description of the A.I.D.-financed commodities, incidental and delivery services, and summarizes the price and payment information. By signing the certificate, the supplier (whether of the commodity, transportation services, or marine insurance) certifies to the correctness of the information supplied and to compliance with any A.I.D. requirement applicable to the transaction.

To monitor compliance, the A.I.D./W Office of Procurement performs those price tests contained in A.I.D. Regulation 1 and discussed in Section I below.

The control objective of the commodity procurement process is to ensure that commodities are procured and paid for in accordance with applicable laws, regulations, and policies. To achieve this objective, the following control techniques are used:

- **The guidance contained in A.I.D. Handbooks 1, 4, and 15 outlining the procurement procedures and requirement.**
- **CPI documents authorizing procurement subject to the specified procedures and requirements.**
- **Review and approval of procedures by such entities as A.I.D., host country, licensing agency, host country banks, and U.S. Letter of Commitment Bank.**
- **The policy requirement that waivers of procurement requirements can only be made by authorizing officials.**
- **The nonrelease of CIP funds until CPs have been fulfilled regarding preparation of a procurement plan spelling out how the program is to work.**

E. PAYMENT PROCESS (Handbook 4, Section 5.C.4)

Responsibility for disbursement of the CIP is shared by the mission and/or office and the Office of Financial Management in A.I.D./W. In sharing this responsibility, the mission and/or office is responsible for monitoring the host country's compliance with the applicable disbursement provisions of the agreement. In monitoring these provisions, the mission or office must ensure that the host country has complied with the applicable conditions precedent to disbursement. This may require reviewing host country evidence to determine whether:

- the legal opinion regarding validity of agreements is adequate;
- the designation of borrower representative (s) has been made;
- an adequate procurement plan has been prepared for implementing the program;
- the stabilization and/or economic policy reforms have been undertaken as required; and
- a separate interest-bearing local currency account has been established for the deposit of the local currencies accruing from the sale of dollars.

When the evidence submitted in compliance with the conditions precedent is found to be satisfactory, the mission or office should prepare a PIL notifying the host country of this action. This PIL may also contain instructions regarding the preparation of Financing Requests for the CIP assistance. These Financing Requests are prepared by the host country in coordination with the mission or office and signed by the host country representative and the mission director.

The Financing Request (Handbook 4, Section 5.C.3) should be prepared in accordance with the requirements contained in the Commodity Procurement Instruction (CPI). In preparing the Financing Request, the host country is requesting A.I.D. to open Bank and/or Direct Letters of Commitment.

Pursuant to Handbook 4, Chapter 5, the Financing Request should consist of Form AID-1130-2 and the continuation sheet and contain such data as the following:

- The amount of the Financing Request.
- The A.I.D. geographic code for the procurement.
- The Financing Request Number which is the maintained in numerical order. Depending on the size and nature of the CIP, there could be anywhere from one to 99 individual Financing Requests. Each host country commercial bank participating in the CIP may request that a Bank Letter of Commitment be opened with a U.S. bank, or the CIP may contain a number of public sector procurements which the mission or office prefers to handle through Direct Letters of Commitment. The Request Number thus indicated the number of disbursing authorizations opened under the CIP.
- The Program Agreement Number.

- The Commodity Procurement Instruction Number.
- The name of the U.S. Letter of Commitment Bank or the name of the supplier under the Direct Letter of Commitment.
- The name of approved applicant which is usually the host country commercial bank or banks authorized to request the U.S. bank to open commercial letters of credit or to make payments to suppliers by other means.
- Items to be financed and A.I.D. Commodity Codes.
- Contracting, shipping, and/or other pertinent dates.
- Special restrictions within terms of the Commodity Procurement Instruction.

Because of the substantive difference between Bank and Direct Letters of Commitment, the discussion below starts off with the procedures for handling Bank Letters of Commitment.

1. **Bank Letter of Commitment**

The Bank Letter of Commitment (Bank L/COM) is the usual method of payment under commodity import programs except in the case of large-volume purchases from a single supplier. Bank Letters of Commitment should be used for commodity procurements which are likely to produce a profusion of invoices.

Upon receipt of the signed Financing Request, the mission or office accounting station should prepare a cable to the A.I.D./W Office of Procurement requesting that a Bank L/COM be prepared and issued in accordance with the cable instructions. This cable should provide the information contained in the Financing Request.

Upon receipt, the Office of Procurement reviews the cable to ensure it is consistent with A.I.D. regulations, the agreement, and the CPI. The Procurement Branch then prepares a draft of the Bank Letter of Commitment. This draft of the Bank Letter of Commitment is then sent to Project/Nonproject Branch within the Office of Financial Management.

The Project/Nonproject Branch will review the draft. In doing so, it will assign a Disbursing Authorization Number and provide the pertinent appropriation and allotment data. The Branch will then record the

commitment to the nonproject ledger account in FACS. After doing this, it will return the draft Bank Letter of Commitment to the Office of Procurement which will then prepare and issue the Bank Letter of Commitment to the U.S. bank specified by the host country.

The Bank Letter of Commitment is a financial arrangement between A.I.D. and a U.S. bank, under which the bank is authorized to make payments to contractors or suppliers for eligible commodities and services. The bank is reimbursed by A.I.D. for payments to suppliers or contractors made in accordance with the conditions set forth in the Letter of Commitment and for any bank and interest charges.

This financing method utilizes established commercial banking channels to make payments to suppliers or contractors. Under this payment arrangement, a party ("approved applicant") designated by the host country may request the Letter of Commitment Bank to issue commercial letters of credit to suppliers or contractors, or commercial banks in the cooperating country may issue letters of credit to suppliers or contractor and request the U. S. Letter of Commitment Bank to confirm such letters of credit. Financing for such letters of credit is provided by the Letter of Commitment. The documentation submitted to the bank is not examined by A.I.D. before payment except to ensure that all required documents are presented. However, like all A.I.D.-financed transactions, it is subject to post-payment examination.

Upon receiving the Letter of Commitment from A.I.D., the U.S. Letter of Commitment Bank advises the host country that it stands ready to finance transactions. It is at this point that procurement would start to take place in the host country in accordance with the procurement plan spelled out in an information and guidance pamphlet or circular distributed to the banking and importing community. This pamphlet will generally provide guidance on such aspects as the applicability of A.I.D. Regulation 1, items eligible for financing, authorized source of procurement, i.e., source, origin and componentry rules, procurement procedures, financing procedures, and shipping rules and regulations. The importer is responsible for notifying the supplier of such things as whether the transaction is subject to A.I.D. Regulation 1, the documentation requirements, the delivery period, and the CIP identification number. The U.S. Letter of Commitment Bank is responsible for ensuring the supplier provides the necessary documents with the proper CIP identification number within the dates specified in the Letter of Commitment.

For purposes of describing the payment process for Bank Letters of Commitment, the following example is based on a private sector procurement.

- The importer checks with the approved host country bank for the commodity eligibility rules under CIP. The importer is informed that the commodities he wants to import are eligible.

- Importer applies to host country for import license.

- Importer obtains two or three quotes from U.S. suppliers. If importer does not know U.S. market, the importer requests the mission or office to cable A.I.D./W to advertise requirements in A.I.D. publications. Importer then selects lowest price offer based on commodity requirements.

  If importer is a dealer, importer may use U.S. supplier without other price offers or quotes.

  To ensure compliance, the mission or office may require importer to obtain its approval of transaction.

- Importer goes to approved host country bank with import license and price quotes to arrange for letter of credit. The approved host country bank cables U.S. Letter of Commitment Bank to open letter of credit in favor of U.S. supplier.

  To open the letter of credit, the approved host country bank may require importer to deposit 20 percent of the transaction in local currency with the balance of the local currency payment due upon delivery of the documents.

- The supplier fills order and ships. Upon presentation of proper document, the U.S. Letter of Commitment Bank pays the U.S. supplier.

- The U.S. Letter of Commitment Bank forwards the documents to the approved host country bank. The approved host country bank then notifies the importer that the documents are available. To obtain the documents, the importer pays the approved host country bank the unpaid local currency balance. The local currency funds generated from the sale of the dollars for this import transaction are then deposited by the host country participating bank to a separate local currency account specified by the host country Central Bank.

- Upon arrival of the commodities in country, the importer clears the commodities through customs for use or sale.

This example illustrates the role of the U.S. bank in financing the procurement transaction. In paying the U.S. supplier, the U.S. Letter of Commitment Bank uses its own resources. Thus, in seeking reimbursement for the transaction from A.I.D., the U.S. bank will include a fee for its services and interest for the period from the time of payment to the U.S. supplier to reimbursement from A.I.D.

The U.S. Letter of Commitment Bank forwards the paid transaction documents, including service and interest charges, to the Cash Management and Payment Division in the Office of Financial Management. Upon receipt of the paid transaction documents, the Cash Management and Payment Division schedules the transaction for reimbursement. It does this by preparing an SF-1166. When the form has been prepared, it is then certified for payment. After being certified, the scheduled payment is then recorded to the nonproject account maintained in FACS, which includes the Disbursing Authorization Number, the Voucher Number, and the date scheduled for payment. The Division then sends the SF-1166 to Treasury for payment.

Treasury arranges for electronic transfer of the funds through the Treasury Financial Communication System. It does this by instructing the Federal Reserve Bank to deposit the requested amount of funds to the designated account of the U.S. Letter of Commitment Bank. After the Federal Reserve makes the deposit, it notifies Treasury. Treasury then notifies A.I.D. Upon receipt of this notification of payment, A.I.D. then enters the amount and date of the payment to the FACS nonproject account.

On a quarterly basis, FACS produces the 243M Report. This report provides the current accumulated financial status of nonproject activity for cash transfers, CIPs, and sector grants. This report is used by both A.I.D./W and the mission and/or office for monitoring the financial status of the CIP Letters of Commitment.

To monitor the status of the letters of credit issued and paid, the U.S. Letter of Commitment Bank provides the Project/Nonproject Branch with a monthly report. The Branch uses these monthly reports to review the rate at which the commitment is being used by the opening of letters of credit and the rate at which letters of credit are being paid.

2. **Direct Letter of Commitment** (Handbook 4, Section 5.C.4.b.)

Under a Direct Letter of Commitment (D L/COM), A.I.D. makes payment directly to the U.S. supplier. Direct Letters of Commitment are usually used for large transactions. A.I.D.'s direct involvement in these transactions provide significant savings on bank service charges and interest. Handbook 4, Appendix 5D, contains a standard Direct L/COM together with instructions for procurement of commodities and related services.

For purposes of describing the payment process for Direct Letters of Commitment, the following example is based on a public sector procurement.

- Host Country Agency develops specifications for preparing the Invitation for Bids (IFB). If the mission or office is unable to help host country entity develop the specifications, it can request A.I.D./W assistance. When the mission or offices does not have the technical capabilities, the procurement transaction will be sent to the Office of Procurement in A.I.D/W. The specifications for the IFB will be developed in A.I.D./W either in-house or by contract. The IFB is then put in final form and cleared by the Host Country Agency and the mission or office.

- The IFB is announced and advertised by A.I.D. Copies of the IFB are issued by the Host Country Embassy in Washington to prospective U.S. suppliers. The IFB specifies the date, time and place for bid opening.

- Bids are sent by U.S. suppliers to Host Country Agency. The Agency analyzes the bids for responsiveness to the IFB and selects the successful bidder, i.e., that responsive and responsible bidder whose price is lowest for the equipment requested. The Host Country Agency informs the mission or office of the proposed award. If the mission or office has no objections, the Agency is provided with a "no objection" letter. The award is then made to the supplier.

- Before the award is formalized, the Host Country Agency prepares a Financing Request asking the mission or office to process a Direct Letter of Commitment to the successful U.S. bidder.

- The mission or office cables the Project/Nonproject Branch in the Office of Financial Management requesting that a Disbursing Authorization be issued. The Branch assigns a Disbursing Authorization Number and cables the data to the mission or office. In

doing this, the Branch also records the Disbursing Authorization to the nonproject ledger in FACS.

- The mission or office prepares the Direct Letter of Commitment and forwards it to U.S. supplier. Host Country Agency then signs a contract with the supplier.

- The U.S. supplier fills the order, ships the order, and sends documents to mission or office.

- Mission or office provides documents to Host Country Agency for clearing through port and customs. Mission reviews documents and certifies voucher for payment.

- Mission then arranges for payment of voucher. Payment can be made through the overseas U.S. Disbursing Officer or in A.I.D./W by electronic funds transfer.

Both private and public procurement can be made under the Direct Letter of Commitment method. In using this method, the mission or office is responsible for reviewing the transaction prior to payment. Though this entails additional work for the mission or office, the method provides savings in terms of bank charges and interest.

Direct Letters of Commitment can be opened by the mission or office directly or through the A.I.D./W Office of Procurement. There is no hard and fast rule governing this decision. Some missions prefer to open the Letters of Commitment themselves and other prefer to have A.I.D./W do it. In either case, the Direct L/COM is assignable in accordance with the provisions of the Assignment of Claims Act of 1940 (31 U.S.C. 3727; 41 U.S.C. 15).

Payment under Direct Letters of Commitment can be processed through the U.S. Disbursing Officer (USDO). In these cases, the USDO would make payment by check. To record the payment to the nonproject activity account in FACs, the mission would have to prepare an Advice of Charge which is transmitted to the Office of Financial Management by the U-101 reporting process. The A.I.D./W Office of Financial Management would then record the payment to the nonproject ledger account in FACS from the Advice of Charge.

In contrast to the USDO, the mission or office may choose to have the payment made by electronic funds transfer. In this case, the mission or office

would review and certify the payment then cable the Cash Management Division in the A.I.D./W Office of Financial Management to make the payment by electronic funds transfer. The Cash Management Division would then schedule the payment through the Treasury Financial Communication System in accordance with the details of the mission or office cable. After providing the necessary instructions to Treasury, the Cash Management Division would record the date payment was scheduled in the nonproject ledger in the FACS.

Through the Treasury's Financial Communication System, Treasury would instruct the Federal Reserve Bank to credit the U.S. supplier's bank account with a specific amount of money. After doing this, the Federal Reserve would notify Treasury that the supplier's account was credited. The Treasury would then notify A.I.D. of the date payment was made. A.I.D. would then record the date of payment to the FACS activity account. This method of payment thus obviates the need for the mission or office to prepare an Advice of Charge.

The control objectives of the payment process is to ensure that CIP payments are made in accordance with the Commodity Procurement Instructions, and A.I.D. Regulation 1 requirements as specified in the CIP agreement and related Implementation Letters. To achieve this objective, A.I.D. uses the following control techniques:

- **Guidance for commodity procurement payments under CIPs found in Handbook 4, Section 5.C.4;**
- **Policy guidance on appropriate payment methods to be considered under CIP which is found in Handbook 1, Supplement B, Section 15.B;**
- **Approval and issuance of Disbursing Authorizations by A.I.D./W. Office of Financial Management based upon request by host country and approval by mission.**
- **Supplier certification of compliance with A.I.D. eligibility and pricing requirements set forth in AID Form 11 and AID Form 282;**
- **Prompt entry into the Accounting record of the commitment upon issuance of Disbursing Authorizations and scheduling of payments.**
- **Payment certification controls found in Handbook 19, Section 3.H.3; relating to Bank and Direct Letter of Commitment.**

- **Post audit procedures established by the A.I.D./W Office of Procurement.**

F. COMMODITY ARRIVAL AND END-USE PROCESS

Effective utilization of A.I.D. assistance requires that commodities financed by A.I.D. reach the end user on a timely basis, in a usable condition and be used for the purpose intended within a prescribed time period, usually one year. This section outlines A.I.D.'s policies and procedures to ensure that commodities financed under CIPs are properly accounted for, expeditiously moved to their destination, and appropriately used.

A.I.D. CIP agreements specify that the host country must ensure that the commodities financed under such agreements be effectively used for the purpose for which the assistance was made available. CIP assistance agreements also prohibit the reexport of A.I.D.-financed commodities without prior approval by A.I.D.

Effective use under nonproject assistance is defined as including:

- Prompt processing of commodity imports through customs and removal from customs and bonded warehouses by the importer within 90 calendar days, unless the importer is hindered by force majeure; and

- Consumption or use by the importer or sale or transfer by the importer for consumption or use within one year from the date the commodities are removed from customs, unless a longer period can be justified to A.I.D. by reason of force majeure, special market situations, or other circumstances.

1. Commodity Arrival Procedures

Under CIP assistance, the host country is required to maintain, for a period of at least three years, a system of records documenting the arrival and disposition of commodities financed by A.I.D. The system must:

- Identify the parties to the transaction and provide other data necessary for end-use investigations.

- Provide evidence to show whether commodities are received in the quantity and condition for which payment was made.

- Provide a record of adjustments resulting from importers' claims for loss, shortages, or damage to commodities.

A.I.D. policy requires that all CIP assistance agreements financed in whole or in part by A.I.D. contain appropriate provisions requiring the maintenance and retention of records and provide for audit rights for A.I.D. or its authorized representatives.

a. **Determining Adequacy of Host Country Commodity Arrival Procedures** (Handbook 15, Section 10.C.2)

In discharging its responsibilities concerning audit and inspection under Section 201.41 of A.I.D. Regulation 1, the host country may rely upon its overall system applied to all imports in the form of controls or surveillance over import licenses, foreign exchange use and customs release, or it may establish a system specifically for the purpose of discharging its responsibilities for A.I.D-financed commodities. In either case, the system must be one which:

- Provides evidence to determine whether commodities are received in the quantity and condition for which payment was made.

- Assures that A.I.D.-financed commodities clear customs promptly.

- Permits determination of the amount, nature, and value of A.I.D.-financed commodities not cleared from customs and the reasons for their failure to clear.

- Indicates adjustments resulting from importers' claims for loss, shortages, or damage to A.I.D.-financed commodities.

- Assures availability of data for end-use verification, including information needed to monitor A.I.D.'s reexporting prohibition. (See Section 201.42 of A.I.D. Regulation 1.)

The mission or office shall be responsible for certifying that the host country's system is adequate to achieve the foregoing objectives. The following factors should be considered by the mission or office in determining whether the system accomplishes the objectives set forth above:

- **Import Procedures** -- Do they enable early identification of the types of commodities most likely to be financed by A.I.D.?

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- **Financial Procedures** -- Do the financial procedures followed by the national and commercial banks for the sale of foreign exchange furnished by A.I.D. assure that the private sector commodities cannot be released from customs until the importers have deposited the full local currency equivalent of the A.I.D. dollar purchase, a promissory note, or an appropriate guarantee? (The relevance of such procedures is that, in countries having a relatively stable currency, the deposit of the local currency equivalent of the A.I.D. dollar purchase provides a high probability of customs release since the importer has taken title to and is dependent on the sale of ordered goods to recover his/her investment cost.)

- **Port Operations** -- Do they provide adequate safeguards for the physical handling, storage, and security of imports? Is a reasonable storage fee escalation applied to imports following the free storage period to encourage private sector importers to withdraw their commodities quickly from the port of entry?

- **Customs Procedures** -- Is a realistic percentage of private sector imports physically inspected? Is there provision for the confiscation and sale of unclaimed goods at public auction? Do the above procedures and the procedures for collection of import duties and port storage fees ensure that goods are released to the importer in a realistic time period?

- **Insurance Laws or Regulations** -- Do host country laws or regulations provide reasonable assurance that dollars received by importers as a result of marine insurance or carrier settlements do not merely result in foreign exchange windfalls (where A.I.D.-financed commodities are involved) but are instead (a) used for purposes consistent with the original authority to import, or (b) converted to local currency through official channels?

- **Record Keeping** -- Are commodity tally records maintained at the port or elsewhere which reflect short shipments, landings, and releases and are such records available for mission or office review and analysis?

When the mission or office determines that the host country's system provides reasonable assurance that the requirements stated above will

be met, the mission or office monitors that system as provided below. If the host country's system does not provide such assurance, the mission or office shall establish and maintain its own system to meet these requirements until such time as the host country's system becomes adequate. Procedures for commodity arrival accounting are detailed in Handbook 19 Chapter 10K. Appendix 10A provides an illustrative example of a commodity arrival control and end-use check system which may be tailored to meet the specific needs of the mission or office. The A.I.D./W Office of Financial Management, Office of Procurement and the Commodity/Contracting officers in regional offices, when available, should provide additional assistance to missions or offices having to establish their own systems for monitoring commodity arrival and dispositions.

b. **A.I.D. Monitoring Responsibilities** (Handbook 15, Section 10.D.)

The mission or office is responsible for monitoring the host country's system in a manner appropriate to local conditions. Some or all of the host country's reports listed below may be required.

- **Utilization Reports**

  The mission or office may require the submission by the host country of a periodic report which identifies (1) the utilization (sale) of A.I.D.-financed dollar exchange, (2) the local currency dollar equivalents collected, (3) the dollar value of goods shipped, (4) the value of goods released to importers (as developed by customs), and (5) the value of insurance proceeds recovered for reuse.

- **Bank Reports**

  The mission or office may require the submission by the host country of periodic reports from banks to (1) identify letters of credit under which importers have failed to make payment and (2) obtain release of documents within 90 days (or other specified time) of the issuing bank's receipt of payment documents from the U.S. bank.

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- **Warehouse Reports**

  The mission or office may require periodic reports on commodities held in customs or bank warehouses.

c. **Description of A.I.D. Procedures** (Handbook 15, Section 10.E.)

Each mission or office is responsible for maintaining a current description, approved by the accounting station, of the host country's arrival and disposition system(s), and the monitoring procedures established by the mission or office which may be reviewed by A.I.D./W if desired.

d. **Commodity Arrival Control Responsibilities** (Handbook 15, Appendix 10A, Attachment A)

Commodity arrival control responsibilities are normally assigned to the missions' or offices' Commodity Management Offices. In missions or offices where there are no Commodity Management Offices, the delegation of this responsibility is at the discretion of the mission or office director.

Missions or offices in landlocked countries may establish liaisons with U.S.A.I.D. offices in the arrival port country to assist in performing commodity arrival control. If there are no missions or offices in the country/port of entry, and regional representative is unable to assist, the commodity control function may be contracted to a designated freight forwarder or other qualified individual.

A.I.D. Handbook 15, Chapter 10, describes a Commodity Arrival Control System in the following terms:

- The office designated with commodity arrival control responsibility initiates and records pertinent available data on the Outgoing Status Report from shipping documents (i.e., bills of lading, pack list, invoices, etc., received from suppliers).

- Two copies along with all pertinent shipping information are then forwarded to the designated officer/contractor performing commodity arrival control for each shipment involved. This form is then completed based on data obtained from Customs,

importers (when Customs data are unavailable), port captain and shipping agents.

- After completion of this form by the designated officer or contractor, one copy is returned to the office designated with commodity control responsibility along with Surveyor's Reports, if applicable, and one copy to the accounting station for posting the completed data in the Arrival Accounting Ledger.

- Designated officer/contractor performing commodity arrival control also will periodically (minimum every 90 days) canvass port areas including all warehouses, storage areas and other facilities for distressed A.I.D. cargo and complete a Distressed Cargo and Commodity Aging Report which is then forwarded to the office responsible for commodity arrival control. Commodities can be identified by A.I.D. handclasp emblem, L/COM or L/C Nos., importer, shipper, or any other evidence of A.I.D. financing.

- Upon receiving reports on port canvassing conducted by the designated officer/contractor on distressed cargo, the office responsible for monitoring commodity control will notify the host country importers to clear items from the port. For project commodities, the responsible office will inform Project Officers, who in turn will notify the appropriate host country project individuals, to clear the project commodities.

- If any A.I.D.-funded commodity ends up in the abandoned cargo warehouse of the port area, a letter with all pertinent information on the commodity should be sent to the management of the abandoned cargo warehouse requesting that the item not be sold. Appropriate action is then taken to ensure that the item is retrieved and expeditiously cleared from the port.

e. **Port Checks** (Handbook 15, Section 10.D.3)

The host country is responsible for the safe and expeditious movement of A.I.D.-financed goods through ports. However, experience has shown that frequent physical checks of port customs' warehouses by A.I.D. personnel is good practice and often necessary to locate cargo which goes astray. The frequency of port checks varies with the size

and complexity of programs. In the event that personnel limitations and other factors prevent adequate port checks, the following alternatives should be considered:

- When appropriate, the mission or office joins with other elements of the U.S. Government Country Team to designate an employee who would make monthly checks of ports and other entry points on behalf of all U.S. Government activities, or

- The mission or office enters into a contract with a local freight forwarder or broker, or other qualified individual to conduct physical port checks on a regular basis.

2. **End-Use Review Procedures** (Handbook 15, Appendix 10A, Attachment B)

To keep the mission or office director informed of usage of A.I.D.-financed equipment and commodities and to assure proper utilization and adherence to A.I.D. regulations and project agreements, it is essential that end-use reviews be made.

Appendix 10A of Handbook 15 provides the following guidance for conducting end-use reviews.

a. **General Preparation**

- Review Loan/Grant Agreement, Implementation Letters, and prior end-use and audit reports (if any) for general background information (e.g., overall objective of loan/grant), and to determine whether there are restrictions/conditions regarding usage of the commodities, and whether there are problem areas requiring follow-up.

- Review and compare applicable L/COMs, Letters of Credit (L/C), files, and accounting ledgers to determine Host Country Government responsibilities, dollar value, shipping and billing instructions, completeness of shipping documents, accuracy of ledger, and commodity arrivals to date.

- Determine the scope of the end-use review based on the first two items above and the first item under "Field Work" below.

Extract arrival data as necessary for verification from the importer or project organization.

b. **Field Work**

- Make initial contact and visit(s) to the Importer/Project organization involved; provide U.S.A.I.D. introduction letter if necessary, and explain purpose of review. Determine key persons to contact for information and location of records and commodities. Request copies of commodity and distribution summaries as necessary.

- Verify information developed from first item under "General Preparation" above on a test basis with the importer's/project organization's property and accounting records; actual commodities on hand (i.e., physical observation/verification, and if applicable, commodities either consumed in processing or resold. Sales records or production records and work orders should especially be examined where the commodities have been resold or are of a bulk or fungible nature (i.e., corn, fertilizer, insecticide, etc.).

- Determine whether claims have been filed for all losses and shortages and whether insurance proceeds are used in accordance with A.I.D. regulations.

- Determine whether the commodities are being utilized properly and in a timely manner. Determine whether the desired results or benefits are being achieved and whether the objectives established by the program or project agreements are being met. If not, determine why, and ascertain importer's/project organization's plans for future utilization. Generally, A.I.D. nonproject assistance agreements require that commodities be used or consumed within one year from date of arrival at port of entry, unless otherwise agreed to by A.I.D.; whereas project commodity utilization is based on implementation plans. Some points to be considered are as follows:

  -- Determine if the importer/project organization has an overall commodity plan with measurable, interim levels of achievement. If so, compare the plan with actual utilization to date, determine reasons for overly slow

utilization and importer's/project organization's intended solution.

-- If damaged or poor quality equipment has been received (or is on hand after being used), determine reasons why and intended corrective action by the importer/project organization. (For example, will the equipment be replaced/repaired, when and by whom?)

-- Determine whether spare parts support and repair and maintenance of equipment are adequate. If not, determine why, and importer's/project organization's intended solution.

-- If not readily apparent, determine usage-purpose of the commodity and obtain importer's/project organization's unofficial opinion as to the overall success or failure of the commodities involved.

-- Determine that commodities and/or their packing/shipping cases have adequately affixed A.I.D. Handclasp Emblems per A.I.D. regulations.

c. **Completion**

End-Use findings should be discussed with other responsible U.S.A.I.D. officers and their reactions noted in the workpapers.

Neat, orderly workpapers should be written up during the entire review and retained in a folder (along with the necessary copies of documents obtained from the Importer/Project organization) to adequately support all End-Use work performed.

Draft End-Use Report is submitted to supervisor for review and approval with workpaper folder. Present findings and conclusions objectively and in language as clear and simple as the subject matter permits. Place primary emphasis on improvement rather then criticism of the past. Critical comments should be presented in balanced perspective, recognizing any unusual difficulties faced by operating officials. Include, when necessary, recommendations to effect improvements.

Written End-Use Reports are to be distributed to the Director, Deputy Director, and to those U.S.A.I.D. officials who are responsible for taking corrective action on findings and recommendations.

The End-Use Report Log should be posted, and the Accounting Ledger and files should be updated and corrected, as necessary, based on the End-Use Review performed.

The control objectives of the arrival and end-use process is to ensure CIP-financed commodities reach the end users on a timely basis in a usable condition and are used for the purposes intended within a prescribed period of time, usually one year. To achieve this objective, the following control techniques are used:

- **The guidance contained in A.I.D. Handbook 15 detailing the arrival and end-use procedures;**
- **The requirement that A.I.D. evaluate the adequacy of host country's arrival system and procedures and if inadequate, establish its arrival system and procedures;**
- **The requirement that the host country or the mission or office maintain a system of records demonstrating the arrival and clearance of the commodities from the port to place of utilization; and**
- **The requirement that missions and offices perform periodic reviews of the utilization of the commodities and document these reviews in formal reports.**

G. LOCAL CURRENCY DEPOSIT, USE, AND REPORTING PROCESS

In preparing the Annual Budget Submission (ABS), the mission or office is required to prepare an annex on the local currencies to be generated from the CIP. This annex should contain a table indicating the source of local currencies generated from CIP over the past three fiscal years and the amount for the proposed fiscal year. In addition to the actual and estimated amounts of local currencies, the table should indicate actual and estimated uses* and any unexpended balances at the end of each

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* The amounts programmed for uses should be shown under one or more of the following four categories:

Public Development Activities
Private Sector Programs
Public Sector Recurrent Budget
A.I.D. Operating Expense (Trust Fund)

fiscal year. A narrative plan for the use of the generations is to be submitted with the table. At a minimum, the narrative should describe the source (DA, ESF, PL 480) and amounts of resources available to the host country and the intended uses of the local currency in terms of the development strategy and Action Plan.

When a host country bank opens a letter of credit to a supplier, the bank is selling dollar exchange to an importer for importing commodities. The importer pays for the exchange in local currency at an exchange rate fixed on the date of opening the letter of credit. Depending on the financing terms, the importer may pay a percentage down with the remainder due when the documents arrive. Section 609 of the Foreign Assistance Act requires that the local currency generated from this sale of dollar exchange be deposited in a separate account and used for agreed upon development activities. When the importer sells the commodities to other firms for local currency, the importer recovers the import cost in local currencies plus a profit.

Section 609 of the Foreign Assistance Act similarly applies when the sale of exchange is made to a public sector firm which sells to other public and private firms. Again, there is a transfer of local currencies from the firms procuring the imports to the importer who pays for the imports in local currency.

When the CIP involves an import for a host country agency's own use with no sale involved, A.I.D. has determined that local currency deposits are not required under Section 609. However, to maximize the development impact of the CIP, A.I.D. policy encourages missions or offices to require local currency deposits whenever possible. Should the mission or office choose not to request such deposits, the PAAD should provide a justification for not doing so.

The Agency is currently in the process of revising its local currency policy. Appendix A and B of Chapter 2 contain a draft of the revised policy and related deposit, programming and accounting procedures. When issued, this section of the report will be revised.

1. **Separate Account**

When local currencies are to be generated from the CIP, legislation contained in the Fiscal Year 1987 Continuing Resolution requires the host country to deposit the local currencies into a separate special account. The funds in this account are to be trackable and not commingled with sources of funds from other agreements.

Concerned about the need for maximizing this resource, Congress has proposed additional legislation in the Fiscal Year 1990 appropriation

legislation which would require the agreement to include the amount of the local currencies to be deposited; the terms and conditions under which the currencies may be used; and define A.I.D. and host country responsibilities to monitor and account for deposit into and disbursements from the special account.

To implement the current legislative requirements, A.I.D. policy* states:

> ... "In addition to meeting the statutory requirements for separate local currency accounts, as a matter of general policy for jointly programmed local currency associated with or generated by funds provided under the FAA, missions should establish special accounts for all such local currency to facilitate monitoring and accountability. In the unlikely event that such accounts would be clearly counterproductive, a waiver may be granted by the appropriate regional bureau assistant administrator where special local currency accounts are not required by statute. The creation of a special account does not substitute for the need to separately determine the extent of programming involvement A.I.D. will assume in regard to the proceeds of such accounts. Although special accounts help tracking and accountability, they do not guarantee that appropriate budget allocation decisions will be made by the recipient government, nor are they necessarily essential for a mission to be able to influence budget decisions.
>
> "It cannot be emphasized too strongly that special accounts, once established, must be carefully monitored. Additional staff may or may not be required to carry out the additional management or control functions associated with these accounts. Missions must carefully examine their staff level and composition to determine if changes will be needed."

The PAAD should contain a discussion of the special account deposit requirements. This requirement should then be carried over to the CIP agreement as a Condition Precedent to disbursement. In other words, the mission or office should not approve disbursements of the CIP dollars until the host country has provided evidence that it has opened a separate account

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* Refer to Policy Determination No. 5 and Supplemental Guidance in A.I.D. Handbook No. 1, Part IV A and I.

for deposit of the local currencies. As a matter of A.I.D. policy, this separate local currency account is to be interest bearing to the extent such accounts are permitted under host country law or regulation and do not undermine internationally supported stabilization agreements or sound monetary policy. Any interest earned on local currency accounts must be programmed and used as if it were principal.

2. Use of Local Currencies

When local currencies are to be generated under the CIP, the mission or office should indicate in the PAIP and PAAD how the local currencies are to be used. This use should then be included as a provision in the agreement. When not included in the agreement, this usage should then be spelled out in either a PIL, a Memorandum of Understanding, or a Letter Agreement. Whatever legal form is used, A.I.D. policy requires that:

> "A.I.D. missions must make an initial judgment and reach agreement with the host government on what are eligible and ineligible uses of jointly programmed local currency. Local currency must be programmed consistent with the intent and purposes of the Foreign Assistance Act or PL 480. Although most statutory provisions of the FAA and PL 480 govern the use of appropriated funds and not local currency which is host country-owned, missions should be alert to Congressional concerns expressed in those provisions and refrain from jointly programming local currency for specified actions prohibited by legislation governing appropriated funds. In addition, the appropriate agreement should prohibit the use of local currency generations for police training pursuant to FAA Section 660, as well as the use of jointly programmed local currency for paramilitary purposes."

Local currency deposits must be used in accordance with Sections 531(d) and 609 of the Foreign Assistance Act (FAA). Section 531(d) requires that at least 50 percent of the local currencies be used for objectives consistent with Sections 103 to 106 of the FAA. Section 609 requires that the local currencies be used to carry out the purposes for which funds authorized by the FAA would themselves be available. Within the context of these requirements, the mission or office and host country can program the local currencies for a variety of uses such as specific projects, sector programs, host country budget support, and A.I.D. mission or office operating costs. In this regard, A.I.D. policy in Handbook 1 (Part VII) states:

"If A.I.D. should choose to directly associate jointly programmed local currency with host government projects or private sector activities, the mission should have reasonable assurance that the activities have been designed in accordance with sound technical, financial, and environmental practices; that implementation and monitoring capabilities of the implementing entities are adequate; and that periodic audits of relevant activities will be undertaken. Projects that are funded and monitored by A.I.D. would provide such evidence. Similarly, the fact that projects were funded and monitored by other donors or undertaken by strong, highly respected host government or private sector institutions would generally provide such assurances. Otherwise, missions should be prepared to take a more active role in implementation oversight in addition to reviewing the project documentation and host government procedures prior to approval of funding for the activity. If and when subsequent allocations of jointly programmed local currency for project level activities are being considered, the mission should take this opportunity to review progress in moving toward project completion. Periodic reporting by the host government should be required, and field visits may be useful in monitoring.

"If A.I.D. and the recipient government program the local currency for more general purposes, for example, an agreement that local currency will be used to meet development budget requirements of, say, the Ministry of Agriculture, the role of A.I.D. may be limited to ensuring that documentation exists demonstrating that the local currency indeed was transferred to the Ministry's development account. The mission need not trace the funds to specific budgetary or end-use items since A.I.D.'s development goal is a level of overall financial support to a program or institution; indeed, once transferred from a special account to a program or institution, the funds will generally have been combined with other budgetary funds and will not be traceable. However, the mission should generally be satisfied on the quality of overall program activities and the technical and administrative capabilities of the implementing entity or entities to carry out the program. Furthermore, periodic reports on budgetary allocations should be required over the period of the agreement to enable the mission to assess compliance with agreed priorities. Finally, the mission

should assure itself post hoc that the government has accorded an appropriate emphasis to priority programs. This can then be used as a basis for making judgments about future local currency allocation decisions.

"A.I.D.'s retention of monitoring and approval rights, as well as the right to receive reports, is directly related to the programming burden that A.I.D. "assumes for itself in the agreement describing how local currency will be used. Retention of these rights in the agreement should be consistent, then, with the agreed-upon programming responsibilities of A.I.D. but, at a minimum, should be adequate to ensure that A.I.D., with timely access, can take an independent look at supporting documentation to verify that the agreement on uses of local currency has not been violated."

3. **Accounting**

The host country has responsibility for maintaining detailed records as a basis for accounting for and reporting on local currencies. The mission or office is responsible for reviewing the adequacy of these record-keeping and reporting procedures with the host country. If the procedures need improvement, a portion of the local currencies should be used to develop the necessary procedures. The mission or office and the host country should work out these procedures during the PAIP or PAAD development process.

According to the A.I.D. Controller Guidebook (Chapter 10), the mission or office accounting station should establish memorandum records to control the local currencies in the separate account. Each mission or office is responsible for developing the format and content of these records as appropriate to its needs. These records should indicate the bank name and account where the separate account is located and the amount of funds deposited. The records should also indicate the withdrawals from the separate account.

In monitoring the separate account, the accounting station is responsible for ensuring that the local currency to be generated from the CIP is deposited as required. Appropriate records should be maintained to document these deposits. These deposits would usually be documented in the form of bank statements.

Withdrawals from the special account may be based on PILs, negotiated agreements, or letters. Appropriate records should be maintained for those

documents authorizing the withdrawals. Since withdrawal of local currency is reported in the bank statement of the administering depository, these withdrawals from the special account should be verified to the release agreements.

Though the mission or office accounting station is not required to duplicate the detailed records maintained by the host country, it is required to establish sufficient controls to monitor the deposit and use of the local currencies in accordance with the agreement and release agreements. Depending on the specific purposes for which the local currency is used, auditors will have to use judgment in determining the adequacy of the accounting station's records and procedures.

4. **Accounting for Trust Funds**

Section 625(h) of the FAA authorizes A.I.D. to enter into arrangements with host countries for sharing the cost of performing functions authorized by the Act. The trust fund provides a means for a host country to make a contribution of its own currency to the economic assistance program where it is more convenient for the mission or office, rather than the host country government, to administer the contribution. The account in which the contribution is deposited is administered by the mission or office under a trust agreement with the host country.

The general characteristics of trust funds are:

- Trust fund sources are primarily local currency accruing from nonproject assistance grants;
- Funds are deposited directly to A.I.D. foreign currency account and are available under automatic allotment authority of the mission or office;
- Costs to be financed from the trust account are stated in the trust agreement;
- Funds in the trust account revert to the cooperating country when the A.I.D. program is terminated; and
- Trust funds exclude funds for program activities where disbursement is made by the host country.

a. **Mission or Office Responsibility with Respect to Trust Funds**

The mission serves as trustee over funds in the trust account and renders reports as required to the cooperating country pursuant to the trust agreement. Additionally, under the trust agreement, the mission has stewardship accountability for the funds in the trust account held in the name of the host country. The mission or office reports on the use of the trust fund as set forth in the agreement and related arrangements thereunder to assure complete reporting to the cooperating country on financial management aspects and administration of the trust fund. In some cases, the mission or office may be required to permit access to trust fund accounts and supporting records to designated representatives of the cooperating country.

b. **Mission or Office Operating Procedures for Trust Funds**

Each year, an annual trust fund budget is agreed upon between the mission and the cooperating country for the financing of certain local currency ceilings or targets for monitoring the implementation of trust fund financed activities and projects, including the cost of mission operations. The annual mission or office Operating Expense Budget submitted by A.I.D./W also includes requirements against the local currency trust fund as governed by the underlying agreements.

The Annual Budget Plan expenditure proposals must be compatible with the approved Operating Year Budget or other program levels established by A.I.D. For any part of the trust fund derived from local currency, the mission or office assures that the local currency project release record is appropriately annotated to preclude duplication in the release of counterpart to the projects concerned.

The mission or office periodically requests the host country to make the agreed-upon contribution to the trust fund to meet anticipated requirements under the annual budget to which the country has agreed. In some cases, initial advances of local currency may be made by the country for use as working capital on a revolving fund basis with periodic replenishment for expenses actually paid by the mission or office. Both regular contributions and advances are deposited to A.I.D. accounts. Deposits to and payments from the trust account are effected by the U.S. Disbursing Office (USDO) in accordance with normal standard collection, certification, and accounting procedures.

Disbursements from the trust fund are made to cover the costs of U.S. assistance programs, including costs of administration thereof, in the cooperating country in accordance with the provisions of the trust agreement.

Missions do not any time incurred obligations in excess of the amount available in the trust fund.

c. **Reporting on Trust Funds**

(1) Reports to A.I.D./Washington

A trial balance of the trust fund general ledger accounts is prepared monthly. Trust fund financial statements are prepared quarterly from the balances in the trial balance. The mission or office reports quarterly to A.I.D. on cash receipts and disbursements and on commitments (obligations) for mission or office operations. The Statement of Financial Condition (Balance Sheet) shows the trust fund investment in cash and property plus the accumulated net income (or deficit) from operations as the differences between asset and liability balances. Missions or offices adapt generally accepted commercial accounting practices in preparing the presentations in the Statement of Financial Condition for management use or information to officials of the cooperating country having an interest. The Statement of Income and Expenses, reflecting the results of operations, is also prepared in accordance with similar standards of commercial accounting as meaningful for use by mission or office management or host country officials. Financial statements are submitted to A.I.D./W if specifically requested.

(2) Reports to Cooperating Country

Periodic reports to the cooperating country of the uses made of funds deposited under trust agreement, as provided therein, are based on and supported by the detailed records and accounts prescribed by this system. As required, the categories of costs and other expenditures for which trust fund monies are used are developed by analysis of the accounts and subsidiary records. If specified in the trust agreement, the report to the cooperating

country shows the distribution of costs and other expenditures between program and administrative requirements.

The control objective of the local currency deposit, use, and reporting process is to ensure that local currencies generated from cash transfers are deposited to special accounts as required and used for approved purposes. To achieve this objective, the following control techniques are used:

- **The policy guidance provided in A.I.D. Handbook No.1, Part IV.A and I outlining the requirements for establishing special accounts.**
- **The policy guidance provided in A.I.D. Handbook No. 1, Part VII outlining the approved uses of the local currency.**
- **The procedural guidance contained in A.I.D. Controllers Guidebook, Chapter 10 outlining the procedures for monitoring the deposit, withdrawal, and use of the local currencies from the special account.**

It should be noted that the procedures in the Controllers Guidebook predate the recent legislative requirements. Auditors may find that the Office of Financial Management needs to update this guidance.

H. CIP EVALUATION PROCESS

Originally, CIPs were designed almost exclusively as balance of payments support. However, through the years, additional purposes have been grafted onto CIPs, including support of policy dialogue; support of IMF and World Bank initiatives; generation and use of local currency proceeds; complementary support of A.I.D. project efforts; and pursuit of independent development goals.

Chapter 9 of A.I.D. Handbook 4 requires that CIPs be evaluated pursuant to Section 621A of the Foreign Assistance Act. That section of the Act requires the Agency to "establish a management system that includes ...:

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

According to Handbook 4, Section 9.C., CIP evaluations emphasize four areas of concern:

- How well the program has been managed.

  The purpose of evaluating the management of a CIP is to determine how efficiently commodities and foreign exchange move; how effectively the CIP staff have worked with the host country, the banks, and importers; how well the mission and the recipient country meet their responsibilities for the local currency sales proceeds special account; how the arrival accounting system is operated and utilized (including an analysis of any automated data processing system); the extent to which end-use audits are made and applied; and how the mission integrates the development goals of a CIP with its project activities.

- To what degree the CIP has met its documented goals and objectives.

  In evaluating CIP objectives, evaluators should determine whether the program is being overburdened with goals and purposes and whether objectives and goals are often set forth in Congressional Presentations, Country Development Strategy Statements (CDSS), and Program Assistance Authorization Documents (PAAD), thereby ensuring a consistency of approach.

- What has been the impact of the CIP within the recipient country?

  Impact and objectives are an integral part of the evaluation process. Many objectives may be expressed as desired impacts: "To increase production in the textile sector by 20 percent per annum" or to "reduce urban unemployment by 30 percent over 2 years."

  It is seldom that an A.I.D. project has the widespread impact of a CIP, which affects economic, developmental, social, and even political areas. The isolation and assessment of its impact on any one of these areas could be the most important aspect of a CIP evaluation.

- What lessons are to be learned?

  The purpose of an evaluation is to provide guidelines and recommendations so that A.I.D. programmers and managers can adjust ongoing activities and put the lessons to work when they design and implement new activities. This

purpose should not be lost sight of by either drafters of scopes of work or evaluators.

Achieving any one of these purposes requires the application of systematic methods for gathering, analyzing, recording, and documenting information. Recognizing this, Agency guidance, outlined in A.I.D. Handbook 4, Chapter 9 provides guidance for addressing these purposes. The evaluation is also to be planned and conducted in accordance with the guidance provided in the A.I.D. Evaluation Handbook.

1. **Planning Evaluations**

Missions and/or offices are required to prepare an Annual Evaluation Plan which provides the schedule of project evaluations and other evaluative studies over a 2-year period.* Although this Annual Evaluation Plan may consist largely of project evaluations, it should also address any sectoral information requirements. The development of this Annual Evaluation Plan is the occasion for a mission and/or office to identify broader questions of concern to senior managers (e.g., questions related to its Action Plan or to program and policy performance relative to strategic objectives) and to prepare for appropriate assessments that address these questions.

The Annual Evaluation Plan alerts the geographic bureaus to upcoming evaluations that may be of particular importance to its program and policy responsibilities. Annual Evaluation Plans of missions and/or offices are reviewed and approved by the bureaus and incorporated into the bureau's respective Annual Evaluation Plans which are then reviewed by PPC.

The mission and/or office director has ultimate responsibility for the evaluation of project and nonproject activities. This responsibility is considered to be part of the mission and/or office director's accountability for proper management of U.S. development assistance. In this regard, mission and/or office directors should establish the standards and practices within missions and/or offices for using evaluation as a management tool. They should participate as fully as their schedules permit in the planning and review of evaluations, particularly as these activities relate to the issues and questions to be addressed and the follow-up actions to be taken. Typically, the mission and/or office director delegates responsibility for managing the mission

* This Evaluation Plan is developed as part of the Annual Budget Submission.

and/or office evaluation system to a U.S. officer designated as the mission Evaluation Officer.

The mission and/or office Evaluation Officer works with other mission and/or office staff in carrying out the following responsibilities:

- Developing the mission's and/or office's evaluation system (if necessary), formalizing the system in a Mission Order, and implementing the procedures of that system.

- Preparing the Mission's Annual Evaluation Plan, incorporating project and program information needs into the plan, integrating the Evaluation Plan into the mission Action Plan or Annual Budget Submission, and ensuring that sufficient funding is included in the Annual Budget Submission for upcoming evaluations and special studies if their costs exceed the funds budgeted in the projects involved.

- Tracking the scheduling and implementation of evaluations, based on the Annual Evaluation Plan.

- Assisting Project Officers with the writing of the scopes of work for project and nonproject evaluations and with other aspects of the evaluation process as needed (e.g., team member selection, team planning meetings).

- Ensuring that an A.I.D. Evaluation Summary is completed and submitted to the appropriate A.I.D/Washington Offices for all evaluations.

- Following up on all actions to be taken in response to evaluation recommendations to ensure that they are implemented.

- Maintaining and circulating, within the mission or office, the evaluation findings and lessons learned.

a. **Bureau Evaluation Responsibilities**

The geographic bureaus have the responsibility for backstopping the missions' and/or offices' evaluation activities. These backstopping tasks are the responsibility of the bureau Evaluation Officer, whose

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administrative and support functions are analogous to those of the mission and/or office Evaluation Officer.

Although specific responsibilities vary according to bureau operations and information requirements, the bureau Evaluation Officer performs such tasks as:

- Preparing the bureau's Annual Evaluation Plan. This plan describes how bureau-level management issues and concerns will be addressed through the evaluations planned by Missions and/or Offices and through other evaluation studies and assessments to be carried out directly by the Bureau as needed. It may also describe other actions planned by the Bureau to support evaluation as a management tool. The bureau plan incorporates Mission and Office evaluation schedules and is submitted to PPC early in the pertinent fiscal year.

- Working with bureau project and program Offices and Missions and/or offices to incorporate evaluation findings and information systems in the design of new development activities.

- Monitoring mission and/or office and bureau evaluation performance, tracking scheduling and completion of evaluations, and ensuring proper submission of the evaluation report and A.I.D. Evaluation Summary.

2. Conducting the Evaluation

When the decision has been made to conduct a CIP evaluation, the Project Officer must develop a clear statement of work for the evaluation team. In doing this, the Project Officer, usually in conjunction with the Evaluation Officer, will develop the specific questions to be addressed by the evaluation. These questions depend largely upon the type of CIP to be evaluated, its stage of implementation, and the issues or problems that need to be resolved.

An evaluation report is required for interim and final evaluations. In addition to this report, the final product of an A.I.D. evaluation includes a completed A.I.D. Evaluation Summary form (this form replaces the previous Project Evaluation Summary [PES]).

The A.I.D. officer responsible for the evaluation is required to complete the A.I.D Evaluation Summary form. The mission and/or office Evaluation

Officer is responsible for ensuring that the A.I.D. Evaluation Summary is completed and submitted. The evaluation team may be assigned the task of completing the abstract and detailed summary portions of the form.

All evaluation reports must be submitted as stipulated in the instructions for the A.I.D. Evaluation Summary and according to geographic bureau requirements. Evaluation documents must be submitted within 60 days of receipt of the "final version" of the evaluation report prepared by contractors or by Agency staff. If the A.I.D. Evaluation Summary form cannot include all host country follow-up actions within 60 days because discussions with the host country are prolonged, the mission and/or office should submit copies of the final evaluation report and an A.I.D. Evaluation Summary that lists preliminary actions to be taken by the A.I.D. mission or office.

The mission and/or office that sponsored the evaluation is required to respond to the recommendations for action presented in the evaluation report. This response may be a complete or partial acceptance of a recommendation, a proposed alternative action that accomplishes the same objective, or rejection of a recommendation. The course of action to be followed must be stated in Part 1, and rejection or modification of recommendations must be explained in Part 2 of the A.I.D. Evaluation Summary.

Missions and/or offices sponsoring an evaluation are required to establish a system for following up on the decided course of action in response to evaluation recommendations to ensure that these actions are implemented.

3. **Issues Addressed in CIP Evaluations** (Handbook 4, Sections 9.F. and 9.G.)

CIP evaluations generally center around three broad issues: policy reform implementation, economic impact, and program effectiveness. The importance attached to each issue will vary with the particular circumstances of the CIP (private/public importers, degree of policy reform anticipated, relationship of the program to other donor initiatives, etc.).

a. **Policy Reform** (Handbook 4, Section 9.F.3.)

Current thinking is that the many critical problems facing less developed countries today can be addressed most successfully with policies which rely on and stimulate the growth of market forces. CIPs are increasingly directed toward this end. The evaluation team will probably find its most important work in evaluating the degree to which markets and efficiency are affected by the CIP. This will entail

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an examination of the extent to which efficient use is made of existing resources, and the degree of human and physical capital accumulation fostered by the CIP. The examination of this issue will generally focus upon:

- "Additionality" - whether the conditionality specified in the CIP agreement actually resulted in policy changes or whether the changes would have been made in any case.

- Program Completion - the extent to which policy changes were carried out as stipulated in the program.

- Effects of Policy Reform on Markets and Institutions - whether and to what extent, the policy reforms led to increased economic efficiency in the markets which were affected.

b. **Economic Impact** (Handbook 4, Section 9.F.4.)

CIPs are designed for fast-disbursing balance-of-payments assistance. The central issue here is the efficiency of capital absorption under the resource transfer. The examination of this issue will generally focus upon:

- "Additionality" - what resources were actually provided to the economy and how were thy used?

- Economic Impacts of Local Currency Uses - including administrative questions such as responsiveness of host country banking system, percentage of defaulted loans, etc., and economic questions such as the possible inflationary effect of the program.

- The Relationship of Policy Changes to the National Economy and Major Subsectors.

- Program Impact on Employment and Equity - whether or not policies and incentives in markets affected by the CIP fostered broadly based growth.

c. **Program Effectiveness** (Handbook 4, Section 9.G)

This is a more narrowly focused issue area than either policy reform or program impact. The examination of this area will generally focus upon:

- Management and Efficiency of the CIP - including such questions as the average disbursement rate and import level under the program, extent and effectiveness of mission monitoring, etc.

- Policy Dialogue - including such questions as the extent to which policy change was actually implemented and the manner in which the mission or office maintains the policy dialogue with the host country.

- Development Impact - the importance of this area for evaluation will depend upon the extent to which the CIP was designed to have a developmental impact.

- Political Impact - questions here may include the public perception in the host country of the role played by the CIP and the public perception of positive or negative effects of the program.

- Distribution of Benefits - who "wins" and who "loses" under the CIP. This is often difficult to determine unless the program was directed toward identified sectors of the economy.

- U.S. Market Share - the effect which the CIP may have had on American suppliers' permanent share of the host country import market.

The control objectives of the evaluation process are to ensure that independent evaluations are planned and scheduled to assess the effectiveness, results and efficiency of progress as required; to ensure the purposes of the evaluations are clearly specified in the scope of work; and to ensure that appropriate corrective action is taken on all recommendations resulting from the evaluations. To achieve the objectives, the following control techniques are used:

- **The guidance contained in A.I.D. Handbook 3, Chapter 12 and the A.I.D. Evaluation Handbook, Supplement to Chapter 12 outlining the procedures**

for planning and conducting evaluations and the follow-up procedures for evaluation recommendations.

- **The requirement that evaluation plans be developed as part of the Annual Budget Submission process.**

- **The requirement that the geographic bureau and mission and/or office Evaluation Officers see that evaluations are performed as planned.**

- **The requirement that evaluations not be performed by A.I.D. personnel not associated with the design, implementation and monitoring of the project.**

- **The requirement that the mission and/or office establish an evaluation recommendation follow-up system.**

I. PROGRAM ASSISTANCE COMPLETION DATE PROCESS

All agreements contain time controls based on a Program Assistance Completion Date (PACD). The PACD is defined as the date, agreed upon by the parties in the agreement, by which the parties estimate that all A.I.D.-financed assistance will be complete. It should be noted that the PACD defines the length of A.I.D.'s official involvement in financing the CIP program. It does not mean that A.I.D.'s responsibilities or activities are completed, e.g., monitoring, nor does it have any implications regarding host country actions or responsibilities to complete the program and ensure that it generates the benefits intended.

The purpose of the PACD is to motivate the parties to complete the program as effectively and expeditiously as possible. Under the agreement, A.I.D. could decline to finance any input delivered or provided subsequent to the PACD. If A.I.D. desires to finance such inputs after the PACD, it may extend the PACD. Relatively short extensions of the PACD (e.g., 30-60 days) can usually be agreed upon informally between the Project Officer, the accounting station, and the host country. If longer extensions of the PACD become necessary, they should be effected by the issuance of a Project Implementation Letter. Mission and/or office directors may approve extensions of the PACD for cumulative periods as specified in their delegation of authority from the geographic bureau. Geographic bureau assistant administrators may extend the PACD when the cumulative life of project does not exceed a total of ten years from the date of initial obligation. The Administrator authorizes all extensions when the life of project exceeds the cumulative ten-year period.

The PACD provision in the agreement also contains what is in effect a terminal date for requesting disbursements. This terminal disbursement date is nine months following the PACD. Beyond this time, A.I.D. may decline to accept requests for disbursement and may initiate deobligation procedures and deobligate. Passage of the period does not automatically effect deobligation, however, deobligation requires a written notice to the host country in accordance with the provisions of the agreement.

The control objective of the PACD is to motivate the parties to the agreement to complete the program as expeditiously as possible. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 3, Chapter 6, outlining the procedures of the PACD.**
- **The requirement that the PACD can only be extended by authorized officials pursuant to their delegated powers of authority.**
- **The requirement that no disbursing authorization can be issued after the PACD.**

J. POST AUDIT TRANSACTIONS PROCESS

The Office of Procurement has the responsibility of reviewing A.I.D.-financed CIP payments to determine whether the transactions comply with A.I.D. rules. In performing this responsibility, paid CIP transactions are randomly selected and subjected to two types of review. The first test involves a voucher check for documention completeness. The second involves the more complex review of prices and services. These reviews are conducted by the Office of Procurement's Commodity Support Division (MS/OP/COMS) in A.I.D./W in accordance with the "Audit Analyses Guidebook" developed by the Office of Procurement.

1. Documentation Review

Under the documentary review, the Office of Procurement analyst should consider the following matters:

- Identify which Supplier's Certificate is furnished in order to determine the A.I.D. rules which apply. If the Certificate is a Form 282 (See Handbook 15, Appendix 2.D., Attachment 1), it will normally be a CIP transaction under A.I.D. Regulation 1.

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If the Certificate is a Form 1450-4 (See Handbook 15, Appendix 2.D., Attachment 2), it will normally be a project transaction under Chapter 3 of Handbook 11. If the Certificate is a Form 1440-3, it will normally be a services contract and not subject to audit.

- Check the commodity and indicated geographic source for any signs, under the L/COM requirements, of possible commodity or geographic source ineligibility. If ineligibility is confirmed, the analyst should report the finding without proceeding further. Documentary discrepancies should be reported but will not necessarily make a transaction ineligible.

- Check the name of the supplier against the list of companies suspended or debarred from participation in the A.I.D. program under A.I.D. Regulation 8 (See Handbook 15, Chapter 12). If the supplier's name appears on this list, report the finding without proceeding further.

- Check the supplier's name against the list of companies required to submit its proposed transactions for prior review by A.I.D. under the provisions of Section 201.33 of A.I.D. Regulation 1 (See Handbook 15, Appendix A). If the supplier is on the list, ascertain whether it has, in fact, submitted the transaction and complied with any requirements or conditions imposed on it.

- Note whether the transaction is one which resulted from formal procurement procedures or, if not, whether the buyer appears to be a public or parastatal agency which would be expected to use formal procurement procedures. If it is formal, check the Office of Procurement files to see whether an abstract of bids covering the procurement is at hand. If there is no such abstract on file, the A.I.D. mission in the recipient country should be asked to obtain the abstract which the buyer is required to furnish by Section 201.22(e) of Regulation 1. Also check to see whether the CIP transaction is under formal procurement and requires less complex review of the prices under Section 201.63 price rules. If it is a project transaction where you have access to bid and award information, consider whether the review is simplified by A.I.D.'s requirement that it approve in advance project awards of over $100,000.

- Note whether there is any apparent affiliation between buyer and seller in a private sector transaction. Such an affiliation is a warning that

arms-length dealing may not be involved. On occasion, such affiliated supplier of record acts as a purchasing agent for the buyer and puts a mark-up on top of the prevailing price at which the customer should be buying.

- Determine authorized source for nationality, commodities and commodity-related services. Check all relevant information on the Form 11 (See Handbook 15, Appendix 2.C.), Supplier's Certificate, Bill of Lading, Certificate of Origin (if required), invoice, etc., which might relate to compliance.

- Determine authorized source for transportation. Check all relevant information on Supplier Certificate and Bill of Lading which might relate to compliance, particularly flag (i.e., nation of registry) of vessel or airline. For ocean transport where such analysis indicated, determine from A.I.D. whether a source waiver authorization or a non-availability determination was made. For air transport, note whether a self-certified nonavailability determination was made and, if considered possibly improper, seek further factual verification. Make certain that bills of lading are rated. While the supplier cannot finance a freight rate which exceeds the established rate for comparable shipments on file at Federal Maritime Commission or the Civil Aeronautics Board, analysis for compliance with this requirement will be separately audited by A.I.D.

- Check to see whether the services are provided at cost. Compare the prices for the services with other suppliers' prices. Look particularly at charges for packing, crating, handling, forwarding, and inspection services. Frequently overpricing takes the form of "padding" such charges rather than the commodity itself. When the charges are important, make certain that the services are wanted by the buyer and, accordingly, included in the purchase contract. Similar considerations apply in reviewing incidental services--installation and training. Check lump-sum amounts against the contract authorization. Where a formula is provided, determine whether it is properly applied at verified cost. Be certain that the services have in fact been rendered.

- Check the Supplier's Certificate for completeness of the required information. The most frequent omission will be the commission information. If this or other information essential to price analysis is missing from the Supplier's Certificate and is not shown elsewhere in

the voucher (e.g., on the bill of lading or invoice), it will have to be obtained from the supplier.

- Note whether the transaction involves a partial shipment by comparing the invoice amount with the contract amount. Consider whether the audit of the transaction should proceed logically in conjunction with other transaction vouchers. No audit under the price tests is required for a fixed price contract for a combination of commodities and services which are not commodity related. This exemption is based on the fact that under such contracts, an amalgam of commodities and services is being procured, so it is impossible to segregate the commodity element of the total price. Some vouchers will reflect advance, mobilization, or progress payments. The terms under which such payments may be made by A.I.D. are set forth in the contract and should follow from those approved by A.I.D. in issuing the solicitation document. Normally, the audit of such vouchers would await completion of payment under the contract.

- Section 201.23 of A.I.D. Regulation 1, if applicable, permits noncompetitive procurement when suppliers are selling to their distributors or dealers. The price may not exceed the customary dealer net and no commission payments are eligible. Check routinely to be certain that commissions are not declared and that dealer net prices do not vary without rationale by destination.

- Check commissions declared in Box 14 of the Invoice and Contract Abstract to see whether they appear in excess of that which might be customary or whether they obviously represent payments back to or for the benefit of the purchaser.

- Note should be taken of any clues indicating anything out of the ordinary about the transaction. For instance, if the source of the commodity is shown as the U.S., but shipment is from a foreign port, a bonded warehouse transaction (to which special rules apply) is probable. Any unusual relationship between contract date and shipping date may point to a problem. Block 15 of A.I.D. Form 282 may contain information inserted by the supplier to explain some unusual aspect of the transaction, and any such information should, of course, be considered critically by the analyst.

- Consider whether the supplier has complied with his undertaking in the Supplier's Certificate to perform under his contract with the importer.

The terms of the sale provided in the invoice and the contract should agree. Pay particular attention to quantity, quality, description and unit prices. If the contract is not true cost and freight (C&F), or cost, insurance and freight (C.I.P) and freight has been contracted at a fixed cost, make certain that the freight invoiced is not in excess of the contract amount for freight.

2. **Price Review**

A.I.D.-financed expenditures for commodities are subject to certain basic price requirements under the Foreign Assistance Act, Sections 604(a) and 604(b). These general price requirements are:

> Section 604(a): Funds made available under this Act may be used for procurement outside the U.S. only if the price of any commodity procured in bulk* is lower than the market price prevailing in the U.S., at the time of procurement, adjusted for differences in the cost of transportation to destination, quality, and terms of payment; and Section 604(b): No funds shall be used for the purchase in bulk of any commodities at prices higher than the market price prevailing in the U.S. at the time of purchase, adjusted for differences in the cost of transportation to destination, quality, and terms of payment.

A.I.D. Regulation 1 provides for the implementation in CIP transactions of the price requirements of the Foreign Assistance Act. It clearly identifies specific tests which a supplier's price must meet if a transaction is to be eligible for A.I.D. financing and imposes a requirement upon the host country to ensure that the importer procures in accordance with A.I.D.'s rules. In short, a price violation on the part of a supplier may provide the basis for recourse by A.I.D. against the supplier (or, alternatively, the host country) because the importer has not procured at the lowest available competitive price.

All of the price tests applicable to A.I.D.-financed transactions must be met. If a transaction violates more than one price rule, A.I.D. is entitled to base a refund claim on whichever price test shows the largest overcharge. Therefore, a price analyst should routinely apply, if practicable, all of the

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* "In bulk" means purchases in large quantities and is not a reference to types of commodities usually sold in bulk, such as grain.

price tests in turn, even though violation of some one price rule is readily apparent. For instance, a transaction which shows an ineligible commission may very well, when subjected to full price analysis, involve overpricing in excess of the ineligible commission. Furthermore, since A.I.D. is prohibited by law from financing prices which violate Sections 604(a) and (b) of the Foreign Assistance Act, there is a special requirement to apply those tests to every transaction. A recovery under one of the other price tests would not necessarily correct a statutory violation. Moreover, once having asserted a claim under one price test, A.I.D. would find it difficult to later assert a larger claim under a different test.

In reviewing prices, the analyst should consider the following price tests:

- "U.S. Prevailing Market Price - U.S. Source" Test

  Section 201.63(a): "The purchase price for a commodity, the source of which is the United States, shall not exceed the market price prevailing in comparable export sales in the United States at time of purchase adjusted for differences in the transportation cost ...."

  Note that Section 201.63(a) says that prices shall be adjusted for differences in transportation cost. Guidance on how this is to be done is found in Section 201.64. Prices being compared "... are calculated on the basis of delivery alongside or onboard the vessel or other export conveyance ...." This permits, by proper adjustment, the inclusion in the universe of comparable sales of transactions which may have been on an FOB or FAS basis or on the basis of C&F different destinations.

- "U.S. Prevailing Market Price - Non-U.S. Source" Test

  "Section 201.63(b): "The purchase price, including transportation cost, for a commodity, the source of which is not the United States shall be lower than the market price prevailing in comparable export sales in the United States at the time of purchase including transportation cost ...."

  This section of Regulation 1 reflects Section 604(a) of the FAA which requires, in substance, that A.I.D.-financed goods from eligible foreign sources must cost less, delivered, than the cost would have been if the goods had come from the United States. Note that this delivered price test does not require the FOB or FAS price of the commodity in the source country to be lower than the commodity price in the U.S.--the

foreign source may benefit from lower ocean freight cost. If U.S. flag was used in moving the commodity from its foreign source to destination, then the test price includes U.S. flag freight from the U.S. If foreign flag freight was used from the foreign source, then the delivered cost of the commodity from the U.S. for price test purposes is based upon either foreign or U.S. flag freight, whichever is lower. (See Section 201.64(b)(2).)

- "Supplier's Comparable Export Price - U.S. and Non-U.S. Sources"

  Section 201.63(c): "The purchase price, excluding transportation cost, shall not exceed prices generally charged by the supplier in comparable export sales from the source country at the time of purchase ...."

  This test looks only to the supplier's own pricing practices, regardless of what other suppliers may be charging. The test has the effect of denying a supplier the right to charge more in an A.I.D.-financed transaction--where competition may be very limited or where the importer may not be subject to the usual commercial motivations to keep the cost down--than the supplier generally charges in other transactions, at least some of which will presumably be subject to normal competitive procedures. The reference to prices "generally" charged was inserted in the Regulation to give suppliers some room to set unusually low prices in a limited number of their sales (possibly for the purpose of breaking into new markets, or in distress situation of one sort or another) without being bound to those abnormally low prices in A.I.D.-financed transactions.

- "Source Country Prevailing Market Price - Non-U.S. Source" Test

  Section 201.63(d): "The purchase price, excluding transportation costs, shall not exceed the market price prevailing in the source country in comparable export sales at time of purchase ...."

  In analyzing offshore source transactions, it is necessary to be alert to the possibility that foreign suppliers have raised their prices in A.I.D.-financed sales to the point where they are just under prices out of the U.S. on a delivered basis. If there are no export sales from the foreign source country comparable to the A.I.D.-financed sale being reviewed, reference may be made to domestic prices for the commodity adjusted by an appropriate export differential.

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- "Price Test in the Absence of a Comparable Sale at the Time of Purchase - U.S. and Non-U.S. Sources"

  Section 201.63(e): This price test, with its separate rules for suppliers who are producers and suppliers who are not producers, was designed to ensure, insofar as could be anticipated, that no situation would arise which left A.I.D. without an effective price rule. The test will not be reached except in the "absence of a comparable sale at time of purchase," after full consideration has been given to relying upon (adjusted) prices for "similar" commodities. It is the only price test which is concerned explicitly with the mark-up of a supplier.

- Other Price Tests Applicable to Suppliers

  Additional price tests (Sections 201.63(f) and (g)) apply to suppliers of sugar and petroleum products. When these specialized tests appear applicable, bring the transactions to the attention of the Procurement Officer for further guidance.

- Commission Rules

  Sales agent commissions are eligible (unless otherwise provided in the authorization) in all A.I.D.-financed transactions and may be paid in dollars to an agent performing a bona fide service in any free world source country providing the commissions do not exceed the lesser of either the amount customarily paid by the supplier in connection with similar transactions or the amount customary in the trade. All commissions must be declared on the Supplier's Certificate. The analyst should check any which appear to be out-of-line either because the rate is high or the amount is greater than that normally observed in the course of comparable analysis. Note that some "high" rates on equipment sales merely reflect the differences between the distributor net price and the list price when the supplier sells to a third party at the list price.

  The analyst should be especially concerned with payments back to the importer. The supplier or supplier's agent cannot give or receive a side payment, "kickback," commission, any other payment, credit allowance, or benefit which is to or for the benefit of purchaser, th purchaser's agent or the borrower/grantee.

Section 201.81 sets forth A.I.D.'s right to require a borrower/grantee to refund any amount attributable to a violation of Regulation 1. This includes price violations which may have been committed by suppliers, although A.I.D. would normally seek to obtain refunds for such violations from suppliers. In addition, Section 201.62 contains special requirements related to prices which are applicable to the host country.

Section 201.62(a)(1) requires the host country to ensure that importers comply with A.I.D.'s rules for procurement as set forth in Section 201.22. Failure to follow the required procedures raises a presumption that the importer has paid more than the "... lowest available price ...," and that there has accordingly been a violation of Section 201.62(a)(2). Note that this is, or may be, a more stringent price test than the "prevailing market price test," since the importer is expected to take advantage of any opportunity which he may have to buy at prices "below market." Where formal procurement procedures are involved, the buyer is expected to accept the lowest responsive offer even though there are other offers which do not exceed the "market price prevailing." In nonformal, commercial-type procurements, the buyer has somewhat more leeway providing he conforms to good commercial practice. Nevertheless, Section 201.62(a)(2) gives A.I.D. a basis for action which may be invoked in any case in which a buyer acts imprudently by failing to take advantage of the best prices available.

3. **Documenting the Review**

In performing the reviews, the analyst should prepare a report documenting the analysis. This report should include:

- Control information (e.g., case number, opening date, name of analyst, etc.).
- Voucher information (e.g., voucher number, date paid, A.I.D. loan or grant number, the Schedule B, the country involved, the voucher amount, etc.).
- Transaction information (e.g., supplier's name and address, transaction amount, terms of sale, importer's name, etc.).
- Transportation information (e.g., freight cost, Bill of Lading Number, name and flag of vessel, charter party detail).

- A list of commodity-related services included in transportation.

The analysis should further detail any documentary or other discrepancy. The case summary should then summarize the issues involved and the facts uncovered in reaching any finding or conclusion as to noncompliance.

As a general matter, the analysis should be sensitive to the assigned task which consists of carrying out the review, establishing the facts and describing any shortcomings in the documentation submitted by the supplier, or money discrepancies found, in such detail that A.I.D. can decide whether it needs to take action without having to conduct additional inquiries. After receiving the analysis, the Chief of the Surveillance Division, together with the General Counsel's office, reviews the findings submitted, decides whether there are sufficient grounds for issuing a Bill for Collection, whether the size of the discrepancy warrants pursuit of the case, and whether any irregularities in the documentation warrant any action, either in a particular case of if a pattern of irregularities emerges, by amending or clarifying A.I.D.'s own regulations.

The discrepancy analysis should carefully distinguish between documentary shortcomings and overpayments. Note that A.I.D. can recover only overpayments to suppliers since only then can there be a demonstration that the Agency has been damaged. The analyst is not expected to lump together an imputed value of documentary discrepancies and overpayments in order to provide a total discrepancy value.

Analysis should be completed promptly though progress may necessarily depend upon the availability of needed supplementary information. The analyst's final report should be made not later than one hundred twenty (120) days after the analysis of the transaction commenced. If not completed at this point, the transaction should be cleared out of the analyst's system with appropriate explanation.

The control objective of the post audit transactions process is to ensure A.I.D.-financed CIP transactions were carried out in accordanced with applicable laws, regulations and procedures. To achieve this objective, the following control techniques are used:

- **The guidance provided in the Audit Analyses Guidebook outlining the procedures for performing the post-audits.**

- **The requirement that the post-audits be documented in the form of reports.**

- **Supervising review of the post-audits report.**

- **The requirement that the funding of the post-audits report be received by the General Counsel prior to initiating a Bill for Collection.**

CHAPTER 4

SECTOR ASSISTANCE PROGRAM

Under sector assistance, A.I.D. agrees to provide U.S. dollars and, in many cases, technical assistance and training to a host country in return for host country policy reforms which A.I.D. believes will improve conditions in a targeted sector.

A.I.D. Handbook 1, Part VII, defines a sector as a "set of economic activities unified by a common output narrow enough to have an analytical identity and broad enough to contain significant investment and policy issues. Thus, one can speak of health or agriculture or energy. Often it may be appropriate to narrow the sectoral focus to a particular subsector, e.g., livestock or forestry or primary health care."

Sector assistance is used to address policy constraints which inhibit sectoral productivity and output. These sectoral constraints can include subsidies, inappropriate pricing policies, inappropriate government provision of goods and services, and inadequate share of budgetary resources being allocated to the sector.

In justifying sector assistance, an analysis of the problems and constraints facing the sector must be developed in the Program Assistance Initial Proposal (PAIP) and Program Assistance Approval Document (PAAD).

A.I.D.'s guidance is outdated, however, in stating that sector assistance will only be approved under exceptional circumstances. In this regard, the guidance states:

> 'Projects are A.I.D.'s primary mode of providing assistance. While almost all of the agency's projects are, in effect, in sectors, ... sectoral programs will only be approved under exceptional circumstances. Accordingly, any departure from project assistance must be justified by demonstrating that the alternative assistance vehicle leads to more effective achievement of the U.S. government's objectives in a given country. Program sector assistance is exceptional and must be strictly in conformity with this guidance." (Handbook 1, Part VII, ["Program Sector Assistance Guidance"], Section 2).

The guidance states that sector assistance funded from the Economic Support Fund (ESF) appropriation can be justified in terms of balance of payments support. In such instances, the assistance could have two objectives: providing dollar resources to reduce the balance of payments constraint and the achievement of increased sectoral productivity and output. But sector assistance funded from the Development Assistance (DA) appropriation cannot be justified in terms of balance of payments support. Though the guidance does not clearly say so, it is in terms of funding sector assistance from the DA appropriation that the restriction "only be approved under exceptional circumstances" applies.

A.I.D. has moved away from this policy position. Program sector assistance is no longer considered "exceptional". The policy restriction on the use of the DA appropriation to fund sector assistance has been removed. The impetus for using the DA appropriation to fund sector assistance came from the African Economic Policy Reform Program which was funded with DA funds allocated to the Bureau for Africa under the functional accounts. This use of DA funds gained further momentum in FY 1988 when Congress established the Development Fund for Africa (DFA) as a line item in the DA appropriation. In establishing the DFA, Congress authorized A.I.D. to use up to 30 percent of the Fund for nonproject sector assistance: 20 percent without consultation with the Congressional Appropriation Committees and an additional 10 percent after consultation. By eliminating the functional account from the Development Fund, Congress provided the Africa Bureau with the flexibility to shift its resources to address its number one priority: policy reform. In shifting its resources to address this priority, the Africa Bureau also concentrated its resources in fewer countries where the potential for success is relatively high. In FY 1991, about 50 percent of the more than $500 million provided under the DFA will be programmed for sector assistance.

In the Bureau for Asia, Near East, and Europe, sector assistance is funded from both the ESF and DA appropriations. The Bureau for Latin America and the Caribbean has not yet started to use sector assistance, though it is considering doing so.

What differentiates sector assistance from other forms of nonproject assistance is that it focuses on sector constraints and the reforms to alleviate those constraints. The disbursement of A.I.D. funds is thus linked to host country actions in achieving specified reforms, not to specific uses of the A.I.D. funds as in the case of cash transfer and CIP assistance. A.I.D. funding for sector assistance can be provided through either sector cash transfers or Commodity Import Programs (CIPs). In either case, the sector assistance should be justified on the basis of broadly defined sector requirements and in support of specific policy and institutional reforms. The PAAD should contain an implementation plan which lists specific reform actions to be achieved at specific times and a plan for periodically releasing (tranching) A.I.D. disbursements in coordination with those actions.

Sector assistance is usually designed as a multi-year program. However, because the PAAD facesheets are funding documents and linked to Operating Year Budget (OYB) amounts, the amount authorized in a given year cannot exceed the amount which can be obligated that year. Therefore, the initial PAAD document should justify and define the full multi-year program. Objectives as well as policy and institutional reforms should be clearly identified for the multi-year program. When the program is initially approved, the authorizing official (normally the Assistant Administrator) will approve the full amount of the program, although only the first year's funding would be authorized.

The PAAD would also lay out procedures for subsequent authorization amendments. In most cases, missions will be delegated responsibility to authorize subsequent year amendments. These amendments cannot be used to modify the program, and in most cases should be accomplished by a simple PAAD facesheet amendment. They must, however, specify conditionality which was generally outlined in the original multi-year PAAD. Missions may not make any substantive changes in the program objectives or conditionality without first obtaining A.I.D./W concurrence. If substantive changes are proposed, the PAAD amendment should be sent to A.I.D./W for authorization.

A. **PROGRAM DEVELOPMENT AND APPROVAL PROCESS** (Handbook 4, Chapters 2 and 3; Handbook 3, Chapter 6; Bureau-Specific Guidance)

The program development and approval process begins with the initial conceptualization of a program (i.e, problem identification) and ends with an approved, detailed document which authorizes the program and serves as the basis for the program agreements which will be negotiated with, and signed by the host government.

Program sector assistance is an attempt to combine both project and nonproject assistance in one comprehensive program designed to improve conditions in the targeted sector. In many cases, the A.I.D. program will target a portion of a sector (e.g., elementary education within an overall education sector), and will be designed to serve as a component of or in conjunction with a larger multi-donor program designed to effect the entire sector. The International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD; i.e., the World Bank) often lead these multi-donor efforts. Sector Assistance design is often, therefore, a complicated and time-consuming exercise. Program designers, while using the standard design methodology detailed in the above cited Handbook Chapters, also generally receive more specific design instructions from geographic bureau management in A.I.D./Washington.

In general, a sector assistance program follows the design methodology found in Handbook 4.* However, since most programs contain projectized components, this methodology has been modified as described below.

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* There are exceptions to this rule. For example, shelter sector assistance programs containing housing guaranty components follow the design and authorization methodology found in Handbooks 3 (Project Development), and 7 (Housing Guaranty Program). Part V of this Audit Survey Document contains a complete description of A.I.D.'s Housing Guaranty Program.

1. **Program Assistance Initial Proposal** (Handbook 4, Section 2.D.3; Handbook 1, Part VII ["Program Sector Assistance Guidance"], Section 9).

Under normal circumstances, the initiating document for any form of nonproject assistance, including sector assistance, will be a Program Assistance Initial Proposal (PAIP). This document is analogous to the Project Identification Document (PID) developed to identify a project assistance activity.

The mission or office, with A.I.D./Washington and/or contractor assistance, if required, drafts and forwards the PAIP to the A.I.D./Washington geographic bureau for review.*

The PAIP should be a brief, conceptual document containing:

- A description of the relationship of the proposed program to mission strategy.
- The program rationale, i.e, a preliminary description of the sector and its development constraints, as well as a description of the relationship of the sector to broader development objectives.
- A description of the proposed program approach, i.e, the rationale for using a Commodity Import Program or sector grant.
- A preliminary analysis of institutions which will have major implementation responsibility.
- A preliminary identification of those host country groups which are most likely to benefit and/or be adversely affected by the program.
- Preliminary ideas on conditionality to reform the sector.

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* The following description of the PAIP development and approval process is drawn from the "Preliminary Africa Bureau Guidance Nonproject Assistance Under the Development Fund for Africa" memorandum dated July 12, 1988. Sector assistance managed by other bureaus, or funded from other sources (e.g., ESF), follows similar, though not necessarily identical procedures.

- Preliminary thoughts on local currency programming, mission management, design strategy, and any other concerns which the mission or office believes should be reviewed by bureau management.

- A preliminary logical framework and an Initial Environmental Evaluation (IEE).

A geographic bureau technical committee reviews the PAIP.* This committee is chaired by the bureau Backstop Project Officer for that mission or office. A bureau management committee** then reviews the PAIP and the technical committee's recommendations(s), approves or rejects the PAIP, and determines whether any resulting PAAD need be submitted to A.I.D./Washington for review and/or authorization. The Backstop Project Officer drafts a guidance cable explaining the results of the management committee review and providing any committee instructions or suggestions to mission personnel continuing with the design process. Each management committee participant is asked to review and approve this cable before transmission.

2. **Program Assistance Approval Document** (Handbook 4, Chapter 3; Handbook 1, Part VII ["Program Sector Assistance Guidance"], Section 8).

If bureau management approves the PAIP, the mission or office, with A.I.D./Washington and/or contractor assistance, if required, drafts a Program Assistance Approval Document (PAAD). A.I.D. normally uses this type of document when approving and authorizing any form of nonproject assistance. The PAAD is a detailed analytical document which fully explains the sector assistance program and serves as the basis for the program agreement(s) which will be signed by A.I.D. and the host government.

As a general rule, a PAAD consists of a facesheet and supporting descriptions and analyses as discussed in the Handbook Chapter cited above. A sector assistance PAAD must also conform to the requirement contained in

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* Africa Bureau sector assistance PAIPs may also be developed and/or reviewed by the Regional Economic Development Services Office (REDSO) serving the mission or office.

** In the Africa Bureau, this committee is generally chaired by the Assistant or Deputy Assistant Administrator.

Handbook 1, Part VII ("Program Sector Assistance Guidance"). This guidance states that sector assistance design documents must include an analysis of the problems and constraints facing the sector. Such analysis should include:

- A discussion of the role of the sector or subsector in both the overall development of the host country and the assistance strategy of the mission (this discussion should include an examination of the linkages between macroeconomic policies and problems and sectoral policies and problems).

- A description of the specific sectoral problems including policy issues, investment levels (public and private), recurrent resource availabilities, and capacity of key sectoral institutions, both public and private, formal and informal, to fulfill their roles.

- A strategy for addressing the sector's problems including a ranking of constraints in order of importance, and the specific changes in policy and resource availability which the program is intended to achieve.

- An assessment of the social costs and benefits of the sectoral program, focusing on the impact of the program on different beneficiary groups.

- An assessment of the host country's financial, political, and institutional capability for carrying out the sectoral strategy.

- A discussion of the role of other donor activity in the sector and the way in which this activity complements A.I.D.'s program.

- An implementation plan listing specific accomplishments to be achieved at specific times, and a plan for tranching A.I.D. disbursement to these accomplishments.

In addition to this Agency-wide guidance, the geographic bureaus also provide guidance to their missions and offices designing sector assistance PAADs. The Africa Bureau, for example, has instructed its missions and offices to comply with the above listed guidance, <u>and</u> to give special attention to:

- Defining the sector, describing the specific policy and institutional reforms being sought, and providing benchmarks for evaluating progress.

- Examining feasibility issues, including institutional and social issues.

- Estimating potential impact and laying out a comprehensive monitoring and evaluation plan.

- Describing any anticipated incremental funding procedures (important since PAAD facesheets are funding documents linked to the Operating Year Budget and, therefore, the amount authorized in a given year cannot exceed the amount which can be obligated that year).

- Describing cash disbursement procedures (either a sector CIP or a sector cash transfer grant).

- Describing local currency programming and management.

- Describing coordination with other donor organizations ("Preliminary Africa Bureau Guidance Nonproject Assistance Under the Development Fund for Africa" memorandum of July 12, 1988, Section III.B).

The PAAD should contain a facesheet authorization, final logical framework, and a nonproject assistance statutory checklist. If the PAAD is to be reviewed and approved in A.I.D./Washington, the procedure is essentially identical to that followed for a PAIP. If approved in the field, the mission Director, or chief A.I.D. official will authorize the PAAD.* In either case, the Office of Financial Management must be notified as to the anticipated nonproject funding before the PAAD is authorized. Once the PAAD is authorized, the mission or office can sign the sector assistance agreements with the host government.

3. <u>Projectized Components</u> (Handbook 3, Chapter 3).

Although a sector assistance program will generally contain projectized components (e.g., technical assistance, participant training), program designers need <u>not</u> develop a separate Project Paper. However, the PAAD must contain certain analyses and information required by the cited Handbook for all project assistance design documents (i.e, Project Papers).

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* Mission and offices managed by the Africa Bureau will generally submit their PAADs to their appropriate REDSO for review prior to authorization or submission to A.I.D./Washington.

Handbook 3, Section 3.E.2.b. contains a listing of the type of information required in any A.I.D. document detailing and authorizing project assistance. In almost all cases, this information is covered under the PAAD guidance already described.

In addition to the standard sector assistance PAAD information described above, sector assistance PAADs containing projectized components must also contain a Foreign Assistance Act, Section 611 (e) certification, if necessary (see Handbook 3, Appendices 3.L. and 4.B), a technical analysis covering any technical assistance to be provided under the program, and any other type of analysis listed in the section cited above which was not previously covered by the PAAD guidance. It should be noted that the information required by Handbook 3 need not be contained in any specifically labeled section of the PAAD, e.g., the information required by an acceptable technical analysis may be contained anywhere in the PAAD and need not be placed in a discrete "Technical Analysis" section. In all cases, however, the PAAD must include a signed Project Paper data sheet if the sector assistance program contains projectized components. (see Handbook 3, Appendix 3.A.).*

The control objective of this process is to give reasonable assurance that the sector assistance program is designed in accordance with A.I.D. policy and that design documents thoroughly explain the policy changes sought by the program, as well as the method the program will use to encourage those changes. To achieve this objective, the Agency uses the following control techniques:

- **Specific guidance for designing sector assistance programs found in Handbook 1, Part VII ("Program Sector Assistance Guidance");**

- **Bureau-specific guidance for designing sector assistance programs such as the "Preliminary Africa Bureau Guidance Nonproject Assistance Under the Development Fund for Africa" memorandum of July 12, 1988;**

- **General guidance for developing nonproject assistance design documents found in Handbook 4, Chapters 2 and 3; and**

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* A project authorization is itself an internal Agency document which gives substantive approval for a project to proceed from the design to the Agreement negotiation phase. Project authorizations are explained at Handbook 3, Chapter 5.

- **General guidance for developing project assistance design documents found in Handbook 3, Chapters 3 and 5.**

This process is vulnerable in that sector assistance is rapidly gaining importance as a developmental tool, but Agency-wide guidance for designing such assistance programs has not been updated to reflect this trend. Handbook 1, Part VII continues to discuss sector assistance as a method to be used only in exceptional circumstances. Under these guidelines, program designers are told that project assistance remains the Agency's primary development tool, and that they carry a heavy burden in showing that sector assistance is more appropriate than project assistance in a given circumstance. However, as A.I.D. staff resources are stretched, the Agency is rapidly moving toward a position of viewing sector programs as the "normal" assistance method. This is particularly apparent in the Africa Bureau, where staff resources are decreasing, and the number of sector programs in missions portfolios are rapidly increasing.

Agency-wide guidance for developing, implementing, and evaluating sector assistance will be changing rapidly in the near future. Bureaus will be required to continually adjust their guidance to program designers as Agency policies and procedures evolve. Such an environment lends itself to an increased risk of noncompliance with Agency policies and procedures. It also places an increased burden upon auditors to remain knowledgeable as to the most current Agency sector assistance policy and guidance.

B. <u>NEGOTIATION OF AGREEMENT PROCESS</u> (Handbook 4, Chapter 4; Handbook 3, Chapter 6).

This process begins with A.I.D. entering into negotiations with the host government to formalize the sector assistance program and ends with A.I.D. and the host government signing one or more formal agreements effectuating the program.

Sector assistance programs, though considered nonproject in nature, often contain "projectized" components, such as the provision of technical services to help the host country implement agreed-upon policy changes. In addition, a sector assistance program may envision more than one form of nonproject assistance. If the program contains multiple forms of assistance, A.I.D. will effectuate the program by negotiating separate agreements with the host country for each form. A single sector assistance program may, therefore, have two (or more) separate agreements.

In such circumstances, the Program Assistance Approval Document (PAAD) will both authorize the negotiation of one (or more) nonproject agreements, and contain a Project data sheet and authorization for negotiation of a Project Agreement.

In conjunction with the Regional Legal Advisor, the Project Officer should determine the format and content of the agreements. The agreements should state what is being provided, by whom, for what purpose, and subject to what conditions and restrictions.

1. Nonproject Agreement (Handbook 4, Chapter 4)

The sector assistance PAAD will authorize A.I.D., generally through the mission or office, to negotiate a Cash Transfer and/or a Commodity Import Program (CIP) agreement with the host government.* These agreements are generally signed by the mission Director or other field official possessing delegated authority.

a. Cash Transfer (Grant) Agreement (Handbook 4, Section 4.A.5; Part IV, Chapter 2 of this Document)

A sector assistance Cash Transfer Agreement is a written legal document signed by A.I.D. and the host government which focuses on the purpose, amount, and major conditions of the provided assistance. Its purpose is to records the basic, substantive decisions reached by A.I.D. and the host government in connection with the provision of the cash transfer. The Agreement is authorized by and gives effect to the related PAAD and binds the host country to the policy reform agenda which is laid out in the PAAD. When the cash transfer is provided in tranches, the Agreement may refer only to that part of the transfer which is to be initially committed; or it may cover the entire amount of the transfer in general terms, but obligate only a stipulated portion with subsequent increases to be provided through amendments to the Agreement.

The Agreement will generally include:

- A statement of the amount and nature of A.I.D.'s assistance.

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* Although a single PAAD may allow for negotiation of multiple nonproject agreements, in practice this rarely occurs. Most sector assistance programs contain either a single cash transfer grant or CIP component.

- A statement of the conditions precedent to disbursement which the host government must fulfill before A.I.D. releases the grant funds.

- Terminal dates for compliance with the conditions precedent.

- A statement of the covenants which the host country agrees to observe as a result of the cash grants.

- A statement that A.I.D. will arrange for deposit of the cash grant funds.

- Time controls based on a Project (Program) Assistance Completion Date (PAAD).

- A statement that provisions of the Agreement are to cover applicable statutory and regulatory requirements, e.g., record keeping, audit and inspections requirements.

Normally, sector assistance Cash Transfer Agreements are executed in the field pursuant to authority delegated to the mission Director or U.S. Ambassador. Often, authority to negotiate and sign are given together. Such delegations of authority may be existing or may be made by the Assistant Administrator only in connection with a given program.*

Under the Agency's funds control system, the cash transfer Agreement (and any other type of nonproject or project agreement) should not be signed until funds are made available for obligation both for the cash transfer (or CIP) portion of the sector program, and the "projectized" portion (which will fall under the Project Agreement, discussed below).

To ensure that funds are available, the geographic bureau, upon mission or office request, will ask the A.I.D./Washington Office of Financial Management to issue two budget allowances for the sector program at the time of PAAD authorization. One allowance will be issued to the Office of Financial Managements' Project/Nonproject Branch for the nonproject portion of the program, and the other

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* U.S. Ambassador may sign the cash grant agreement only if given an ad hoc delegation of authority.

budget allowance will be issued to the mission or office for the "projectized" portion of the program. Based on the issuance of the allowances, the Project/Nonproject Branch should earmark or reserve funds prior to the authorization of the facesheet PAAD and the mission or office should earmark or reserve funds prior to the authorization of the Project Paper facesheet or data sheet.*

Prior to the signing of the nonproject and project greements, the Project Officer should obtain the mission or office accounting station's clearance that funds have been made available for obligation.** When signed, the agreements become the obligating documents.

Immediately upon signing the cash transfer (or CIP) agreement, the mission or office accounting station should send a cable to the Project/Nonproject Branch highlighting the agreement's essential fiscal data. The Project/Nonproject Branch uses this data as the basis for recording the obligation to the nonproject account in the Financial Accounting Control System (FACS). As soon as possible, the mission or office should send a confirmed copy of the original agreement to A.I.D./Washington. This copy should be reviewed by the Office of the General Counsel (A.I.D./GC), to ensure that the agreement meets the obligation criteria contained in Section 1311 of the Supplemental Appropriation Act of 1955. After its review, A.I.D./GC should forward the copy to the Project/Nonproject Branch as evidence of the obligation.

b. **Commodity Import Program (CIP) Agreement** (Handbook 4, Sections 4.A.2 through 4.A.4; Part IV, Chapter 3 of this document)

A sector assistance Commodity Import Agreement is a written legal document signed by A.I.D. and the host government wherein A.I.D. agrees to finance the importation of certain categories of commodities, subject to prescribed A.I.D. rules and regulations, for the purpose of meeting certain specific policy reform objectives identified in the

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* These facesheets are discussed in the previous section of this Chapter.

** The Project/Nonproject Branch should notify the mission or office immediately upon reserving the funds.

PAAD.* The purpose of this agreement is to record the basic substantive decisions reached by the two governments in connection with the provision of the agreed assistance. The agreement is authorized by, gives effect to, and binds the host government to the policy reform agenda described in the PAAD.

The Commodity Import Agreement may refer only to that part of the planned program which is to be initially committed, or it may cover the entire amount of contemplated assistance. It may be an "umbrella" agreement covering, in general terms, the anticipated sector assistance program for a longer period but obligating only a stipulated portion, subject to subsequent amendments or agreements to increase the stipulated amount. Implementing documents covering the amount obligated in the agreement (e.g., the Commodity Procurement Instruction) should ordinarily be ready for issuance concurrently with or soon after the signing of the agreement.

The agreement should include the following basic provisions:

- A statement of the amount and nature of the assistance to be furnished by A.I.D., including the language prescribing which categories of commodities are eligible for financing, and the authorized source(s) for procurement of commodities and related services.

- A statement of the conditions precedent to the issuance of a Disbursing Authorization under the agreement.

- Terminal date for compliance with the conditions precedent.

- A statement of the policy reform agenda which is the basis for the sector assistance program (which may or may not be included as conditions precedent, but must comply with the policy reform conditionality contained in the PAAD).

- A statement of the applicable commodity financing procedures and conditions governing the procurement of commodities.

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* Most sector assistance programs will use cash transfers as their nonproject components. CIPs are used much more rarely.

- A statement of the host country's obligation for the effective use of commodities financed under the agreement.

- A statement indicating the minimum dollar amount per transaction which may be submitted in substantiation of claims for A.I.D. financing.

- A statement of the method of financing (Letter of Commitment, etcetera) to be used.

- A statement of limitation (e.g., the eligibility date and terminal disbursement date) on the time period during which funds under the agreement will be available to finance commodity transactions.

- A terminal date for issuance of, and disbursement under, a disbursing authorization.

- Where applicable, clauses concerning the deposit of local currency generated as a result of the assistance, and, as necessary, the use of such currency.

- A statement of the host country's responsibility to maintain required records, identify importers, and allow for A.I.D. inspection of the commodities.

- A description of remedies and rights under the agreement.*

Normally, Commodity Import Agreements are executed in the field pursuant to authority delegated to the mission Director (or U.S. Ambassador). Under the Agency's funds control system, the Commodity import Agreement should <u>not</u> be signed until funds are made available for obligation.**

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* Handbook 4, Appendix 4A illustrates a standard format Commodity Import Grant Agreement.

** This procedure is explained in section B.1.a of this Chapter.

2. **Project Agreement** (Handbook 3, Chapter 6)

Most sector assistance programs will include some technical assistance, training, or other project-like support which should be directly related to the program's policy reform objectives. Inclusion of such projectized components necessitates the negotiation and signing of a Project Agreement with the host country. This agreement must be based upon and conform to the description of the projectized components contained in the PAAD.

The Project Agreement is a written legal document, normally bilateral but sometimes executed by more than two parties, which constitutes a formal understanding between or among the parties as to the responsibilities for and timing of actions with respect to the projectized components of the sector assistance program.

The Project Agreement should be as brief as possible, but contain the information required by Handbook 3, Section 6.D.*

Normally Project Agreements are executed in the field pursuant to authority delegated to the mission Director (or U.S. Ambassador). Because authorization of sector assistance programs and allowance of funds for the various components under those programs are separate actions, the responsible A.I.D. official (ultimately the mission Director) must be certain that an allowance of funds has been received for the projectized component prior to the signing of the Project Agreement.**

Immediately upon the signing of the Project Agreement, the mission or office accounting station will open a project ledger which is a subsidiary ledger. When the obligation has been recorded in the project ledger, the accounting station will usually establish a project element funds control ledger. A project element funds control ledger would be opened for each line time in the project budget, which is incorporated as an annex to the Project Agreement.

An earmark control record should be established for each earmarking document. This record is used to control commitment activity against the earmarked account and it serves as a record to control open commitment

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* Handbook 3, Appendix 6A-2 illustrates a standard format Project Grant Agreement.

** This procedure is explained in section B.1.a of this Chapter.

reservations. A commitment liquidation record should be opened for each commitment to control disbursement against commitments. Auditors should refer to Part III Chapter 2 of this Document for a detailed explanation of A.I.D.'s project accounting procedures.*

The control objective of this process is to give reasonable assurance that the Agreements which give effect to the sector assistance contain all relevant terms, conditions, authorizations, and legal provisions required by law, regulation, Agency policy, and bureau procedures, and that those Agreements are expeditiously negotiated and executed. To achieve this objective, the Agency uses the following control techniques:

- **Guidance contained in Handbook 4, Chapter 4, for negotiating and executing nonproject agreements;**
- **Guidance contained in Handbook 3, Chapter 6 for developing and negotiating Project Agreements;**
- **The review of agreements by Agency legal staff (e.g., Regional Legal Advisors) to ensure that such agreements comply with legal and regulatory requirements;**
- **Clearance of agreements by mission, office, and/or A.I.D./Washington accounting stations to ensure that funds are available and administratively reserved before agreements are signed;**
- **Responsibility placed upon mission and office management to ensure that sector assistance agreements conform to the provisions of basic design documents; and**
- **The signing of the agreement(s) by authorized officials of the U.S. and host country which results in the obligation of funds.**

Sector assistance has only recently become a primary method for providing development assistance. Handbook 4, which should address sector assistance

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* An anomaly of this dual accounting system for sector assistance is that the nonproject and project portions are never merged into one final sector assistance program. They are maintained and reported as two distinct activities in the Agency's information systems. The mission or office accounting station is the only location that is able to identify both the nonproject and project portions of the sector assistance grant.

as a discrete methodology, is virtually silent on the subject. Geographic bureaus, the Africa Bureau in particular, have been developing procedures for approving and implementing sector programs, but there has been little coordination of effort between and among the bureaus. The Agency has yet to reach consensus as to the form of and approval process for sector agreements.

C. PROGRAM IMPLEMENTATION LETTER PROCESS

Implementation commences when all agreements effectuating the sector assistance have been signed by representatives of A.I.D. and the host government. Throughout the implementation phase, the Project Officer will be communicating with the host government implementing entity on program implementation matters. While much communication will be oral and, therefore, informal, official communication must be done by Program Implementation Letters (PILs).* The PIL must always be addressed to the person or organization designated by they host country in the agreement(s) section entitled "Communications." This requirement is necessary to ensure that the advice or notice contained in the PIL will be deemed "duly given" as provided for in the applicable clauses of the agreement(s).

After A.I.D. and host government representatives sign the sector assistance agreement(s), the mission or office issues Implementation Letter No. 1, sometimes called the "Basic PIL." Subsequent PILs are serially numbered to permit control identification. The Basic PIL gives the host country more detailed guidance on matters covered in the sector assistance agreement(s). It:

- Explains what documents are to be submitted to satisfy the sector assistance Agreement(s) conditions precedent, including the format of the legal opinion to be submitted.

- Provides specific information on disbursement procedures.

- Specifies what reports A.I.D. requires, defining their frequency, format, content, etcetera.

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* Since PILs are considered an official part of the program agreement, they should not be used to communicate day-to-day operational matters. Project Officers and PIL clearing officials within missions and offices should thus have a clear understanding of the subject matter to be included in the PIL. The PIL should not be used to micromanage implementation.

- Contains any other information and/or instructions for the host government which A.I.D. considers necessary to commence implementation.

Because the host country will be required to act promptly on some of the matters discussed in the Basic PIL, these subjects should be discussed with the host country in detail before the sector assistance agreement is signed. It is desirable that the Basic PIL be prepared in draft shortly after the PAAD is completed to allow for detailed discussions with the host government during the interval between completion of the PAAD and the signing of the agreement(s). The Basic PIL should be negotiated simultaneously with the agreement(s).

Subsequent PILs are used to document approvals by the mission or office of actions or intended actions by the host country, while recording such changes to the assistance agreement(s) as can be made without amendment. These are changes to any agreement annex clause which contains the wording: "except as A.I.D. may agree otherwise." Clauses not containing these words can only be changed by a formal amendment of the Agreement.

PILs frequently deal with subject matter requiring a wide variety of expertise. The "Basic PIL" is always of this type. The mission or office should thus establish procedures for clearing PILs by the Controller, Legal Advisor, technical specialists, etcetera.

The control objective of this process is to give reasonable assurance that the host country is officially notified of all significant actions concerning implementation of the sector program. To achieve this control objective, the following control techniques are used:

- **The guidance for using Program Implementation Letters found in Handbook 3, Section 8.C.3.b;**

- **Guidance for the preparation of PILs found in Handbook 3, Appendix 8A;**

- **The serial numbering of PILs; and**

- **The review and approval process for clearing PILs.**

PILs are not intended to be day-to-day management tools. While the complexity of many sector assistance programs may lead to the generation of a larger number of PILs than usually found under other forms of program (or project) assistance, the auditor should be alert to programs with many PILs. A proliferation of PILs may indicate poor program design or the failure of the mission and host government to

reach agreement on goals, objectives, and basic procedures prior to program authorization.

D. CONDITIONS PRECEDENT AND COVENANTS PROCESS

In developing the sector assistance design documents (i.e., the PAAD), the designers will specify conditions precedent (CP) and covenants to be included in the sector assistance agreement(s). The CPs, in particular, are extremely important in a sector assistance program, since the rationale for sector assistance lies in influencing policy changes in a sector, and the policy changes A.I.D. seeks will often, though not always, be stated as conditions (or less often, as covenants) in the sector assistance agreements.

1. Conditions Precedent (Handbook 3, Section 3.B.5.c.1)*

"Conditions" are those provisions in the sector agreement(s) which specify a one-time action to be taken by the host government. Conditions are classified as either "conditions precedent" to disbursement, i.e., conditions which the host government must meet before A.I.D. releases funds, or supplementary, which may not be tied to disbursements.

A.I.D. makes a further distinction between "essential" and "non-essential" conditions. "Essential" conditions (and covenants) are those which address actions "which are necessary, either for project implementation or for achieving project objectives ...." "Non-essential" conditions (or covenants) are those falling outside that definition.

A.I.D. program and project agreements generally contain at least two essential CPs--a legal opinion from the host country stating that the agreement is legally valid and binding and also a statement naming the host country's official representatives for program or project purposes (and often requiring examples of those officials' signatures).

The Basic PIL generally sets forth the CPs to initial disbursement of funds. A target date, ranging up to four months, will be established to fulfill these

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* Although conditions and covenants are a crucial consideration under a sector assistance program, Handbook 4 (Nonproject Assistance) contains very little guidance for the program designer developing a sector assistance PAAD or agreement (see Handbook 4, Sections 4.A.3.b. and 4.A.5.). Handbook 3 guidance is much more complete, and, moreover, is directly relevant to sector assistance.

conditions. If the host country is unable to fulfill the CPs within the specified time period, the mission or office can extend the period. Generally, the mission or office can extend the period up to a year, after which the geographic bureau's Assistant Administrator must approve any further extensions. Under no circumstances can the mission or office rescind or change a CP without the Assistant Administrator's prior approval. The Project Officer is responsible for monitoring the host country's compliance with the CPs. Thus, when the necessary documents have been received and reviewed or necessary host country actions have been taken, the Project Officer will notify the host government representative through a PIL that the CPs to initial disbursement of funds have been approved. If CPs are established for later funding tranches, the Project Officer follows the same procedure, notifying the host country of CP status through later PILs.

The rationale for sector assistance lies in changing a host country's policies in a sector, so as to remove what A.I.D. sees as constraints to development. A.I.D. funds are often released in tranches on a fixed schedule (e.g., yearly), as the host country implements policy reforms. Although the inclusion of CPs requiring policy reform actions and tied to release of each funding tranche may appear to be a rational method of encouraging ("leveraging") desired reform, A.I.D. has no Agency-wide policy addressing the proper use of CPs under sector assistance programs. A.I.D. policy, in fact, states that the number of CPs (and covenants) should be minimized, since failure to fulfill the CPs will retard program implementation (Handbook 3, Section 3.B.5.c.3).

In the absence of Agency-wide policy, bureaus have developed their own policies for encouraging host country reforms through sector assistance CPs. The Africa Bureau, for example, often specifies the conditions for sector assistance funding in great detail in the PAAD and subsequent program agreement(s). Moreover, CPs for release of each funding tranche are often designed to build upon previous CP-mandated host country actions, thus leading to major policy reform through a series of incremental steps.* Each CP is, therefore, considered "essential", and PAAD designers often devote considerable effort to CP development and coordination with other donors. Other bureaus have not as yet gone to such lengths in utilizing CPs to foster sector reform.

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* This methodology has the added advantage of providing benchmarks for tracking program implementation.

2. Covenants (Handbook 3, Section 3.B.5.c.2)

Covenants are those provisions in the PAAD and sector assistance program agreement(s) which obligate the host country to observe certain requirements or to take certain specific or continuous actions during the life of the agreement(s). Since they are not generally tied to disbursements, they are generally not considered to be as effective as CPs in fostering policy reform.

Covenants are sometimes used to give reasonable assurance of sound financial operations of institutions set up under a "projectized" component of a sector assistance program.

The control objective of this process is to give reasonable assurance that the host country undertakes specific actions which are considered essential to program implementation and, especially for conditions precedent, to give reasonable assurance that the program results in sector policy reform. To achieve this objective, the following control techniques are used:

- **Guidance contained in Handbook 3, Chapter 3 outlining the procedures for monitoring conditions precedent and covenants.**
- **Time limitations imposed upon the host country for meetings conditions precedent.**
- **Approvals required for extending conditions precedent up to a year at the mission or office level and the need for prior geographic bureau approval of extensions beyond one year.**
- **Bureau policy encouraging development of conditions precedent for each funding tranche of a sector assistance program.**
- **The policy requirement that only the geographic bureau can authorize changes to or waivers of conditions precedent.**
- **The nonrelease of sector assistance funding until conditions precedent have been met.**

This process is particularly vulnerable when ESF monies are used to implement a sector assistance program. Unlike DA funds, ESF funds are jointly programmed by A.I.D. and the State Department and often serve political purposes beyond the purely economic (the use of ESF funds to pay "base rentals" is one, though not the only, such political purpose). Cases may arise in which a sector assistance program

is ESF-funded. In such cases A.I.D. may determine that the CPs (or other bases for policy reform conditionality) have not been met, and decide to withhold or delay subsequent tranche releases. This decision could bring A.I.D. into conflict with the State Department which may desire release of the ESF funds to satisfy its own political agenda. Experience has shown that the State Department's agenda and rationale for fund release generally receives priority consideration. Where ESF is used, therefore, A.I.D. may feel a certain degree of institutional pressure to find that a host country has met the policy reform requirements triggering fund release. This pressure may be increased by the fact that ESF monies are available for expenditure for only two years following their appropriation. A.I.D. may therefore be faced with the prospect of losing its sector assistance funds if it does not find the host country's policy reform action to be acceptable.

This process is also vulnerable since the Agency has not yet developed standard guidance for using conditions precedent and covenants for encouraging sector reform. While the use of conditions precedent, in particular, would appear to be an effective means of encouraging such reform, care must be taken that such requirements do not become so burdensome as to seriously hinder program implementation. The Agency has not yet addressed the efficacy of so-called "rolling designs," wherein conditions precedent for subsequent funding disbursements are finalized only after judging the effect of the implementation of conditions precedent to initial disbursement. It appears, however, that auditors must analyze conditions precedent and covenants and the implementation of those requirements very carefully in any sector assistance audit.

E. IMPLEMENTATION AND PAYMENT PROCESS

Most sector assistance programs will contain a "projectized" component, e.g., technical assistance to help the host government implement desired reforms, or participant training for host country officials who will function in the reformed sector. Where programs have a projectized component, the implementation and payment process will exhibit elements of both project and nonproject payment procedures.

1. Implementation and Payment Process for "Projectized" Components (See Part III of this Document)

As a general rule, the projectized portion of the sector grant will contain three elements: technical assistance, training and commodities. These elements of the projectized component should be implemented in the same manner as any other mission bilateral project. The project elements are consequently implemented in accordance with the project procedures set forth in Part III of this Document.

In planning for the project elements, the PAAD will contain a detailed description of the projectized component. This description will contain the same data as that required for a Project Paper. Each of the project elements will be described and justified. This description and justification should indicate such things as:

- The type of technical assistance required, how the assistance relates to the project design and purpose, the method of procurement (A.I.D. direct or host country) and the approximate cost.

- The type and amount of commodities required, how they relate to project design and purpose, the method of procurement (A.I.D. direct, host country and/or by Procurement Service Agent) approximate cost, and source and origin.

- The number of participants to be trained in U.S., type of training needed, where training will be provided, who will handle training and the approximate cost.

The PAAD will contain a budget for the projectized portion of the sector grant. In preparing the Project Agreement, the Project Officer will develop a project budget for each project element in accordance with availability of funds. This project budget is incorporated as an annex to the Project Agreement.

When signed, the Agreement is then used to record the obligation to the project ledger. At the same time a project element funds control ledger should be opened for each line item in the project budget i.e, technical services, commodities and training.

a. <u>Technical Services</u>

Usually, the first input A.I.D. will finance under the project budget is the procurement of technical services. This procurement may be undertaken by either the host country or the Agency directly. When undertaken by the host country, the Basic PIL would spell out the conditions precedent which needed to be fulfilled before the Agency would finance the technical services contract. These conditions precedent could include preparation of a Request for Technical Proposals and other data to fulfill A.I.D.'s competitive procurement regulations. Upon receipt, review and approval of this documentation, the Project Officer would prepare an earmarking PIL advising the host country

to proceed with the procurement.* The accounting station would use this PIL to earmark a specified amount of the obligated funds to finance the commitment in an earmark control record. The contract, however, should not be signed by the host country and contractor until reviewed and approved by the Project Officer.** When reviewed and approved, the earmarked funds would be formally committed on the basis of a PIL advising the host country that the contract has been approved.

When the procurement of technical services is undertaken by the Agency, the Project Officer would prepare a Project Implementation Order/Technical Services (PIO/T). This PIO/T would be used to earmark a specified amount of the obligated funds to finance the commitment. The PIO/T would then be sent to the A.I.D./W Office of Procurement. This office would then be responsible for such things as preparing the Request for Technical Proposals, advertising the proposal in the Commerce Business Daily, and handling the negotiation and award. After the award, either the Office of Procurement or the Project Officer, in conjunction with the Regional Contracting Officer and Regional Legal Advisor, would develop a contract. When the contract is signed by either an authorized official in the Office of Procurement or the mission and/or office director and the contractor, it becomes the commitment document.

When the contract has been signed, a commitment liquidation record should be opened for each commitment i.e, each contract. This record is used to control disbursements against the commitment.

b. **Commodity Procurement**

Project commodity procurement is handled in much the same manner as technical services procurement. When funds have been obligated for commodity procurement, the Project Officer would notify the host country of any conditions precedent which needed to be fulfilled before such procurement could be undertaken. When the host country provides the pertinent documentation requested by the conditions precedent, the Project Officer would review the documentation and, if acceptable, then prepare an earmarking PIL advising the host country that the conditions precedent have

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* Before doing this, the Project Officer would request an earmark reservation.

** A reservation of funds would be requested before funds are committed.

been fulfilled. This PIL, would be used by the mission and/or office accounting station to earmark in an earmark control record a specified amount of funds for the commodity procurement. When authorized by the mission and/or office, the host country has several options in undertaking this procurement:

- It can contract with a U.S. Procurement Service Agent (PSA) to do the procurement. In this case, proposals would be solicited from PSA firms.

- It can perform the procurement itself, which would entail soliciting bids from suppliers for the needed commodities.

- It can arrange to have the technical assistance contractor procure the commodities.

Whichever option the host country chooses to use, it must obtain the Project Officer's approval before signing the contract(s). This PIL approving the procurement by the Project Officer is then used as the commitment document by the accounting office.

When the commodity procurement is to be performed by the Agency, the Project Officer must prepare a Project Implementation Order/Commodities (PIO/C). This PIO/C, which instructs the A.I.D./W Office of Procurement to procure the itemized list of commodities in accordance with the stated specifications, is used by the accounting office to earmark the funds in the earmark control record. Depending on the type of commodities, the Office of Procurement would contract with a Procurement Service Agent, or another Federal Agency, to handle the procurement. This contract with the Procurement Agent would then be used as the commitment document. When the contract has been signed, a commitment liquidation record should be opened for each commitment i.e, each supplier or procurement service agent. This record is used to control disbursements against the commitment.

c. **Participant Training**

When host country participants are to be sent to the U.S. for training, this training can be handled in one of two ways. The training can be handled by the technical assistance contractor, in which case the cost of the training would be included in the technical assistance contract. Or the training can be handled by the Agency directly. In this latter case, the Project Officer would prepare a Project Implementation Order/Participant (PIO/P). This PIO/P

would specify the number of participants and the amount of funding provided for the training. The PIO/P, when signed by the host country, would be used as a simultaneous earmark/commitment document.

2. **Implementation and Payment Process for Cash Transfers** (See the description of the Payment Process in Part IV, Chapter 2 and of this Document)

In general, the payment process for the nonprojectized cash transfer portions of a sector assistance program will follow standard A.I.D. nonproject payment procedures as described in the chapter cited above.

a. **Non-ESF Cash Transfers**

If a sector assistance program includes a cash (grant) transfer and funding is provided through Development Assistance (DA), as opposed to the Economic Support Fund, a modified set of procedures may be used.

The Africa Bureau has developed procedures for managing sector assistance cash disbursements funded through the Development Fund for Africa (DFA).* As a matter of policy, the Africa Bureau has determined that sector cash grants under the DFA should not be treated in the same manner as ESF cash transfers** which are justified on the basis of balance of payments requirements and must comply with strict legislative provisions for ESF dollar tracking and separate accounts. Sector cash grants support policy and institutional reforms within the sector. The focus of the cash transfer is on sectoral reform and policy dialogue as they relate to long-term development objectives, not on the specific uses of the dollars. The bureau,

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* The following description is drawn from the Africa Bureau's "Preliminary Guidance for Nonproject Assistance Under the Development Fund for Africa" memorandum dated July 12, 1988. Although specifically directed toward DFA-funded cash grants, it is anticipated that similar procedures for managing DA-funded sector assistance cash transfers will be be adopted by other bureaus implementing sector assistance programs.

** The Africa Bureau has also decided, as a matter of policy, to cease funding sector assistance cash grants through the Economic Support Fund. It is expected that all future sector assistance cash transfers will be funded through the DFA.

therefore, operates on the premise that A.I.D. should monitor and track the implementation (and impact) of sector reforms, not the specific uses of the U.S. dollars transferred to the host country. Under this theory, there would be no need to open separate accounts for non-ESF sector assistance cash grants.

Congress, however, has been concerned over the end-use of all U.S. dollar cash transfers. The Fiscal Year 1990 Foreign Assistance Appropriations Act (H.R. 3743) states that:

- Any country receiving ESF or DA nonproject sector assistance must maintain these funds in separate dollar accounts (and local currency accounts, where appropriate) and not commingle them with other funds.

- Nonproject sector assistance funds may be exempt from the requirements of separate accounts if a Congressional Notification is submitted to the Congressional Appropriations Committees justifying the decision not to set up a separate account (see the INFORMATION MEMORANDUM TO THE ACTING ADMINISTRATOR from AA/LEG, R. Ray Randlett, dated November 22, 1989 [subject: Congress Approves and President Signs FY 1990 Foreign Assistance Appropriations Act]).

Whether or not A.I.D. funds are provided through ESF or DA and transferred to a separate or general account, dollar releases will normally be predicated upon the host country's compliance with conditions precedent or other requirements calling for reforms in the given sector. The mission or office will be responsible for determining whether the host country has complied with the required conditions. In most cases, the mission or office must evaluate host country compliance with a separate set of requirements before the release of each funding tranche.

When the evidence submitted in compliance with the conditions precedent is found to be satisfactory, the mission or office should prepare a PIL notifying the host country of this action. This PIL may also contain instructions regarding the preparation of the Financing Request for a Cash Transfer. Generally, this Financing Request for a Cash Transfer is prepared by the mission or office and signed by the host country representative and the mission Director. Though the

Financing Request is authority to request disbursement of the cash transfer, it is not sent to the A.I.D./W Office of Financial Management, since the necessary information is included in the Agreement.

Upon receipt of the signed Financing Request, the mission or office accounting station should prepare a cable to the A.I.D./W Office of Financial Management requesting that the disbursement be made. This cable should provide the following information:

- The mission or office has issued a PIL advising the host country that it has complied with all CPs to disbursement.

- The mission or office request that A.I.D./W authorized payment for the specified amount of dollar funds to the host country. In making this request, the mission or office should provide the following information:

  -- Grant Number
  -- Appropriation
  -- Budget Plan Code
  -- Payee Bank
  -- Address of Bank
  -- Bank Account Number
  -- Name of Account

- When appropriate, a statement by mission or office that evidence has been received confirming that the host country has established a separate interest-bearing dollar account and that the mission or office certifies it is in compliance with the CP requirements.

- The name of the A.I.D. officer responsible for monitoring the account.

This cable is sent to the Project/Nonproject Branch within the Office of Financial Management. When applicable, upon receipt of the cable, the Branch is responsible for ensuring that the mission or office has certified that a separate interest-bearing account has been opened for deposit of the cash transfer dollars. The Branch requires that the separate account be opened in either the Federal Reserve Bank or a U.S. commercial bank. The Branch also reviews the adequacy of the

fiscal and payee bank information contained in the cable. When the Branch is satisfied with the data contained in the cable, it indicates on the cable the Disbursing Authorization Number and the amount of the disbursement. The Branch then forwards the cable to the Cash Management and Payment Division within the Office of Financial Management.

Upon receipt of the cable, the Cash Management and Payment Division schedules the transaction for payment. It does this by preparing an SF-1166. When the form has been prepared, it is then certified for payment. After being certified, the scheduled payment is then recorded to the nonproject account maintained in the computerized Financial Accounting Control System (FACS). The data includes the Disbursing Authorization Number, the Voucher Number, and the date scheduled for payment. The Division then sends the SF-1166 to Treasury for payment.

Treasury arranges for electronic transfer of the funds through the Treasury Financial Communication System. It does this by instructing the Federal Reserve Bank to deposit the requested amount of funds to the designated account at either the Federal Reserve or a U.S. commercial bank. After the Federal Reserve makes the deposit, it notifies Treasury. Treasury then notifies A.I.D. Upon receipt of this notification of payment, A.I.D. then enters the amount and date of the payment to the FACS nonproject ledger account.

After being notified of payment, the Project/Nonproject Branch prepares a cable notifying the mission or office that payment has been made. The mission or office accounting station then enters the payment to the Memorandum Record it maintains for the cash transfer.

On a quarterly basis, FACS produces the 243 M Report. This report provides the current accumulated financial status of nonproject activity for cash transfers, CIPs, and sector grants. This report is used by both A.I.D./W and the mission and/or office for monitoring the financial status of the sector cash transfer.

b. **Dollar Fund Utilization** (See Part IV, Chapter 2, Section E of this Document)

The legislation contained in the Fiscal Year 1987 Continuing Resolution requires that the use of funds deposited in a separate dollar account be trackable. If the sector assistance program contains a cash transfer component and the dollars are placed into a separate account, the mission or office should specify in the PAAD how the dollars will be used. This approved use should then be included as a provision in the cash transfer agreement. For a detailed discussion of this requirement, see the section cited above.

c. **Local Currency** (See Part IV, Chapter 2, Section E of this Document)

When a sector assistance program contains a cash transfer component, it will generally also require local currency either to be "generated" from the U.S. dollars or to be provided from other sources (e.g., host country's budget) in amounts equivalent to the U.S. dollars. Part IV of this Document, as cited above, contains a detailed description of local currency requirements under such circumstances.

The Africa Bureau has also issued guidance for local currency programming and management when a sector assistance program contains a cash transfer component funded through the Development Fund for Africa.* This guidance states that local currency programming and accountability will be an important consideration in the bureau's sector assistance programs. The local currency would be accrued in either of three ways:

- Through disbursement of U.S. dollars to the host country's general foreign exchange reserves,** with local currency

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* The following discussion is drawn from Section V of the Africa Bureau's "Preliminary Guidance for Nonproject Assistance Under the Development Fund for Africa", dated July 12, 1988.

** Note, however, the discussion of newly imposed Congressional requirements for separate accounting of U.S. dollar funds, in Part IV, Chapter 2, Section D.2.b of this Document.

generated by sale of this foreign exchange to private sector consumers (e.g., through a foreign exchange auction or CIP);

- Through deposit from the host country government of an equivalent amount of local currency into a special account; or

- Through A.I.D. purchase of local currency on its own behalf.

The local currency, in turn, would generally be used to support sector program objectives. Under exceptional circumstance, however, the local currency may be used for other purposes. The rationale in such case must be thoroughly explained in the PAAD. The bureau also expects a portion of the local currency (e.g., 5 to 10 percent) to be deposited into a Trust Fund from which the mission or office can help pay its operating expenses. Local currency acquired by the third method noted above, i.e., through direct A.I.D. purchase, is considered to be U.S. Government-owned currency and therefore cannot be used to defray mission or office operating expenses.

3. **Implementation and Payment Process for Commodity Import Programs** (Handbook 4, Section 5.C.4; See the description of this Payment Process in Part IV, Chapter 3 of this Document)

Responsibility for disbursement of the CIP is shared by the mission and/or office and the Office of Financial Management in A.I.D./W. In sharing this responsibility, the mission and/or office is responsible for monitoring the host country's compliance with the applicable disbursement provisions of the agreement. In monitoring these provisions, the mission or office must ensure that the host country has complied with the applicable policy reform related conditions precedent to disbursement.

When the evidence submitted in compliance with the conditions precedent is found to be satisfactory, the mission or office should prepare a PIL notifying the host country of this action. This PIL may also contain instructions regarding the preparation of Financing Requests for the CIP assistance. These Financing Requests are prepared by the host country in coordination with the mission or office and signed by the host country representative and the mission Director.

The Financing Request (Handbook 4, Section 5.C.3) should be prepared in accordance with the requirements contained in the Commodity Procurement

Instructions (CPI). In preparing the Financing Request, the host country is requesting A.I.D. to open Bank and/or Direct Letters of Commitment.

a. **Bank Letter of Commitment** (See Part IV, Chapter 3, Section D.1 of this Document for a complete description of Bank Letters of Commitment)

The Bank Letter of Commitment (Bank L/COM) is the usual method of payment under commodity import programs except in the case of large-volume purchases from a single supplier. Bank Letters of Commitment should be used for commodity procurements which are likely to produce a profusion of invoices.

Upon receipt of the signed Financing Request, the mission or office accounting station should prepare a cable to the A.I.D./W Office of Procurement requesting that a Bank L/COM be prepared and issued in accordance with the cable instructions. This cable should provide the information contained in the Financing Request.

Upon receipt, the Office of Procurement reviews the cable to ensure it is consistent with A.I.D. regulations, the Agreement, and the CPI. The Procurement Branch then prepares a draft of the Bank Letter of Commitment. This draft of the Bank Letter of Commitment is then sent to Project/Nonproject Branch within the Office of Financial Management.

The Project/Nonproject Branch will review the draft. In doing so, it will assign a Disbursing Authorization Number and provide the pertinent appropriation and allotment data. The Branch will then record the commitment to the activity account in FACS. After doing this, it will return the draft Bank Letter of Commitment to the Office of Procurement which will then prepare and issue the Bank Letter of Commitment to the U.S. banks specified by the host country.

The Bank Letter of Commitment is a financial arrangement between A.I.D. and a U.S. bank, under which the bank is authorized to make payments to contractors or suppliers for eligible commodities and services. The bank is reimbursed by A.I.D. for payments to suppliers or contractors made in accordance with the conditions set forth in the Letter of Commitment and for any bank and inferred charges.

The financing method utilizes established commercial banking channels to make payments to suppliers or contractors. Under this payment arrangement, a party ("approved applicant") designated by the host country may request the Letter of Commitment Bank to issue commercial letters of credit to suppliers or contractors, or commercial banks in the cooperating country may issue letters of credit to suppliers or contractors and request the Letter of Commitment Bank to advise or confirm such letters of credit. Financing for such letters of credit is provided by the Letter of Commitment. The documentation submitted to the bank is not examined by A.I.D. before payment except to ensure that all required documents are presented. However, like all A.I.D.-financed transactions, it is subject to post-payment examination.

b. **Direct Letter of Commitment** (See Part IV, Chapter 3, Section D.2 of this Document for a complete description of Direct Letters of Commitment)

Under a Direct Letter of Commitment (Direct L/COM), A.I.D. makes payment directly to the U.S. supplier. Direct Letters of Commitment are usually used for large transactions. A.I.D.'s direct involvement in these transactions provides significant savings on bank service charges and interest. Handbook 4, Appendix 5D, contains a standard Direct L/COM together with instructions for procurement of commodities and related services.

Both private and public procurement can be made under the Direct Letter of Commitment method. In using this method, the mission or office is responsible for reviewing the transaction prior to payment. Though this entails additional work for the mission or office, the method provides savings in items of bank charges and interest.

The control objective of this process is to give reasonable assurance that sector assistance payments are made in accordance with the agreement and applicable laws, regulations, and policies. To achieve this objective, the following control techniques are used:

- **Payment guidance and procedures for project assistance found in Handbooks 1, 3, 10, 11, 14, and 19 and discussed in Part III, Chapters 3, 4, and 8 of this Document.**

- **Payment guidance and procedures for cash transfer nonproject assistance found in Handbooks 4, 15, and 19 and discussed in Part IV, Chapter 3 of this Document.**

- **Guidance for managing foreign exchange under sector assistance programs found in Handbook 1, Part VII, Section 13 ("Program Sector Assistance Guidance");**

- **Guidance for managing local currency under sector assistance programs found in Handbook 1, Part VII, Section 14 ("Program Sector Assistance Guidance");**

- **Bureau-specific guidance for managing local currency disbursements under sector assistance programs (e.g., the Africa Bureau's "Preliminary Guidance for Nonproject Assistance Under the Development Fund for Africa").**

- **The requirement that the mission provide a cable to A.I.D/W certifying it has examined all evidence submitted in support of the CPs and finds it to be adequate.**

- **The requirement that the A.I.D./W Project and Nonproject Branch review the cable for adequacy before approving the Disbursing Authorization.**

- **The separation of responsibilities whereby, after approval by the Project/Nonproject Branch, the Cash Management and Payment Division schedules and certifies the cash transfer transaction for payment by Treasury.**

- **The posting of the scheduled payment transaction to the FACS account by the Cash Management and Payment Division and the posting of the actual disbursement by the Office of Information Resource Management.**

F. MONITORING AND EVALUATION PROCESS

The A.I.D. mission or office managing the sector assistance program will have the primary responsibility for monitoring its implementation and for evaluating both the host country's policy reform activities and overall program impact. The mission or office will generally request A.I.D./W assistance in evaluating sector assistance programs. Geographic bureaus may also periodically evaluate groups of programs in a given sector, e.g., a cross-sampling of financial sector programs in the Sahel.

1. Monitoring Sector Assistance Programs

Monitoring is the Agency's term to cover its observations and tracking of a project's environment and activities. Monitoring requires the timely gathering of information regarding inputs, outputs, and actions that are critical to project success and the comparison of such information with plans and schedules for the purpose of alerting A.I.D. and the host government about potential implementation problems. Monitoring is of great importance because A.I.D. must assure itself that U.S. funds are being disbursed in accordance with statutory requirements and that goods and services financed with U.S. funds are utilized effectively to produce intended benefits. In the sector assistance context, monitoring takes two forms--monitoring of the program's "projectized" components and monitoring of host country compliance with requirements for release of U.S. funds under nonprojectized components.

a. Monitoring Conditions Precedent (Handbook 3, Appendix 11.B)

This type of monitoring is extremely important under a sector assistance program since sector assistance will often entail the release of U.S. dollars in tranches. These releases will be tied to successful host country actions implementing sector policy changes. This conditionality will generally, though not always, be stated and required by the Conditions Precedent (CPs).

Since sector assistance program CPs often address highly technical issue areas, the Project Officer will often ask mission, office, or A.I.D./W experts to review host country actions to meet the conditions. For example, a CP may require a grantee to:

> provide, in writing, in a form acceptable to A.I.D. (1) its proposed policies for (a) term lending at market interest rates and (b) agricultural credit; and (2) its semiannual work plans which indicate the steps involved in adopting procedures to implement these policies.

To determine whether the host country's actions to address this requirement are adequate and acceptable, the Project Officer may, for example, find it necessary to call upon mission or A.I.D./W economists, agricultural economists, banking experts, legal experts, etcetera. The decision to accept a CP as satisfied will be one of the most important points in a sector assistance program.

Once all CPs for disbursement are satisfied, the Project Officer should record this fact in a Conditions Precedent Memorandum, which is placed in the program files. The Project Officer then prepares a Project Implementation Letter (PIL) for the mission Director's signature. Technical reviewers in the mission should "clear" the PIL before signature.

If funding is provided annually, the Project Officer, mission Controller, or other mission official prepares a PAAD amendment (facesheet) for tranches after the initial year's funding. The A.I.D./W Office of Financial Management must review the facesheet to ensure funds have been earmarked before the mission Director signs the facesheet. Based on the amendment to the PAAD and the earmarking of funds, the mission or office can then negotiate and sign an amendment to the Agreement. This amendment obligates the funding for the year. These procedures are followed for each funding tranche throughout the program's lifetime.

b. **Monitoring Projectized Component(s)** (Handbook 3, Section 11.E)

This is the traditional form of mission or office project monitoring discussed in Handbook 3, Chapter 11. The primary responsibility for such monitoring under a sector assistance program lies with the Project Officer (or other mission or office official) to whom the program has been assigned. Project Committees in the mission or office may assist the Project Officer in this task.

It is left up to individual bureaus and missions to establish systems for monitoring projectized components of sector assistance programs. At the least, these systems must have monitoring procedures or methods which enable Project Officers and other committee members to satisfy the following general needs:

- Oversee host country compliance with A.I.D. policies, procedures, and regulations.
- Ensure the timely and coordinated provision of A.I.D. (and other) financing and/or inputs.
- Support the host country's efforts to effectively use resources and accurately forecast future problems.

- Identify implementation issues and projectized components which are not performing satisfactorily.

- Collect data and information for subsequent A.I.D. project/program analysis and develop a historical record of implementation for the official A.I.D. files.

- Prepare periodic reports for mission or A.I.D./W review.

A.I.D. officials use four primary methods for monitoring implementation:

- Host Country Reports (Handbook 3, Section 11.E.2.a) - These include progress, shipping, financial, and other forms of reports required by the program agreement(s) and implementation letters.

- Site Visits (Handbook 3, Section 11.E.2.b) - These entail the physical inspection of the program site, if such exists. In the case of sector assistance, such a site may not exist (i.e., the program's technical assistance or participant training may not be linked to any structure or entity which lends itself to visual inspection).

- Consultation with Program Participants (Handbook 3, Section 11.E.2.c) - Among the most productive and timely monitoring tools are conferences, meetings, and personal consultations with host country officials, contractors, beneficiaries, and other program participants. This is especially true under a sector assistance program where projectized components often involve intense interaction between consultants and host country officials engaged in policy reform.

- Review of Program Documents (Handbook 3, Section 11.E.2.d) The Project Officer, and any other mission or office personnel involved in the monitoring system, should review program documents, either periodically or as they are received, as appropriate. Such documents include program agreements, implementation letters and plans, work plans, certifications, billing documents, etc.

c. **Monitoring Nonproject Components** (Handbook 4)

The Agency has developed detailed procedures for monitoring nonproject implementation under Commodity Import Programs (CIPs). Cash grants, by their nature, do not lend themselves to the same level of monitoring.

- Monitoring Commodity Import Programs (Handbook 15, Chapter 10; Handbook 19, Section 10.K; Part IV, Chapter 3, Sections E and F of this Document) - The mission or office managing the sector assistance program is responsible for monitoring any CIP component. This includes monitoring the sale of dollars, procurement of commodities, local currency deposit and use (including trust fund utilization), and commodity arrival and end use. Part IV, Chapter 3 of this Document provides a detailed description of this monitoring system. After determining the adequacy of the host country's system for managing commodity arrival and disposition (Handbook 15, Section 10.C.2), the mission must monitor the CIP and the host country's system in a manner appropriate to local conditions (Handbook 15, Section 10.D). The Project Officer, or other designated mission official, will be responsible for monitoring the CIP. The monitoring system will generally include review of utilization, bank, and warehouse reports; port checks; and end-use checks. Each mission or office is responsible for maintaining a current description, approved by the mission or office Controller, of the host country's commodity arrival and disposition system(s); the mission's or office's evaluation of the system(s); and the monitoring procedures used by the mission or office to oversee the CIP. The mission or office Controller, in coordination with A.I.D./W may issue refund claims against the host country where CIP commodities are improperly disposed of or utilized.

- Monitoring Cash Transfers (Handbook 4, Chapter 8; Handbook 19, Section 10.N; Part IV, Chapter 2 of this Document) - If a sector assistance program contains a U.S. dollar cash grant which is deposited in a special account, A.I.D. has developed a set of policies for monitoring account activity. These are explained in Sections D and E of the Document as cited above. If the U.S. dollars are not placed in a special account, the dollars will generally be commingled with other dollar funds in

the host country's foreign exchange account(s). For all practical purposes, monitoring of the dollars then ceases with the transfer. If the cash transfer results in generation or provision of local currency, these funds should be monitored as described in Section F of this Document as cited above.

2. **Evaluating Sector Assistance Programs** (Supplement to Handbook 3, Chapter 12 [A.I.D. Evaluation Handbook])

There are currently no Agency-wide guidelines in place for evaluating sector assistance programs, although procedures and guidelines do exist for evaluating components of such programs, as noted below.

Evaluation is the term which A.I.D. uses to describe the general process and specific activities undertaken to analyze and assess the performance and results of projects, programs, policies, and/or procedures (Handbook 3, Section 12.B.1). Evaluations assess whether planned results are being achieved and what impact, intended or otherwise, a project, program, or procedure is having with respect to its environment.

Regional and Central Bureau Assistant Administrators are responsible for the administration of all project and nonproject assistance within their jurisdictions. Each bureau is responsible for the development and supervision of its own arrangements for conducting evaluations and the utilization of evaluations and recommendations. The Bureau Evaluation Officer acts as a central focus for coordinating all bureau evaluation activity. The A.I.D./W Evaluation Office in the Bureau for Program and Policy Coordination (PPC/E) is responsible for coordinating Agency evaluation activities and overseeing the quality and performance of bureau evaluation systems. The major steps in A.I.D.'s evaluation system are:

- Using past experience in the design of new activities.
- Incorporating an information component (i.e., a plan for data collection and analysis activities to support monitoring and evaluation) in the design of new activities.
- Deciding when to evaluate and in what form.
- Planning an evaluation: what to evaluate.
- Writing an evaluation scope of work.

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- Backstopping the evaluation: mission or office responsibilities.

- Completing the evaluation process: internal review, debriefing, the A.I.D. Evaluation Summary, submission requirements, and bureau review.

- Making evaluations useful: mission or office follow-up of evaluation recommendations (These steps are explained in detail in Chapter 3 of the Supplement to Handbook 12).

A.I.D.'s evaluation system is intended to implement Section 621A(b) of the Foreign Assistance Act of 1961, as amended. This portion of the Act requires that A.I.D. establish a management system which includes, inter alia, "... methods for comparing actual results of programs ... with those anticipated when they were undertaken ...."

This requirement presents particular problems for sector assistance evaluation. Sector assistance programs are intended to effect fundamental change in a host country economic sector for what are often broadly defined purposes. For example, a program may have as its purpose "to support host country efforts to create a financial policy and institutional environment which encourages and promotes more equitable access to markets for private entrepreneurs."

Achievement of such purposes will be inherently difficult to measure since indicators will often be difficult to quantify. In addition, it is highly likely that multiple donors will be operating in the same sector.*

Measuring the impact of A.I.D.'s particular activity and distinguishing it from that of other donors, and/or changes in the sector which may have nothing whatever to do with foreign intervention, presents a formidable challenge. Finally, sector assistance programs are relatively new. Bureau management has argued that a program's true impact may not be measurable immediately upon program termination, but may only be identifiable years after assistance ceases.

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* A.I.D. sector assistance, in many cases, will be a component of a much larger program involving other donors, often headed by the World Bank or International Monetary Fund.

While the Agency has not developed a methodology directed specifically toward sector assistance impact evaluation, guidance and procedures do exist for evaluating certain program components.

a. **Evaluating Projectized Components** (Handbook 3, Chapter 12; Supplement to Handbook 3, Chapter 12 [A.I.D. Evaluation Handbook])

A.I.D. has devoted considerable effort to developing guidelines and procedures for conducting and interpreting project evaluations. Many of these guidelines and procedures are relevant to evaluating projectized components of sector programs.

A.I.D. evaluates projects to:

- Assess the continuing validity and relevance of an effort and to suggest such modifications as may be required to increase the likelihood that the effort will achieve its objectives.

- Assess the effects of external and unanticipated actions and/or events on such efforts.

- Determine, as an effort nears the end of its planned implementation period, whether: all required actions have been carried out and performance to date is consistent with expectations, and what additional actions are needed to sustain the positive effects of the effort.

- Determine what impact (or change in the environment) has been brought about by or is associated with the effort.

The projectized component(s) will constitute one part of a sector assistance program and will contribute to effecting an impact on the targeted sector. It must, therefore, be evaluated in conjunction with the program's nonproject component(s). Evaluation methodology and responsibilities for project assistance are thoroughly described in the Handbook sections cited above.

b. **Evaluating Nonproject Components: Commodity Import Programs** (Handbook 4, Chapter 9)

A.I.D. has developed a detailed set of guidelines for evaluating Commodity Import Programs (CIPs). Although these guidelines are not directed specifically toward evaluating an entire sector assistance program, they are particularly pertinent since they discuss, in part, methodology for evaluating a CIP's policy reform impact. By extension, these guidelines may serve as a basis for developing a sector assistance-specific evaluation methodology. For example, the CIP evaluation guidelines state, in part, that

> "(W)hile there is no precise way to fix a causal relationship between a policy change (or resource transfer) and the subsequent (economic) changes hypothesized, it is possible, nonetheless, to examine carefully certain linkages. For example, a policy reform may be intended to raise or lower a price and thereby affect quantities supplied and demanded. The evaluation can focus, first, on whether the policy was actually implemented; second, on whether price moved in the intended direction; and third, on whether there was a quantity response" (Handbook 4, Section 9.F.3.d).

The guidelines also provide help for evaluators in identifying development impact indicators.

Auditors should review these guidelines when auditing any sector assistance program, including those which do not contain a CIP component. Evaluating impact is a particularly important part of any sector assistance program and particularly difficult in practice. This Handbook chapter's guidance provides a useful starting point for sector assistance program evaluation.

c. **Evaluating Nonproject Components: Cash Transfers** (Handbook 4, Section 9.B.4; A.I.D has not developed specific detailed guidelines for evaluating cash transfers)

Traditionally, A.I.D. disbursed cash transfers through the Economic Support Fund to provide budget support for a host country during an emergency situation (Handbook 4, Chapter 8). Evaluation under such

circumstances was not a primary consideration and the Agency did not develop specific guidelines for evaluating cash transfers.

Cash transfers under sector assistance programs are made for the purpose of encouraging policy reform (although they may have a secondary budget support purpose if ESF-funded). The Agency has not developed specific evaluation guidelines for cash transfer components of sector assistance programs.

The control objective of this process is to provide reasonable assurance that sector assistance programs are effectively implemented and evaluated. To achieve this objective, A.I.D. uses the following control techniques:

- **General sector assistance guidance found in Handbook 1, Part VII;**
- **Monitoring guidance for project assistance found in Handbook 3, Chapter 11;**
- **Monitoring guidance for Commodity Import Programs found in Handbook 15, Chapter 10;**
- **General evaluation guidance found in the Supplement to Handbook 3, Chapter 12 (A.I.D. Evaluation Handbook);**
- **Evaluation guidance for project assistance found in Handbooks 3, Chapter 12;**
- **Evaluation Guidance for Commodity Import Programs found in Handbook 4, Chapter 9.**

This process is vulnerable in that the Agency has not yet developed specific guidance for evaluating sector assistance programs. Without an accepted methodology for measuring the impact of such assistance upon a host country's economy, the Agency is operating, to a great extent, upon theoretical assumptions in designing sector assistance programs. Congress demands that A.I.D. measure the impact of its sector assistance programs. As the Agency gains experience with sector assistance, it should move to comply with this Congressional requirement by developing and utilizing an evaluation methodology which will enable it to benefit from its sector assistance experience.

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HOUSING GUARANTEE PROGRAM

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PART V

HOUSING GUARANTY PROGRAM

INTRODUCTION

The Housing Guaranty (HG) Program, jointly managed by A.I.D. geographic bureaus and the Office of Housing and Urban Programs within A.I.D.'s Bureau for Private Enterprise (PRE/H), helps host countries to improve the level of housing available to the less advantaged portions of their populations. Through this program, the United States private sector provides long-term financing for low-income shelter and neighborhood upgrading programs in host countries. The United States Government guarantees loan repayment. The lenders, in turn, charge interest rates that reflect the United States guaranty.

A.I.D. charges a fee for its guaranty. A.I.D. charges the host government an initial (front-end) fee of one percent (1 percent) of the loan amount, paid at the time of disbursement. It also charges a guaranty fee of one half of one percent (.5 percent) on outstanding loan balances. The guaranty fee is included in the loan amortization schedule (Handbook 7, Section 5.H.) and is used to pay for program administrative expenses (e.g., PRE/H salaries, travel, office, and other such expenses, as well as consultant costs) with the remaining funds going into a central reserve pool which is used to pay claims covered by the guaranties. The program was intended to be self supporting through these fees thus minimizing use of appropriated funds.

Through 1989, A.I.D. had authorized over $2.3 billion in guarantees to finance housing projects and programs under the HG Program. U.S. investors actually disbursed over $1.6 billion through approximately 210 projects or programs in over 40 host countries. In FY 1988 alone, A.I.D. authorized new HG loans of $125 million. In recent years, PRE/H has also received about $5 million annually in appropriated funds to support related urban technical assistance, research, and training both in Washington and at PRE/H's Regional Housing and Urban Development Offices (RHUDOs) overseas.*

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* RHUDOs are the overseas components of PRE/H. Personnel assigned to the RHUDOs, while directed and supervised by PRE/H, work closely with mission, geographic bureau, and U.S. Embassy personnel in their region. RHUDOs act as shelter and urban advisors to about 55 A.I.D. missions with such activities. They provide a central source of skills and administer a large capital assistance program, principally with HG resources, and a related centrally funded technical assistance, training, and small research and development program. Each RHUDO is headed by an Assistant Director who is often referred to as "the RHUDO." RHUDOs are located in Nairobi, Abidjan, Bangkok, Tunis, Quito, Tegucigalpa, and Kingston (Jamaica).

Title III of the Foreign Assistance Act of 1961, as amended, provides A.I.D.'s basic directive for shelter assistance. Section 221 of this Title (22 U.S.C. 2181) states that:

> "... the United States should continue to assist developing countries in marshalling resources for low-cost shelter. Particular attention should be given to programs which will support pilot projects for low-cost shelter or which will have a maximum demonstration impact on local institutions and national policy. The Congress declares that the long run goal of all such programs should be to develop domestic construction capabilities and to stimulate local credit institutions to make available domestic capital and other management and technological resources required for effective low-cost shelter programs and policies."

To carry out this directive, A.I.D. may issue guaranties to eligible investors assuring against losses incurred in connection with loans made for projects meeting these criteria.

Section 222 of Title III (22 U.S.C. 2182) places a basic restriction on the program's scope. The total principal amount of guaranties outstanding under the program (and any other prior housing guaranty authorities) cannot exceed $2.158 billion.* Further, this section states that the activities authorized by this section shall emphasize:

- Projects which provide improved home sites to poor families on which to build shelter and related services.
- Projects comprised of expandable care shelter units on serviced sites.
- Slum upgrading projects designed to conserve and improve existing shelter.
- Shelter projects for low income people designed for demonstration or institution building purposes.
- Community facilities and services in support of projects authorized under Section 222 to improve the shelter occupied by the poor.

Finally, Section 223 of the Act (22 U.S.C. 2183) places a number of restrictions on loan guaranty programming. This section states that:

- Not less than 90 percent of the aggregate face value of housing guaranties shall be issued for housing suitable for families with below median income.

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* Congress occasionally readjusts this guaranty limit. The figure as stated was effective as of January 1990.

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- The face value of guaranties issued with respect to housing in any country shall not exceed $25 million in any fiscal year.

- The average face value of guaranties issued in any fiscal year shall not exceed $15 million.*

In response to this Congressional directive, A.I.D. developed a shelter sector policy (see the A.I.D. "Shelter" Policy Paper contained in Handbook 1, Section II.S). The Agency's shelter sector objectives are to:

- Assist in the formulation of national housing policies.

- Demonstrate the feasibility of shelter solutions poor families can afford.

- Facilitate mobilization of additional local resources for financing shelter.

- Develop sustainable shelter and urban service institutions.

- Increase participation of the private sector, including the informal sector.

- Encourage the use of energy and resource efficient housing designs, technologies, and standards consistent with the objective of producing affordable shelter.

- Increase the survival rate of people and buildings in disaster-prone areas through adoption of appropriate zoning and building regulations.

This emphasis on policy reform has led A.I.D. to adapt the HG Program to the sector assistance programming methods discussed in Part IV, Chapter 4 of this Document (i.e., tranching tied to policy reform, "projectized" program components, etc.). The Agency believes that host governments can stimulate and enhance the efficiency of private initiative by establishing a supportive regulatory framework including realistic building standards, providing serviced land (e.g., access roads, sewerage, water systems) at a reasonable cost, making credit available to low-income families, and by addressing problems of land tenure. Sector programming is believed to be more efficient than project-oriented assistance in alleviating constraints to the effective delivery of urban services and for encouraging the expansion of the private sector's role in shelter provision. However, as discussed in this Document, A.I.D.'s sector assistance programs, in general, suffer from a lack of Agency-wide

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* It should be noted that, at the time of publication of this Document chapter, Congress was considering eliminating the 90 percent requirement and raising the guaranty face value and average limitations to $50 million and $25 million, respectively.

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guidance. This absence of guidance also affects the HG Program as discussed elsewhere in this chapter.

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CHAPTER 1

HOUSING GUARANTEE PROGRAM

A. PROGRAM DEVELOPMENT AND AUTHORIZATION PROCESS (Handbook 7, Chapter 4)

This process begins with the host country asking A.I.D. for shelter assistance and ends with an authorized Project Paper detailing the Program. The mission or office, RHUDO, host country, A.I.D. geographic bureaus, and the Private Enterprise Bureau's Office of Housing and Urban Programs (PRE/H) are all involved in this process.

1. Country Development Strategy Statement (Handbook 3, Section 1.A.1; Handbook 7, Section 4.A.3; Volume 1, Part II, Chapter 1, Section A of this Document)

When the host country formally or informally asks A.I.D. for shelter assistance, the mission or office passes the request to the Regional Housing and Urban Development Office (RHUDO) serving the region. RHUDO personnel discuss country needs and potential A.I.D. assistance with host country representatives. The RHUDO officials explain the HG Program, the requirements for sector assistance (e.g., policy reform), and alternative forms of assistance, e.g., technical assistance without an HG Program. Once the RHUDO and host country officials agree that an HG Program is desirable, the RHUDO representatives discuss the possibility of instituting such a program with A.I.D. mission or office officials. If mission or office management agrees to such assistance, RHUDO and mission/office personnel work together to develop a shelter sector assistance statement for the mission/office's Country Development Strategy Statement (CDSS). The CDSS undergoes the review and approval process described in the cited sections.

2. Shelter Sector Assessment (Handbook 7, Section 4.A.4; "Shelter" Policy Paper Section V.1, found in Handbook 1, Part II.S)

The actual program development process begins with a Shelter Sector Assessment (SSA). The SSA (sometimes called an Urban Sector Assessment) is an analytical overview of the host country's shelter sector. It provides a detailed description of the sector and serves to help host country officials to establish policy priorities and to begin the search for a means of rationally allocating resources to reach solutions to their people's housing problems. The SSA also provides background information which the mission, geographic bureau, and PRE/H will rely upon in determining whether to provide shelter sector assistance.

The SSA can be, and often is, a highly detailed and complex document. It often discusses, in detail, the host country's housing sector history, problems, and actions to alleviate those problems. It can provide conclusions based on macro- and micro-economic analyses of the sector and the host country's entire economy and can range across subject areas such as the host country's construction capabilities, savings rates, and financial infrastructure.

Development of the SSA is a team effort. In most cases, the RHUDO will manage a group of experts hired under a PRE/H technical assistance contract, financed through that office's HG Program income. The A.I.D. mission or office provides general policy direction.

3. **Shelter Strategy Statement** (Handbook 7, Section 4.A.5)

Following the mission's and PRE/H's acceptance of the SSA, the RHUDO will normally prepare a Shelter Strategy Statement (SSS). The SSS states A.I.D.'s long- and short-term shelter sector objectives. It should serve as a guide for specific project design activities and should provide the basis for the goal statements in the ensuing Project Papers. It should include logical framework matrices and should relate anticipated technical assistance to proposed program goals. The RHUDO, after mission concurrence, submits the SSS to PRE/H for review and approval before continuing further with specific program design efforts.

4. **Annual Budget Submission** (Handbook 7, Section 4.A.2; Handbook 3, Section 4.B.3.a; Volume 1, Part II, Chapter 2, Section A of this Document; Office of Management and Budget Circular No. A-70)

While mission and bureau officials develop the HG Program for a given country, A.I.D.'s officials in the missions and in A.I.D./Washington must also identify the budgetary and guaranty resources needed to implement the program.*

RHUDO and mission or office officials jointly prepare a statement outlining the program for inclusion in the geographic bureau's upcoming Annual Budget Submission (ABS). At the same time, PRE/H prepares its submission to the Private Enterprise Bureau's ABS. PRE/H and the geographic bureaus must coordinate their activity to ensure that the ABSs are consistent. The

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* The HG Program is a loan guaranty program. Under this type of program, it is not known whether or to what extent liquidating appropriations will be necessary until there has been a default, i.e., guaranties are contingent liabilities of the U.S. Government. Accordingly, as provided by 2 U.S.C. 622(2), loan guaranty authority is not budget authority.

ABS review is carried out as noted in the section of this Document cited above.

The Agency's ABS is an important internal control point in the overall HG Development Process. The Office of Management and Budget (OMB) Circular A-70 states that:

> "Federal credit assistance is intended to meet Federal objectives by providing credit on more favorable terms than otherwise available from private sources. These Federal objectives should be specifically and clearly defined in proposals to establish or expand credit programs and in the materials submitted to the Congress to justify these proposals. Program objectives will specify whether the ... loan guaranty program is intended: (a) to correct a capital market imperfection ... and/or (b) to subsidize borrowers ...."*

Further,

> "... loan guaranty program (objectives) are to be reviewed on an annual basis to ensure that changes in financial markets and the activities of private financial intermediaries, or changes in the status of borrowers and beneficiaries, are reflected in the operation of the ... loan guaranty program. This should be done as part of an agency's annual budget submission and the supporting analysis included in the budget submission materials" (emphasis added).**

The geographic bureaus, Bureau for Private Enterprise, and Bureau for Program and Policy Coordination (PPC) must ensure that A.I.D.'s ABS conforms to this requirement for the HG Program.

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* A.I.D. has determined that the HG Program operates to correct capital market imperfections and does not provide subsidies to foreign borrowers (An Economic Analysis of A.I.D.'s Housing Guaranty Program, The Urban Institute, February 1985, pp. vii and 50-61).

** The Circular goes on to describe the form of this analysis in Section 8.b.

5. **Project Identification Document** (Handbook 7, Section 4.A.6; Handbook 7, Supplement A; Handbook 3, Chapter 2)

The Project Identification Document (PID) is the first formal document in the process which relates to a specific program.*

The PID serves as a bridge from programming analysis in such documents as the Country Development Strategy Statement and Annual Budget Submission to program development and subsequent financing decisions. In general, any PID should:

- Establish what goals are to be supported and purposes achieved by the program.
- Identify intended beneficiaries.
- Give preliminary indications of the shape and cost of the perceived program.
- Identify major issues (Handbook 3, Section 2.B. A more complete description of the information generally found in PIDs can be found in Handbook 3, Section 2.C.2.).

In addition to these general requirements, HG PIDs must also contain:

- A discussion of the relationship of the program to the Shelter Strategy Statement.
- An analysis of the borrower's foreign exchange needs.
- A brief discussion of the source of foreign exchange.
- A country risk assessment which discusses the host country's ability to repay the HG loan, including the likelihood that the debt will require rescheduling at some future date (Handbook 7, Section 4.A.6.b).

The final item in this listing is particularly important. OMB Circular A-70 states that Federal agencies managing loan guaranty programs must manage

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* Although the HG Program is increasingly moving toward a sector assistance, i.e., nonproject assistance approach, the program continues to use the traditional project description and authorization documents (PID, Project Paper), rather than the type of documents more common in sector programs, i.e., PAIPs and PAADs (See Part IV, Chapter 4 of this Document. See also Handbook 3, Appendix 2.A for an example of the basic PID format).

credit programs to achieve Federal objectives, while assuring maximum protection to the Government against unnecessary loss. These management procedures will include uniform methods to determine the credit worthiness of loan applicants, both at the time of initial application and at any subsequent time when the established credit terms or conditions are changed (e.g., at the time of loan rescheduling). Agencies must provide for periodic management review of credit decisions (OMB Circular A-70, Section 7.d). Under these guidelines, the PID must include a substantial analysis of the host country's financial status.

A.I.D.'s shelter sector policy also emphasizes the importance of this analysis. A.I.D. policy demands that program designers provide a thorough analysis of the borrower's debt servicing capability and record in order to identify borrowers "with doubtful prospects for meeting their loan servicing obligations on schedule." As a general rule:

> "(M)arket rate HG loans are not an appropriate form of development assistance for very poor countries. Therefore, countries which receive IDA credits, but not IBRD loans, may receive HG loans only after special justification for the exceptional country is approved by the Assistant Administrator of the regional bureau concerned and the Assistant Administrator for PPC or by the Administrator" (A.I.D. "Shelter" Policy Paper, Handbook 1, Section II.S., p. 2; emphasis added).

The relatively high HG interest rate is the primary reason for this restriction. Although the thirty year life and the ten year grace on principal repayments of the typical HG loan may appear to be advantageous to the borrower, A.I.D. believes, as a matter of policy, that the near commercial interest rates common under the Program are inappropriate for the world's poorest countries.

Finally, if structured as sector assistance (see Part IV, Chapter 4 of this Document), the HG Program PID designers must also comply with A.I.D.'s "Program Sector Assistance Guidance" contained in Handbook 1, Part VII (See, in particular, Handbook 7, Supplement A, page A-1). This guidance requires any sector assistance PID to contain preliminary analyses of :

- The role of the sector in A.I.D.'s assistance strategy.
- Sectoral development constraints.
- The host country's capacity for carrying out the sectoral program.

- The policy reform and resource allocation requirements necessary for the program's success.*

The HG Program PIDs will thus be fairly detailed documents requiring a degree of analysis greater than most A.I.D. PIDs.

The RHUDOs, although working in collaboration with mission personnel, take the lead in developing the PID. The RHUDOs can, and often do, call upon PRE/H and the geographic bureaus for technical assistance, but retain original responsibility for developing the PID according to Agency guidelines (Handbook 7, Section 2.A.1.c.).

Once the RHUDO completes the PID, including an Initial Environmental Evaluation (see Handbook 7, Section 4.A.7.), it forwards the document, in draft form, to PRE/H in A.I.D./W.** PRE/H reviews and finalizes the draft. The PID then enters the geographic bureau review system, where it is reviewed by a technical committee (which will generally include a PRE/H representative) and, if found acceptable, approved by bureau management (see Handbook 3, Section 2.E.6 for a more detailed explanation of the bureau PID review process). Finally, the geographic bureau forwards a cable to the RHUDO and mission detailing the results of the PID review and containing any special instructions or guidance to be used in developing the Project Paper.

6. <u>Project Paper</u> (Handbook 7, Section 4.A.8; Handbook 3, Sections 3.E and 4.B.3.e)

Once the geographic bureau approves the PID, the RHUDO, with mission and/or A.I.D./W assistance if necessary, develops the Project Paper (PP). This is the basic HG Program document and serves two general purposes. Any PP, in general:

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* It should be noted that this guidance does not address several fundamental questions in sector assistance programming, e.g., precise method for "leveraging" policy reforms through the use of conditions precedent, evaluation guidelines for determining whether host countries are adequately implementing policy reforms to justify continued funding, etc. (See especially Handbook 7, Supplement A, page A-2 for an example of A.I.D.'s attempts to adapt sector assistance requirements to the HG Program.)

** If the PID is to be authorized within the Africa Bureau, it <u>may</u> also be reviewed at this time by the applicable Regional Economic Development Services Office (REDSO) for the area.

- serves as the basis for project approval; and

- provides, in summary fashion, a historical record of the original project rationale (see Handbook 3, Section 3.E.2 for a general description of format and content for any A.I.D. PP).

The HG PP contains the definitive description of the HG program that emerged from the development process. It contains various analyses and describes, in detail, the responsibilities of the program's participants. If designed as a shelter sector assistance program, the PP should contain separate Project Data Sheets for the Guaranty and projectized assistance components of the program. While the HG PP must comply with Agency Handbook 3 requirements, it must also address particular program concerns. Most importantly, the HG PP must contain an analysis of the host country's ability to repay the loan and the foreign exchange consequences of the program. HG PP economic analyses should address the following issues:

- Is the host country's economy sufficiently strong to ensure that the program will be carried through and completed as scheduled?

- What are the program's major strengths and weaknesses, and what institutional changes are required to eliminate the major problems?

- What impact will the program have on the host country's overall economy?

- Who is undertaking the risks of program finance, and is it highly probable that the loan will be repaid on time? Of particular interest here is exchange rate risk, which is beyond the control of the institution overseeing the program, and yet is critical to the repayment of U.S. dollar denominated loans* (Handbook 7, Section 4.A.8.b).

Once the RHUDO has drafted the PP, the review and approval procedure parallels the PID procedure. If the Project Paper is to be reviewed in A.I.D./Washington, the RHUDO forwards the PP to PRE/H for technical review and approval. Once approved, PRE/H forwards the PP to the geographic bureau for review and authorization. A geographic bureau technical review committee reviews the PP. PRE/H should be represented on this committee. If designed as sector assistance, the review committee should pay particular attention to the PP's integration of housing guaranties with "projectized" elements such as technical assistance and training and the

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* HG Program loans are U.S. dollar denominated and must be repaid in U.S. dollars. The dollars are "untied", i.e., need not be used for any specified purpose beyond the amount needed to fund any actual construction.

policy reforms which are expected to result from the program. The policy reforms will constitute the program's justification.

Following the technical committee's review, the PP, together with the review committee's recommendation, is forwarded to the geographic bureau Assistant Administrator for review and authorization. If the Assistant Administrator decides to authorize the program, the authorization documentation* (or a portion of it, such as the project data sheet), is sent to the Loan Management Division of the Office of Financial Management, Bureau for Personnel and Financial Management (FM/LM). This Division "clears" and prevalidates the availability of guaranty authority before authorization. Once FM/LM clears and prevalidates the authorization documentation, it is returned to the geographic bureau for the Assistant Administrator's signature. Once the authorization is signed, PRE/H (through the RHUDO), the host country, the lender, and the A.I.D. General Counsel's Office (GC/PRE), can begin developing the legal agreements which give effect to the particular HG program in the host country.

While this has traditionally been the standard review and authorization pathway for HG Programs, these programs are increasingly following the Agency's general decentralization trend. For most HG Programs which have been designed as shelter sector assistance programs, PP review and program authorizations are now performed at the mission level. In such cases, the mission and RHUDO will formulate a technical review committee which will both review the PP's technical analyses and ensure that the PP complies with any instructions contained in the A.I.D./W PID review guidance cable.** The committee forwards the PP, together with its recommendation and an authorization package, to the mission Director. If the mission Director finds the program acceptable, the mission notifies FM/LM by cable that the program is about to be authorized. FM/LM "clears" and prevalidates the availability of guaranty authority and notifies the mission of its action. The mission Director then authorizes the program. Once the authorization is signed, the RHUDO, host country, A.I.D. Assistant General Counsel for

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* The project authorization is an internal A.I.D. document which gives substantive approval for a project to move from the planning stage to the signing of a project agreement (or, in the case of the HG Program, to the signing of multiple agreements [see the following section of this chapter]). The authorization package generally consists of an Action Memorandum for the Assistant Administrator's signature, an authorization sheet which is the first page of the PP, a project data sheet, and the PP. (See Handbook 3, Sections 5.A. and 5.B. for a description of these documents. See Handbook 3, Section 5.C. for a description of the authorization's content.)

** It should be noted that the mission and RHUDO both develop and technically review the Project Paper.

Private Enterprise (GC/PRE), and the lender can begin developing the legal agreements required to implement the program.

It should be noted that a single Housing Guaranty or Shelter Sector Assistance Program Project Paper may describe a program consisting of multiple loans to be disbursed sequentially over a number of years. Although these are commonly referred to as "tranches", each requires a separate authorization. A single program with a single project number may, therefore, consist of several loans with different loan numbers. PRE/H manages the HG Program on the basis of project numbers (i.e., by looking at a single program as a unified whole), while FM/LM records accounting information on the basis of individual loan numbers.

The control objective of this process is to give reasonable assurance that A.I.D. has correctly identified a host country's shelter needs and has designed a particular shelter program to address those needs in compliance with statutory requirements. To achieve this objective, A.I.D. uses the following control techniques:

- **Policy guidance contained in A.I.D.'s "Shelter" Policy Paper found in Handbook 1, Section II.S. (this document contains a particularly good explanation of the use of housing guaranties in a comprehensive shelter sector assistance program);**

- **General A.I.D. policy and procedural guidance for developing sector assistance programs found in Handbook 1, Part VII ("Program Sector Assistance Guidance");**

- **Policy and procedural guidance for developing strategy and design documents for the Housing Guaranty Program found in Handbook 7, Chapter 4;**

- **Specific Housing Guaranty sector program policy and procedural guidance contained in Handbook 7, Supplement A;**

- **General Agency procedural guidance for developing mission strategy and project design documents found in Handbook 3, Chapters 1, 3, and 5; and exceptions from these general rules for the Housing Guaranty Program found in Handbook 3, Chapter 4, Section 4.B.3.;**

- **Separation of responsibilities for development, review, and authorization of design documents between RHUDO, mission/office, and A.I.D./W officials; and**

- **Specific procedural mechanisms, including:**

- **detailed analyses of a borrower's financial and economic environment and ability to meet its loan repayment obligations, to be included in design documents;**

- **prequalification of guaranty authority by FM prior to authorization; and**

- **authorization of programs by Agency officials possessing appropriate delegated authority.**

This process is vulnerable in that there is no "sunset" provision for project authorization, i.e., a project, once authorized, remains authorized indefinitely even if the necessary legal documents giving effect to the project are not immediately completed. For example, a housing guaranty project or shelter sector assistance program with a guaranty component may complete the authorization process and be signed by the geographic bureau assistant administrator or A.I.D. mission Director. For any of various reasons, however, the project or program may not immediately move to the next process - the development of legal documents described in the next section of this chapter. This may occur because of changed political circumstances in the host country, newly imposed International Monetary Fund (IMF) or World Bank borrowing restrictions placed on the host country, a sudden change in the host country's economic position, etcetera. In such cases, PRE/H may keep the project "on the shelf," often for years. It may then implement the project years after it was authorized, when political and/or economic circumstances are again favorable. However, the changed circumstances may have drastically altered the project's implementation environment. The PP may not necessarily be reviewed and modified by PRE/H and the geographic bureau in light of these changed circumstances. During the audit, the auditor should determine whether such programs or projects were reviewed and design documents amended or modified prior to implementation. Obviously, the need for review and possible modification and amendment grows as the chronological gap between authorization and implementation widens.

The process is also vulnerable in that there is conflicting emphasis in A.I.D.'s guidance for expeditiously designing HG programs or projects. A.I.D.'s general project design guidance stresses that the thoroughness with which a project design is prepared will largely determine the speed and ease with which a project can be executed and its success in achieving its stated objectives. Further,

> "Professional competence and attention to detail during the design and analysis of project elements will not only contribute to implementation efficiencies (by foreseeing and avoiding problems) but will prove indispensable for the timely identification of design weaknesses and errors." (Handbook 3, Section 3.A.3.b.)

On the other hand, A.I.D.'s specific HG Program design guidance states that:

"Since an HG involves loans made by U.S. lenders pursuant to direct negotiations between the borrower and the U.S. lender, and HGs are made at the prevailing market interest rate which is subject to change up to the time of commitment, there is often need to minimize uncertainty regarding interest rates by developing and approving HGs in the shortest time period consistent with good project design." (Emphasis added; Handbook 3, Section 4.B.3.b.)

HG project designers may, therefore, place a heavy emphasis upon completing a project/program design as quickly as possible. Auditors should carefully review design documents to ensure that all required analyses are completed and that such analyses justify the guaranty project/program. This is particularly important where the housing guaranty is a component of a shelter sector assistance program. Such assistance requires a thorough analysis of the sector and the policy reforms which will be effectuated in the sector. This often entails a level of analysis exceeding that required for most projects.

B. LEGAL AGREEMENT DEVELOPMENT AND CLOSING PROCESS (Handbook 7, Chapter 5)

This process begins with the mission notifying the host country that a Housing Guaranty (HG) Program has been authorized and ends with a closing meeting at which the concerned parties formalize their legal relationships. These legal relationships are expressed in a group of documents which give effect to the HG Program or project.

Once the HG Program authorization has been signed, the Office of Housing and Urban Programs within the A.I.D. Bureau for Private Enterprise (PRE/H)* drafts a Letter of Advice. This is a statement to the borrower that A.I.D. is willing to make a guaranty available within a specified time frame and subject to designated conditions. Once signed by the PRE/H Director, the letter is forwarded to the host government through the A.I.D. mission or U.S. Embassy in the host country (see Handbook 7, Section 5.A).

1. Program Implementation Agreement (Handbook 7, Section 5.B)

Once the Letter of Advice is sent to the host country, the RHUDO, assisted by the A.I.D. Assistant General Counsel for Private Enterprise (GC/PRE), negotiates an Implementation (Program) Agreement with the host country. These negotiations may actually have begun on an informal basis before the

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* At the time of the writing of this Document, the Office of Housing and Urban Programs was functioning as a virtually autonomous unit within the Bureau for Private Enterprise's operational structure. The director of the Office was reporting directly to the A.I.D. Administrator.

Letter of Advice was sent to the host country. This agreement, which must be based upon the Project Paper, is analogous to the grant or loan agreement which A.I.D. negotiates with a host country prior to the implementation of a development assistance project. GC/PRE drafts the agreement with RHUDO assistance.

Generally negotiated in the host country, the Implementation Agreement describes what the shelter assistance program expects to accomplish and identifies various parties' specific responsibilities. It:

- Identifies the host country agency implementing the program.
- Identifies the host country agency borrowing the guaranteed funds.
- Identifies the host country agency providing the host country guaranty of full repayment to A.I.D.
- Establishes and controls how, when, and by whom the loan funds will be used to carry out and implement the program.
- Establishes the borrowers' duties.
- Contains the conditions precedent set forth in the guaranty authorization and Letter of Advice.

The Implementation Agreement should contain both the basic outline for implementing the program and the policy reform agenda. The text of each Implementation Agreement should contain a strong statement of mutual sectoral goals and objectives. Moreover, this agreement should be amended prior to each loan disbursement to reflect changing circumstances in the sector and evolving reforms which A.I.D. is attempting to foster in the sector. In addition, in 1989, GC/PRE instructed RHUDOs to include two specific annexes in each new Implementation Agreement. Annex 1 should describe the shelter sector assistance policy reform agenda and the benchmarks for implementing that agenda. Annex 2 should contain an "Investment Plan" which would identify and prequalify certain host country shelter infrastructure projects (e.g., sewer or road upgrade) or low cost housing developments for construction. This would, theoretically, enable missions and RHUDOs to monitor funding attribution beyond mere policy reform.

a. **Program Action Plan** (Handbook 7, Supplement A, Page A-1)

Annex A of each Implementation Agreement should contain an agreed-upon Action Plan. This plan should describe the process designed to achieve the sectoral goals and objectives stated in the agreement's text. The plans, which may be revised through Project

Implementation Letters (PILs), should be periodically reviewed by technical and program specialists in the RHUDO and mission. The reviews should consider host country budgets, thus monitoring the manner in which funds are allocated for the shelter sector. Resource allocation in support of activities and changes leading to the achievement of sector objectives should be a key indicator of progress in the sector.

b. **Conditions Precedent** (Handbook 3, Section 3.B.5.c.1; Part IV, Chapter 4, Section C.1 of this Document)

"Conditions" are those provisions in an Implementation Agreement which specify a one-time action to be taken by the host country. A.I.D. will often require that such actions be taken before project or program funds are released. In such cases, the requirements are called conditions precedent (CPs) to disbursement.

Under a sector assistance program, A.I.D. often attempts to encourage ("leverage") desired host country policy reform by inserting policy-oriented CPs into program documents. However, an HG Implementation Agreement will rarely contain such substantive conditions. CPs contained in the Implementation Agreement are likely to be administrative or procedural in nature (e.g., signature specimen). Although not generally included as CPs, the policy reform agenda which is the basis of a shelter sector assistance program should always be stated in the Implementation Agreement as targets to be achieved in the course of implementation (see Section D.1.c. of this chapter).

c. **Covenants** (Handbook 3, Section 3.B.5.c.2; Part IV, Chapter 4, Section C.2 of this Document)

"Covenants" are those provisions which obligate the host country to observe certain requirements or to take certain specific or continuous actions during the life of the Implementation Agreement.

Program designers, for any of various reasons, may not want to predicate loan disbursements upon specific host country policy reform actions but may desire that loan funds be disbursed upon the understanding that certain reforms will be implemented. A.I.D.'s willingness to guaranty subsequent loans will then depend upon the host country's implementation of previously described policy reforms. In such cases, the program's policy agenda may be identified as covenants in the Implementation Agreement. These may or may not be identical to any covenants contained in the Program Authorization and/or Letter of Advice. Alternatively, the Implementation Agreement's policy reform conditionality may be written into the

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agreement's text without being identified as a formal covenant. In all cases in which A.I.D. is seeking sector policy reform, however, the reform agenda should be clearly described somewhere in the Implementation Agreement and must reflect the Project Paper's analyses.

2. Note Purchase Agreement (PRE/H "Housing Guaranty Program Information Folder" dated July 1989)

Once A.I.D. and the host country sign the Implementation Agreement, the host country selects a lender which drafts a Note Purchase Agreement (or Letter Agreement) and Promissory Note to evidence the debt relationship.*

a. Lender Selection (Handbook 7, Section 5.C)

The lender selection procedure generally begins once the Implementation Agreement has been signed and the host country has complied with certain conditions which A.I.D. may have placed in the agreement. For example, the agreement may demand that the host country provide an acceptable cash flow plan prior to lender selection.

Once any such condition has been met, the borrower, i.e., the host government, selects the lender(s), or entities which may represent the lender(s), such as brokers, placement agents, or underwriters. A.I.D. generally reserves the right to review and approve the lender selection and subsequent loan terms to be offered.

Section 238(c) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2198) provides criteria for identifying lenders who may participate in the program. This section of the statute defines eligible lenders (termed "eligible investors") as:

- United States citizens;
- corporations, partnerships, or other associations, including nonprofit associations, created under the laws of the United States, any state or territory thereof, or the District of Columbia and substantially beneficially owned by United States citizens; and

* The Note Purchase Agreement was first used in the later 1980's. Prior to this time, the borrower and lender negotiated and signed a "Loan Agreement," which is explained in Handbook 7, Section 5.D.1.

- foreign corporations, partnerships, or other associations wholly owned by one or more such United States citizens, corporations, partnerships, or other associations.

The host government may generally select the lender(s) through either a competitive or noncompetitive negotiation procedure.

- **Competitive Negotiation** (Handbook 7, Section 5.C.1; Office of Management and Budget Circular A-70) - involves public advertising of the lending opportunity. Under this procedure, the host government solicits lending proposals from the largest practicable number of prospective lenders or their representatives and gives fair consideration to all proposals or bids received. A.I.D. (through PRE/H) assists the host government by publishing a notice of each prospective A.I.D. guaranteed investment opportunity in the Federal Register. A.I.D. will also directly mail such notices to interested firms or individuals on A.I.D. mailing lists designed for this purpose. Responses are sent to the host country for initial evaluation. Typically, the host country receives six to ten offers from a solicitation. After the host government has selected the lender(s), the loan proposal must be submitted to PRE/H for approval.*

- **Noncompetitive Negotiation** (Handbook 7, Section 5.C.2) requires written PRE/H consent. The host government can then negotiate with a lender or lenders of its choosing. However, A.I.D., from time-to-time and at its discretion, may specify conditions to its approval. For example, PRE/H may require that notices of loan transactions be published. A.I.D. reserves the right to approve the interest rate and other loan terms and conditions under this form of negotiation. Also, A.I.D., at its sole discretion, may refuse to guarantee any noncompetitively selected loan if it determines that the loan's terms are not advantageous to the host government.

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* PRE/H must ensure that the selection complied with the Office of Management and Budget (OMB) Circular A-70 competition requirement. This requirement states that, in cases where a guaranteed loans is not financed through the Federal Financing Bank (as it is not in A.I.D.'s HG Program) "... agencies should ensure there is maximum competition among potential lenders for the financing of the guaranteed loan" (OMB Circular A-70, Section 10.b.4).

b. **Content of the Note Purchase Agreement** ("Housing Guaranty Program Information Folder," Section 3.1)

A.I.D. recommends that the host government and lender use a Note Purchase Agreement and Promissory Note to evidence the loan (examples can be found in Appendix A of the cited document). Representatives of the lender, host government, and A.I.D. must sign the agreement to give it effect.

The lender (sometimes called the "Investor") prepares the initial drafts of the agreement and Note and mails copies to the host government and PRE/H for review. The host government and lender generally conduct negotiations by telephone, telex, or comparable electronic means. Alternatively, host government representatives may travel to the U.S. to negotiate the agreement. Negotiations are rarely held in the host country. In either case, A.I.D. must approve the agreement before the host government and lender sign the document.

The agreement will state that the lender will loan a specified sum, in U.S. dollars, to the host government by a specified date. To evidence the loan, the lender further agrees to purchase the host government's Floating or Fixed Rate Promissory Note(s). The Notes will be issued by the host government on the loan closing date and are generally to be liquidated according to a 30-year Amortization Schedule which is prepared by the Paying Agent (see Section B.5 below) and which must be attached to each Note.

The agreement will also specify:

- The procedure for requesting that loan funds be transferred (i.e., the formal Request for Disbursement);
- The transfer procedure (generally electronic);
- The listing of documents to be provided to the lender in furtherance of the loan transaction (including various legal opinions and notices from both the host government and A.I.D.); and
- The listing of documents to be provided to A.I.D. in furtherance of the loan transaction (including copies of various Notes, agreements, and legal opinions from both the host government and the lender).

3. **Contract of Guaranty** (Handbook 7, Section 5.D.2; PRE/H "Housing Guaranty Program Information Folder" dated July 1989)

The Contract of Guaranty is an agreement between A.I.D. and the lender wherein A.I.D. agrees to provide the full faith and credit guaranty of the U.S. Government ensuring the return on one hundred percent of the loan's outstanding balance, plus interest. This contract protects the lender against any defaults or delays in repayment under the Note Purchase Agreement, except those due to bad faith, fraud, or misrepresentation on the lender's part. The lender requires that this guaranty be in place and operating before any funds are transferred under the Note Purchase Agreement. The Contract of Guaranty and Note Purchase Agreement are negotiated together and signed at the same time.

a. **Past Practice - Separate Contract of Guaranty** (Handbook 7, Appendix 5.C)

In the past, A.I.D. and a lender would sign a separate document titled the "Contract of Guaranty." This document would explicitly state the nature and terms of the guaranty, including provisions for nonimpairment of the guaranty, transferability, limitations, fees, compensation procedures, assignment, note eligibility, A.I.D.'s rights, and termination of the guaranty. This document was generally quite detailed, often being over twenty pages in length.

b. **Present Procedure - Endorsement** ("Housing Guaranty Program Information Folder" dated July 1989, Section 3.2 and Appendix A)

Under current practice, A.I.D.'s endorsement of a guaranty Legend on the reverse side of each Promissory Note evidences the A.I.D. guaranty. The Legend's general form can be found in the Appendix cited above.

The Legend is very simple and direct, containing a minimum of substantive information. It refers the reader to specific sections of the U.S. Code of Federal Regulations which are incorporated in the Legend by reference. The Code's terms and conditions essentially duplicate the provisions which had appeared in detail in each separate Contract of Guaranty.*

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* Housing Guaranty standard terms and conditions are codified in 22 C.F.R. Part 204. This part of the C.F.R. can be found in Appendix B of the cited document.

4. **Guaranty Agreement** (Handbook 7, Section 5.D.4 and Appendix 5.E; PRE/H "Housing Guaranty Program Information Folder" dated July 1989, Section 3.3 and Appendix C)

The Guaranty Agreement, commonly referred to as the "Host Country Guaranty," is the second of the two guaranty agreements which accompany each Housing Guaranty Program loan. It is a separate contractual agreement between the host government and A.I.D. Under this agreement, the host government provides a full faith and credit guaranty to indemnify A.I.D. in the event of its (i.e., the host government's) default under the Note Purchase Agreement or any other time A.I.D. makes payment to a Note holder on behalf of the host government under the terms of the relevant Contract of Guaranty* (see the previous section of this chapter).

At one time, A.I.D. demanded that the Guaranty Agreement with the host country be in place before A.I.D. and the lender signed the Contract of Guaranty. A.I.D. may now waive this requirement at its discretion, especially in view of the fact that, as the Housing Guaranty Program is currently structured, the host government will generally be the borrower under the loan. It is now more common, therefore, for the Guaranty Agreement to be prepared by the lender and distributed for review simultaneously with the Note Purchase Agreement. In such case, the lender should consult with A.I.D. (GC/PRE) when preparing this document.

The "Housing Guaranty Program Information Folder" Appendix cited above contains a standard form host country Guaranty Agreement.** This form states that the host government must reimburse A.I.D. within 30 days of receipt of notice for any payment which A.I.D. makes to the Promissory Note holder under the Contract of Guaranty. Any host government failure to

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* This provision is extremely important in that A.I.D. has not allowed a host government to legally default upon a note. Upon a host country payment delinquency, A.I.D. makes the loan payment in the host government's place, subrogates itself to the lender's rights against the host country, and attempts to immediately recoup the payment under the terms of the Guaranty Agreement or reschedules the delinquent loan payments. Rescheduling generally encompasses a one- or two-year "window" during which A.I.D. meets the note's payment terms as scheduled, with the host government agreeing to repay A.I.D. A.I.D. generally refinances the loan at an interest rate slightly above the borrowing rate for U.S. Treasury funds. Subrogated claims and reschedulings are discussed in the following chapter of this Document.

** The Handbook 7 Appendix cited above provides an older but essentially similar version of the Guaranty Agreement.

comply with this requirement will generally (eventually) result in loan rescheduling.

5. **Paying and Transfer Agency Agreement** (Handbook 7, Section 5.D.5 and Appendix 5.F; PRE/H "Housing Guaranty Program Information Folder" dated July 1989, Section 3.4 and Appendix D)

This is an agreement among the host country, A.I.D., and a U.S. financial organization which acts as the borrower's agent for the purpose of managing loan payments and fee transfers. For this service, the paying agent is itself paid by the host country according to the terms of the agreement.

Under this agreement, the host country appoints a paying agent* to:

- Maintain an official listing of Promissory Note holders under the HG loan.
- Forward the host government's installment payments under the HG loan to the note holders.
- Forward A.I.D. guaranty fees from the host government to A.I.D.
- Issue, reissue, authenticate, and cancel notes on the host government's behalf.
- Prepare note amortization schedules.
- Monitor payments.
- Notify A.I.D. of payment delinquencies.

Although the paying agent is responsible for preparing the Paying and Transfer Agency Agreement. in practice, the lender's legal counsel generally prepares this agreement at the time it prepares the Note Purchase Agreement. GC/PRE generally advises the lender's counsel as to the standard form and substance of the agreement.

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* As of the publication of this Document chapter, the Riggs National Bank of Washington, D.C. had been appointed transfer agent by all HG Program borrowers; however, PRE/H planned to open this appointment to other financial institutions in the future.

a. **Amendments** ("Housing Guaranty Program Information Folder," Appendix D, Section 13)

The agreement may be amended by the host country and agent if:

- A.I.D. provides written consent.

- The note holders, having not less than sixty-six and two-thirds percent in principal amount of all outstanding notes, provide written consent.

However, an amendment requires the written consent of A.I.D. and all outstanding note holders if it would:

- Change the terms of payment of the principal of, or interest on, or any additional amounts payable on any note or the terms and conditions of prepayment of any note or modify in any manner adverse to the note holders, the terms and conditions of the Standard Terms of guaranty (i.e., A.I.D.'s Guaranty) or affect the rights of the note holders of less than all outstanding notes.

- Reduce the sixty-six and two-thirds percent required for authorization of an amendment.

b. **Reports, Books, and Records** ("Housing Guaranty Program Information Folder," Appendix D, Section 14)

The paying agent keeps the official records for payments made and due under each note. The agent must retain note records for at least 6 years following a note's final payment and allow A.I.D. and the host government to review such records upon reasonable request.

In addition, the agent must provide semiannual reports to both A.I.D. and the host country. These reports must show:

- The outstanding investment on all outstanding notes as of the end of each six-month period.

- For each note, the allocation of payments to principal, including prepayments, and interest, as well as interest on overdue principal and interest, if any, made on each payment date during such 6-month period.

6. **Escrow Agreement** (Handbook 7, Section 5.G and Appendix 5.G; PRE/H's "Housing Guaranty Program Information Folder" dated July 1989, Section 5 and Appendix F)

Under certain circumstances, A.I.D. may agree to a disbursement under a HG loan before the HG project or program is able to use the loan funds. For example, the Note Purchase Agreement timetable may require a disbursement before the host country can meet the conditions precedent for disbursement required in the Implementation Agreement. On other occasions, although the loan terms may require a single disbursement, the Implementation Agreement may require tranching disbursements to coincide with various stages of program implementation.* Under such circumstance, A.I.D., at its sole discretion, may instruct that loan funds be placed in an escrow account.

An Escrow Agreement is an agreement among an escrow agent, A.I.D., and the host government to set up such an account.** GC/PRE or PRE/H drafts the Escrow Agreement in coordination with the host government, lender, and escrow agent's legal counsels.

a. **Management of Escrow Funds** ("Housing Guaranty Program Information Folder," Appendix F, Sections 3 and 5)

A.I.D.'s standard Housing Guaranty Escrow Agreement requires the escrow agent to invest and reinvest escrow funds in U.S.-dollar debt obligations which are issued or guaranteed by the U.S. Government or any of its instrumentalities. The agent must use its "best efforts" to keep escrow funds fully invested at all times so as to obtain a reasonable return on investment, yet must also have funds available to comply with disbursement requests.

The host government should provide the agent with a schedule of anticipated disbursement requests showing both the date and amount of anticipated disbursements. If the host government does not provide a schedule, the agent may use its "reasonable judgment" as to investment duration. In such cases, the host government, after consulting with PRE/H, should periodically instruct the agent as to the form of obligation in which the escrow funds should be invested. If the host government does not provide such instructions, the agent invests the escrow funds in obligations maturing in 182 calendar days or less.

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* In most such cases, the Implementation Agreement will require a series of loans rather than a single loan disbursed in tranches from an escrow account.

** At the time of publication of this Document chapter, the Riggs National Bank of Washington, D.C. was the sole institution providing escrow services for HG loans.

Any funds not invested in this way must be deposited into an interest-bearing Escrow Agent Trust Department Money Market Account.

All income and interest earned by the escrow funds must be deposited in the escrow account and be added to the escrow funds. The host government must use its "best efforts" to apply all earnings accrued on funds deposited in the escrow account for the purpose of financing the project/program as prescribed in the Implementation Agreement or in such other manner as A.I.D. may agree to in writing.

b. **Release of Funds from Escrow** ("Housing Guaranty Program Information Folder," Appendix F, Section 4)

A.I.D. controls the release of funds from an escrow account. Under the standard Escrow Agreement, the escrow agent can release escrow funds to A.I.D., the lender, or its assignees:

- Upon written or telegraphic instructions from the host government when accompanied by A.I.D.'s concurrence.
- Upon the written or telegraphic instructions of A.I.D. alone.

Should the host government fail to comply with any of the terms or conditions of its agreements relating to the project/program or fail to make a scheduled payment for any reason, A.I.D. can direct the escrow agent to make payment of all or a portion of the escrow funds to any account A.I.D. may specify.

c. **Payment of Escrow Agent Fees** ("Housing Guaranty Program Information Folder," Appendix F, Section 7)

The host government pays the escrow agent for its services. The standard form Escrow Agreement requires payment of:

- seven hundred fifty dollars ($750) upon execution of the Escrow Agreement; and
- one and one quarter percent (1.25 percent) on all income earnings from the investment of funds in the escrow account.

The escrow agent deducts these fees from the escrow fund investment earnings. It may not draw these fees from escrow account principal.

7. **Closing Memorandum** (PRE/H's "Housing Guaranty Program Information Folder," of July 1989, Sections 3.5, 3.6, 4, and Appendix E)

The lender's counsel prepares a Closing Memorandum which details all the documents, opinions, and certificates required at the closing ceremony, states who is to prepare each document, and includes an annex with sample forms of the documents. The lender forwards this memorandum to the host government with the draft Note Purchase Agreement. The various documents are then signed and exchanged at a closing ceremony.

a. **Content of the Closing Memorandum** ("Housing Guaranty Program Information Folder," Appendix E)

The primary purpose of the Closing Memorandum is to clarify each participant's responsibilities for document preparation and submission at or prior to the closing. A.I.D.'s standard form Closing Memorandum states that the host government will prepare and provide:

- A Request for Disbursement (this document is to be delivered to A.I.D.'s and the lender's attorneys at least five [5] business days prior to the closing date).

- An opinion of the host country's Attorney General that the execution and delivery of the Host Country Guaranty and the Implementation Agreement are legal and duly authorized under host country law and that the agreements are backed by the full faith and credit of the host government.

- An opinion of the host government's legal counsel that the Note Purchase (or Letter) Agreement, Paying and Transfer Agency Agreement, and Implementation Agreement are legal and duly authorized under host country law, and that the resulting Promissory Notes will be legal and binding upon the host government.

- A certificate from an authorized host government representative stating that host country Promissory Note repayments will be exempt from host country taxes.

- A certificate from an authorized host government representative authorizing identified host government officials to sign the Promissory Notes, Note Purchase (Letter) Agreement, and Paying and Transfer Agency Agreement and to deliver any orders, notices, requests, or other instruments of the host government pursuant to those Agreements.

- A letter to the Paying and Transfer Agent delivering the host government Promissory Note(s) and instructing the Agent to register, authenticate, and deliver the Notes according to the various payees' instructions.

- Specimen signatures of the person or persons authorized to sign the Promissory Note(s).

A.I.D., through GC/PRE and/or PRE/H, must prepare and provide:

- An opinion of A.I.D.'s Assistant General Counsel for Housing and Urban Programs affirming the legality of the various agreements under U.S. law.

- Certificates of the Director or Deputy Director of PRE/H, affirming both the incumbency of certain A.I.D. officials and A.I.D.'s authority to guaranty the loan and Notes.

- A letter to the Paying and Transfer Agent giving A.I.D. consent to the authentication and delivery of the host government Promissory Note(s).

- The host government Guaranty Agreement (however, see Section B.4, above).

- The Escrow Agreement, if applicable.

The lender will prepare and provide:

- The Promissory Note(s) payable to the lender or the lender's designee.

- An opinion of the lender's counsel stating that the lender is legally bound by the various agreements which it signs.

- The Note Purchase (or Letter) Agreement.

- The Paying and Transfer Agency Agreement.

Finally, the Paying and Transfer Agent prepares and submits the amortization schedule for the Promissory Notes.

Although the lender's counsel prepares the Closing Memorandum, GC/PRE and/or PRE/H often provide assistance. A.I.D. generally asks the lender's counsel to exercise restraint in preparing the memorandum and to make the document as clear and unambiguous as

possible. A.I.D. has found that the elements of distance and language have, historically, made HG loan closings a complicated affair.

b. **Closing and Loan Signing Ceremony** ("Housing Guaranty Program Information Folder," Sections 3.6 and 4)

The program participants execute and exchange the various documents effectuating the loan at a loan signing and closing ceremony.* The Note Purchase (or Letter) Agreement, Promissory Note(s), Contract of Guaranty, Host Country Guaranty, and the Paying and Transfer Agency Agreement are signed at this time.

HG Program loan closings are usually held in A.I.D. offices, either in GC/PRE or PRE/H. Participants generally include the lender and the lender's attorney; the host government representative(s) and, if at all possible, the host government's attorney; an A.I.D. attorney (GC/PRE); an A.I.D.'s official with authority to evidence A.I.D.'s guaranty on the individual notes; and an authorized representative of the Paying and Transfer Agent. Typically, after the documents have been signed and exchanged, the lender's attorney will place a call to the lender and the loan funds will be transferred to the host government's previously designated U.S. bank account.

During the closing, the participants should pay particular attention to reviewing the Note Purchase (or Letter) Agreement. This Agreement may include a schedule of disbursements (or drawdowns) which establishes the timing and amounts of the disbursements. The Agreement may include a number of nonproject conditions precedent to disbursement. Some of these conditions may have been included at the request and for the benefit of A.I.D., such as a requirement for a legal opinion concerning the Host Country Guaranty.

It is often necessary to make minor corrections or last minute changes to the closing documents. It is, therefore, very important that the host government send a representative to the closing with authority to approve such changes. Host government Embassy officials often perform this role.

The control objective of this process is to give reasonable assurance that the legal relationships between all HG loan participants are clear, unambiguous, and binding

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* Although the loan signing ceremony and closing are technically separate actions, they are generally held at the same meeting of the program participants and are therefore discussed here as a single activity.

and that the documents evidencing those relationships comply with A.I.D. requirements. To achieve this objective, A.I.D. uses the following control techniques:

- **Policy and procedural guidance for developing Housing Guaranty Loan documents found in Handbook 7, Chapter 5;**

- **Policy and procedural guidance for preparing Housing Guaranty Loan documents contained in PRE/H's "Housing Guaranty Program Information Folder," dated July 1989;**

- **Separation of responsibility for development of specific contracts and other documents among lenders, borrowers, guarantors, and agents; and**

- **Specific procedural mechanisms such as:**

  - **GC/PRE's documentation review requirements found throughout Handbook 7 and in Handbook 17, Sections 10.C.2.c.7 and 10.C.2.c.8;**

  - **inclusion of policy reform agenda and "Investment Plan" annexes in Implementation Agreements;**

  - **competitive and noncompetitive lender selection requirements found in Handbook 7, Section 5.C.;**

  - **inclusion of the A.I.D. guaranty legend on each host country promissory note;**

  - **paying agent semiannual reports to A.I.D. on the status of each promissory note;**

  - **requirement for A.I.D.'s approval of all releases from loan escrow accounts; and**

  - **requirement for signature of an A.I.D. official possessing appropriate authority for each guaranty to enter into effect.**

C. IMPLEMENTATION AND PAYMENT PROCESS

Once the legal documents needed to effectuate the Housing Guaranty Loan have been signed and distributed, A.I.D. and the host government can implement the shelter sector assistance program or Housing Guaranty project. This process begins with the initial loan disbursement and ends with the program's termination. It encompasses several subprocesses, including loan disbursement, projectized input procurement and payment, and the preparation and distribution of Project Implementation Letters (PILs) to guide the process.

1. **Housing Guaranty Loan Disbursement** (Handbook 7, Section 5.F and Supplement A)

Attachment 1 of the Closing Memorandum will generally be a formal host government Request for Disbursement (see PRE/H's "Housing Guaranty Program Information Folder," dated July 1989, Appendix E). Based upon this request, the lender's attorney notifies the lender that the loan disbursement can commence.*

The lender will transfer the dollar amount agreed upon at the closing into a host government account or an escrow account, as appropriate.

a. **Timing of Disbursements** (Handbook 7, Section 5.F; PRE/H's "Housing Guaranty Program Information Folder," dated July 1989, Section 4)

Prior to 1982, Loan Agreements or Note Purchase Agreements generally included a schedule of disbursements (or drawdowns) which established the timing and amounts of the first, intermediate, and final disbursements under a single loan. Since each disbursement required a separate closing, however, this procedure was extremely labor and "paper" intensive. Since 1982, these agreements generally require a single lender disbursement for each loan. The Implementation Agreement generally establishes conditions precedent to disbursement which the host government must satisfy before loan funds can be transferred to a host government account.

The typical Housing Guaranty Loan component of an A.I.D. shelter sector assistance program is implemented through a series of loans phased to policy reform objectives set forth in the Implementation Agreement. Each loan will entail a separate closing. The host government will sign a separate Promissory Note or set of notes for each loan. An authorized PRE/H staff member, or the Paying and Transfer Agent at A.I.D.'s request, will sign a separate guaranty legend for each note. The lender then transfers the requisite dollar amount to the host government's previously designated U.S. bank to be held at the host government's disposal, to an escrow account, or to both, if applicable.

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* A single shelter sector assistance program may involve several sequential Housing Guaranty loans. In such cases, there may be several lenders and note holders, several sets of loan documents, and multiple closings stretching over the program's life span. The described procedure may, therefore, be repeated on several occasions as the program progresses.

b. **Basis for Disbursement** (Handbook 7, Supplement A)

Under shelter sector assistance programs, Housing Guaranty Loan dollars are advanced to the host government on the basis of progress in policy, programmatic, and institutional changes in the host country's delivery system for shelter services directed to low-income families. A.I.D. may initially advance Housing Guaranty resources based on a host government's commitment to overall shelter sector goals and the related Program Action Plan.

The levels of the initial disbursement can range from the standard twenty-five (25) percent of the authorized loan level up to $25 million. The Project Paper should describe the amount of the initial disbursement and its justification.

Although there is no general A.I.D. policy concerning host country reporting to A.I.D. of housing guaranty loan fund utilization, the Implementation Agreement should detail any such requirements placed upon the host country. Under older housing guaranty projects, the implementing organization was often required to document the flow of funds to the level of specific mortgages in order to liquidate advances. Under more recent sector assistance programs, reporting requirements are generally less stringent. A.I.D. may require the host government to show that funds were released from the receiving agency to implementing agencies. In any event, such requirements should be clearly and unambiguously stated in the Implementation Agreement and discussed with the host government before that agreement is signed.

2. **Use of Project Implementation Letters** (Handbook 3, Section 8.C.3.b; Part IV, Chapter 4, Section C of this Document)

Throughout the implementation phase of the program, A.I.D. will be communicating with the host government implementing entity on program implementation matters. While much communication will often be oral and therefore informal, or will be in the form of letters or memoranda, official communication must be accomplished through Project (Program) Implementation Letters (PILs). A.I.D. uses these documents to formally transmit information which is critical for prompt and efficient implementation of the program and which should, therefore, be brought to the attention of host government program management. PILs can provide detailed implementation guidance, document A.I.D. approval of host government actions or intended actions, and record changes to Implementation Agreements which can be made without amendment.

a. **PIL Preparation** (Handbook 3, Sections 8.C.3.b.1 through 8.C.3.b.3)

All PILs are generally prepared by the RHUDO having responsibility for the program. Any official communication from PRE/H or any other A.I.D./W office to the host government should be transmitted through the RHUDO. GC/PRE or the Regional Legal Advisor serving the RHUDO should review and clear any PIL which addresses legal matters such as:

- Acceptance of documentation to satisfy conditions precedent to disbursement.
- Contract approvals.
- Implementation Agreement modifications.
- Interpretation of the Implementation Agreement.

Various clearances within the RHUDO and the mission will depend upon the RHUDO's internal operating procedures. PILs must always be addressed to the host government agency or official identified in the "Communications" section of the Implementation Agreement. This is necessary to ensure that the information or instructions contained in the PIL will be "deemed duly given" as required by the Implementation Agreement. It also serves to establish a central point in the host government organization from which host government actions can be controlled and monitored.

b. **The "Basic" PIL** (Handbook 3, Section 8.C.3.b.4)

Simultaneously with or as soon as possible after the execution of the Implementation Agreement, the RHUDO will issue PIL No. 1, often called the "Basic" PIL. Subsequent PILs are serially numbered to permit control and identification.

The Basic PIL gives the host government more detailed guidance on matters covered in the Implementation Agreement. It:

- Explains specifically what documents are to be submitted to satisfy the conditions precedent set forth in the Implementation Agreement.
- Spells out contracting and purchasing procedures and source/origin rules if the shelter sector program contains technical assistance and/or commodity procurement components.

- Provides specific information on projectized component disbursement procedures.

- Specifies what reports A.I.D. requires, defining their frequency, format, and content.

The RHUDO should draft the Basic PIL soon after the Project Paper is completed and before the Implementation Agreement is signed. This would allow for complete discussion of its contents with the host government before any legally binding agreement is signed.

PILs frequently deal with subject matter which requires the professional expertise of RHUDO, mission, and/or regional officials. The Basic PIL is always in this category. RHUDO management should, therefore, establish procedures for clearing PILs by the accounting and legal offices serving the RHUDO and the technical, procurement, and contracting specialists as considered necessary.

c. **PIL Distribution** (Handbook 3, Section 8.C.3.b.5)

Most PILs will serve as an official record of actions taken or to be taken by the RHUDO, mission, and/or host government in furtherance of the sector assistance program. They are also used by A.I.D./W as a basis for action, primarily in the financial area and for record keeping purposes. The standard PIL format permits easy identification and proper handling within A.I.D./W. For example, before issuing Letters of Commitment or establishing disbursement authorizations, the Office of Financial Management requires that the RHUDO issue a PIL informing the host government that A.I.D. has accepted documents submitted to meet conditions precedent for the program's projectized components. PILs should, therefore, be distributed to:

- The host government.

- The RHUDO.

- PRE/H.

- The mission Project Officer and/or A.I.D./W's geographic bureau Backstop Project Officer who is monitoring the program.

3. **Procurement of and Payment for Projectized Assistance** (Handbook 11, Chapters 1 and 2; Handbook 1, Supplement B; Handbook 10; See also the description of the Implementation and Payment Process for sector assistance projectized components found in Part IV, Chapter 4, Section E of this

Document and the description of technical assistance, commodity, and participant training procurement under Bilateral Project Assistance found in Part III Volume 1 of this Document.)

Most shelter sector assistance programs will contain a "projectized" component, in addition to the Housing Guaranty Loan. A.I.D. may, for example, provide technical assistance to help the host government implement desired policy reforms, commodities such as computer equipment to be used by the technical consultants, or participant training for host country officials who will function in the reformed sector. A.I.D. procures and pays for these inputs in the same manner as it does for bilateral project assistance. The inputs are paid for with appropriated funds which are provided through either the PRE or the geographic bureau budget. Thus, for all intents and purposes, this projectized component of the shelter sector program is established as a distinct bilateral project and implemented in accordance with the project procedures set forth in Part III (Volume 1) of this Document.

In planning for this projectized assistance, the Project Paper should contain a detailed description of and justification for each input. The Project Paper should describe:

- The type of technical assistance required, the manner in which it relates to the program design and purpose, and the method of procurement (A.I.D. direct or host country) and the approximate cost.

- The type and amount of commodities required, the manner in which they relate to the program design and purpose, the method of procurement (A.I.D. Direct, host country and/or by a Procurement Services Agent), approximate cost, and source and origin of the commodities.

- The number of participants to be trained in the U.S., the type of training needed, the training location, the training facilitator, and the approximate cost.

The Project Paper should contain a budget for these inputs. When preparing the Implementation Agreement, the Project Officer (generally at the RHUDO) develops a budget for each project element in accordance with the availability of funds and the Project Paper budget. When signed, the Implementation Agreement is then used to record the obligation to the project ledger. At the same time, a project element funds control ledger should be opened for each line item in the budget, i.e., technical services, commodities and/or training.

a. **Technical Services** (Part IV, Chapter 4, Section E.1.a and Volume 1, Part III, Chapters 3 and 4 of this Document)

In most cases, the first input A.I.D. procures unde the project budget will be technical services. This procurement may be undertaken by either the host country or directly by A.I.D. When undertaken by the host country, the Basic PIL should present the conditions precedent which the host government must meet before A.I.D. finances the technical services contract. These conditions precedent could include preparation of a Request for Technical Proposals and other actions required to comply with A.I.D.'s competitive procurement regulations.

Having previously requested on earmark reservation, upon receipt, review and approval of the host government's conditions precedent documentation, the Project Officer would prepare an earmarking PIL. This document advises the host government to proceed with the procurement. The accounting station would use this PIL to earmark a specified amount of the obligated funds to finance the commitment in an earmark control record. The contract, however, should not be signed by the host government and contractor until reviewed and approved by the Project Officer.* When reviewed and approved, the earmarked funds would be formally committed through a PIL advising the host government that the contract has been approved.

When A.I.D. directly procures the technical services for the host government's benefit, the Project Officer would prepare a Project Implementation Order/Technical Services (PIO/T). This document would be used to earmark a specified amount of the obligated funds to finance the commitment. The PIO/T would then be sent to the A.I.D./W Office of Procurement (MS/OP), generally through PRE/H. MS/OP generally prepares the Request for Technical Proposals, advertises the proposal in the Commerce Business Daily, and negotiates and awards the contract.

Following the contract award, either MS/OP or the Project Officer (in the RHUDO or PRE/H), in conjunction with GC/PRE or the Regional Contracting Officer and Legal Advisor, would develop the contract. When an authorized A.I.D. official (e.g., a Regional or MS/OP Contracting Officer) and the contractor representative sign the contract, it becomes the procurement commitment document. When the contract is signed, a commitment liquidation record should be opened. This record is used to control disbursements against the commitment.

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* A reservation of funds would be requested before funds are committed.

b. **Commodity Procurement** (Part IV, Chapter 4, Section E.1.b and Part III, Chapters 6 and 7 of this Document).

Project commodity procurement is managed in much the same manner as technical services procurement. When funds have been obligated for commodity procurement, the RHUDO Project Officer would notify the host government of any conditions precedent which must be met before the procurement commences. The Project Officer reviews the documents provided by the host government to satisfy the conditions precedent. If found acceptable, the Project Officer prepares an earmarking PIL advising the host government that the conditions have been met. The accounting station servicing the RHUDO uses this PIL to record a specified amount of funds for the procurement in an earmark control record. When authorized by the RHUDO, the host government has several procurement options. It may:

- Contract with a U.S. Procurement Services Agent (PSA) to perform the procurement.
- Procure the commodities itself, which would entail soliciting supplier bids.
- Arrange to have the technical assistance contractor procure the commodities.

The host government must obtain the Project Officer's approval before signing the contract(s) under any of these options. The accounting station then uses the PIL approving the procurement as the commitment document.

When A.I.D. directly procures the commodities on the host government's behalf, the Project Officer at the RHUDO or in A.I.D./W must prepare a Project Implementation Order/Commodities (PIO/C). This document instructs the A.I.D./W Office of Procurement (MS/OP) to procure an itemized list of commodities which meet stated specifications. The accounting station uses the PIO/C to record the funds in the earmark control record.

Depending upon the type of commodities to be procured, MS/OP could contract with a Procurement Services Agent or a U.S. Federal Agency to handle the procurement. The accounting station would use this contract as the commitment document. Once the contract has been signed, the accounting station opens a commitment liquidation record for each commitment, i.e., each supplier or Procurement Services Agent. This record is used to control disbursement against the commitment.

c. **Participant Training** (Part IV, Chapter 4, Section E.1.c and Volume 1, Part III, Chapter 8 of this Document)

When host country participants are to be sent to the U.S. for training, this training can be managed in either of two ways. A technical services contractor can manage the training component. In this case, the training costs would be included in the technical assistance contract. Alternatively, A.I.D. could directly manage the training. In this case, the RHUDO or PRE/H Project Officer would prepare a Project Implementation Order/Participant (PIO/P). This document would specify the number of participants and the amount of funding provided for the training. When signed by a host government representative, the PIO/P becomes a simultaneous earmark/commitment document.

The control objectives of this process are to give reasonable assurance that Housing Guaranty loan funds are disbursed in accordance with A.I.D. and loan requirements; that program managers receive clear and unambiguous instructions for implementing the housing guaranty or sector program; and that sector assistance "projectized" components are procured and utilized in compliance with applicable laws, regulations, policies, and procedures. To achieve these objectives, A.I.D. uses the following control techniques:

- **Procedural guidance for disbursing Housing Guaranty Loan funds found in Handbook 7, Chapter 5 and Supplement A;**

- **Policy and procedural guidance for procuring and paying for A.I.D.-financed technical services to be used in bilateral assistance projects through host country contracts found in Handbook 11, Chapter 1;**

- **Policy and procedural guidance for direct A.I.D. purchase of and payment for technical assistance to be used in bilateral assistance projects found in Handbook 1, Supplement B and Handbook 14, Volumes 1 and 2;**

- **Policy and procedural guidance for procuring and paying for A.I.D.-financed commodities to be used in bilateral assistance projects through host country contracts found in Handbook 11, Chapter 3;**

- **Policy and procedural guidance for direct A.I.D. purchase of and payment for commodities to be used in bilateral assistance projects found in Handbook 1, Supplement B and Handbook 14, Volumes 1 and 2;**

- **Policy and procedural guidance for providing and paying for participant training under bilateral project assistance found in Handbook 10;**

- **Separation of duties in the A.I.D. procurement process for technical assistance, commodities, and participant training services; and**

- **Specific procedural mechanisms, including:**

  - **preparation and issuance of properly signed Project (Program) Implementation Letters for all official formal correspondence between A.I.D. and the host government concerning implementation of the shelter sector assistance program;**

  - **A.I.D.'s review of A.I.D.-funded host country procurement documents; and**

  - **specific A.I.D. procedures applicable to direct A.I.D. procurements and participant training (see Parts III and IV of this Document).**

D. MONITORING AND EVALUATION PROCESS

Once all the parties involved in implementing the shelter sector assistance program (or Housing Guaranty Project) have received clear implementation instructions and Housing Guaranty Loan disbursements have begun, A.I.D. must:

- Monitor program implementation to ensure that all parties adhere to those instructions and use A.I.D. funding efficiently and effectively.

- Evaluate program progress and/or impact.

This process encompasses A.I.D.'s actions to oversee and measure the effect of the activity described under the Implementation and Payment Process. The Monitoring and Evaluation Process begins with the initial loan disbursement and ends with the program's final evaluation.

The RHUDO, mission, and PRE/H will all share responsibility for monitoring and evaluating shelter sector assistance programs. Geographic bureau officials (especially the bureau Backstop Project Officer) and Bureau for Program and Policy Coordination officials (especially evaluation experts) may also become involved in this process on an "as needed" basis.

1. Monitoring Shelter Sector Assistance Programs (Handbook 7, Chapter 6; Handbook 3, Chapter 11; see also Part IV, Chapter 4, Section F.1 of this Document)

Monitoring is A.I.D.'s term to cover its observations and tracking of a project's or program's environment and activities. Monitoring requires the timely gathering of information regarding inputs, outputs, and actions that are critical to program success and the comparison of such information with plans

and schedules for the purpose of alerting A.I.D. and the host government about potential implementation problems.

Monitoring is of great importance because A.I.D. must assure itself that U.S. funds are being disbursed in accordance with statutory requirements (or guaranteed loans properly managed in the case of the HG Program) and that goods and services financed with U.S. funds are utilized effectively to produce intended benefits. In the shelter sector assistance context, monitoring takes two primary forms - monitoring of loan activity and monitoring of projectized inputs.

a. Monitoring of Loan Activity (Handbook 7, Chapter 6)

The typical HG loan is made for a 30-year term with principal payments deferred for 10 years (the "grace" period).* The U.S. guaranty remains in effect for an equal period of time or until the note holders are fully paid. Because of the contingent liability created by the guaranties and the continuing process of host government payments to the noteholders and payment of the A.I.D. guaranty fee, A.I.D. monitors loan amortization until the host government's debt is liquidated. This monitoring activity is carried out in A.I.D/W by the Guaranty Program Branch, located within the Loan Management Division of the Office of Financial Management (FM/LM/GP), in conjunction with PRE/H.

FM/LM/GP monitors loan activity, maintains the official accounts of the HG Program, and performs a variety of funds control and financial management services for PRE/H.** The results of its monitoring activity are contained in a group of reports showing HG loan activity and status. These include:

- The Financial Summary, Housing and Other Guaranty Programs (W-239). This quarterly report is designed to help PRE/H review program activity. It provides information on fund status and includes quarterly and cumulative income and

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* Program designers may recommend interest deferral for a limited period based upon a host country's anticipated difficulty servicing the debt. However, the Project Paper must make a very strong argument for such deferral in light of A.I.D.'s policy of not approving high-risk loans, so as to minimize drawdowns on the HG Reserve Fund (See Handbook 1, Part II.S., A.I.D.'s "Shelter" Policy Paper, Section VII.2).

** See Section E of this Audit Survey Document chapter for a detailed description of the HG Program accounting system.

expenses, comparative actual versus budgeted expenditures and status of contract issuing authority.

- Periodic management reports such as projections of contingent liability on outstanding guaranties, historical financial data, analysis of program operations data and cost of operations analyses.

- External reports on program operations produced in response to regulatory requirements such as fiscal and financial reports to the U.S. Treasury Department, Office of Management and Budget, Commerce Department, and other interested agencies.*

FM/LM monitors both HG reserve fund activity and individual loan activity.** FM/LM should desk review individual loans on an as needed basis (Handbook 7, Section 6.C.5.) and provide periodic reports to PRE/H on all loans with identified problems.

PRE/H holds an annual RHUDO loan portfolio review. PRE/H's Operations Division (PRE/H/O) manages this review, which is analogous to the Program Week mission portfolio reviews or Project Implementation Report (PIR) reviews held by the geographic bureaus annually or semiannually. The Portfolio Review Committee is composed of representatives from the administrative, technical, and financial support staff in PRE/H and the geographic bureaus, the relevant PRE/H operations staff, and GC/PRE and FM representatives. This committee reviews the RHUDO portfolios and

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* At the time of publication of this Audit Survey Document chapter, PFM/FM/LM/GP was implementing a new computerized accounting and reporting system. Internal and external reports may be added to or deleted from the above listing as the system is implemented. See the description of the HG Program accounting system in this Audit Survey Document chapter.

** Fund monitoring is discussed in Handbook 7, Sections 6.C.1. through 6.C.4. The program has not established a reservation against the net worth of the fund for debt retirement. Further, program financial statements show virtually all subrogated and rescheduled claims receivable ($136 million in FY 1989) as well as accrued fees, interest on rescheduled claims, and late charges receivable ($36 million in FY 1989) as current year assets. Experience has demonstrated the extreme unlikelihood of collecting any substantial portion of these amounts within the next year. The significance of these management decisions and accounting procedures should be addressed during any financial audit of program operations.

advises the RHUDOs and missions concerning A.I.D./W's perception of the portfolio's strengths, weaknesses, and status. This review, therefore, encompasses the shelter sector assistance programs in the portfolio, not merely the individual HG loans. Review results are generally cabled to both the RHUDO and mission.

In addition, PRE/H establishes technical review committees on an ad hoc basis to review individual loans or proposed loan terms. A representative from FM should participate in this committee review. Among other actions, this committee decides whether a loan issue is sufficiently serious or important to warrant review by the relevant geographic bureau.

b. **Monitoring of Projectized Components** (Handbook 3, Section 11.E)

This is the traditional form of mission or office project monitoring discussed in Handbook 3, Chapter 11. The primary responsibility for such monitoring under a shelter sector assistance program lies with the RHUDO, although the mission or office Project Officer in the host country often provides assistance. Project committees in the mission or office may, in turn, assist the Project Officer.

It is the responsibility of the individual bureaus, missions, and RHUDOs to establish systems for monitoring projectized components of shelter sector assistance programs. At the least, these systems must have monitoring procedures or methods which enable responsible A.I.D. officials to satisfy the following general needs:

- Oversee host government compliance with A.I.D. policies, procedures, and regulations.
- Ensure the timely and coordinated provision of A.I.D. (and other) financing and/or inputs.
- Support the host country's efforts to effectively use resources and accurately forecast future problems.
- Identify implementation issues and projectized components which are not performing satisfactorily.
- Collect data and information for subsequent A.I.D. program/project analysis and develop a historical record of implementation for the official A.I.D. files.
- Prepare periodic reports for mission or A.I.D./W review.

A.I.D.'s officials use four primary methods for monitoring implementation:

- Host country reports (Handbook 3, Section 11.E.2.a.).
- Site visits (Handbook 3, Section 11.E.2.b.).*
- Consultation with program participants (Handbook 3, Section 11.E.2.c.).
- Review of program documents (Handbook 3, Section 11.E.2.d.).

c. **Monitoring of Conditions Precedent** (Handbook 3, Appendix 11.B.)

Sector assistance is always linked to sector reform. Many sector assistance programs encourage (or "leverage") this reform by including reform actions as conditions precedent (CPs) to fund disbursement. The CPs are contained in the Program Assistance Approval Document (PAAD) or Project Paper and the Program Authorization (generally an Action Memorandum signed by the geographic bureau's Assistant Administrator). The mission Project Officer or Project Committee must carefully monitor host country compliance with these CPs to both trigger fund disbursements and give some reasonable assurance that the program is achieving its policy reform objectives (see Part IV, Chapter 4, Section F.1.a. of this Document).

Shelter sector assistance programs and Housing Guaranty projects do not follow this general rule. Program Authorizations generally do not

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* As a general rule, Sector Assistance funding is linked to policy reform in the targeted sector and not to specific physical implementation such as progress at a designated construction site (see Part IV, Chapter 4, Section F.1.b. of this Document). This is also theoretically true of shelter sector assistance. However, as a practical matter, the mission or RHUDO may attribute funding to designated and specific sector construction in the host country. GC/PRE has, in fact, instructed RHUDOs and missions to include, as "Annex 2" to each Implementation Agreement, a listing of prequalified host country shelter sector projects (e.g., sewer upgrade, construction) to which funding will be attributed. Project Officers can then perform site visits to measure "implementation progress." In point of fact, however, program funds may or may not be used for the specifically listed projects. It is therefore unclear what course of action the mission or RHUDO would or could take if these projects were not progressing satisfactorily.

contain the policy reform agenda which is the basis of the program.* Implementation Agreements and Project Papers should contain and explain the policy reform agenda which program planners hope to achieve. The policy reform measures are not, however, presented as CPs to disbursement but as objectives to be achieved during a defined implementation period (e.g., twelve months from initial loan disbursement). Initial fund advances are based on the host government's commitment to the policy reform goals stated in the Implementation Agreement (Handbook 7, Supplement A, p. A-2). Subsequent advances are based on evaluation of policy reform implementation during the previous period (see Section D.2.a. of this chapter).

Any CP which might be found in the Implementation Agreement or Project Paper will generally be administrative or procedural in nature (e.g., signature samples of relevant host country officials) rather than substantive (i.e., reform agenda). While the Project Officer must monitor compliance with these CPs, such monitoring does not take on the critical importance found under other sector assistance programs, wherein compliance with the substantive CPs may constitute the primary or only reason for the program's existence.

2. **Evaluating Shelter Sector Assistance Programs** (Handbook 3, Chapter 12)

Evaluation is the term A.I.D. uses to describe the general process and specific activities undertaken to analyze and assess the performance and results of projects, programs, policies and/or procedures. It is also the term used to identify the product produced by the process, i.e., an evaluation. Evaluations assess whether planned results are being achieved and what impact, intended or otherwise, a project, program, policy, or procedure is having with respect to its environment.

The validity and relevance of hypotheses concerning performance and impact, together with assumptions about internal and external factors, are normally examined in the course of an evaluation.** Shelter assistance programs are

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* According to the A.I.D. General Counsel's Office (GC/PRE), inclusion of conditionality in Project Authorizations would discourage lenders from participating in the program.

** Evaluation differs from monitoring in that the former is concerned with a picture or "snapshot" of the activity at one point in time; concentrates on impact, objectives, and goals; and is often performed by a team from outside the mission or office. Monitoring is a continuing activity, concentrating upon delivery of inputs and generation of outputs and is generally performed by the mission or office Project Officer.

subject to two distinct forms of evaluation: (1) periodic evaluations to determine whether policy reform activities are being successfully implemented and (2) end-of-program impact evaluations.

a. **Periodic Evaluation**

Shelter sector assistance programs generally entail a series of HG loans scheduled over the life of the program. For example, a four-year program may anticipate four separate loans, one at the time of the original Implementation Agreement with the remaining loans scheduled at twelve-month intervals. The Implementation Agreement will spell out the policy reforms expected to be achieved during the initial twelve-month period. Program and reform implementation are evaluated at the end of the period and if found satisfactory, the Implementation Agreement is amended to include the next stage of anticipated policy reform activity, the new loan is negotiated, and the new loan funds are disbursed. This process continues until the program terminates. A single program can, therefore, encompass several periodic evaluations of this type. If any evaluation determines that the policy reform conditions have not been met, A.I.D. can refuse to guaranty scheduled future loans, thus effectively terminating the program.*

Although PRE/H requires periodic evaluations justifying continued loan disbursements, it has not developed a standard methodology for performing such evaluations or a standard format for reporting evaluation results. The RHUDOs generally perform the evaluation with assistance from the mission or A.I.D./W as deemed necessary. The RHUDOs are thus intimately involved in designing, monitoring, and evaluating the shelter sector assistance program (or HG Project).

While the reviewers possess considerable flexibility in carrying out their evaluation, they should include a review of compliance with the basic Housing Guaranty legislation at this time. This aspect of the evaluation can prove difficult, however, in light of the ambiguity of certain legislative instructions. For example, Part II, Chapter 2, Section 223(j) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2183) states in part

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* According to PRE/H, host countries need not be automatically denied a loan guaranty because they have not fulfilled all anticipated reform conditions. The RHUDOs and geographic bureaus have considerable flexibility in determining whether noncompliance is sufficiently serious to warrant withholding of guaranties.

> "Of the aggregate face value of housing guaranties hereafter issued under this title, not less than 90 percentum shall be issued for housing suitable for families with income below the median income (below the median urban income for housing in urban areas) in the country in which the housing is located."

Considerable confusion has arisen over the proper interpretation of this Congressional instruction.

The Office of Housing and Urban Programs (PRE/H) and the A.I.D. General Counsel's Office (GC/PRE) have interpreted this language to hold that:

- The "suitability" criterion is met if the housing is designed and built to be affordable by the target class, i.e., it need not be actually sold to or occupied by families of the target class (see Fry to Durnil memorandum of November 14, 1986).

- Ninety (90) percentum of a country program (not an individual HG project or shelter sector assistance program) must meet the statutory requirement.

- Congress has placed no formal requirements on A.I.D. to report on Agency compliance with this instruction.

Although not required by the legislation, RHUDOs have, in some cases, stipulated in Implementation Agreements that at least 90 percentum of the aggregate value of housing guaranties under a given loan or program must actually benefit the target group. This practice creates an inherent problem, however, when the Housing Guaranty loan is designed as part of a shelter sector assistance program. Since sector assistance targets policy reform, not specific construction or rehabilitation, as the program objective, merely identifying specific projects for testing compliance with the rule presents a major difficulty. GC/PRE's instruction to RHUDOs to identify and prequalify project activities in Annex 2 of Implementation Agreements is, in part, an attempt to help A.I.D. managers and evaluators to overcome this problem (see Section D.1.b., above).*

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* The Agency is aware of the basic incompatibility of the current legislation and the sector assistance programming concept and has been attempting to have the 90 percentum "suitability" requirement expunged from anticipated future revisions of the basic Housing Guaranty legislation.

b. **Impact Evaluation** (Handbook 3, Chapter 12, Section 12.B.3.a.)

Section 621A(b) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2381a) requires that A.I.D.

> "establish a management system that includes: ... the adoption of methods for comparing actual results with those anticipated when they were undertaken ...."

A.I.D. has formulated an evaluation policy and a generalized set of procedures for evaluating project assistance, which can be found in Handbook 3, Chapter 12 and in the supplement to that Handbook chapter. It has also specifically addressed Housing Guaranty Project evaluations in Handbook 3, Appendix 12C. This appendix states that HG Projects are to be evaluated in a manner much like other A.I.D. project assistance because

> "A.I.D. links the guaranties with efforts to build institutions such as housing ministries or LDC savings and loan associations." The Housing Guaranty Project "... must include arrangements for measurements and record keeping on the progress toward objectives so that these projects can be evaluated through (standard evaluation) procedures ...."

This guidance was written before the Agency began to transform the Housing Guaranty Program to shelter sector assistance with its concentration upon policy reform. As discussed in part IV, Chapter 4, Section F.2. of this Document, A.I.D. has yet to develop standard procedures for evaluating sector assistance programs.

A.I.D. guidance states that an impact evaluation can be undertaken as soon as some effect of the policy change can be identified. Sector assistance programs, by their focus upon policy reform, are inherently difficult to evaluate in that the effects of policy changes may only become apparent many years after a specific program terminates. Moreover, the move to shelter sector assistance has been too recent to allow for development of an effective evaluation methodology through trial and error.

Regional and Central Bureau Assistant Administrators are responsible for the administration of all project and nonproject assistance within their jurisdictions. Each bureau is responsible for the development and supervision of its own arrangements for conducting evaluations and for the utilization of evaluations and recommendations. The A.I.D./W Evaluation Office in the Bureau for Program and Policy

Coordination (PPC/E) is responsible for coordinating Agency evaluation activities and overseeing the quality and performance of bureau evaluation systems.

In general, it may be said that a shelter sector assistance Implementation Agreement should set forth a plan for measuring the program's impact on the host country's housing environment as well as a plan for the periodic evaluations discussed in the previous section of this chapter. The RHUDO, mission, geographic bureau, PRE/H, and PPC/E may all become involved in designing and implementing the evaluation. In addition, the Agency may retain expert technical consultants to assist in the review. Evaluation results should be reviewed by both PRE/H and the geographic bureau. The Agency does not yet have a standard procedure for putting such a system into effect.

The control objective of this process is to provide reasonable assurance that shelter sector assistance programs (or Housing Guaranty Projects) are effectively implemented and evaluated. To achieve this objective, A.I.D. uses the following control techniques:

- **Specific procedural guidance for monitoring Housing Guaranty Loan activity found in Handbook 7, Chapter 6;**
- **General policy and procedural guidance for monitoring project assistance found in Handbook 3, Chapter 11;**
- **Specific procedural guidance for evaluating Housing Guaranty Projects found in Handbook 3, Appendix 12.C., Section 4;**
- **General evaluation policy and procedural guidance found in Handbook 3, Chapter 12;**
- **General evaluation policy and procedural guidance found in the supplement to Handbook 3, Chapter 12 (A.I.D. Evaluation Handbook);**
- **General sector assistance policy and procedural guidance found in Handbook 1, Part VII; and**
- **Specific procedural mechanisms including:**
  - **generation and distribution of FM financial reports detailing loan and reserve fund activity and status;**
  - **periodic PRE/H management reviews of RHUDO portfolios;**

- **ad hoc PRE/H reviews of specific loans; and**

- **RHUDO review of reform agenda implementation to trigger loan disbursements.**

This process is vulnerable in that the Agency has not yet developed a methodology for measuring and evaluating the effect of sector assistance programs, including shelter sector assistance programs incorporating Housing Guaranty loans. In addition, Congressional requirements placed upon the Housing Guaranty Program (e.g., the 90 percentum rule) can be confusing and contradictory in light of sector assistance implementation methodology, making it difficult for A.I.D. to monitor and evaluate Agency compliance with Congressional desires. Since the shelter sector assistance (Housing Guaranty) monitoring and evaluation systems are as yet incompletely developed and in a state of flux and since Congress has been considering changes to the basic legislation governing the Housing Guaranty Program (e.g., eliminating the 90 percentum rule) auditors must be alert to continuing changes in audit criteria.

In addition, the process is vulnerable in that design, monitoring, and evaluation responsibilities are not separated but are centralized at the RHUDO. RHUDO officials both design the program, including the sector policy reform agenda, and determine whether the program is being successfully implemented so as to justify future loan disbursements. Further, there is no standard procedure for performing or reporting upon the RHUDO's evaluation of policy reform implementation.

CHAPTER 2
HOUSING GUARANTEE PROGRAM

FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM

Financial management embraces those elements of management which deal with budgeting, accounting, financial analyses, cash management, internal control and financial reporting. These elements, which are governed by numerous laws and regulations, are an integral part of the Agency's management system. Under the Agency's management system, the Housing Guaranty (HG) Program operates within the framework of a governmental fund--The AID Housing and Other Credit Guaranty Fund, Appropriation Symbol 72X4340. This governmental fund was established by the U.S. Treasury as a separate A.I.D. financial entity. Auditors must not only have a thorough understanding of the financial management of this separate financial entity, but also how it is integrated into the overall Agency management system. Auditors must also have an understanding of the accounting principals, laws, and regulations which form the foundation for these systems.

This chapter covers the financial accounting, reporting and internal control systems for the HG Program authorized under the Foreign Assistance Act of 1961 (FAA), as amended. These systems have been designed to meet the objectives of Section 112(b) of the Budget and Accounting Procedures Act of 1950 (P.L. 81-784) and A.I.D.'s Accounting Principles and Standards as set forth in Handbook 19, Chapter 1. The systems operate under the direction of the Office of Financial Management (FM).

The Loan Management Division in the Office of Financial Management (FM/LM) carries out the responsibilities of the A.I.D. Controller for the HG Program. FM/LM maintains the official A.I.D. accounts and the accounting controls over the assets, liabilities, and capital of the HG Program. FM/LM's responsibilities include:

- furnishing information for use in preparing budget estimates and in requesting apportionments and reapportionments;

- reflecting in the accounts, the administrative control of funds in the Housing and Other Credit Guaranty Fund in accordance with regulatory requirements and A.I.D. rules, and assuring that resources apportioned by OMB are not overobligated or overexpended;

- clearing proposed guaranty contract authorizations for the availability of authority to guaranty loans in compliance with statutory limitations;

- reviewing guaranty contracts for conformity of financial terms with provisions of authorizations;

- managing the collection of guaranty fees and other revenues, including the receipt, verification and deposit of remittances through A.I.D.'s Central Collection Office, and maintaining related accounting records and controls;

- ascertaining that charges to program funds are compatible with statutory specifications on the use of guaranty fees for administrative and operating expenses, as well as the payment of liabilities under guaranty contracts in the order prescribed;

- maintaining accounting records on each guaranty contract and for the total program;

- preparing reports on the financial status of the program and results of operation for management uses in planning, evaluating and directing the program;

- furnishing pertinent data for inclusion in overall A.I.D. appropriation and fund reports and related financial summaries; and

- preparing other periodic fiscal, financial and special reports prescribed by the U.S. Treasury and OMB.

This chapter describes the financial management function in terms of the following processes:

- The budgeting process used to establish an Operating Year Budget.

- The accounting system used to implement the Operating Year Budget.

- The expenditure process which incorporates the funds control procedures and other accounting practices for ensuring expenditures are made in accordance with proper obligation and commitment documents and applicable laws and regulations.

- The closing process for summarizing budget execution and financial results, and legal and regulatory requirements relating to it.

- The reporting process for reporting financial results to management.

- The statement preparation process for reporting financial results to OMB, Treasury and other agencies of the Federal government.

A. THE BUDGETING PROCESS

The budgeting process is designed to meet regulatory requirements for the submission of budget estimates and apportionment and reapportionment requests in

accordance with OMB Circulars A-ll and A-34. It should provide reliable and timely accounting results for use in the budgetary cycles.

1. **Annual Budget Submission**

Establishing a budget for the HG Program is an annual process. It begins in April when PPC/PB issues detailed guidance to the field, and FM/BUD and FM/LM issue guidance to PRE/H and the Bureaus for the preparation of the Annual Budget Submissions (ABSs). This is supplemented by guidance from PPC on the Approved Annual Program and personnel planning levels. Supplementary guidance is also provided to the field by the geographic bureaus and PRE/H.

The ABS is an important decision-making document, linking the approved Country Development Strategy Statement (CDSS) and the Shelter Strategy Statement (SSS) to the financial aspects of implementing them.

The RHUDOs will work with A.I.D. offices in their region to prepare statements outlining the housing project proposals, new guaranty authority, and administrative and operating costs for inclusion in the next geographic bureau ABS. Based on the ABS guidance, each overseas office develops estimates for the current year, the fiscal year in question, and the four subsequent years.

At the same time, PRE/H will prepare its submission of the budget for the HG Program for inclusion in the PRE/Bureau's ABS. The PRE/H and geographic bureaus' ABSs must be consistent and should not exceed the Approved Annual Program Level. The PRE and geographic bureaus will present the HG Program information in tabular form since the tables are used as input documents into the computerized A.I.D. Program Budget Data System and reconciled to the computerized Program Accounting Information (PAIS) and Non-Project Assistance (W-214) Systems.

The budget statements must be sent to the geographic bureaus no later than May 30, or about 16 months before the fiscal year begins. The geographic bureaus are then responsible for reviewing the statements from their respective overseas offices. These reviews occur from May 31 to July 5. In conducting the reviews of budget statements for new guaranty authority, and administrative and operating costs, copies of the ABS are circulated to office directors within the geographic bureaus, PRE, and other bureaus and Agencies such as PPC, OMB, Department of State, etcetera. These reviews focus on such things as:

- the consistency of the budget statements with the CDSS and SSS;
- an analysis of current funding and guaranty requirements;
- an analysis of the New Project Descriptions; and
- a review of on-going activities to ensure that changes in financial markets and the activities of private financial intermediaries, or changes in the status of borrowers are reflected in the operation of the HG Program (OMB Circular A-70).

In essence, these reviews provide the bureaus with an insight to the financial implications of programming decisions and implementation problems. Based on their reviews, the geographic bureaus may recommend certain modifications in the overseas offices' HG program or budget. These modifications could cover such things as: withholding the approval of new housing projects until a new CDSS or SSS has been prepared; or changing the level of guaranty contract issuance authority.

By July 5, the PRE and geographic bureaus must submit their budget proposals, as well as the results of their reviews to PPC. This submission includes:

- a certification that the planning documents required of A.I.D. offices continue to be valid;
- a discussion of the major issues the PRE and geographic bureaus expect to confront in implementing the requested program;
- a list of new projects;
- a request for budgetary resources necessary to administer the program;
- a request for new guaranty authority necessary to implement the program; and
- an analysis of the HG Program objectives, required by OMB Circular A-70, Section 8.b.

In PPC, the bureaus' submissions are again reviewed. These in-depth reviews are facilitated by using ABS data which the bureaus have entered into the computerized Program Budget Data System. Using the data in this system and data maintained by bureaus outside the system, PPC performs the

necessary reviews to ensure the ABSs meet Congressional and OMB directives. Based on these reviews, it identifies issues which need to be discussed with the bureaus.

If budgetary issues cannot be resolved at the bureau level, they are raised to the Administrator. These issues can include such a matter as the allocation of guaranty contract issuance authority among bureaus. To resolve such a matter, PPC will develop policy options which need to be resolved by the Administrator. The Administrator will then review the issues and make the necessary decisions.

Once the decisions on the Agency budget have been made, PPC is responsible for assembling the bureau submissions into an overall Agency budget. This Agency budget includes:

- A program request for the budget year including:
  - Fiscal data, total program proposal, new obligational authority, estimated recoveries of prior year obligations, estimated transfers, new borrowing authority, and new guaranty authority. The request is normally presented in the form of two alternatives: A "low" level within the OMB planning target, and a "recommended" level; and
  - A brief narrative rationale.
- The analysis of HG Program objectives.
- An item-by-item listing of proposed new projects for the budget year.
- A discussion of the long-range direction which A.I.D. intends to pursue, together with a long-range projection of resource requirements.
- An estimate of the manpower needs.

After the budget has been assembled it is then submitted to the Administrator for review and approval. In September, after the Administrator's approval, PPC integrates it into the International Development Cooperation Agency (IDCA) budget. Upon completion of the IDCA budget, PPC collaborates with the Department of State and other agencies in integrating the IDCA budget into the overall Foreign Assistance Budget. When the Foreign Assistance Budget has been developed, it is presented to the Secretary of State for review. Only after this budget has been approved by the Secretary

of State is the IDCA budget proposal, which includes the A.I.D. budget, sent to OMB.

OMB requires that it receive the budget proposal by September 15 where it will again be reviewed. Generally, OMB examiners, who are familiar with the program issues, participate in the review. OMB decides on the budget level in mid-November and this decision is communicated to the Agency in the form of a limitation on the budget resources and new guaranties. If there is fundamental disagreement with the OMB decision, the Agency may appeal, setting forth in a letter to the Director of OMB, its case for additional budgetary resources or guaranty authority.

OMB then presents its budget recommendations, together with the Agency's appeal, to the Office of the President. A final budgetary level decision is received by early December which is called the budget "mark". The budget mark does not establish budget levels for the individual countries. Thus, when A.I.D. receives the budget mark, it has the flexibility to determine, by bureau and country, where the adjustments will be made to meet the budget mark. In making these adjustments, PPC meets with PRE/H, the Administrator and bureaus to work out how and where the adjustments will be made. The bureaus will in turn work out adjustments with the overseas offices.

2. Congressional Presentation

After the Agency's budget is revised, it is then used to prepare the Congressional Presentation within the level of the OMB budget mark. The preparation of the Congressional Presentation is designed to further justify and explain the Agency's budget request. This process commences in September with the issuance of guidance by the Office of Legislative Affairs (LEG) indicating how the budget data should be organized and developed for presentation to the Congress. Preparation of the Congressional Presentation entails developing narrative and tabular material describing and justifying the budget proposal. In this process, summary program information and supporting data concentrate on programming policy, performance and accomplishments, and emphasize proposed activities to be implemented. This narrative and tabular material should reflect the decisions made when the ABS was approved. When the required material for the program has been prepared, it is submitted to the geographic bureaus.

The geographic bureaus and PRE/H are responsible for reviewing the material. In doing so, the bureaus must ensure the budget conforms with the approved ABS and the adjustments have been made to conform with the budget mark. This adjustment is necessary since the Congressional

Presentation process starts well before the OMB budget mark is provided in December. The material is then consolidated into an overall Congressional Presentation budget for the HG Program. When completed, it is forwarded to PPC.

PPC reviews the presentation for inclusion in the A.I.D. Congressional Presentation which is approved by the Administrator. The A.I.D. presentation is incorporated into the IDCA presentation which is included in the State Department's Foreign Assistance Budget. In January, the Foreign Assistance Budget is sent to OMB, which sends it to Congress as part of the President's Budget.

3. **Congressional Authorization**

The HG Program has been separately authorized under Title III, Sections 221, 222, 223, and 238c of the FAA of 1961 as amended. In authorizing a program, Congress holds hearings on the program of assistance described in the Congressional Presentation. These hearings normally are carried out by committees of both the House of Representatives and the Senate responsible for authorizing foreign assistance programs. Representatives of A.I.D., the State Department, other government agencies, and the private sector are called to testify on various aspects of A.I.D.'s programs. The Congress, when it resolves all issues with the programs, passes legislation authorizing the President to use his authority to implement them. In separate appropriations legislation, Congress prescribes the amount of government funds to be made available for the Foreign Assistance Program for that particular fiscal year. When the President signs the appropriations legislation, a budget for the fiscal year has been established.

4. **Operating Year Budget**

Because of the actions Congress may take in passing legislation, the authorized program level or the funds appropriated may differ from A.I.D.'s budget proposal included in the President's budget request. Under Section 653 of the Foreign Assistance Act, A.I.D. must provide the Congress within 30 days after passage of the legislation a revised budget which reflects the provisions of the new legislation. This final budget is called the Operating Year Budget (OYB). The OYB establishes how the resources in the Housing and Other Credit Guaranty Fund and the guaranty authority are to be used for the housing activities of PRE/H and each of the eight Regional Housing and Urban Development Offices (RHUDOs). PPC and PRE/H will revise the resource and guaranty contract issuance authority levels for each bureau

and overseas office. PPC will present any bureau requests for relief from these levels to the Administrator with its recommendations.

After the Administrator's review and decisions have been made, the OYB is established. When established, the OYB contains the approved planning level allocated to each bureau for each country. This information, as well as a listing of approved new activities, is sent to Congress.

In establishing the OYB, the proposed guaranty authority for specific projects may be affected which requires a subsequent adjustment of the OYB. Thus, when necessary, the OYB may be revised. To keep Congress informed of these OYB changes, PPC prepares a quarterly Section 634 Report. This reporting requirement keeps Congress advised of the changes to the OYB. In addition, the Agency must also notify Congress of new or substantially revised projects which were not approved during the legislative process.

If by October 1, the Congress has not passed the authorization/appropriation legislation, it passes a Joint Resolution, commonly referred to as a Continuing Resolution. When signed by the President, the Continuing Resolution permits continuation of operations until a specified date or enactment of the authorization or appropriation bills, whichever comes first. The Continuing Resolution usually permits continuation of operations at the rate of the previous fiscal year or the budget request, whichever is lower. In such cases, the Office of Legislative Affairs transmits a circular telegram informing the overseas offices when the Continuing Resolution has been passed and signed by the President and authorizing continuation of essential nondeferable operations pending receipt of further detailed guidelines.

PPC and FM compute the rate of operations during the Continuing Resolution period. Within these limits, an interim OYB is prepared, establishing levels by bureau. Upon enactment of the authorization or appropriation legislation, an Operational Year Budget is prepared.

After the President signs the legislation, Treasury issues appropriation warrants for any funds appropriated to the Housing and Other Credit Guaranty Fund to the Office of the President. The Agency is then responsible for requesting Treasury to transfer the appropriation warrants from the Office of the President to the Agency.

5. Apportionment

Before A.I.D. can obligate funds or issue guaranty contracts, it must request an apportionment of those funds and the authority to issue new guaranties

from OMB. Apportionment is a process, regulated by OMB Circulars A-11 and A-34, whereby OMB provides A.I.D. with the authority to expend budgetary resources and guaranty loans up to a specified level within the amounts available for the fund.

Pursuant to the Circulars, new guaranty authority is apportioned annually, budgetary resources for program costs are apportioned annually, and budgetary resources for administrative costs are apportioned quarterly. FM/LM initiates the apportionment process by preparing Standard Form 132 Apportionment and Reapportionment Schedule.

The first part of Form 132 specifies the amount of budgetary resources to be apportioned from four sources:

(1) applicable budget authority;

(2) prior year unobligated balance of budgetary resources;

(3) actual and estimated reimbursements and other income from prior and current fiscal years (for example, guaranty fees); and

(4) actual and expected recoveries of prior year obligations.*

Regarding the budget authority, except for the initial establishment of the fund, Congress has not appropriated resources for the HG Program. The only resources provided through budget authority has been an OMB-provided borrowing authority which totaled $37,000,000 as of February 1990. A.I.D.'s borrowing authority is subject to annual OMB review and is adjusted through this apportionment process.

Also, if part of the fund's resources can not be made available for apportionment pursuant to, for example, P.L. 99-177 or P.L. 100-119, the amount must be subtracted to arrive at the total amount of the Housing and Other Credit Guaranty Fund resources available for apportionment.

The second part of Form 132 requests OMB apportionment of resources for two broad categories of costs, of which the first pertains to administrative, operating, and agency support costs for the HG Program.

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* When the Agency deobligates funds and plans to reobligate them, it must request OMB to reapportion the funds.

a. Administrative and Operating Costs

Section 223(b) of the FAA of 1961 authorizes, subject to such limitations as may be imposed in annual appropriation acts, the use of guaranty fees for necessary administrative and operating expenses to carry out the HG Program authorized by Sections 221 and 222 of the FAA. These costs include, but are not limited to, expenses pertaining to personnel, supplies, equipment, printing, management and custodial costs of assets and liabilities acquired under subrogated claims (of prior programs), and the cost of investigating and adjusting claims.

b. Agency Support Costs

These costs include the services of executive direction, auditing, legal, financial, personnel and general management support which benefit the HG Program and which are reimbursed to A.I.D.'s operating expense appropriations. Since it is an A.I.D. administrative policy, rather than a legal requirement, to charge all direct and indirect costs to the HG Program, A.I.D. has determined that Section 607 of the FAA requires that the services it provides to PRE/H be reimbursed by the Housing and Other Credit Guaranty Fund. Thus, the accounting system and related financial statements for the HG Program should reflect all direct costs and indirect support costs that are reimbursed from guaranty fees to A.I.D.'s operating expense appropriations. To reimburse these costs, the following formula is used.

Agency Overhead Base - The overhead base consists of A.I.D.'s world-wide operating expenses which are identified to specific programs, including the HG Program.

Overhead Pool - The overhead pool consists of A.I.D./W operating expenses which are not directly identifiable to any one program.

HG Program Direct Operating Costs - These include costs of personnel, supplies, equipment, printing, and investigating and adjusting claims. Contractual services are excluded.

Ratio - Determine the ratio of HG Program direct costs to the overhead base and apply the ratio to the overhead pool to determine the amount of support costs allocable to the HG Program.

Overhead Rate - This rate is the ratio of the above allocable support costs to direct costs.

OMB apportions funds quarterly for these administrative, operating and Agency Support Costs which can not be exceeded except under a supplemental reapportionment request approved by OMB. Furthermore, this category of costs is subject to annual OMB-established limits on the amount of operational and invitational travel (object class 21.0), and any planned use of the funds for such costs must be separately requested in an attachment to Form 132.

The second category of costs covers the annual apportionment of the remaining Housing and Other Credit Guaranty Fund resources for program costs, including current liabilities for interest on Treasury borrowings, and claims under guaranty contracts.

The last item to be apportioned is the authority to issue new guaranties. The issuance authority for those guaranties is provided by law (FAA Title III, Section 222) and totaled $2,183,100,000 as of February 1990. Although, this guaranty authority is subject to annual review by Congress and is adjusted through the legislative authorization process, OMB establishes annual limitations on the amount of new guaranties (in accordance with Section 601 of P.L. 101-167), which totaled $99,570,000 for FY 1990 as of February 1990. Thus, pursuant to those limitations, the requested apportionments on guaranty issuance authority are also attached to Form 132 for OMB approval.

Once Form 132 has been completed, FM/LM sends it to the Funds Control Division in the Office of Financial Management (FM/FC) which is responsible for the overall A.I.D. appropriation and fund reports and related financial summaries. FM/FC then reviews, approves, records and sends the Form 132 to OMB. Upon receipt of OMB's apportionment of the A.I.D. Housing and Other Credit Guaranty Fund, FM/FC will record the apportionment in a separate account in the allotment ledger for this fund (The OMB-signed Form 132 is the input document used for the detailed apportionment accounting entry in A.I.D.'s computerized allotment and project accounting system.).

Based on the receipt of a copy of the FM/FC- and OMB-signed Form 132, FM/LM prepares a journal voucher for each amount of each line item approved on the Form 132. FM/LM then posts the journal vouchers to the budget ledger for the Housing and Other Credit Guaranty Fund.

6. Illustrative Pro Forma Accounting Entries for the Budgeting Process

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
Guaranty Authority				
7000		Contract Issuance Authority	Journal Voucher	General Journal
	7001	Unused Contract Issuance Auth.		
		To establish statutory guaranty authority.		Contract Authorization Record
Fund Availability and Use				
6000		Funds Authorized	Treasury Form 523 - Appropriation Warrant	General Journal
	6003	Unapportioned Funds		
		Funds appropriated pursuant to section 223(e) of FAA.		
6001		Estimated Fee Income	SF 132	General Journal
	6003	Unapportioned Funds		
		Estimated revenue for year.		
6004		Unallowed Apportionments	Journal Voucher	General Journal
6005		Unobligated Budget Allowances		
	6003	Unapportioned Funds		Program Budget Allowance Ledger
		September 30 balances of unused funds transferred to Unapportioned Funds.		
6003		Unapportioned Funds	SF 132	General Journal
	6004	Unallowed Apportionments		
		OMB apportionment of program funds.		

The control objective of this process is to ensure that an OYB is established in accordance with legislative and regulatory requirements. Among the control techniques used to achieve this objective are the following:

- **The guidance contained in Handbooks 2, 3 and 19 outlining the procedures for establishing the OYB.**
- **The OYB document prepared by PPC and approved by the Administrator.**

- **The assignment of OYB preparation responsibilities to authorized officials.**

- **The prompt recording and proper classifications of the OYB by responsible officials.**

- **The separation of key duties and responsibilities in authorizing, processing, recording, and reviewing the OYB.**

B. ACCOUNTING SYSTEM

In accordance with governmental accounting standards, Treasury has established requirements for the segregation and control of U.S. government funds according to the Agency's OYB. Each governmental fund specified in the OYB is a separate financial entity. Thus, for A.I.D., there is a Housing and Other Credit Guaranty Fund, Development Assistance Functional Program Fund, Development Fund for Africa, Private Enterprise Revolving Fund, American Schools and Hospitals Abroad Fund, International Disaster Assistance Fund, etc.

Of these various funds, the accounting for the Housing and Other Credit Guaranty Fund is perhaps the most difficult to understand. It is difficult to understand because this fund accounts for and controls:

(1) the obligations and expenditures of revenues (including borrowings from Treasury) received through the operations of the HG Program;

(2) the obligation and expenditure of revenues received and monies appropriated under prior and other credit guaranty programs; and

(3) the use of guaranty authority.

Furthermore, the classification, accumulation and reporting of financial data is subject to HG Program, Congressional, OMB, U.S. Treasury and A.I.D. requirements. For example, A.I.D.'s classification of HG Program general ledger accounts is intended to help meet the reporting requirements of U.S. Treasury Circular No. 966 on the Submission of Business-Type Financial Statements --requirements substantially in excess to those applicable to A.I.D. project accounting for the Development Assistance Functional Program Fund. Pursuant to Circular No. 966, the HG Program accounting system must not only conform with governmental budgetary-type accounting but also conform with commercial-type accounting requirements.

To meet these accounting requirements, the accounting system consists of a manual double-entry general ledger system, providing budgetary, proprietary and limitation

controls over HG Program transactions. The general ledger accounts provide a system of accountability for the assets, liabilities, revenues, cost of operations and the investment of U.S. Government resources. Control elements of this accounting system include statistical accounts and records which are designed to ensure compliance with statutory limitations and A.I.D. allocations on the authority to issue guaranties, and control data on fees, contingent liabilities, and country/agent guaranties and reserves under A.I.D. agreements. Control procedures are also established over statutory limitations, guaranty contracts authorized but unsigned, guaranty contracts issued, guaranty contracts canceled or terminated, and guaranty contracts liquidated.

Accordingly, FM/LM maintains basic journals, ledgers and other internal records and files which are used to:

(1) accumulate and summarize accounting data which reflect the proprietary and budgetary status of HG Program funds,

(2) provide effective control and accountability over funds and other assets of the HG Program,

(3) maintain the financial status of each guaranty contract and ensure the timely remittance of guaranty fees by the lender/fiscal agent/administrator as a basis for guaranty coverage under the contract,

(4) assure compliance with the statutory limitation on guaranty contract issuance authority, and

(5) prepare periodic financial reports for management and the central regulatory agencies.

This accounting system, as described below, is A.I.D.'s response to Section 3679 of the Revised Statutes, which requires the head of each Agency subject to the approval of the Director of OMB, to prescribe by regulation a system of administrative control designed to:

- restrict obligations and expenditures against each appropriation or fund to the amount of apportionments or reapportionments made for the appropriation or fund; and

- enable the Agency head to fix responsibility for the creation of any obligation or the making of any expenditure in excess of an apportionment or reapportionment.

1. **General Ledger**

The General Ledger represents a comprehensive record of the proprietary, budgetary and limitation controls over all transactions of the HG Program. The general ledger accounts are self-balancing and, in some cases, the general ledger accounts are supported by subsidiary ledgers.

Posting to the general ledger is made from summary totals in the records of original entry such as the Contract Authorization Record, Guaranty Contract Record, Budget Allowance Ledger and Cash Journal. Subsidiary accounts are posted from subsidiary elements of the original records. General Ledger entries are also posted from the General Journal or from transaction documents which are journal vouchered for direct posting to the General Ledger.

The information in the General Ledger and subsidiary accounts is used in the preparation of periodic reports on the status of the Housing and Other Credit Guaranty Fund, account 72X4340, and the results of operations financed by program funds. The ledger also provides the data required for program budgetary reports to OMB and Treasury. The information in the limitation controls over guaranty contract issuance authority is used for reports to management on utilization and in support of budget requests and related Congressional presentations.

2. **General Journal**

The General Journal is used for recording transactions not entered in any other record of original entry. The documents are maintained in a general journal file in the format of a conventional columnar journal.

Postings from the General Journal in most cases are made at the end of the month. However, it may be appropriate to post some transactions during the month such as funds authorized or funds apportioned (These transactions may also be posted directly from the documents.). Subsidiary ledgers to the General Journal are posted daily, rather than at the end of the month, and the entries supported by detailed documentation and a posting voucher.

3. **Limitation Records**

Guaranty authority provided by Title III, Section 222. of the FAA as of February 1990 totaled $2,183,100,000. Guaranty contracts are issued to protect eligible U.S. lenders against loss from whatever cause, except fraud or misconduct by the lender, for amounts up to 100 percent of the loan plus

accrued interest under approved projects. Guaranty contracts are normally issued for loans having a 20 to 30 year amortization period. The guaranty authority is subject to annual review by the Congress and is adjusted through the legislative authorization process.

All guaranty contract authorizations and amendments thereof are transmitted to FM/LM by PRE/H for clearance and the prevalidation of the availability of authority to issue guaranty contracts prior to approval of the Geographic Bureau Assistant Administrator. To facilitate this clearance, PRE/GC will provide FM/LM a conformed copy of the guaranty contract. The Geographic Bureau Assistant Administrator signs the guaranty contract authorization and all amendments. The use of guaranty contract issuance authority is controlled through three key records:

a. Contract Authorization Record

The purpose of the Contract Authorization Record is to provide a record of original entry for determining the total guaranty contract authorizations issued by the geographic bureaus and the balance of unused guaranty contract issuance authority available under the statutory limitation established for the HG Program.

This record facilitates statutory limitation control over guaranty contract authorization authority. Guaranty contract authorizations received from geographic bureaus and cleared by FM/LM as to available guaranty contract issuance authority are used for posting to the record. The balance of guaranty contract issuance authority available is adjusted to reflect amounts in executed guaranty contracts and the reductions, cancellations, terminations or liquidations of such guaranty contracts.

This record is the basis for monthly summary postings to general ledger accounts to reflect total statutory guaranty authority, the amount of guaranty authority used and the balance of unused guaranty authority.

After guaranty contract authorizations are processed in the Contract Authorization Record, the authorizations are filed by geographic area and country in the order in which received and cleared for availability of contract issuance authority. The file is labeled "pending" until the guaranty contract is executed and recorded in the Contract Authorization Record.

b. Guaranty Contract Record

The Guaranty Contract Record reflects the status of the guaranty contract which has been executed and issued to the lender. The record is based on transactions and supporting documentation provided by the executed guaranty contract received from PRE/H, reports from lender/fiscal agent/administrator, requests for reduction, cancellation or termination of guaranty contract from lender/fiscal agent/administrator, payment documentation on liquidation of guaranty contract, and related supporting advices from PRE/H. This documentation and record are maintained by geographic region and country to facilitate limitations control.

After a guaranty contract is recorded in this record, the related contract authorization is removed from the "pending" file and placed with the guaranty contract in the guaranty contract file. Summary totals of transactions affecting the status of guaranty contracts are posted at month end to the general ledger.

c. Housing Guaranty Ledger (form AID 7-347)

The Housing Guaranty Ledger is a subsidiary ledger supporting the Guaranty Contract Record. A separate Housing Guaranty Ledger is prepared for each guaranty contract. It contains basic financial information on the guaranty contract and is used to compile a chronological record of reserves, fees paid, A.I.D.'s contingent liabilities* and other transactions affecting the status of the guaranty contract. Entries to this ledger are supported by an executed guaranty contract and amendments, remittances for fees, monthly reports from lender/fiscal agent/administrator, vouchers covering claims payments for loss by the lender and PRE/H advices of claims approved. The data accumulated for the individual guaranty contracts of the Housing Guaranty Ledger are used in preparing the monthly Report W-239 Financial Summary.

The guaranty contract should not exceed the amount of the guaranty contract authorization shown in the Contract Authorization Record. Cancellations, reductions, terminations and liquidations should, in the

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* Guaranty contracts are considered contingent liabilities, and obligations are not recorded in the ledger or other records until such time as a claim is liquidated and payment is made to the lender.

aggregate, equal related totals in the Contract Authorization Record. Summary totals of transactions affecting the status of guaranty contracts are posted at the end of the month to the general ledger.

4. **Budgetary Records**

The agency has established a funds control system to ensure that the resources made available to carry out the OYB program are used as intended. This system is integrated within A.I.D.'s overall budgetary accounting system in which FM controls OMB apportionments by issuing allotments of the fund's resources to the Assistant Administrator (AA) of PRE.

Administrative control of funds in Account 72X4340 should be established as prescribed in the Anti-Deficiency Act, Section 3679, OMB Circular A-34, and A.I.D.'s regulations pertaining to the administrative control of funds.

a. **Allotment Ledger**

After FM/LM posts the apportionments to the budget ledger, it prepares, signs, and sends to FM/FC Form AID-7-158 Request for and Advice of Allotment to request FM/FC to allot funds to the AA/PRE. FM/FC allots funds through this form on a quarterly basis, pursuant to the OYB and subject to a limitation that the cumulative allotments for the year cannot exceed the amount of budgetary resources or new borrowings available in the Housing and Other Credit Guaranty Fund. Upon receipt of Form AID-7-158, FM/FC reviews, approves, records and distributes the Form AID-7-158 (The Request for and Advice of Allotment is an input document necessary for the detailed allotment accounting provided under A.I.D.'s computerized allotment and project accounting system). FM/LM retains responsibility for ensuring that the funds allowed to PRE and the RHUDOs do not exceed the cumulative allotment. Upon receipt of the signed Advice of Allotment from FM/FC, therefore, FM/LM prepares a journal voucher and posts the allotment to the budget ledger.

b. **Budget Allowance Ledger**

The Budget Allowance Ledger is a record of original entry and should reflect the budgetary status of the Housing and Other Credit Guaranty Fund, account 72X4340. It is a combination journal-ledger showing detailed fiscal transactions on use of funds provided by budget allowances for the program. The record consists of subsidiary ledgers for separate budget allowances covering travel and miscellaneous

expenses, personal compensation, PASAs and contracts, and claims under guaranty contracts.

Supporting documentation for the entries in the Budget Allowance Ledger consists of Advices of Budget Allowances, obligating documents for administrative and operating expenses, obligating documents for claims approval, and analyses of monthly accruals and postings to the general ledger budgetary accounts. Transactions in the subsidiary ledgers are summarized at the end of the month and posted to the general ledger budgetary control accounts. The general ledger postings are supported by working paper analysis to facilitate journal vouchering and processing.

The data in the Budget Allowance Ledger and general ledger accounts is used to report on the status of the Housing and Other Credit Guaranty Fund as required by OMB and Treasury.

After posting the allotment to the budget ledger, FM/LM prepares Form AID 740-3 Advice of Budget Allowance for each line item or function code to request FM/FC to allow funds to each of the eight RHUDOs and PRE pursuant to the OYB. FM/LM then signs the Forms AID-740-3 and sends them to FM/FC. FM/FC will allow funds on a quarterly basis, but FM/LM is responsible for ensuring that no more than 15 percent of the funds will be obligated in the last month of the fiscal year as required by Section 502 of the FAA. Thus, FM/LM must prepare the quarterly requests for Advice of Budget Allowance and send them to FM/FC in time to comply with this legislative requirement.

Upon receipt of the Forms AID-740-3, FM/FC reviews, approves, records and distributes the Forms AID-740-3 (Form AID-740-3 is an input document necessary for the detailed allowance accounting provided under A.I.D.'s computerized allotment and project accounting system). FM/FC posts the allowances in an allowance ledger account for the Housing and Other Credit Guaranty Fund. Though the Assistant Administrator of PRE, through FM/LM, is responsible for ensuring the Requests for Advice of Allowance of Funds do not exceed the allotment, the Allowance Ledger maintained by FM/FC for the allotment provides the formal means of control over the allowances made to PRE and the RHUDOs. Upon receipt of a signed Advice of Budget Allowance from FM/FC, FM/LM prepares a journal voucher and posts the allowances to the budget ledger.

FM/LM will advise the RHUDOs, by cable, of the funds allowed, the relevant budget plan code, etc. Each RHUDO director receiving an Advice of Allowance is responsible for restricting obligations to the amount available in the approved Advice of Allowance. To assist the directors in meeting this responsibility, the RHUDO's accounting station maintains a budget allowance ledger for the allowances received under PRE's allotment. At the end of each month, the activity summarized in the budget allowance ledger is reported to FM/LM and FM/FC for posting to the FM ledgers.

When the RHUDO has been advised that a budget allowance has been authorized, its accounting station will record the amount to the budget allowance ledger. The accounting station is then able to prevalidate documents for availability of funds. This prevalidation of funds would be recorded to the budget allowance ledger. The obligation would then be recorded in the budget allowance ledger. By administratively reserving funds until the obligating documents have been signed, the RHUDO's accounting station ensures that obligations do not exceed the budget allowances. At the end of each month, the accounting station prepares a report for the budget allowance ledger, which includes the allowances received and obligations incurred (as well as expenditures, unliquidated obligations and unobligated balances). This report is sent to FM/LM and FM/FC which reconcile it against the budget allowances issued (summarizations are also made of the other data for recording to the Agency's ledger accounts). FM/LM will track whether the RHUDOs and PRE are obligating the funds in a timely manner, since any allowances not obligated within the fiscal year for which the funds were provided are automatically withdrawn.

The system is designed to ensure that funds in account 72X4340 are used for the purpose made available. Therefore, the procedures require that funds obligated represent bona fide obligations in accordance with the criteria of Section 1311 of the Supplemental Appropriation Act of 1965, and are evidenced by prescribed written documentation as a basis for recording in the accounts as follows:

c. **Obligation in Washington**

Based on an available budget allowance, PRE/H can obligate funds in the order prescribed by Section 223 (b) of the FAA. Before obligating funds, however, obligating documents must be prevalidated for fund availability. FM/LM is the focal point for prevalidating availability of

funds allowed to PRE. FM/LM receives obligating documents for review as follows:

- Travel Authorizations, Form AID 5-8, from the A.I.D. Travel Section.
- Purchase Orders, Form 347, from PRE/H.
- Training Request, Standard Form 182, from the A.I.D. Training Office.
- Contracts from the Office of Procurement (Contracts also will involve PIOs and, therefore, there is an additional process for the reservation of funds).
- Vouchers, Form 1034, and letters of claims from PRE/H.
- Claims from lenders, for which FM/LM prepares the obligating document.

The processing of these obligating documents is discussed more fully later under the expenditure process. However, it should be noted that PRE/H does not receive obligating documents for payroll costs, but does receive, from FM/P/SM, a computer printing of payroll costs charged to the Housing and Other Credit Guaranty Fund.

Upon completion of its review, FM/LM stamps the documents "Funds Available", dates them for prevalidation action, and signs the documents. This signature is a certification that the obligations are bona fide documents in accordance with Section 1311 of the Supplemental Appropriations Act for fund obligating purposes and that the U.S. Government is thereby liable for the future payment of money upon performance or delivery in accordance with the requirements for which the funds are obligated. The certification requirement thereby also establishes compliance with a provision of Section 3679 of the Revised Statutes, as amended, requiring the head of each Agency to prescribe by regulation a system of administrative control designed to enable the Agency head to fix responsibility for the creation of any obligation or the making of any expenditure in excess of an apportionment or reapportionment.

After cleared for fund availability, FM/LM batches the obligation documents and routes them through FM/FC for processing through

A.I.D.'s computerized allotment and project accounting system. Depending on the type of obligation, copies of the obligation documents are also furnished to FM/ESD, FM/RSD or FM/SSD for use in certifying and scheduling payments.

d. Obligation in the Field

Other than obligating development assistance funds for housing projects, which is subject to the accounting procedures for project assistance, the only HG field obligations pertain to those necessary for the RHUDO's operating expenses. Thus, when FM/LM makes a budget allowance available to a RHUDO Director, he or she is responsible for ensuring the obligations and expenditures for program operating expenses do not exceed the cumulative amount of the budget allowance received. In fulfilling this responsibility, the Director, in conjunction with the RHUDO's accounting station, should follow the same procedures prescribed under A.I.D.'s Operating Expense System which is discussed elsewhere in this chapter.

All obligation transactions should be recorded daily to provide an up-to-date status of the program. At the end of each month, obligations recorded in the subsidiary ledgers should be reconciled to the budget allowance ledger. Also, summary data on earmark, commitment and expenditure data should be reconciled from the fund control ledger, earmark control records and commitment liquidation records. In making reconciliation entries, a journal voucher should be prepared with the summary figures.

An earmark control record should be established for each earmarking document. The purpose of this document is to control commitment activity against the earmarked amount and to serve as a record to control open commitment reservations. Transactions to the earmark control record should be recorded daily, thereby indicating the up-to-date status of any given earmark.

A commitment liquidation record should be opened for each commitment. The purpose of this record is to control expenditures against commitments. Transactions should be recorded daily to the commitment liquidation record, thereby providing an up-to-date status of any commitment. At the end of each month, the commitments, expenditures, and unliquidated balances of each commitment record would be totaled. These amounts are then entered to a trial balance

which is then used for preparing a journal voucher for posting to the budget allowance ledger.

5. Proprietary Records

a. Cash Journal

The Cash Journal is a record of original entry and should reflect all transactions affecting the status of cash for the Housing and Other Credit Guaranty Fund. The totals of the distribution debit and credit columns of the Cash Journal are posted by journal voucher to the general ledger at month end; entries in the sundry columns are posted individually. Also, based on working paper analysis, postings are made to applicable subsidiary accounts. The Cash Journal is formated as follows.

1. Cash Journal - Disbursements

This segment reflects disbursements charged to Fund Balances with the U.S. Treasury. The automated Cash Journal of the A.I.D. cash accounting system provides the basic control data on these transactions and is augmented by a manually prepared disbursement journal which provides additional detailed data for debit account distributions (See expenditure section of this chapter.) Supporting documentation includes journal vouchers, vouchers, invoices and schedules of payment.

2. Cash Journal - Receipts

This segment reflects cash provided for program operations. The Automated Cash Journal of the A.I.D. cash accounting system provides basic control data on receipts. A manual receipts journal provides additional data for account distributions, and postings to lender/contract subsidiary accounts. Supporting documentation for entries to the journal include confirmed Certificates of Deposit, check register entries, notices of collection for remittances received, journal vouchers, and receipt documents associated with standard journal entries.

Supplemental to the receipts segment is a Check Register which provides a record of checks received and deposited to account 72X4340. The register controls data on these transactions and also identifies the remiter and contract. It is maintained daily,

as each day's receipts are to be transmitted to the cashier daily. The Check Register thus provides a trail over the handling of all checks until Treasury confirms that they have been deposited and credited to account 72X4340. The following illustrates the operation of this register.

FM/LM will receive remittances from lenders or A.I.D.'s fiscal agent (The performance of the fiscal agent is governed by the A.I.D. agreement and by U.S. Treasury regulations concerning public depositories) for guaranty fees. When the fees are received, FM/LM will record the receipts in the Check Register and prepare a Notice of Collection, pursuant to A.I.D. Collection and Billing Procedures, Handbook 19, Chapter 7. The check for the guaranty fee should be reconciled with the lenders report. The checks and the Notice of Collection will then be sent to the Cashier's Office, which is responsible for receiving and depositing remittances, and a copy of the Notice of Collection will be filed. The Cashier's Office will prepare a Certificate of Deposit, file one copy, and send the original and check to the bank. The bank will complete the Certificate of Deposit, return it to the Cashier's Office, and transfer the funds to the U.S. Treasury.

A.I.D. requires periodic reconciliations performed at supervisory level of receipts and confirmed deposits in the accounts with Treasury balances. Month-end inventories of the Cashier provide data to effect reconciliation between Treasury and A.I.D.'s fund balances with the Treasury (TFS-6653) for deposits not confirmed by Treasury, and checks on hand and not deposited. Thus, the Cashier's Office will reconcile the completed Certificates of Deposit with the copies on file, and complete the Notice of Collection. The completed Notice of Collection is then returned to FM/LM where it is to be reconciled with the copy on file and recorded in the Cash Receipts Register. At month end, FM/LM should reconcile the Cash Receipts Register with the Check Register, reconcile the Cash Receipts Register with various Cash Journal system reports, and post cash receipts to the HG Program General Ledger from the Cash Journal.

The totals of the debit and credit columns of the two segments of the Cash Journal are posted by journal voucher to the General Ledger at the end of the month. Based on inventory reports from the A.I.D.

Cashier at the end of the month, the following additional entries are made:

- Deposits not confirmed by Treasury are shown in the Receipts segment as "Cash on Hand and in Transit" and as a minus amount in "Fund Balances with U.S. Treasury". This entry is reversed at the beginning of the following month.

- Checks and other remittances on hand and not deposited are shown in "Cash on Hand and in Transit" and "Accounts Receivable". This entry is reversed at the beginning of the following month. Entries appear in the Receipts segment.

- Disbursements not processed at the end of the month by Treasury are reflected in the Disbursements segment by a minus entry in "Fund Balances with U.S. Treasury" and a credit to "Accounts Payable" in the "sundry" column. The entry is reversed at the beginning of the following month.

b. **Claims File**

Detailed subsidiary records by project are maintained for claims payments and recoveries of claims paid. Transactions are processed through the Automated Accounting System.

6. **Illustrative Pro Forma Entries for the Accounting System**

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
Guaranty Authority				
		Clearance of guaranty issuance authority availability after review and approval of guaranty proposal. General ledger controls are not applicable. Clearance annotated by memorandum entry.	Unsigned Contract Authorization	Contract Authorization Record
7001	7002	Unused Contract Issuance Auth. Guaranty Contracts Authorized & Unsigned	Signed Contract Authorization	Contract Authorization Record

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
		Issuance of guaranty contract authorizations by Regional Assistant Administrators pursuant to Delegation of Authority No. 88.		
7002		Guaranty Contracts Authorized & Unsigned	Executed Guaranty Contract	Contract Authorization Record
	7003	Guaranty Contracts Issued Execution of guaranty contract, or increase in contract amount, pursuant to Redelegation of Authority.		Guaranty Contract Record Guaranty Ledger
7005		Guaranty Contracts Canceled, Reduced, or Terminated	Executed Amendment to Contract	Contract Authorization Record
	7001	Unused Contract Issuance Auth. Reduction, cancellation or termination of guaranty contract amount and restoration of contract issuance authority availability.	Lender's Request Supporting Documentation From PRE/H	Guaranty Contract Record Guaranty Ledger
7004 7006		Guaranty Contracts Liquidated Guaranty Loan Repayments	SF 1166 Supporting	Contract Authorization
	7001	Unused Contract Issuance Auth. Liquidation or repayment of claim under guaranty contract to lender and restoration of contract issuance authority availability.	Voucher Reports from lenders, fiscal agent & others.	Record Guaranty Contract Record Guaranty Ledger File of Subrogated Claims
Fund Availability and Use				
6004		Unallowed Apportionments	Form AID 7-36, Advice of Budget	General Journal
	6005	Unobligated Budget Allowances Budget Allowances of program		Program

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
		funds for personnel compensation, travel and miscellaneous expenses, contractual services and claims liquidation issued by FM/BUD.	Allowance	Budget Allowance Ledger
		Administrative reservation of funds as basis for contract negotiation and execution with organizations and institutions assisting in carrying out the program are annotated by memorandum entry. General ledger controls are not applicable.	PIO/T from PRE/H	Program Budget Allowance Ledger
		Notification of claims received from lenders under guaranty contract but not approved is annotated in the subsidiary files of Subrogated Claims. General Ledger controls are not applicable.	PRE/H Notice of claims received, Supporting Documentation	File of Subrogated Claims
1600	2100	Subrogated Claims Accounts Payable PRE/H approval of claim of lender under guaranty.	Journal Voucher; Supporting Advice from PRE/H	General Journal File of Subrogated Claims Guaranty Ledger
6005	6006	Unobligated Budget Allowances Unliquidated Obligations Obligation of funds for program expenses and payment of claims authorized in sections 223 (b) and (c) of the FAA.	Payroll; TAs; PIO/Ts; POs; Contracts; Claims Approval Documentation; PASAs; Journal Voucher	Program Budget Allowance Ledger
1201	4100	Fees Receivable Income - Fees	Journal Voucher,	General Journal

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
		Issuance of AID Letter of Advice upon acceptance of application for guaranty.	Letter of Advice	
1000		Fund Balance with U.S.T.	Certificate of Deposit; Supporting Lenders Transmittals	Cash Journal Guaranty Ledger
	1200	Accounts Receivable		
	1201	Fees Receivable		
	4900	Other Income		
		Fees collected and miscellaneous revenue.		
6002		Receipt of Fees	Journal Voucher	General Journal
	6001	Estimated Fee Income		
		Estimated receipts realized during fiscal year.		
1000		Fund Balances with U.S. Treasury	Certificate of Deposit; Lender/ Fiscal Agent Reports	Cash Journal File of Subrogated Claims
	1600	Subrogated Claims		
		Amounts recovered under claims payments previously charged to subrogated claims.		

The control objective of the accounting system is to ensure that the funds and guaranty authority authorized by Congress and apportioned by OMB are used as authorized in the OYB. The Housing and Other Credit Guaranty Fund and the prescribed self-balancing general ledger accounts should (1) control all transactions applicable to A.I.D.'s HG Program operations, (2) provide an accountability for the capital provided by statute, and (3) give the results (cumulative net income or deficit) from operations. To achieve these objectives, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 19, chapter 1 and the Controller's Guidebook, chapter 13 (the guidance describing this process is incomplete, however).**

- **The maintenance of ledgers and records and the timely recording of transactions to these ledgers and records as funds are allotted, allowed, obligated, prevalidated, earmarked, committed and expended.**

- **The requirement that allotments, allowances, obligations, prevalidation, and commitments be authorized and executed by persons acting within the scope of their authority.**

- **The separation of duties and responsibilities in authorizing, processing and recording allotments, allowances, obligations, prevalidations, and commitments.**

- **The limitation of access to resources and records to authorized officials.**

- **Qualified and continuous supervision exercised over the budgetary system.**

C. EXPENDITURE PROCESS

The expenditure process gives effect to the concept of accrual accounting with revenues recorded on an as earned basis and expenditures recorded on the basis of the delivery of goods and services performed.

Earnings under the HG Program derive mainly from A.I.D. guaranty fees charged borrowers, i.e., host governments. The costs of administering and operating the HG Program, including the costs associated with claims or liabilities under guaranty contracts, are paid from fees charged borrowers for the guaranties issued. However, when such costs exceed income from fees, they are charged to capital (reserves) as authorized in the FAA of 1969. A Housing Guaranty Cash Reserve was established by the FAA of 1969 by transfer of $50 million from fees and net assests accumulated under prior guaranty programs. The FAA of 1974 earmarked $3 million of the reserve for other credit guaranty programs. The balance of this cash reserve and all fees collected are recorded in account 72X4340, A.I.D. Housing and Other Credit Guaranty Fund, which are available for the following uses:

- meeting necessary administrative and operating expenses of carrying out the provisions of Sections 221 and 222 of the FAA as amended, and of prior guaranty provisions repealed by the FAA of 1969,

- meeting management and custodial costs incurred under guaranties made pursuant to Sections 221 or 222 of the FAA as amended or to prior guaranty provisions repealed by the FAA of 1969 (this section pertains to prior programs),

- paying the cost of investigating and adjusting claims under such guaranties, and

- expending funds in discharge of liabilities under such guaranties.

The use of funds for these purposes is subject to the following procedures:

1. **Advances and Liquidation of Cash Advances**

It is Agency policy to make payments on the basis of goods delivered or services performed or to reimburse costs already incurred. An exception to this policy is made for non-profit organizations, host government institutions, and the travel of contractors and employees which are normally paid by an advance of funds. Advances are provided to contractors and employees in recognition of the fact that they have limited resources. This means advances are to help pay anticipated costs for a specified period of time.

Treasury policies require that, when the Agency negotiates advance arrangements, the advances be restricted to immediate cash needs. When advances are made by Treasury check, cash needs may warrant a longer period but should not be provided for a period which exceeds 30-day requirements. When circumstances warrant a period longer than 30 days, either the assistant administrator of the geographic bureau or the overseas office director must justify in writing that implementation will be seriously interrupted or impeded by the 30-day rule. Under Agency policy, the period of the extended advance cannot exceed 90 days, regardless of circumstances. Thus, the accounting stations, must ensure that advances are restricted to the minimum amount necessary; and that when this minimum amount exceeds 30 days requirements, it must be fully justified in writing by the appropriate level of management.

Advances are usually provided by Treasury check. Under this method, it is possible that the processing time for such advances could take up to two weeks, or longer if the mail delivery to and from the Disbursing Office is slow. This processing time must be factored into the period of the advance. The advance would thus be determined by the processing time plus immediate cash disbursement needs.

Liquidating the advances recorded to the cash ledgers is an accounting aspect, since the liquidating invoices can only be prepared by the organizations or individuals after the costs have been incurred, recorded and totaled. It may then take another two to three weeks for the organization or individual to prepare the "no-pay" vouchers and another one to two weeks for the A.I.D. office to review, certify, and record the liquidating vouchers as offsetting entries to the advances. There is thus an accounting lag time in preparing and processing "no-pay" liquidating vouchers.

In accounting for cash advances, each accounting station (For RHUDO operations the accounting station is usually the controller's office of the mission in the country where the RHUDO is located. In A.I.D./W, the paying offices are FM/ESD, FM/RSD, or FM/SSD depending upon which office received the obligation documents relating to the particular transaction.) should establish a cash advance ledger for each fund account. Subsidiary ledgers should also be established as a means of controlling the cash advances made to each organization or individual. When cash advances are made, these ledgers should be debited for the amount of the advance. The organization or individual should periodically prepare a "no-pay" voucher, indicating how the advance was used. These "no-pay" vouchers should be reviewed, certified and posted to the cash advance ledgers as a credit. At the end of each month, outstanding cash advance balances should be reported to FM.

a. Illustrative Pro Forma Entries for the Cash Advances

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
1150		Advances	SF 1166	Cash Journal
	1000	Fund Balances with U.S.T.	SF 1038	
		Travel advances to employees and cash advances to contractors.		
5100		Operating and Administrative Exp.	WF 1012	Program
	1150	Advances	Travel Voucher	Budget Allowance Ledger
		Liquidation of travel advances and cash advances to contractors.		

The control objective of the cash advance-liquidation process is to ensure funds advanced to organizations and individuals do not exceed immediate cash needs and are liquidated in an expeditious manner. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 19, chapter 1B and the Controllers Guidebook, Chapter 16.**

- **The maintenance of cash ledgers and subsidiary ledgers and the timely recording of transactions to these ledgers as funds are advanced and liquidated.**

- **The requirement that cash advances be authorized and executed by persons acting within their scope of delegated authority.**

- **The separation of duties and responsibilities in authorizing, processing and recording cash advances and the liquidation of advances.**

- **The limitation of access to records by authorized officials.**

- **The provision of qualified and continuous supervision over the cash advance and liquidation process.**

2. Prompt Payment

The Agency uses several payment methods in the procurement of goods and services. Of these methods, the two indicated below entail Agency processing of contractor and suppliers' invoices for payment:

- Direct payments by A.I.D. against presentation of invoices and other documents.

- A.I.D. direct letter of commitment to contractors or suppliers under which A.I.D. makes direct payments to contractors and suppliers.

In contracting under these two methods, contracting officials are responsible for ensuring that the payment terms, specifying when payments are due, are contained in the contracts, purchase orders and other commitment documents. The inclusion of these payment terms in all contracts is a requirement of OMB Circular A-125, which applies to contracts with any organization outside the Federal government.

OMB Circular A-125, which provides implementing guidance on the Prompt Payment Act of 1982, requires that the Agency must make every effort to process payments of U.S. Government commitments in a timely manner. In a timely manner means payments should be made neither early nor late. To comply with this requirement, the guidance states that the Agency's payment system must be designed to provide for scheduling the issuance of checks as close as administratively possible to, but no later than the due date, as specified in the contract, invoice or agreement. When the paying office is in the U.S. and no due date is specified, the due date will be considered to be

on the 30th day from receipt of the invoice, or acceptance of the goods or services, whichever is later. When the paying office is located abroad and no due date is specified, the due date will be considered to be on the 45th day from receipt of the invoice.

As a general rule, payments should not be made on invoices prior to acceptance of the goods or services unless specifically provided by the contracts or other agreements executed pursuant to law. Under certain circumstances, presentation of ocean bills of lading, rather than arrival and acceptance of goods at the foreign destination, may be considered as receipt of goods when an executed Form AID-282 (Supplier's Certificate) and, as appropriate, a freight forwarder's Letter of Undertaking are provided.

The Agency requires that all accounting stations maintain a logbook to track the movement and scheduling of invoices for payment. This logbook should contain the following:

- Date Received
- Contractor Name
- Purchase Order/Contract Number
- Invoice Number
- Invoice Amount
- Discount Due Date (if any)
- Date Sent for Administrative Approval
- Name of Implementing/Approving Office
- Date Returned from Administrative Approving Officer
- Voucher Examiner's Initial
- Schedule Number
- Schedule Date
- Remarks including amount of interest penalty and the cause(s) for late payment, explanation(s) why discounts not taken, etc.

Under Agency procedures, all incoming invoices are routed to the accounting station where the invoices are date stamped. The invoices are then logged in the appropriate columns of the logbook. After the appropriate entries have been made in the logbook, the invoices are forwarded to the applicable Administrative Approving Officers (Generally, Project Officers) who are responsible for reviewing and approving the invoices for payment. After making this administrative approval, the invoices are returned to the accounting station. The accounting station will then review the invoices after which they are approved for payment and assigned voucher numbers. A notation is made in the logbook when the vouchered invoices are scheduled to be paid. Periodic review of the logbook is necessary to ensure payments are made as scheduled.

Vouchers can be paid either through the U.S. Disbursing Office (USDO) servicing the A.I.D. office or through FM by electronic funds transfer. When payments are made through the USDO, the accounting station must ensure a sufficient number of days is allowed for mail delivery and USDO processing time in scheduling the payment. When payments are to be made by electronic funds transfer, payments can be scheduled one or two days before payment is due. FM requires that only payments in excess of $5,000 be made by electronic fund transfer.

a. Cash Discounts

All accounting stations must incorporate procedures which will automatically take advantage of discounts as a matter of routine. Such discounts will only be taken when the discount terms yield an effective annual interest rate equivalent to, or greater than the percentage rate based on the current value of funds to the Treasury. A.I.D. accounting stations will base the computation of the discount period on the date of receipt of an invoice which is authorized for payment unless otherwise provided in the contract or invoice as to how the discount period is to be determined. All discounted payments should be scheduled for check issuance on the last day of the discount period. However, payments should not be made to achieve discounts unless the related goods or services have been received except as specifically provided by contract or other agreements executed pursuant to law.

b. Late Payment

The accounting station must make every effort to ensure that payments are made in a timely manner. Payments not made on or before the payment due date are considered late payments. Such late payments,

if not paid within 15 days after the payment due date, will be subject to interest penalties. Interest penalties will be paid automatically without request from the commercial firms from the next day after the payment due date to the date payments are made. The calculation of the interest penalty will be based on the current value of funds to the Treasury and the number of late days.

Interest penalties are not required when payment is delayed because of a disagreement between the Agency and a business over the amount of the payment or other issues concerning compliance with the terms of the contract. Nor are interest penalties required when payments are made solely for financing purposes.

c. **Reporting**

OMB Circular A-125 requires that each Federal agency will report to OMB, within 60 days after each fiscal year, the following information:

- Number of interest penalties paid.
- Amount of interest penalties paid.
- Relative frequency, on a percentage basis, of interest penalty payments to the total number of payments.
- Number, total amount, and relative frequency, on a percentage basis, of payments made 5 days or more before the due date, except where cash discounts were taken.
- Reasons that interest penalties were incurred.
- An analysis of the progress made from previous years in improving the timeliness of payments.

To implement this requirement, each accounting station should review its logbook at least weekly to ensure that invoices are being timely processed. This review provides assurance that offered cash discounts are taken and such invoices are paid on the last day of the discount period, or any cash discount not taken is explained in the "Remarks" column of the logbook.

Each accounting station processing payments must transmit a report at the end of each month to FM, indicating the reasons for any interest

penalties that were incurred. The information for this report can be taken from the "Remarks" column of the logbook maintained by the paying office. The original and one copy of this report should be attached to the U-101 report. One negative report covering all other budget allowances from each accounting station is required for inclusion in the package of the monthly U-101 reports. In addition, a year-end cumulative report summarizing all interest payments made during the fiscal year under each budget allowance is required for attachment to the respective U-101 report.

At the end of each fiscal year, FM will prepare an Agency-wide annual report to OMB in accordance with the format cited above.

The control objective of the prompt payment process is to ensure payments are made in compliance with the Prompt Payment Act of 1982 and OMB implementing guidance provided in Circular A-125. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 19, Chapter 1B and the Controller's Guidebook, Chapter 6.**
- **The maintenance of logbooks to track the movement and scheduling of invoices for payment.**
- **The separation of duties and responsibilities for approving, receiving and certifying invoices for payment.**
- **Qualified and continuous supervision over the prompt payment process.**

3. Voucher Approval, Review and Certification Process

When vouchers are received by the accounting station, they should be date stamped and the pertinent information noted in the appropriate columns of the voucher control logbook. The voucher should then be forwarded immediately to the appropriate officer for administrative approval. A.I.D.'s prompt payment procedure requires the administrative approving officer to return the invoice to the accounting station within five business days. If the administrative approving officer finds an error or impropriety in the invoice, it should be so noted and immediately forwarded to the accounting station so the invoice can be reviewed in and the contractor notified within 15 days or earlier.

Administrative approval is an important control within the payment process. This is because administrative approving officers (generally, Project Officers) represent A.I.D.'s interest during all phases of operations and are concerned with ensuring the prudent and effective utilization of A.I.D. resources. It logically follows that the involvement of knowledgeable officers in the payment process strengthens A.I.D.'s management system. This involvement provides an opportunity for the knowledgeable officer to verify the contractors' billings and to evaluate the level of effort reported against actual performance. Thus, in this sense, the administrative approval is the basis for the certification of expenditures.

For most transactions, standard forms (i.e., SF-1034, SF-1012, SF-1113, SF-1171, SF-455, etc.) are used as the basic vouchering documents. However, in administrative transactions other than those involving charges for transportation services, the General Counsel has approved use of a vendor's invoice, bill, or statement of account in lieu of the voucher form, provided the document contains all the information required to be shown on the voucher with respect to itemization of the goods or service. The invoice, bill, or statement of account becomes the voucher and the term "voucher" refers to a detailed bill submitted in acceptable form.

As a general rule, all payments must be administratively approved except for payments for goods under Bank Letters of Commitment and Direct Letters of Commitment. Under these two payment methods, the bill of lading is considered on acceptable form of evidence for the receipt of the goods.

The accounting stations are responsible for establishing and maintaining voucher examination units. In maintaining these units, there must be sufficient separation of duties and responsibilities among the individuals charged with the obligating, examining, and certifying functions to provide for appropriate levels of review in order to protect the interests of the United States.

The voucher examiner is responsible for the proper review of bills submitted to A.I.D. for payment. Although final responsibility for certifying a voucher for payment rests with the Certifying Officer, the voucher examiner's review must be of a quality and depth sufficient to afford ample protection to the Certifying Officer in discharging his or her responsibility. The administrative audit of vouchers is thus governed by legislation, regulations, internal procedures, and the terms and conditions of the obligating or commitment documents.

Though there are differences in the review of individual vouchers, the following review steps are common to all:

- The obligation was properly incurred as evidenced by an authorizing document issued by a designated official.

- Funds are available for the expenditure as evidenced by a copy of the obligating document or by other appropriate documentation.

- The government fund to be charged is available for and applicable to the services rendered or materials procured.

- Computations, extensions, etc., are mathematically correct and all information required by the various portions of the voucher form have been supplied.

- Certifications and statements required by law, regulations and terms of the implementing document are made and signed.

- The amount and items claimed are in agreement with the basic documents authorizing the claim.

- The goods or services for which the voucher is submitted were actually delivered or performed as directed. Evidence of delivery is afforded through copies of Bills of Lading, receipted invoices, Supplier's Certificates, or other documents as specified in the implementing document, which evidence passage of title from the supplier. When payment is based on evidence of delivery to the carrier, rather than receipt by the consignee, a sound receiving system is required to verify subsequent receipt of the goods and to assure appropriate action in the event of a shortage or damage to the shipment.

- The voucher does not represent a duplicate claim previously submitted and paid.

- The payee is the proper person to receive payment.

Upon completion of the review, the voucher examiner enters on the voucher the appropriation/fund symbols and budget plan codes applicable to the transaction. Unless the expenditure is against a commitment established by another A.I.D. office, the voucher examiner also enters the amount of the commitment to be liquidated and, if the voucher completes the transaction, the amount of the original commitment to be decommitted. After stamping

the due date on the vouchers, they are sent to the Certifying Officer (In the field, the certifying officer will generally be the accounting station controller or designee. In A.I.D./W, this officer is the head of FM/ESD, FM/RSD, or FM/SSD depending upon the transaction.) for review.

Since the Certifying Officer's Act (31 U.S.C. 82c and 82f) holds authorized Certifying Officers individually and personally responsible for their acts with respect to the certification of vouchers for payment, it is essential that they review all vouchers. In making this review, they must ensure the validity and correctness of the facts stated in the vouchers. They must also have complete and current knowledge of all expenditures involved with the commitment documents. Upon completion of this review, the Certifying Officer will then authorize the voucher for payment. This authorization may be made by certifying the invoice, though it is important to recognize that this certification of the voucher is not the certification for payment. After authorizing the voucher for payment, the Certifying Officer forwards the voucher to the scheduling clerk.

In scheduling the vouchers for payment, the scheduling clerk uses "Form SF-1166, Voucher and Schedule of Payments." Because this schedule is the only document used by the U.S. Disbursing Office or Treasury for issuing checks, it is imperative that the schedules be executed with completeness and clarity to ensure accurate identification of the payee, voucher number, and any other information presented to define the disbursement action.

Separate schedules by groups of basic vouchers are prepared for U.S. dollar and for local currency payments. When amounts of two or more basic vouchers are due by payee, such amounts may be combined and listed as a single payment on the schedule. The individual voucher number for each basic voucher is shown in the voucher number column of the schedule in the usual manner.

The scheduling clerk then forwards the completed SF-1166 with the original vouchers to the Certifying Officer. The Certifying Officer then certifies the SF-1166. In A.I.D./W, a copy of the SF-1166 will be sent to FM/LM and FM/CAD for entry into the various Allotment Ledger and Cash Journal systems. FM/LM will record the SF-1166 in the Cash Disbursement Register. At the end of the month, it will then reconcile the documentation in the file with various Cash Journal System reports and record the cash disbursement in the HG Program Ledger.

Accounting stations should submit the certified SF-1166s to the respective Disbursing Office (or, in A.I.D./W, the Treasury) in sufficient time so the checks can be issued by the Disbursing Officer on the expected payment due dates.

The original and one copy of the schedule are submitted to the Disbursing Office. The Disbursing Office places the appropriate payment information on both the original and copy of the schedule and retains the original in the Disbursing Office as support for the Statement of Accountability. The copy, which is returned to the accounting station from which it was received, serves as support for the Statement of Transactions.

The control objective of the administrative approval, review and certification process is to ensure payments are made in accordance with the related commitment documents and applicable laws and regulations and the goods and services have in fact been received and/or rendered. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 19, Chapter 3, and the Controller's Guidebook, Chapter 5.**
- **The requirement that vouchers for payment be authorized, reviewed and certified by persons acting within their scope of delegated authority.**
- **The separation of duties and responsibilities in authorizing, reviewing, scheduling and certifying vouchers for payment.**

4. Advice of Charge (or Credit) Process

Under the Agency's various payment methods, overseas accounting stations may process receipts or payments on behalf of FM when they are authorized to do so. Without such authorization, there would be no control over revenues and expenditures. This authorization thus serves as a control to ensure the processing location charges the transaction to the other location's proper appropriation/fund, allotment and obligation records.

To control such transactions, FM has established a computerized system to handle Advices of Charge (Credit). When the overseas accounting stations process payments (receipts)on behalf of FM, these payments (receipts) are to be recorded as charges in separate allowance ledgers entitled "Net Expenditures (or Collections) for other Missions." After closing the books at the end of the month, Advices of Charge (Credit) are prepared and reported

in the accounting stations' U-101 Reports as "Disbursements (or Collections) Made This Month Chargeable to Other Missions." The U-101 Report is then sent to the Central Accounting Division of the Office of Financial Management (FM/CAD) with the attached Advices of Charge (Credit).

Upon receipt of the U-101, FM/CAD sends the Advices of Charge (Credit) relating to the HG Program to FM/LM. FM/LM will then review the AOC and prepare three documents. The first is an acknowledgement of receipt of the AOC which is returned to the initiating accounting station. The second document is used to credit the "Mission to A.I.D./W" in transit account and is recorded in the Agency's Allotment Ledger and Cash Journal Systems. These entries then clear the transaction. At the end of the month, a listing of the items in this account is sent to the overseas accounting stations for crediting FM's acceptance of the Advices of Charge (Credit) to the appropriate ledgers. These credits clear the transactions from the accounting stations' records. The third and final document is a spread sheet from which FM/LM will prepare journal vouchers for posting to the General Ledger.

a. **Illustrative Pro Forma Entries for Advice of Charge**

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
1000		Fund Balances with U.S.T.	Certificate; of Deposit, Advice of Credit from USAID	Cash Journal
	4100	Income - Fees Submission fees paid by prospective applicant for A.I.D. guaranty.		
1300		Prepaid Expenses	SF 1166; Supporting Vouchers; Invoices Received; Journal Voucher (Accrued. Liab., prepaid expenses) Advice of Charge and documentation SF 1034 and Voucher	Cash Journal General Journal Program Budget Allowance Ledger
5100		Operating & Admin. Expenses		
	1000	Fund Balances with U.S.T.		
	2100	Accounts Payable		
	2200	Accrued Administrative Expenses		
		Program expenses paid or accrued, including allocation of USAID costs attributable to the program as shown on Advice of Charge and supporting obligation documentation; prepaid expenses allocable to future periods.		

The control objective of the Advice of Charge (Credit) process is to ensure receipts and payments made by one location and funded by another are properly authorized, made in accordance with the commitment documents and applicable regulations and charged to the appropriate commitment liquidation records. To achieve these objectives, the following control techniques are used:

- **The guidance provided in Controller's Guidebook, Chapter 4, though data is incomplete.**
- **The maintenance of Advice of Charge (Credit) in-transit accounts and a related procedural system to control all intra-Agency transactions.**
- **The separation of duties and responsibilities in authorizing, processing and recording Advices of Charge (Credit).**
- **Access to records is limited to authorized officials.**
- **Qualified and continuous supervision is exercised over Advice of Charge (Credit) system.**

5. Bills for Collection

The administrative approval, review and certification process is designed to ensure that the amounts claimed for payment are consistent with the commitment documents and comply with the provisions of applicable laws and regulations. However, the effectiveness of this process is constrained by the limited detail provided in the vouchers.

Bills for Collections are issued when such conditions as the following are subsequently found by payment officers and other Agency officials:

- Transportation by vessel under flag of country not authorized under the implementing document.
- Vessels chartered without prior A.I.D. approval.
- Violation of requirement that at least 50 percent of A.I.D.-financed shipment be shipped on U.S. flag vessels.
- Violations of the statutory or administrative pricing requirements for A.I.D.-financed goods and services.

- Failure of suppliers to allow a trade discount to which the importer was entitled, e.g., a discount based on quantity or prompt payment.

- Shipment shortages, losses in transit of uninsured shipment, shrinkage in weight of items sold on a delivered weight basis.

- Goods delivered of lower quality than specified, or analysis reveals specifications of procurement authorization were not met.

- Damages incurred during transit of uninsured shipments.

- Losses or damage payments under marine insurance coverage.

A.I.D. accounting stations are responsible for preparing and issuing Bills for Collection as soon as the basis for the refund claim has been sustained by the responsible officials. The Bill for Collection must indicate the date the refund is due. If the Bill is not paid by the due date, a demand letter is issued to advise the contractor, supplier or employee that the debt is delinquent and a late payment charge must be included in the payment. When the debt is delinquent for 30 days, a second demand letter is issued. When the debt is 60 days past due, a third demand letter is issued to advise that a penalty charge is being added to the late payment.

a. Debt Collection Act of 1982

Pursuant to the Debt Collection Act of 1982, the following definitions apply to interest, late payment and penalty charges:

- Interest Charge - interest is to be charged on claims for refund of overpayment from the date of overpayment by A.I.D. through the date of the Bill for Collection. Interest shall be charged by A.I.D. at the rate established by Treasury in accordance with the Internal Revenue Code, 26 U.S.C. 6621(b).

- Late Payment Charge - charge is from date of Bill for Collection through date of refund if not paid on or before due date. The rate is equal to average investment rates for the Treasury tax and loan accounts for the 12-month period end on September 30 of each year rounded to the nearest whole percentum. The rate is commonly known as the percentage rate of Treasury current values of funds.

- Penalty Charge - charge is in addition to the late payment charge from the 91st day after due date through date of refund or failure to pay any portion of a debt more than 90 days past due. A rate of six percent per annum is used.

The Debt Collection Act requires that A.I.D. offices make every effort to obtain refunds in a timely manner. When these efforts prove to be futile, the Federal Claims Collection Act of 1966 gives the Agency authority to compromise, suspend or terminate collection action on any claim not in excess of $20,000 exclusive of interest, late payment charge and penalty charge. This applies to claims against suppliers, contractors, and A.I.D. employees. Claims not in excess of $500 may be terminated with approval of the A.I.D. office director. Claims in excess of $500 are forwarded to the FM for termination approval.

Claims arising from illegal acts must be submitted to the Office of General Counsel for refund to the Department of Justice. Other exceptions include claims arising as a result of HG Program operations for which settlement and arbitration authority is provided in Section 635(i) of the FAA; claims against foreign governments and intergovernmental organizations; and claims where the A.I.D. Administrator or his designee determines that a different course of action is required to achieve the purpose of the FAA or other acts administered by A.I.D. A.I.D. does not have authority to compromise a claim that arises out of an exception made by the General Accounting Office (GAO).

In accounting for Bills for Collection, the accounting stations should establish an accounts receivable ledger for each appropriation/fund and budget plan code to which the billing relates. The Bills for Collection should then be recorded in the appropriate ledger as a charge or debit. Supporting files, including the basis for the billing, should be established and maintained until collected.

When payment is made by check under the Bill for Collection, the amount is recorded as a credit to the appropriate ledger. The check for the refund is then immediately sent to the Cashier's Office for deposit. The deposit would be made as charge to the fund account.

When the refund is made by administrative offset to a current voucher, the current voucher is reduced and the appropriate ledger is credited. The net effect on the fund account is the same whether the refund is made by administrative offset or by check.

b. Reporting Bills for Collection to FM

The records maintained by overseas accounting stations are subsidiary to the ledgers maintained by FM. To facilitate the recording of transactions from the overseas accounting stations' ledgers to the general ledgers, FM has devised the U-141 Report.

The U-141 Report is submitted by the overseas accounting stations monthly to FM. The report contains a description of each Bill for Collection or other billing document issued and of each collection received (or other disposition action). Information contained in the report is used for input into the FM Financial Accounting Control System, which produces accounting data for Agency-wide control of all billing and collection transactions.

At the end of each quarter, FM provides each accounting station a detailed listing of the accounts receivable reported by the overseas office. This listing contains the outstanding balances at the close of the prior year and individual transaction in the current year as reported by the overseas accounting station. Accounting stations should reconcile the listing with balances in their accounts receivable records and the suspense file to assure that the FM listing and the accounting station's records are in agreement. The accounting stations should have documentation to substantiate each outstanding item shown on the listing. If they do not agree, corrective action must be taken and any adjustments should be reported on the next U-141 report clearly marked "Adjustments of Accounts Receivable Detail Listing as of date." If they do agree, the following statement shall be noted on the next U-141 report: "The listing of outstanding accounts receivable has been reconciled and is in agreement with USAID's records as of date."

A detailed listing of FM-initiated billings outstanding as of the end of the prior year and updated for current-year activity is sent to the accounting stations. The accounting stations reconcile this listing with FM records on non-mission initiated billings. Reports of variations are sent to FM as an attachment to the subsequent U-141 report. If no difference are noted, FM should be so advised.

The control objective of the Bill for Collection process is to ensure that contractors, suppliers and employees, who are billed for disallowed costs, refund such costs to the Agency in an expeditious manner. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 19, Chapter 7, and the Controller's Guidebook, Chapter 6.**

- **The separation of duties and responsibilities for identifying, recording, reporting and setting claims arising from disallowed and other costs.**

- **The maintenance of books and records to track the billing and collection of disallowed costs.**

- **Qualified and continuous supervision over the Bill for Collection process.**

6. Voucher Recording

When vouchers have been scheduled and certified on the SF 1166, they should be promptly recorded to the commitment liquidation records. Advices of Charge which are chargeable to commitment liquidation records should also be promptly recorded upon acceptance.

Recording vouchers to commitment liquidation records is a straight-forward process. Vouchers are matched up with the appropriate commitment liquidation records and entries are then recorded to the appropriate column. Disbursements are recorded as positive figures in the disbursement column; and refunds and other downward adjustments are recorded in brackets as negative figures in the disbursement column. When vouchers represent the final costs of the commitments, any unliquidated balances should be decommitted at the time the final postings are recorded.

a. Illustrative Pro Forma Entries for Voucher Recording

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
6006		Unliquidated Obligations	SF 1166 &	Program
	6008	Expended Funds - CY	Supporting	Budget
		Disbursement of funds in liquidation of accrued expenditures.	Voucher	Allowance Ledger
1300		Prepaid Expenses	SF 1166 and	Cash Journal
2100		Accounts Payable	Supporting	File of
5100		Operating & Admin. Expenses	Voucher	Subrogated
	1000	Fund Balances with U.S. Treasury		Claims

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
		Payment of prepaid expenses, misc. payables, operating & misc. expenses and claims payable to lenders.		Program Budget Allowance Ledger
2100		Accounts Payable	SF 1166 Supporting Voucher	Cash Journal
	1000	Fund Balances with U.S.T.		Guaranty Ledger
		Payment to lender for loss under guaranty contract.		File of Subrogated Claims
				Program Budget Allowance Ledger

The control objective of the voucher recording process is to ensure that vouchers are promptly and properly recorded to appropriate commitment liquidation records. To achieve this objective, the following control techniques are used:

- **The guidance provided in the Controller's Guidebook, Chapter 13.**
- **The maintenance of commitment liquidation records and the requirement transactions are properly recorded to these records.**
- **The separation of duties and responsibilities regarding the administratively approval, review and certification of vouchers for payment and the recording of the vouchers to the records.**
- **Access to records is limited to authorized officials.**

D. CLOSING PROCESS

To monitor the financial performance of government funds, the Agency closes its books and records on a monthly basis. The Agency is also required to close its books at year-end. These closings summarize the financial results for the month or year as well as the accumulated results. These results are then transmitted to FM for posting to the appropriate ledgers and subsequent preparation of financial reports and statements. Accruals, reconciliation of payments to the U.S. Disbursing Office and

Section 1311 Reviews are also important aspects of the closing process. The procedural aspects of these activities are discussed below as well.

1. Preparation of Trial Balance Sheet

The closing procedures are straight-forward. However, unlike the top down transfer of obligation authority, the closing process for reporting financial transactions starts from the bottom up with the commitment liquidation records. At the end of each month, the data in the commitment liquidation records are totalled and recorded to the commitments in the earmark records; the earmarks and earmark reservations in the earmark records are totalled and reconciled to the allowance ledgers. This reconciliation is necessary to ensure that consistency and data integrity exist in the accounting system.

Starting with the commitment liquidation records, the footed totals for commitments, disbursements and unliquidated amounts are entered on a trial balance work sheet. A work sheet should be prepared and structured to accumulate cumulative data on commitments, disbursements and unliquidated amounts. Using the same method, trial balance work sheets would also be developed for cumulative data on earmark reservations. After cumulative summary totals for earmarks, earmark reservations, commitments, disbursements and unliquidated commitments have been obtained and reconciled, the prior month's totals would be subtracted from the totals through the end of the current month. The effect of this subtraction results in current month activity which is used to prepare journal vouchers on current month activity. The data in these journal vouchers are then recorded to appropriate ledgers. Journal vouchers are also prepared and recorded to the budget allowance ledger. With these journal voucher entries to the ledgers, the financial data for the month has been determined.

a. Illustrative Pro Forma Entries for Preparing the Trial Balance

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
3300		Accumulated Net Income or Deficit	Journal Voucher	General Journal
	5100	Operating and Admin. Expenses		
	5400	Loss on Claims Payment		
	5800	Accrued Annual Leave Expense		
	3400	Prior Fiscal Year Adjustments		
		September 30 closing of program expenses and other costs into		

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
		accumulated net income or deficit.		
4100 4900 3400		Income - Fees Other Income Prior Year Adjustments	Journal Voucher	General Journal
	3300	Accumulated Net Income or Deficit September 30 closing of income accounts into accumulated net income or deficit.		
6003		Unapportioned Funds	Journal Voucher	General Journal
	6001	Estimated Fee Income Adjustment of estimated receipts to actual (less than original estimate.)		
6002		Receipt of Fees	Journal Voucher	General Journal
	6003	Unapportioned Funds Adjustment of Estimated receipts to actual (over original estimate.)		
6008		Expended Funds - Current Year	Journal Voucher	General Journal Program Budget Allowance Ledger
	6009	Expended Funds - Prior Year September 30 balance of expended funds transferred to prior year account.		

The control objective of the trial balance is to ensure that all accounts are in balance as a result of the monthly closing of records. To achieve this objective, the following control techniques are used:

- **The guidance provided in the Controller's Guidebook, Chapter 13.**
- **The requirement that all records are in balance and any differences are reconciled.**

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2. Accrual Procedures

Expenditures represent costs incurred for goods received and services rendered. Expenditures accrue regardless of when cash payments are made, or whether vouchers have been rendered. Goods are generally considered to be received when shipped by suppliers as indicated by bills of lading, since title passes to the Agency at that time. Services are received when they are rendered.

Under the Agency's various payment systems, there can be a substantial time lag from the date goods are shipped and services rendered until invoices are received, processed for payment and recorded in the records as disbursements. This is particularly the case when one accounting station makes the payments and transmits the vouchers to the responsible accounting station by Advices of Charge. Such an Advice of Charge process could involve about three months time lag. The accrual procedures are designed to bridge this time lag.

Pursuant to the guidance cited in OMB Circular A-34, the accounting stations should develop reasonably reliable estimates for those goods and services received as of the end of the reporting period and for which vouchers were not recorded to the commitment liquidation records. This accrual data added to the actual disbursements would then reflect a reasonably reliable status of expenditures at the end of the reporting period.

Accruals are developed for reporting purposes on a quarterly and annual basis. Responsibility for developing accrued expenditure data rests with FM/LM. PRE/H personnel are responsible for securing the necessary source data and developing the accrued expenditures for each accounting period. While FM/LM is responsible for maintaining the accounting records and submitting the required financial reports to FM, the development of reliable expenditures - one measure of program performance - is a management team responsibility shared by FM/LM and PRE/H. Working papers supporting the development of accrued expenditure data should be maintained by FM/LM.

Since accruals represent constructive receipt of goods and services not paid for, they represent a liability to be charged against the Agency's Housing and Other Credit Guaranty Fund. Thus, in an accounting sense, FM/LM will record the accruals for inclusion in the Agency's financial statements as accounts payable. At the end of each reporting period, the accruals are recorded to the commitment documents. At the beginning of the following month, these accruals are reversed.

a. **Illustrative Pro Forma Entries for the Accrual Process**

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
6006		Unliquidated Obligations	Billings; Invoices; Unvouchered Receipts of Goods or Services; Journal Voucher for other accruals.	General Ledger
	6007	Accrued Expenditures		
		Goods or services received or performance rendered.		
1201		Fees Receivable	Journal Voucher; Supporting Work sheet Analysis	General Journal
	4100	Income - Fees		
	3400	Prior Year Adjustments		
		Monthly accrual of guaranty fees payable monthly, quarterly or semiannually as provided in guaranty contract, and to record guaranty fees applicable to prior year.		
6011		Fees Receivable	Journal Voucher	General Journal
	6001	Estimated Fee Income		
		Estimated accrual of guaranty fees (year-end).		
5100		Operating and Admin. Expenses	Journal Voucher	General Journal
	1300	Prepaid Expenses		
		Allocation of prepaid expenses and other incurred costs to benefitting period.		
3400		Prior Year Adjustments	SF 1166 Supporting Voucher Journal Voucher (Accrued Liab.) Invoices Received	Cash Journal General Journal Program Budget Allowance Ledger
	1000	Fund Balances with U.S.T.		
	2100	Accounts Payable		
	2200	Accrued Administrative Expenses		
		Program expenses applicable to prior year paid or accrued.		

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
			Receiving Report	
5800		Accrued Annual Leave Expenses	Journal Voucher	General Journal
	3800	Annual Leave Expense Not Funded Accrued annual leave expense of employees payrolled from account 72X4340 for the fiscal year.	Supporting Analysis of Annual Leave Expense	
6007		Accrued Expenditures	Journal Voucher	General Ledger
	6006	Unliquidated Obligations Post-Closing reversal of accruals for unpaid deliveries or performances.		Program Budget Allowance Ledger
5400		Loss on Claims Payment	Journal Voucher	General Journal
	1000	Fund Balances with U.S.T. Write-off or reduction in carrying amount of subrogated claims.	Supporting Documents from PRE/H	File of Subrogated Claims
3900		Unfunded Accrued Annual Leave	Journal Voucher	General Journal
	2900	Liab. for Accrued Annual Leave Estimated liability for accrued annual leave at September 30.	Analysis of Accrued Annual Leave	

NOTE: No accounting procedures have been established to make a provision or allowance for losses on the prospective recovery values of subrogated claims.

The control objective of the accrual process is to ensure that the costs of those commodities and services constructively received but not paid for are recorded to the Agency's accounts. To achieve this objective, the following control techniques are used:

- **The guidance provided in the Controller's Guidebook, Chapter 13.**
- **The requirement that accruals be documented by working papers.**

3. Reconciliation of Disbursements

In drawing-down funds from the Housing and Other Credit Guaranty Fund, the Agency will instruct the Treasury to make payments to suppliers, contractors and others through one of several payment methods. These methods include Treasury letters of credit, checks, electronic funds transfers and interagency transfers.

The payments made by Treasury must agree with the authorized advances, disbursements and transfers recorded in the Agency's records. Thus, as a means of maintaining control over funds and ensuring that all payments are properly recorded, the Agency must reconcile its records to the Treasury fund account on a monthly basis. (These requirements are contained in Treasury Manual 1 TFM 2-3100.) Under the Agency's decentralized organizational structure this requires that each Agency paying location reconcile its records to the Disbursing Office servicing that accounting station.

In overseas locations, draw-downs are made by check through a Regional U.S. Disbursing Office servicing the accounting station. At the end of each month, the Disbursing Office will provide the accounting station with a Statement of Transactions (Form SF-1121). This statement provides a detailed listing of all draw-downs as well as deposits made under the individual fund accounts. Upon receipt of this Statement of Transactions, the accounting station must reconcile its disbursement records for the fund to the Disbursing Office statement. Any differences must be accounted for and adjustments made.

To ensure that this monthly reconciliation is performed, FM requires each accounting station to include the required reconciliation in the Report U-101 for the Housing and Other Credit Guaranty Fund. The total monthly payment vouchers recorded to the commitment liquidation records for the fund would then need to be adjusted to the actual payments made by the Disbursing office.

During the course of any given month, the accounting stations will process a variety of vouchers for payment. These vouchers will include advances which are not recorded to the commitment liquidation records but to the advance ledgers. Not infrequently, the accounting stations will process payments on behalf of FM. Though these payments appear on the Disbursing Offices' Statements of Transactions, they are not recorded to the accounting stations' records as disbursements. Because of these and other types of payment transactions, the Disbursing Offices' Statements of Transactions should be reconciled with the voucher disbursements recorded to commitment liquidation and other records involved.

FM is also responsible for reconciling all draw-downs against the various fund accounts with the Treasury. In the case of FM, the procedures are somewhat different than those of the overseas accounting stations. One of these differences is that FM must prepare the Statement of Transaction (Form SF-224) directly from its accounts promptly at the end of the month and forward it to Treasury; and secondly, in preparing this report, it reports only summary figures for draw-downs and collections by fund account. Treasury then compares these balances to its records. When the comparison results in differences, Treasury will send the Agency a Statement of Differences (Form TFS 6652). The Agency is then responsible for reconciling these differences to its accounts.

If these differences are not reconciled within six months, Treasury will automatically charge back the unreconciled differences to a budget clearing account. Treasury will maintain this clearing account until the differences are cleared. A.I.D. must clear the differences by preparing journal vouchers to charge or credit the proper funds. When necessary, Treasury may notify the Inspector General concerning unreconciled differences.

a. **Pro Forma Entries for the Reconciliation of Disbursements**

Account No. Debit	Credit	Account Title and Explanation	Posting Media	Record of Entry
1000		Fund Balances with U.S.T.	Journal Voucher	Cash Journal Program
	3400	Prior Year Adjustments		
		Adjustment of prior fiscal year income.		Budget Allowance Ledger
3400		Prior Year Adjustments	Journal Voucher	Cash Journal Program
	1000	Fund Balances with U.S.T.		
		Adjustment of prior fiscal year expenses or cost.		Budget Allowance Ledger

The control objective of the reconciliation of disbursements to Treasury records is to ensure the cash balances reflected in Agency records balance with the Treasury's records. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 19, Chapter 9 and the Controller's Guidebook, Chapters 4 and 13.**

- **The requirement that the reconciliation be prepared and reported on the Report U-101 where it is reviewed.**

- **Qualified and continuous supervision is exercised over the reconciliation process.**

4. **Section 1311 Review Procedures**

To satisfy the need for funds control, obligation data must be reported promptly and accurately. Specific criteria governing the recording and reporting of obligations are prescribed in Section 1311 of the Supplemental Appropriation Act, 1955 (formerly 31 U.S.C. 200, now 31 U.S.C. 1501). This law provides that no amount shall be recorded as an obligation unless it meets specified criteria and that statements of obligations furnished to the Congress or to any of its committees shall include only amounts representing valid obligations as so defined.

The documentary evidence requirements for Federal Government obligations is cited below:

(a) An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of:

(1) a binding agreement between an agency and another person (including an agency) that is:

(A) in writing, in a way and form, and for a purpose authorized by law; and

(B) executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided;

(2) a loan agreement showing the amount and terms of repayment;

(3) an order required by law to be placed with an agency;

(4) an order issued under a law authorizing purchases without advertising:

(A) when necessary because of a public contingency;

(B) for perishable subsistence supplies; or

(C) within monetary limits;

(5) a grant or subsidy payable:

(A) from appropriations made for payment of, or contributions to, amounts required to be paid in specific amounts fixed by law or under formulas prescribed by law;

(B) under an agreement authorized by law; or

(C) under plans approved consistent with and authorized by law;

(6) a liability that may result from pending litigation;

(7) employment or services of persons or expenses of travel under law;

(8) services provided by public utilities; or

(9) other legal liability of the Government against an available appropriation or fund.

(b) A Statement of obligations provided to Congress or a committee of Congress by an agency shall include only those amounts that are obligations consistent with subsection (a) of this section.

At the end of each year the A.I.D. controller certifies for the Agency that the statement of obligations submitted each year to OMB consists of valid obligations as defined by the foregoing criteria. In making this certification, the A.I.D. controller certification is made on the basis of a special certification by accounting station controllers in their year-end Report U-101.

Obligated funds cannot be used without valid and binding commitment documents. Throughout the fiscal year, the accounting station should periodically review the validity of the unliquidated commitments with administrative approving officers and other officials. Any unliquidated balances not needed to fulfill the liability incurred under the commitment

documents should be decommitted. These decommitted balances are then added to the obligations available for further commitment. Thus, in making the certification, the controllers are also attesting to this review of the validity of unliquidated commitments.

The control objective of the Section 1311 Review is to ensure that all funds obligated (and committed) represent valid obligations (and commitments) as defined by law. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 19, Chapter 1 and Appendix 1A.**
- **The requirement that the Controllers attest to the validity of obligations based on the performance of periodic reviews.**

E. REPORTING PROCESS

There are generally two levels of financial reporting. The first level of reporting is designed to provide a variety of internal financial data on program activities to management for monitoring financial implementation. This reporting includes:

1. Financial Summary, Report W-239

This is a monthly report on guaranties. It contains financial statements, the status of contract issuance authority, and the status of projects covered by guaranties or in process of obtaining coverage. The specific statements are: (1) Account Balance Analysis; (2) Financial Highlights; (3) Comparative Statement of Financial Condition; (4) Comparative Statement of Income and Expense; (5) Notes to Financial Statements; (6) Comparative Operational and Budgetary Statement; (7) Statement of Investments in U.S. Obligations Held; (8) Statement of Subrogated Claims Paid and Outstanding; (9) Statement of Claim/Losses Incurred; (10) Statement of Rescheduled Loans; (11) Analysis of Change in Section 222 A-e Credit Guaranty Reserve; (12) Statement of Contract Issuance Authority; (13) Projects Authorized and Under Contract; (14) Projects Authorized and Canceled or Terminated; and (15) Projects Authorized Not Under Contract.

2. Delinquency Report, W-1612/3

This is a quarterly report on the number of loans in arrears by months.

3. **Public Report Symbol 024-R 0057**

Lenders, borrowers, administrators and others are required to submit periodic reports on the guaranty fees paid to A.I.D., funds held in reserve, and other information essential to guaranty administration. A system of control and follow-up on the receipt of these reports should be maintained. These reports are the basis for reconciling amounts recorded to guaranty ledger accounts from PRE/H and fiscal agent reports. The requirement for the submission of the Public Report (form AID 1520-10) is in HB 7.

4. **Project Reports from the Field**

A number of reports are generated from the field such as:

- A Ledger Report which provides a historical record of transactions against the program and funding source.
- The Earmark Control Record Report which provides a historical record of transactions against a particular earmark within the program.
- The Commitment Liquidation Record Report which provides a historical record of individual program funded commitment accounts.
- The Commitment Payment Availability Status Report which serves as a reference for determining fund availability for payment against program funded commitment accounts.
- The Summary Financial Management Report which provides an overview of an overseas office's portfolio of projects in terms of financial implementation.
- The Comprehensive Pipeline Report by project which provides a detailed pipeline listing of a project at the earmark level.
- The 1311 Analysis Reports of Unliquidated Commitments which provide a listing of unliquidated commitments by commitment document.

The second level of reporting is designed to provide the needed financial data to FM for entry to the general ledger and the subsequent preparation of consolidated financial reports. Several reports are used as a vehicle for providing this information to FM. Foremost, among these reports, are those discussed below.

5. **Report U-101**

Each accounting station is required to prepare a separate Report U-101 for each fund account and budget plan code. The budget allowance ledger maintained by the accounting stations is the source for preparing the U-101. The U-101 is prepared after the accounting station has reconciled monthly payments with the Disbursing Office.

The Report U-101 has 10 line items (Handbook 19, Chapter 9) providing the following information:

- Line A provides the transaction details reflected in the budget allowance ledger. In FM, this data is posted to the general ledger by journal voucher.

- Line B provides information on current month and cumulative advances. This data is recorded by FM to the general advance ledger by journal voucher.

- Line C indicates the Advice of Charge payments made during the month which are chargeable to other accounting stations, including FM. Copies of the Advices of Charge listed on Line C must accompany each U-101 when the payments are made on behalf of FM.

  In FM, the Advice of Charge data on Line C is entered into the FM-maintained in-transit Advice of Charge system. Copies of the Advices of Charge are routed to FM/LM for recording the disbursements and clearing them from the in-transit system.

- Line D provides data on Advices of Charge payments processed by other accounting stations, including FM, which the overseas accounting station accepted and recorded to its records. In FM, this Advice of Charge data is used to clear the in-transit Advice of Charge system for the payments.

- Line E reflects such things as items credited to the fund by the U.S. Disbursing Office; fund reimbursements collected; and offsets to disbursements which are transferred during a change in accounting stations.

- Line F is the net amount of all current month budget allowance disbursements plus or minus Line B, plus Line C, minus Line D and

E. This amount represents net disbursements per accounting station records as adjusted for the accounting period being reported.

- Line G is a reconciliation with the U.S. Disbursing Office's accounts. Any differences between net disbursements per accounting station records and those recorded in the Disbursing Office's account are reported on Line G.

- Line H represents the net disbursements per the Disbursing Office's account.

- Line I provides the accrued expenditure data that is reported quarterly. In FM, this data is entered to the general accounts payable ledger by journal voucher.

- Line J provides annual data of Federal outlays. It requires separate identification of transactions within government, transactions with recipients in the U.S.; and transactions with recipients in foreign countries. This data is reported to OMB in accordance with Circular A-84.

- At the end of the fiscal year the accounting station controller must certify the validity of obligations in accordance with Section 1311.

6. **Report U-102**

The monthly U-102 Report is a telegram advice of cumulative current fiscal-year obligation activity. The report covers all U.S. dollar funds for program and operating expense purposes. It provides FM with the essential advance data necessary for reporting to OMB in compliance with the Revenue and Expenditure Control Act of 1968 (P.L. 90-364).

The report is submitted in two parts. Part I reflects, by budget plan code, the budget allowance and obligation data for current fiscal-year budget allowance activity. Part II reflects, by funding code, the cumulative net disbursements for the fiscal year-to-date. This data should be reconciled with the amounts reported in each applicable SF 1221 - Statement of Transactions.

7. **SF 225, Report of Obligations**

This is a monthly abstract on obligations incurred for the fiscal year to date under account 72X4340 submitted to FM/CAD for inclusion in the

Interagency Report 1196-TD-AN, year-end Integration of Agency - Treasury Data (prescribed by Treasury Circular 1073).

8. **SF 132, Apportionment and Reapportionment Schedule**

This is a work sheet submitted to FM/FC for preparation of the Agency's consolidated periodic SF 132, prescribed by OMB Circular A-34, for apportionment requests to OMB.

9. **SF 133, Report on Budget Execution**

This is a monthly abstract on the availability and use of funds in account 72X4340 submitted to FM/CAD for inclusion in the Agency report on SF 133, Report on Budget Execution, prescribed by OMB Circular A-34.

10. **Analysis of Appropriation and Fund Balances (Section 1311 Certification)**

This is an annual abstract of unexpended appropriation and fund balances in account 72X4340 submitted to FM/CAD for inclusion in the annual Agency report to Treasury (See Treasury Regulations TFR 3900).

11. **Project Accounting Information System**

Most HG projects also use development assistance funds to finance technical assistance, training, etc. Thus, these projects fall under A.I.D.'s Project Accounting Information System, better known by its acronym PAIS. PAIS is a subsidiary system to A.I.D.'s formal accounting system. PAIS is a computerized system that contains a data bank on all relevant information pertaining to grant funded projects. Under Agency procedures, spelled out in A.I.D. Handbook 19, Chapter 9, five reports are used by A.I.D. accounting stations to provide relevant project data to FM for input into the data base. This data is then periodically retrieved from the system in the form of reports which are then used by Agency managers to monitor the financial progress of the projects.

The information provided by the accounting stations for input into PAIS is briefly described below.

a. **Projected Obligations and Expenditures**

The PAIS data base contains the projected obligation and expenditures for each project. This data is designed to provide managers with future year funding information on projects. The reporting vehicle for

providing this input into PAIS is Table II of the Annual Budget Submission (see Part IIA). This data is updated annually with preparation of the new budget submission.

b. **Project Agreement Abstract**

The PAIS data base contains certain information abstracted from the project agreement. This data, which is reported by cable immediately upon signing a project agreement for a new project, provides the following data:

- Project Number (XXX-XXXX.XX)
- Project Title (As reflected in Project Paper)
- Date Agreement Signed (Start Date)
- Project Assistance Completion Date
- Grant Amount Authorized (Life of Project)
- Loan Amount Authorized (Life of Project)
- Amount of Initial Grant Obligation
- Amount of Initial Loan Obligation
- Appropriation Code of Initial Obligation-Grant and Loan
- Other Authorized Appropriation Code(s)
- Primary Technical Code
- Primary Purpose Code

c. **Project Flash Report**

The PAIS data base contains information on the current status of obligations. Thus, in order to provide management with the status of current year projected obligations on a monthly basis, accounting stations are required to provide by cable a monthly advice of changes in current year obligations, increases or decreases.

This data is limited to instances when a new project is obligated or when adjustments, increases or decreases, are recorded against current year funds. The information is limited to three items for grant funds - project number, budget plan code, and cumulative current year obligation; and three items for loan funds - project number, loan number, and cumulative current year obligations.

The Project Flash Report is due in FM by the 2nd day of each month. Monthly negative reports are required when applicable.

d. Project Financial Activity Report

The PAIS data base contains an element for financial transaction activity. This data is reported quarterly by cable and provides project accounting information related to activities occurring in the current fiscal year.

Any project which has not been reported in a Completed (C) status must be listed on the cable even when there is no activity. A project that reaches a Complete (C) status during the fiscal year should be listed on each quarter's cable through and including the cable for September 30.

e. Summary by Allowance: Reconciliation with Allowance Ledger

The Summary by Allowance is used to reconcile grant funded project ledgers by budget plan code to budget allowance ledgers.

This report is to be transmitted with the U-101 reports scheduled to arrive in FM no later than the 8th day after the close of the quarter. It is limited to A.I.D. grant projects.

The report consists of a one-line entry of certain data elements for each open budget allowance extracted from the budget allowance ledger with pertinent prior year-end closing net accruals subtracted, compared to the same data elements extracted directly from the Project Financial Activity Report cable.

The report must arrive in FM no later than the 8th calendar day of the month following the quarter being reported.

The control objectives of the reporting process is to provide financial data to managers for monitoring financial implementation of the Agency's programs

and to comply with financial reporting requirements required by laws and regulations. To achieve this objective, the following control technique is used.

- **The guidance provided in A.I.D. Handbook 19 and the Controller's Guidebook.**

F. STATEMENT PREPARATION PROCESS

Laws and regulations require A.I.D. to prepare certain financial reports. The financial reports on the HG Program are developed from the general ledger and subsidiary accounts. The reports should include all pertinent financial data developed on the basis of prescribed accounting principles and standards including accrual accounting for the period reported and should be prepared on a consistent basis from one period to another. The reports are reviewed to assure completeness and accuracy, and conformity with statutory, regulatory, and A.I.D. requirements. The accounting system should assure that the information is timely, accurate, complete and responsive to the needs of users. The financial data on the program is included in A.I.D.'s overall financial statements.

To assure maximum usefulness of the data developed from A.I.D.'s accounting systems, careful consideration has been given to establishing uniform terminology and alphabetical coding of data elements, as described in Section 1E1 of the A.I.D. Accounting Principles and Standards. Integration of the HG Program accounting with A.I.D.'s overall accounting is achieved by consistent use of standardized coding in documenting, recording and reporting financial transactions. Uniformity of accounting classifications also contributes to the integrated A.I.D. data management system, including effective consolidation of reports at the agency level and reconciliation with U.S. Treasury accounts (for details see Section 1E2, HB 19, A.I.D. Accounting Principles and Standards).

Two important reports are the monthly Statement on Budget Execution and the annual Statement on Financial Condition. The preparation of these reports reflect the consolidated financial activities of both the overseas accounting stations and FM.

1. Statement on Budget Execution

Pursuant to OMB Circular A-34, the Agency is required to submit to OMB an annual report (SF 133) on the budget execution of each governmental fund, providing the status of budget resources, obligations and expenditures. To prepare this report, the Agency maintains a number of standard budgetary accounts in accordance with OMB requirements. These budgetary accounts are designed to provide information on the status of (1) the resources made available by fund, (2) the use of those resources, and (3) the use of guaranty

issuance authority. Following are the budgetary accounts maintained by the Agency for the Housing and Other Credit Guaranty Fund:

a. **Fund Availability and Application Accounts**

The fund availability and application accounts provide for budgetary controls over the HG Program in compliance with OMB and Treasury requirements. These controls establish and identify the apportioned and unapportioned amounts in the fund and account for the fiscal processes in the use of apportioned funds as allotted, allowed, obligated and expended.

Account 6000, Funds Authorized - This is a debit balance account maintained to show funds authorized for program use as provided in the capital authorized in Section 223(b) of the FAA, based on fees from prior guaranty operations, and funds appropriated from time to time in accordance with section 223(e) of the FAA.

Debits	Credits
(1) Funds authorized in Section 223(b) of the FAA - fees from prior guaranty operations. Contra: 6003	(1) Adjustment of authorized funds. Contra: 6003
(2) Appropriated funds authorized in section 223(e) of the FAA. Contra: 6003	

Account 6001, Estimated Fee Income - This is a debit balance account maintained to show the amount of estimated guaranty fee income for the fiscal year.

Debits	Credits
(1) Estimated earnings from fee income during the fiscal year. Contra: 6003	(1) Receipts during the fiscal year of amounts estimated as fee income for the period. Contra: 6002
(2) Estimated other receipts and revenue during the	(2) Excess of estimated fee income over receipts

fiscal year. Contra: 6003	during the fiscal year. Contra: 6003

Account 6002, Receipt of Fees - This is a debit balance account which shows receipts of fee income during the fiscal year. Subsidiary controls are established by program category.

Debits	Credits
(1) Receipts of fee income and other revenue and funds under prior estimates. Contra: 6001	(1) Adjustment of fee income receipts during the fiscal year. Contra: 6001 or 6003
(2) Excess of fee income receipts and other revenue and funds over prior estimates for the fiscal year. Contra: 6003	

Account 6011, Fees Receivable - This is a debit balance account maintained to show the fees due or accrued from lenders under the HG Program.

Debits	Credits
(1) Monthly accruals for fees due or accrued but not received. Contra: 6001	(1) Reversal of monthly accruals for fees due or accrued. for fees due Contra: 6001

Account 6003, Unapportioned Funds - This is a credit balance account maintained to show funds authorized in section 223(b) of the FAA but unapportioned, and funds appropriated as documented by Treasury Form No. 523, Appropriation Warrant, in accordance with authorization in section 223(a) of the FAA, but which have not yet been apportioned. The account also reflects estimated fee income during the fiscal year but unapportioned.

Debits	Credits
(1) Funds apportioned by OMB. Contra: 6004	(1) Funds authorized in section 223(b) of the FAA. Contra: 6000

(2)	Adjustment of authorized funds. Contra: 6000	(2)	Funds appropriated pursuant to Section 223(a) of the FAA. Contra: 6000
(3)	Adjustment of the excess of estimated fee income over receipts during the fiscal year. Contra: 6001	(3)	Estimated fee income and other receipts and revenue for the fiscal year. Contra: 6001
(4)	Adjustment of estimated other receipts and revenues to actual. Contra: 6001	(4)	Excess of fee income receipts and other revenues over amounts estimated. Contra: 6004 & 6005

Account 6004, Unallowed Apportionments - This is a credit balance account maintained to show funds authorized and apportioned by OMB.

	Debits		Credits
(1)	Program funds allowed to AA/PRE. Contra: 6005	(1)	Funds apportioned by OMB. Contra: 6003
(2)	9/30 balance closed to unapportioned funds. Contra: 6003		

Account 6005, Unobligated Budget Allowances - This is a credit balance account maintained to show the funds allowed to AA/PRE.

	Debits		Credits
(1)	Funds obligated for operating and administrative expenses. Contra: 6006	(1)	Program funds allowed to AA/PRE. Contra: 6004
(2)	Funds obligated for payment of claims. Contra: 6006	(2)	Funds deobligated. Contra: 6006
(3)	9/30 balance closed to Unapportioned Funds. Contra: 6003.		

Account 6006, Unliquidated Obligations - This is a credit balance account maintained to show the obligation of program funds for the incurrence of operating and administrative expenses and the payment of claims under the program.

Debits	Credits
(1) Obligations liquidated by disbursements. Contra: 6008	(1) Obligations incurred for operating and administrative expenses for which funds are disbursed. Contra: 6005
(2) Funds deobligated. Contra: 6005	(2) Obligations incurred for payment of claims. Contra: 6005
(3) Unpaid deliveries or performance. Contra: 6007	(3) Reversal of unpaid deliveries or performance. Contra: 6006

Account 6007, Accrued Expenditures - This is a credit balance account maintained to show the cost of goods or services received or performance rendered but for which payment has not been made.

Debits	Credits
(1) Reversal of monthly accruals for unpaid deliveries or performance. Contra: 6006	(1) Monthly accruals for outstanding payables, accrued salaries and other accrued expenses representing deliveries or performance not paid. Contra: 6006

Account 6008, Expended Funds - Current Year - This is a credit balance account maintained to show funds disbursed in liquidating obligations during the fiscal year.

Debits	Credits

(1) 9/30 closing and transfer of balance to prior year account. Contra: 6009	(1) Funds expended in liquidating obligations during current fiscal year. Contra: 6006

Account 6009, Expended Funds - Prior Year - This is a credit balance account maintained to show cumulative prior year expenditures.

Debits	Credits
(1) None.	(1) Prior year expenditures transferred at year-end closing. Contra: 6008

b. Limitation Accounts

The limitation accounts control statutory limitations on guaranty issuance authority. These accounts ensure that the face amounts of guaranty contracts issued and outstanding are within the limitation. FM/LM maintains control and detail accounts to carry out its responsibility for establishing the availability of guaranty contract issuance authority under the limitations for for each region and country, before a contract is executed.

Account 7000, Contract Issuance Authority - This is a debit balance account which shows the total amount of statutory authority for the issuance of guaranties authorized under Title III of the FAA. Subsidiary accounts are maintained for predecessor guaranty authority and current guaranty authority. Subsidiary accounts are maintained under current guaranty authority for control over limitations on guaranty contracts.

Debits	Credits
(1) Guaranty issuance authority and increases authorized by FAA. Contra: 7001	(1) Statutory reductions in guaranty issuance authority. Contra: 7001

Account 7001, Unused Contract Issuance Authority - This is a credit balance account maintained to show the contra entries to Account

7000, Contract Issuance Authority. The account also reflects the (a) restoration of guaranty issuance authority in the amounts of guaranty contracts paid, canceled, terminated or reduced; and (b) restoration of guaranty issuance authority in the amount of guaranty contract authorizations canceled. The account is charged with the amount of guaranty contract authorizations for which guaranty contracts have not been signed. Subsidiary accounts for the limitation classifications described in Account 7000 above are maintained.

Debits	Credits
(1) Guaranties authorized but not signed. Contra 7002	(1) Availability of guaranty issuance authority pursuant to Title III, of the FAA. Contra: 7000
(2) Statutory reduction in guaranty issuance authority. Contra: 7000	(2) Liquidation of guaranties for claims paid to lenders. Contra: 7004, 7006
	(3) Reduction, cancellation, or termination of guaranty. Contra: 7005
	(4) Guaranty contract authorizations canceled. Contra: 7002

Account 7002, Guaranty Contracts Authorized and Unsigned - This is a credit balance account maintained to show the amount of guaranty contract authorizations for which guaranty contracts have not been signed. Subsidiary accounts for the limitation classifications described in Account 7000 above are maintained.

Debits	Credits
(1) Issuance of guaranties. Contra: 7003	(1) Guaranties authorized but unsigned. Contra: 7001
(2) Project authorizations canceled. Contra: 7001	

Account 7003, Guaranty Contracts Issued - This is a credit balance account maintained to show the amount of guaranty contracts authorized, signed and issued to lenders. Subsidiary accounts for the limitation classifications described in Account 7000 above are maintained.

Debits	Credits
(1) None.	(1) Guaranties issued (cumulative balance). Contra: 7002

Account 7004, Guaranty Contracts Liquidated - This is a debit balance account maintained to show the amount of guaranty contracts liquidated when claims are paid to lenders. The balance of this account is an offset to the balance in account 7003, Guaranty Contracts Issued. Subsidiary account for the limitation classifications described in Account 7000 above are maintained.

Debits	Credits
(1) Guaranties liquidated. Contra: 7001	(1) None.

Account 7005, Guaranty Contracts Canceled, Reduced or Terminated - This is a debit balance account maintained to show the amount of guaranty contracts reduced, canceled or terminated by action initiated by either the U.S. Government or the lender. The balance of this account is an offset to the balance (cumulative) in Account 7003, Guaranty Contracts Issued. Subsidiary accounts for the limitations classifications described in Account 7000 above are maintained.

Debits	Credits
(1) Guaranties reduced, canceled or terminated. Contra: 7001	(1) None.

Account 7006, Guaranty Loan Repayments - This is a debit balance account maintained to show the total amount of repayments made by project administrators and borrowers to the lenders. Riggs National Bank acts as fiscal agent to receive payments from the borrowers or project administrators, and disburse payments of interest and principal

to U.S. lenders and guaranty fees to A.I.D., and serve as the depository for reserve funds and other escrow accounts.

Debits	Credits
(1) Guaranty loan repayments made to U.S. lenders. Contra: 7001	(1) None.

2. **Statement on Financial Condition**

Section 114 of the Budget and Accounting Procedures Act of 1950 requires the Secretary of the Treasury to prepare annual reports on the financial operations of the U.S. Government. To prepare these reports, the Act provides that each executive Agency must furnish the Secretary of the Treasury such reports and information relating to the agency's financial condition and operation as the Secretary may require. The Secretary's requirements are spelled out in I TFM 2-4100.

The Treasury Manual requires the Agency to prepare and submit timely and reliable financial reports which fully describe the financial results of all programs and activities. The financial transactions supporting the required reports are to be accounted for on an accrual basis. The reports must also be prepared using the U.S. Government Standard General Ledgers (SGL) which is the uniform chart of accounts to be used by Federal agencies. Use of the SGL is consistent with OMB Circular A-127, which requires that financial management data should be recorded and reported in the same manner throughout the Agency using standard definitions and classifications.

Under Treasury reporting requirements, the Agency must prepare a Report on Financial Condition for each government fund at the end of each fiscal year. Since these reports are prepared in the form of balance sheets and income statements, they contain asset, liability, equity, income, and expense ledger accounts. In preparing the reports on the Housing and Other Credit Guaranty Fund, the following ledger accounts are used:

a. **Assets and Other Debits**

Account 1000, Fund Balances with U.S. Treasury - This is a debit balance account maintained to show the unexpended balance in the account 72X4340, Housing and Other Credit Guaranty Fund. The account is debited for collection of fees and other program receipts, which are reconciled with confirmed certificates of deposit in the

central account of the Treasury, and credited for payment of authorized program expenditures. In reporting on this account, A.I.D. must ensure the balance shown in its ledgers is reconciled to Treasury's reported year-end balance for the fund.

Debits	Credits
(1) Fees collected. Contra: 1201	(1) Payment of guaranty liability for loss to lenders. Contra: 2100 or 1600
(2) Receipt of appropriated funds. Contra: 3200	(2) Disbursements for administrative and operating expenses. Contra: 5100
(3) Collection of miscellaneous receivables. Contra: 1200	(3) Disbursements for miscellaneous payables. Contra: 2100
	(4) Return of fee overpayment to lender. Contra: 2100

Account 1150, Advances - This is a debit balance account maintained to show travel advances to employees and advances to contractors for financing of contract operations (Private contractors are engaged by A.I.D. to provide a technical services and assistance to the HG Program, as outlined in A.I.D. Handbook 7).

Debits	Credits
(1) Travel advances to employees. Contra: 1000	(1) Liquidation of employees' advances based on travel voucher or refund. Contra: 5100 or 1000
(2) Advances to contractors. Contra: 1000	(2) Liquidation of contractors' advances

based on performance
or delivery or refund.
Contra: 5100 or 1000

Account 1200, Accounts Receivable - This is debit balance account maintained to record amounts due from miscellaneous debtors to the HG Program.

Debits	Credits
(1) Amounts due from miscellaneous debtors. Contra: 1000	(1) Receipts from miscellaneous debtors. Contra: 1000
(2) Adjustment of prior fiscal year income. Contra: 3400	(2) Adjustment of prior fiscal year expense or cost. Contra: 3400

Account 1201, Fees Receivable - This is a debit balance account maintained to show fees due from lenders under guaranty contracats.

Debits	Credits
(1) Amounts due from lenders for monthly accrual of fees under guaranties. Contra: 4100	(1) Payments of guaranty fees due, adjustments to fees or adjustments to accounts. Contra: 1000

Account 1300, Prepaid Expenses - This is a debit balance account maintained to show prepaid expenses and charges in advance of the period to which such amounts are attributable.

Debits	Credits
(1) Expenses and other charges incurred for allocation to future periods. Contra: 1000 or 2100	(1) Allocation of prepaid expenses or charges to the benefited period. Contra: 5100
	(2) Adjustment of prior fiscal year allocation. Contra: 3400

Account 1600, Subrogated Claims - Section 223(d) of the FAA pledges the full faith and credit of the U.S. Government for the full payment and performance of its obligations under guaranties issued for housing projects. This means that the U.S. Government backs the guaranty to the full extent of the loss under these guaranties. Outstanding balances of lender loans under guaranty contracts are considered contingent liabilities of A.I.D. However, project reserves (provided by lenders and borrowers), for which A.I.D. maintains detailed accounting records, are offsets against A.I.D. contingent liabilities and should be appropriately disclosed in the Notes to Financial Statements. Defaults for nonpayment are recognized in the accounts when claims are approved for payment by A.I.D.

This is a debit balance account maintained to show the amount of claims arising under guaranty contracts which are approved for payment to lenders and the related subrogation of the U.S.Government to the rights, interests and privileges of the lender.

Debits	Credits
(1) Claims payments under guaranty and subrogation of the U.S.G. to the rights, title and interest of the lender under the claims. Contra: 1000 or 2100	(1) Loss on recovery prospects under subrogated claims attributable to prior fiscal years. Contra: 3400

b. Liabilities and Other Credits

Account 2100, Accounts Payable - This is a credit balance account maintained to show amounts which are due to various creditors of the Housing and Other Credit Guaranty Programs.

Debits	Credits
(1) Payment of outstanding payables. Contra: 1000	(1) Amounts due lenders on claims arising under the A.I.D. guaranties. Contra: 1600 or 5400
(2) Adjustment of prior fiscal year income. Contra: 3400	(2) Amounts due upon incurrence of charges and other

expenses allocable to subsequent periods. Contra: 1300

(3) Adjustment of prior fiscal year expenses or costs. Contra: 3400

Account 2200, Accrued Administrative Expenses - This is a credit balance account maintained to show the cost of personal services, travel and other administrative expenses estimated to have been performed or incurred but for which invoices, claims, or payroll documentation has not been received or executed at month end.

Debits	Credits
(1) Reversal at the beginning of the subsequent month of prior month-end accrued administrative expenses. Contra: 5100	(1) Month-end estimates of accrued administrative expenses. Contra: 5100

Account 2300, Accrued Administrative Expenses, Regional Housing Offices - This is a credit balance account maintained to show the cost of personal services, travel and other administrative expenses of RHUDOs estimated to have been performed or incurred but for which invoices, claims, or payroll documentation has not been received or executed at month end.

Debits	Credits
(1) Reversal at the beginning of the subsequent month of prior month-end accrued RHUDOs. Contra: 5200	(1) Month-end estimates of accrued administrative expenses for administrative expenses for RHUDOs. Contra: 5200

Account 2900, Liability for Accrued Annual Leave - This is a credit balance account maintained to establish the close of fiscal year unfunded liability for accrued annual leave

Debits	Credits
(1) Post-closing reversal of 9/30 unfunded liability for accrued annual leave. Contra: 3900	(1) 9/30 unfunded liability for accrued annual leave. Contra: 3900

c. **Investment of the U.S. Government**

Account 3200, Capital - This is a credit balance account established to reflect the capitalization of the HG Program at its inception under authority of the FAA of 1969, less $3 million of the initial capitalization mandated by the FAA of 1974 to be set up as a reserve on guaranties for the Agricultural and Productive Credit and Self-Help Community Development Program. The latter reserve is carried in Account 3500.

Debits	Credits
(1) Program capital applied to operating deficit arising from an excess of charges and other expenses over fees and other earnings. Contra: 3300	(1) Capital derived from fees under prior guaranty operations of the Agency. Contra: 1000
	(2) Capital derived from other net assets attributable to prior guaranty operations. Contra: 1150 and 1600

Account 3300, Accumulated Net Income or Deficit - This is a debit or credit balance account maintained to summarize the accumulated earnings or losses resulting from the Housing and Other Credit Guaranty Programs since inception under the FAA of 1969. Net income (or loss) from operations increases (or decreases) the net investment of the U.S. Government.

Debits	Credits
(1) Transfer of current year expenses and losses. Contra:	(1) Transfer of current year fees and other earnings.

	5100, 5200, 5400, and 5800		Contra: 4100 and 4900
(2)	Transfer of prior fiscal year adjustments. Contra: 3400	(2)	Transfer of prior fiscal year adjustments. Contra: 3400
		(3)	Transfer of unfunded expenses. Contra: 3800

Account 3400, Prior Year Adjustments - This is a debit or credit balance account maintained to record the adjustment of prior fiscal year income or expense transferred to Account 3300, Accumulated Net Income or Deficit.

	Debits		Credits
(1)	Adjustment of prior fiscal year expenses or costs. Contra: 1000, 1200, 1201, 1600, or 2100	(1)	Adjustment of prior fiscal year income. Contra: 1000, 1200, 1201 or 2100
(2)	Closeout of balance. Contra: 3300	(2)	Closeout of balance. Contra: 3300

Account 3800, Annual Leave Expenses Not Funded - This is a credit balance account which offsets the allocation of unfunded accrued annual leave expense for the current fiscal year as reflected in the operations for the period. The cost of accrued annual leave applies to employees payrolled from account 72X4340.

	Debits		Credits
(1)	Closeout of balances. Contra: 3300	(1)	Cost of accrued annual leave for the current fiscal year. Contra: 5800

Account 3900, Unfunded Accrued Annual Leave - This is a debit balance account which offsets the unfunded liability for accrued annual leave as of September 30.

Debits	Credits
(1) Unfunded liability for cumulative accrued annual leave as of 9/30. Contra: 2900	(1) Post-closing reversal of 9/30 unfunded liability for accrued annual leave. Contra: 2900

d. Income

Account 4100, Income - Fees - This is a credit balance account maintained to show fees earned from guaranty operations. Income from the HG Program is used to pay the cost of administrative and operating expenses. The main sources of income and earnings are the guaranty fees charged borrowers. Fees and other revenues are accounted for as income when earned.

Debits	Credits
(1) Transfer to accumulated net income of deficit. Contra: 3300	(1) Guaranty fees, front-end fees based on drawdowns, periodic fees based on outstanding balance of loan. Contra: 1000 or 1201

Account 4900, Other Income - This is a credit balance account maintained to show miscellaneous income and earnings from sources other than fees.

Debits	Credits
(1) Transfer to accumulated net income or deficit. Contra: 3300	(1) Miscellaneous income and earnings. Contra: 1000 or 1200

e. Expense

Account 5100, Operating and Administrative Expenses - This is a debit balance account maintained to show on an accrual basis the incurred operating and administrative expenses of the Housing and Other

Credit Guaranty Programs, except expenses for RHUDOs which are carried in Account 5200.

Debits	Credits
(1) Incurred operating and administrative expenses based on performance or delivery. Contra: 1000 or 2200	(1) Transfer to accumulated net income or deficit. Contra: 3300
(2) Allocation of prepaid expenses. Contra: 1300	

Account 5200, Operating and Administrative Expenses, Regional Housing Offices - This is a debit balance account maintained to show on an accrual basis the incurred operating and administrative expenses applicable to RHUDOs.

Debits	Credits
(1) Incurred operating and administrative expenses based on performance or delivery. Contra: 1000 or 2300	(1) Transfer to accumulated net income or deficit. Contra: 3300

Account 5400, Loss on Claims Payment - This is a debit balance account maintained to show losses from payment of claims under guaranty contracts, as supported by documentation or other credible evidence and approved by management, when co-guaranty of the host government is not available and recovery prospects under the subrogated claim are deemed not to exist.

Debits	Credits
(1) Losses established in connection with payments of claims under guaranties. Contra: 1000	(1) Transfer to accumulated net income or deficit. Contra: 3300

Account 5800, Accrued Annual Leave Expense - This is debit balance account maintained to show the unfunded accrued annual leave expense of employees payrolled from account 72X4340.

Debits	Credits
(1) Unfunded accrued annual leave of program-funded employees for the current fiscal year. Contra: 3800	(1) Transfer to accumulated net income or deficit. Contra: 3300

The SF 220 Statement of Financial Condition is provided to Treasury and OMB Semiannually along with certain supporting reports, depending upon which Agency is to receive the reports. These supporting reports are:

Schedule 1 - Fund Balance with the U.S. Treasury. This schedule is submitted to Treasury semiannually. It provides additional financial information analyzing the composition of "Fund balances with Treasury and Cash" by fund symbol.

Schedule 3 - Direct and Guaranty Loans. This schedule is provided to OMB quarterly, providing information on the amounts of loans guarantied by the U.S. Government.

Schedule 5 - Analysis of Change in Government Equity. This schedule is provided to Treasury and OMB annually, giving an analysis of changes to opening balances of the Government equity accounts.

Schedule 6 - Commitments and Contingencies. This schedule is provided to Treasury and OMB annually, giving information on financial commitments stated at maximum risk.

Schedule 7 - Analysis of Changes in Statement of Financial Condition. This schedule is provided to Treasury and OMB annually, giving an analysis of changes to opening balances of assets, liabilities and equity.

Schedule 8 - Direct and Guarantied Loans Reported by Agency and Program Due from Public which provides information in support of the Federal Reserve Board's requirements for information related

to loans repayable, by program in U.S. dollars and foreign currencies.

Schedule 9 - Report on Accounts and Loans Receivable Due from the Public which provides information in support of OMB's requirements for External Reports disclosure of Government-wide receivables from the public.

SF 222 - Report on Cash Flow which reconciles the beginning and ending fund balances with Treasury.

SF 223 - Report on Reconciliation which reconciles expenses and cash outlays for the fiscal year.

3. **Other External Reports**

Following is a schedule of other reports prepared for central fiscal agencies:

Report Title	Frequency	Distribution	Report Description
Statement of Income and Retained Earnings SF 221, IR 1180-TD-SA	Semiannual	Treasury OMB	Program income, expenses, net income or loss, & change to RE.
Description of Guarantied Foreign Loans TF WF 4504	Quarterly	Treasury	New guarantied loans authorized.
Status of Guarantied Foreign Loans TF SF 4505	Quarterly	Treasury	Current status of each guaranty.
Status of Guarantied Foreign Loan Claims TF SF 4505A	Quarterly	Treasury	Current status of each guaranty claim.
Accrued Revenues and Expenditures Form BA 6727 IR 1198-TD-QU	Quarterly	Treasury	Accounts forming bridge between cash disbursements & accrued expenditures.

Report Title	Frequency	Distribution	Report Description
Analysis of Appropriation and Fund Balances TSF-2108	Annually	Treasury	Fund resources and status (1311 Certification).

The control objective of the report preparation process is to ensure the required reports are prepared on a timely basis and in accordance with the applicable laws and regulations. To achieve this objective, the following control techniques are used:

- The guidance provided in A.I.D. Handbook 19 and the Controller's Guidebook.
- The requirement that financial reports are prepared and issued on a timely basis and are in response to valid user needs.
- The requirement that the source of financial statements and financial data are the official accounting records of A.I.D., which are maintained to disclose all pertinent financial data for the period covered on a consistent basis from period to period.
- The requirement that reports on financial position disclose all assets, liabilities and the equity of the U.S. and significant amounts affecting financial position are explained.
- The requirement that the reports on results of operations show all revenues and costs incurred for the accounting period and significant excluded costs are explained.
- The requirement that the reports are prepared to meet the requirements of laws and regulations and the needs for information by the U.S. Congress, Executive Branch agencies, and other external organizations.
- The reporting requirements prescribed by OMB Bulletin No. 80-12 as shown in Appendix IA, 1A10g - Credit Controls. These include apportionment and reapportionment requests and the report on budget execution for HG Program.

PART VI
GRANTS AND COOPERATIVE AGREEMENTS

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PART VI

GRANTS AND COOPERATIVE AGREEMENTS

INTRODUCTION

A grant or cooperative is in the nature of a gift in support of an agreed purpose with a nonprofit organization. Self-restraint in the imposition of program control by A.I.D. is an essential feature of grant assistance. The reason for this is that A.I.D. is supporting the nonprofit organization's program and not buying goods and services. If prudent management requires that A.I.D. retain a substantial degree of operational control over a program, then a contract and not a grant or cooperative agreement should be used.

We estimate that A.I.D. provides roughly $650 million annually for funding grants and cooperative agreements. Of this $650 million, about $450 million is provided to Private Voluntary Organizations (PVOs) and about $200 million to universities and other nonprofit organizations, including international organizations.

Contracts represent A.I.D.'s normal legal relationship for the acquisition of services and goods. In this regard, the administration and use of contracts is regulated in considerable detail by the Competition in Contracting Act of 1984 and the Federal Acquisition Regulations. Grants are neither subject to the stringent requirements of the Competition in Contracting Act nor the Federal Acquisition Regulations. Though A.I.D. policy as enunciated in Chapter 1 of A.I.D. Handbook 13 encourages that competition be used to the maximum extent practicable in the awarding of grants, noncompetitive awards can be easily justified compared with the onerous requirements for contracts. For this reason, it is important that auditors are alert to the fact that grants should not be used as substitutes for contracts and thereby used to evade the stringent procurement requirements that apply to contracts.

CHAPTER 1

REGISTRATION AND PROGRAMMING PROCESSES FOR PRIVATE VOLUNTARY ORGANIZATIONS

A. REGISTRATION PROCESS

U.S. Private and Voluntary Organizations (PVOs) have had a long-relationship with A.I.D. and its predecessor agencies dating back to the 1940s, when PVOs were active primarily in relief and disaster assistance efforts. In 1973, when Congress mandated that A.I.D. start addressing the needs of the "poorest of the poor", it inserted Section 123 into the Foreign Assistance Act, urging A.I.D. to involve U.S. PVOs in the development process. Since that time, A.I.D. has provided increasing financial support for U.S. PVO development activities. In 1981, Congress inserted Section 123 (f) into the Foreign Assistance Act, directing A.I.D. to provide at least 12 percent, and a target of 16 percent, of its development assistance funding to U.S. PVOs.* This funding floor of 12 percent was eventually increased to 13.5 percent. Though the target of 16 percent remains unchanged, A.I.D. funding to PVOs exceeds 20 percent of the development assistance appropriations. This funding presently totals about $450 million annually.

To receive this funding, U.S. PVOs must register with A.I.D. Through this process of registration, the U.S. PVOs become eligible to apply for those resources intended for U.S. PVOs. Eligibility for other A.I.D. resources, such as contracts, does not require registration.

This registration requirement for U.S. PVOs originated on the eve of World War II, as a means of monitoring the overseas relief activities of American Agencies in warring countries. The neutrality Act of 1939 required U.S. PVOs to register with and report to the Department of State. During the war this function was formalized by an executive order creating the President's War Relief Control Board (1942-1946), licensing war relief activities and regulating solicitation and disposition of relief contributions.

In 1946, the Advisory Committee on Voluntary Foreign Aid (ACVFA) was formed within the Department of State to continue the registry, comprised of those agencies which appealed to the public for funds, conducted foreign assistance activities and agreed to provide financial information for public inspection. Reimbursement of the ocean shipment costs of supplies of U.S. PVOs began in 1947; registration with

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* These resources do not include P.L. 480 and U.S. Government-owned Excess Property.

ACVFA was a prerequisite for that support. Subsequent legislation made registered groups also eligible for Food for Peace (PL 480) and Excess Property Programs known as subventions.

In 1980, authority to register U.S. PVOs was redelegated from ACVFA (in State) to the A.I.D. Administrator. The A.I.D. Administrator in turn redelegated the responsibility to the Assistance Administrator of the Bureau for Food for Peace and Voluntary Assistance (AA/FVA). The Assistant Administrator redelegated the responsibility to the FVA Bureau's Office for Private and Voluntary Cooperation (FVA/PVC). In doing this, the Office for PVC was also designated as the focal point for PVO relations with the Agency, its bureaus and missions.

The office of PVC is responsible for registering U.S. PVOs in accordance with Part 203, Chapter II, Title 22 of the Code of Federal Regulations, as amended. There are two major components of the registration process: the application for registration and the maintenance of registered status. They are related but distinct processes.

In applying for registration, the U.S. PVO most submit the following data which is then subject to A.I.D. review:

- Letter stating reasons for seeking registration, signed by the Chief Executive Officer.
- Signed resolution of the governing board supporting the application for registration with A.I.D.
- Articles of incorporation, by-laws and a statement as to the location of the organization's principal offices.
- Most recent audited financial statement prepared in accordance with Generally Accepted Auditing Standards (GAAS).
- Current annual budget, reflecting expenses and revenues.
- IRS statement of tax exemption and a copy of IRS Form 990 (or 990-PF).
- Most recent annual report or similar document.
- A report describing steps taken to date to undertake a program of development assistance overseas.
- A signed statement indicating that paid officers or staff members who serve on the Board do not constitute a majority in any decisions made.

- Names and addresses of board members.
- Minutes of board meetings for previous three years.
- A signed statement that audited financial statements are available to the public upon request.
- A signed statement indicating the salaries and allowances of the top 5 principal headquarters positions and country director positions.

Annual submissions are required of registered U.S. PVOs to maintain their registered status. Within 180 days after the close of the fiscal year, the U.S. PVOs must submit the following documentation demonstrating it continues to meet the conditions of registration:

- Independently audited financial statements for fiscal year ended in accordance with American Institute of Certified Public Accountants (AICPA) Guidelines and GAAS.
- Annual report of program activities or similar document.
- Current annual budget (projected) reflecting amounts and sources of revenue, administrative costs, and overseas program costs.
- List of principal positions (not Board of Directors or Trustees) including title, pay and allowances.
- List of the top salary levels, prerequisites and allowances of country directors for all countries in which the organization has representation.
- List of changes in Board memberships including addresses.
- A.I.D. Schedule 1550-2 --Statement of Income and Expenditures.
- Copy of IRS Form 990 or 990-PF or a statement explaining why the organization is not required to file such a form.
- A.I.D. Schedule 1550-11 -- A description (one per activity, per country) for each A.I.D. supported activity.

In addition to U.S. PVOs, there are three categories of non- U.S. PVO. Though registration requirements for non-U.S. PVOs are similar to those for U.S. PVOs,

there are some differences due to legal, business and cultural practices. Authority to register non-U.S. PVOs has been redelegated by the Assistant Administrator (AA/FVA) as follows:

- Indigenous PVOs (IPVOs) are those non-U.S. PVOs which conduct operations in the country under whose laws they are organized. The A.I.D. Mission Director has the authority to register IPVOs. Applications for registration are thus made to the A.I.D. Mission Director. In the event there is no A.I.D. Mission, the U.S. Embassy can be delegated authority to register the IPVO.

- Regional PVOs are those non-U.S. PVOs which are organized under the laws of a country in an A.I.D. geographic region, and which conduct operations in more than one country in that region but not in more than one A.I.D. geographic region. The Assistant Administrator of the geographic bureaus have the authority to register Regional PVOs. Applications for registration of Regional PVOs should thus be made to the PVO Liaison Officer in the appropriate geographic bureau.

- International PVOs are those non-U.S. PVOs which are usually organized under the laws of European countries. They may receive funds from two or more countries, have an international body and conduct operations in one or more A.I.D. geographic regions. The Assistant Administrator for FVA has the authority to register international PVOs. Applications for registration of international PVOs should thus be made to the Office of PVC.

Section 123 (g) of the Foreign Assistance Act requires that no funds may be made available to any U.S. PVO which does not obtain at least 20 percent of its total annual financial support from sources other than the U.S. Government. The purpose of this 20 percent "rule" is to discourage dependence on U.S. Government financing and thereby ensure that the PVOs maintain their independence of action; and to ensure PVOs continue to leverage additional financial resources for development.

Though registered as U.S. PVOs, not all nonprofits are charitable or fund-raising organizations. Recognizing this, A.I.D. has disaggregated the organizations within the U.S. PVO rubric into five functional groups. Of the following five functional groups, only traditional voluntary organizations are subject to the 20 percent rule.

- Cooperatives and Credit Unions. U.S. cooperatives were formed to provide business services and outreach in cooperative development for their U.S. membership. Their international programs were initiated largely as a result of A.I.D. urging, A.I.D. financing and Congressional mandate. These organizations support the goals of sections 102, 111, 123, and 601 of the

Foreign Assistance Act of 1961, as amended ("FAA"), to increase "the participation of rural and urban poor people in their countries' development" (FAA, Sec. 111). These organizations are not charitable or fund-raising groups. They rely almost exclusively on A.I.D. institutional support grants. Policy Determination-73 (PD-73) governs the Agency's relationship with the U.S. cooperative development organizations.

- AFL-CIO Labor Institutes. The Labor Institutes support FAA Section 102 and 601 goals of strengthening free labor unions and increasing participation of workers in the economic and social development processes of their respective countries. Like cooperatives. the Institutes established their international programs largely as a result of A.I.D. initiatives and Congressional mandate. They are trade associations, not charitable or fund-raising groups, relying almost exclusively on A.I.D. institutional support grants to operate their international programs. Policy Determination-52 (PD-52) governs the Agency's relationship with the Labor Institutes.

- Family Planning Organizations. U.S. Family planning organizations have expanded family planning services accessibility around the world, a major objective of U.S. foreign aid policy for more than decade and a half (FAA Section 104). Like the cooperatives and labor institutes, U.S. family planning organizations have entered international assistance activities largely as a result of A.I.D. initiatives and funding and Congressional mandate. They do not attract large amounts of private funding, relying heavily on A.I.D. institutional support grants to operate their international programs. The A.I.D. policy Paper on Population Assistance (September 1982) governs the Agency's relationship with family planning organizations.

- Nonprofit Consulting Firms. Nonprofit consulting firms have no significant financial support from U.S. private sources and operate essentially like consulting firms in their relationship to donors/clients. Like the preceding organizations, they rely on A.I.D. institutional support grants, particularly from the Bureau for Private Enterprise.

- Traditional Voluntary Organizations (Volgas). These groups have historically been involved in international programs. Many of these organizations were established at the close of World II to undertake European relief and rehabilitation. They rely significantly on U.S. private grants and contributions for their revenue and draw on volunteers to implement their programs. These organizations are most likely to qualify for the PVO grant program and most closely represent the kind of organization that Congress in Section 123 of the FAA, has urged A.I.D. to support in development work.

The control objective of the registration process is to ensure that only eligible PVOs are awarded grants and cooperative agreements. To achieve this objective, the following control techniques are used:

- **Guidance contained in A.I.D. Handbook 3, Appendix 4C, outlining the registration requirements.**
- **Guidance contained in the PVC-issued pamphlet entitled "The A.I.D.-PVO Partnership" outlining the procedural requirements.**
- **A.I.D. review of PVO documentation to determine and authorize eligibility.**
- **A.I.D. maintenance of a PVO registry in which eligible PVOs are recorded.**
- **Requirement that PVOs provide documentation annually to update eligible and that A.I.D. review documentation to authorize eligibility.**

B. PROGRAMMING PROCESS

PVOs receive financial support from a number of A.I.D. Washington bureaus - central and geographic - and overseas missions and offices. About 10 years ago, most of the financial support for PVOs was provided by the central bureaus. However, over the past 10 years, as the level of funding to PVOs has increased, the overseas missions' and offices' share of total PVO funding has risen to about 70 percent as compared with about 30 percent for the bureaus. This shift in increasing mission and office financial support for PVOs is expected to continue.

The programming function translates the bureaus and missions goals and objectives into specific strategies which identify the sectors and problems to be addressed within specified annual funding levels. Based on these strategic considerations, programming decisions are then made regarding the mix of assistance needed. These programming decisions result in the identification of specific activities and the preparation of concept papers and Project Identification Documents (PIDs). After the reviews and approvals of the PIDs, Project Papers are developed describing the activities in detail. These reviews and approvals of the Project Papers result in the authorization of the activities. These authorizations then serve as the basis for negotiating grant agreements with the PVOs.

In providing support to PVOs, the bureaus and missions use differing programming procedures. Because of these differing procedures, centrally programmed, regionally prepared and mission-programmed PVO activities are discussed separately below.

1. Centrally Programmed PVO Activities

The Office of PVC does not prepare a formal strategy statement. It believes the 1982 A.I.D. PVO Policy Statement provides sufficient analysis and rational for its program. This A.I.D. policy paper on PVOs assigns certain centrally funded grant programs to the Office of PVC. In recent years, these centrally funded PVC programs have been modified to meet changing needs.

At the present time, PVC administers six competitive grant programs totaling in excess of $50 million annually, which support and strengthen world-wide PVO development activities. These six programs are:

- The Matching Grant Program

  This is the predominant program used by PVC for providing grant support to traditional U.S. PVOs. Matching grants, totalling about $21 million annually, are awarded to U.S. PVOs for clearly conceived, evaluable, field-oriented programs to be carried out in a number of countries and which are consistent with A.I.D.'s legislative mandate. Such programs may be as broad as the overall scope of the PVOs work or as specific as community-based health services or small enterprise development. The matching grants normally allow the PVOs to expand its programs to new places and initiate new projects.

  Grants are awarded to PVOs with well-established development programs and with demonstrated private fund-raising ability. The grant may have a term of three to five years and is matching in the sense that A.I.D. will pay no more than 50 percent of the cost.

- Child Survival program

  Under this $15 million annual program, which began in 1985, grants are competitively awarded to PVOs engaged in primary health programming, as part of their international efforts. The focus of this program is country-level activities that expand and enhance the effective delivery of a select number of key interventions that have been shown to save the lives of children. In view of the resurgence of malaria, the program permits the limited inclusion of malaria control activities with other child survival interventions.

  At least 25 percent of the project costs must be borne by the U.S. PVO. The PVO must also have an adequate number of full-time

health professionals at headquarters assigned to child survival activities; and have for each country project at least one staff member with an MPH, nursing, medical or equivalent degree and relevant experience in community preventative health services.

- Cooperative Development Program

This program, totalling about $6 million annually, provides support to U.S. Cooperative Development Organizations (CDOs) to enable them to play an important role in the development of overseas cooperatives and credit unions, strengthen cooperative federations, training cooperative managers and technicians and encouraging the use of cooperative structures in development projects. Under this program, Cooperative Program Support Grants are provided to strengthen and expand the CDOs' international operations. Most funding for the CDOs' overseas projects are provided by the missions.

Because CDOs are not fund raising organizations, there is no cost sharing requirement for these grants.

- Ocean Freight Reimbursement Program

This program is authorized under section 123 (b) of the Foreign Assistance Act. This legislative provision authorizes the use of funds to pay transportation charges and shipments by the American Red Cross and U.S. PVOs registered with A.I.D. Under this $3 million annual program, PVOs compete for funds to ship a wide variety of goods overseas for use in privately-funded development humanitarian assistance projects. However, these funds cannot be used to ship P.L. 480 food commodities or commodities for a PVO's A.I.D.-funded projects. PVOs can only ship commodities to those countries for which they have received A.I.D. prior approval. The PVOs must make all arrangements for transportation charges and submit vouchers with copies of the bills of lading to claim reimbursement.

This is a cost sharing program under which PVOs are required to absorb all ancillary costs involved in making freight shipments overseas. These ancillary costs include acquisition of the goods, packing, crating, warehousing, insurance and in-land transportation.

- Development Education Program

  Under this $3 million annual program, which was initiated in 1982, grants are awarded on a competitive basis to PVOs and nonprofit organizations. The program of this program is to increase the American public's awareness of the role of U.S. PVOs in addressing world hunger and related development issues. The purpose is targeted at initiatives which facilitate broad public participation and educational approaches through the media, educational associations and other important influences groups.

  Under this cost sharing program, the recipients of the grants are to share on a one-to-one basis.

  - Food Development Program

    Under this $5 million annual program, which was initiated in fiscal year 1989, grants are awarded on a competitive basis to PVOs to enhance the utilization of P.L. 480 food as an effective resource. Three types of support are available:

    - Strengthening grants for broad support of key headquarters and field activities;

    - Innovation grants to explore, test and demonstrate new ideas and approaches to maximize the development impact of Title II food resources; and

    - Planning assistance for PVOs to explore program feasibility and develop plans for implementation of new food and programs.

In programming these programs, PVC prepares an annual Request for Proposals for each of the six programs. Upon preparation, the Requests for proposals are distributed to those U.S. PVOs interested in obtaining grants under each of the programs. The Requests for Proposals provide guidance which describe:

- the eligibility criteria for competing for grants under each of the programs;

- the criteria for selecting proposals under each program;

- where proposals for each program should be sent and by what date and time;

- the review process that will be used for selecting proposals under each program; and

- the specific instructions for preparing the proposals for each program.

In response to these Request for Proposals, the U.S. PVOs prepare detailed proposals for those programs for which they are eligible and want to compete.

Those proposals received by PVC on or before the specified date and time for each program are then evaluated by independent review committees. Ordinarily, by the time the review committees meet, the funding levels for each program has been established. Thus in evaluating the proposals for each program, the review committees will select a certain number of proposals not exceeding the funds available under each program. In making these selections, the review committees may recommend that the funding level of certain proposals be reduced and/or specific issues be clarified. In these cases, PVC must notify each PVO in writing of the review results and the issues to be clarified. The PVO is then given an appropriate period of time to clarify the issues and/or to modify the funding requested in the proposal.

After making the changes, the PVOs return the modified proposals to PVC. PVC then reviews the proposals to ensure the necessary changes have been made. When this has been done, PVC then prepares an Action Memorandum for the Assistant Administrator of FVA authorizing the award of a grant to each of the approved PVO applicant under each program.

Since authorization gives permission to negotiate a grant agreement, the content of the authorization memorandum must:

- be made subject to the availability of funds. This "subject to" reservation affects all funds planned for the grant, whether it is to be fully funded at the outset or is to be funded incrementally.*

- identify the estimated life-of-grant period.

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* The preface is to fund grants incrementally--one year at a time.

- identify the approved source and origin of goods and the nationality of services to be financed.

- be consistent with information in the body of the PVO application or proposal. The description must be brief and clear so that it can form the basis of the grant agreement to be negotiated with the grantee.

When the authorization has been approved and signed, PVC then prepares a Project Implementation Order/Technical Services (PIO/T). The PIO/T provides instructions to the A.I.D. Procurement Office for negotiating a grant agreement with the PVO.

The Bureau for Science and Technology (S&T) and the Bureau for Private Enterprise (PRE) also provide centrally funded support to U.S. PVOs. Of these two bureaus, S&T provides about $45 million annually to family planning organizations and PRE provides about $5 million annually to nonprofit consulting firms. In providing this financial support, the two bureaus use differing programming procedures.

In the case of S&T, the Office of Population prepares an Office Strategy Statement. This statement spells out the objectives for the population program and provides the analytical basis for supporting the varying mix of assistance to achieve the objectives.

In the context of this mix of assistance, the Population Office has traditionally used PVO family planning organizations to deliver family planning services abroad.

In programming family planning assistance, the S&T Population Office will request the PVOs to provide project proposals. These proposals are then used to develop Project Papers describing each of the PVOs' family planning projects. These Project Papers, after being reviewed and approved by an S&T Review Committee, are then used as the basis for the Assistant Administrator of S&T authorizing the projects. Upon authorization of the projects, the Population Office prepares PIO/Ts providing instructions to the A.I.D. Procurement Office for negotiating grant (cooperative) agreements with the PVOs.

In the case of PRE, a Bureau strategy statement is prepared. This statement spells out the bureau objectives and provides the analytical basis for supporting the varying types of assistance to achieve them. In the context of

this assistance, the bureau uses nonprofit consulting firms* to assist private firms abroad. In programming this consulting assistance, the bureau requests the PVO to submit a proposal based on a specified level of funding. This proposal is then reviewed and approved. When approved, the bureau prepares an Action Memorandum for the signature of the Assistant Administrator authorizing a grant (cooperative) agreement to the PVO for implementing the proposal. When the authorizing Action Memorandum has been approved and signed, PRE prepares a PIO/T. This PIO/T provides instructions to the A.I.D. Contracting Office for negotiating a grant agreement with the PVO.

2. Regionally Programmed PVO Activities

The geographic bureaus provide about $30 million annually to fund regional PVO activities. Of this annual funding, about $15 million is used to support the AFL-CIO Labor Institutes. The other $15 million is used to support regional PVO activities which the bureaus feel should only be funded by them. An example of a bureau-specific activity would be the ANE Bureau's West Bank/Gaza PVO project.

Ordinariiy, financial support for these PVOs is not programmed in the context of a bureau strategy statement. For the most part, the geographic bureaus have traditionally supported the PVOs for years at a specified level of funding--for decades in the case of the labor institutes. The feeling seems to be that a formal bureau strategy statement is not all that important in deciding how much of the geographic bureaus annual level should be allocated for PVO activities.

Usually, in programming support for PVOs, the geographic bureaus will ask the PVOs to submit their project proposals. These proposals will be based on a funding level specified by the bureaus. Bureau review committees will then evaluate these proposals. Upon approval of the proposals, the geographic bureaus prepare Action Memoranda for the signature of the Assistant Administrators authorizing grant (cooperative) agreements to the PVOs for implementing the proposals. When the authorizing Action Memoranda have been signed and approved, the bureaus prepare PIO/Ts. These PIO/Ts provide instructions to the A.I.D. Procurement Office for negotiating grant agreements with the PVOs.

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* The only non-profit consulting firm presently used by PRE is the International Executive Service Corps (IESC).

3. Mission Programmed PVO Activities

Mission support for PVO activities presently runs about $320 million annually. In providing this financial support, the missions and offices may program this assistance through one or more of the following type projects:

- A bilateral project under which a grant(s) is (are) awarded to a PVO(s) to implement a specific aspect of a program(s) in a specific sector(s) e.g., a population project which includes funding for a PVO grant(s) that is not included in the project agreement with the host country.

- A nonbilateral project under which a specific PVO receives a specific grant to implement a specific program. Grants awarded under these projects are commonly referred to as Operational Program Grants or OPGs and involve limited funding - usually under $500,000.

- A nonbilateral PVO co-financing project under which two or more PVOs receive grants to implement specific programs in multi-sectors. In other words, one umbrella-type project is used to fund a variety of PVO proposals.

In providing support to PVOs, the missions follow normal project programming procedures. Under these procedures, Agency policy requires that every mission prepare a Country Development Strategy Statement (CDSS) every five years or sooner. When the political economic and social development conditions change, a revised or new CDSS may be warranted. The purpose of the CDSS is to provide an analytical basis for the proposed strategy. To do so, it must provide a thorough, realistic and insightful analysis of the host country's development prospects and problems, both macroeconomic and sector specific. It thus requires the mission to think through its assessment of the basic problems faced by the host country and the role A.I.D. can play.

The end product of this analysis is the determination of the overall objectives for the period and a program of varying types of assistance to achieve them. When the CDSS has been prepared, it is forwarded to the appropriate geographic bureau for review and approval. When approved, the CDSS becomes the basic planning document in providing economic assistance to individual countries.

It is important to emphasize that the missions' CDSS's do not include specific projects for specific PVOs or specific PVO programs like the central and geographic bureaus. Instead the CDSS's provide an analytical framework for planning projects to address sector specific problems. Within the context of these sector specific projects, PVOs are considered as implementors or potential implementors. Even in the case of PVO co-financing projects, the projects should be programmed and justified in the context of addressing sector(s)-specific problems--not providing a "slush fund" for financing PVOs.

The New Project Description (NPD) is the first in a series of three documents prepared by the missions which lead to the approval of a specific project. The NPD provides a short description of the project concept and the funding implications. Though it may be submitted to the geographic bureaus earlier, it should be submitted no later than the Annual Budget Submission (ABS). In this sense, the NPD directly links and ties the program analysis in the CDSS with the funding decisions of the ABS.

Upon geographic bureaus approval of the NPD, the mission then prepares a Project Identification Document (PID). The PID describes the project in much more detail than the NPD. In doing so, it describes such aspects as the goad to be supported and the purpose to be achieved; the intended beneficiaries; a preliminary analysis of the financial requirements; and a preliminary analysis of such issues as social, economic and environmental.

Upon completion, the mission forwards the PID to the geographic bureau.* In the geographic bureau, the PID is subjected to an intensive review by a committee chaired by the Assistant Administrator or his/her designee.

Upon approval of the PID, the mission then proceeds with the detailed project description, commonly referred to as the Project Paper. Development of the Project Paper serves two purposes namely:

- As the basis for approval of the project by the appropriate authorizing official; and

* In some geographic bureaus, the missions have been delegated authority to approve PIDs and Project Papers for PVO type projects.

- As a historical record of the project rationale, description of project element, analyses supporting the proposed design, and initial project implementation and monitoring plan.

The content of the Project Paper is thus determined by these purposes. According to Agency guidance set forth in A.I.D. Handbook 3, Chapter 3, the following sequence of information should be provided in all Project Papers for project assistance.

- Project Rationale and Description - A brief review of the rationale for the project stating why the project should be undertaken and putting it in the context of the CDSS and the host country's own development plans.

- Cost Estimate and Financial Plan- A breakdown of costs by foreign exchange and local currency by sources. The method used in estimating project costs should be explained. If the project contains a training component, the cost estimate for that component should conform to the training cost analysis framework. Projects which contain salary supplementation, must conform with the criteria outlined in A.I.D. Handbook 1, Chapter 7.

- Implementation Plan - This plan should cover the entire period from authorization of the project to its completion and a description of the responsibilities to be assumed and by the PVO and the mission or office. The narrative should be supported by appropriate annexes including, if the project involves significant procurement, a procurement plan. This plan should indicate the kinds of commodities and services to be procured, their probable sources.

- Monitoring Plan - a description of arrangements for monitoring, including a assessment of mission or office staff for performing the monitoring tasks.

- Project Analyses - A summary of analyses (i.e, economic, financial, technical, administrative, environmental, etc.) performed during project development should be included in the body of the Project Paper.

- Terms and Conditions - All terms and conditions proposed for inclusion in the grant agreement should be listed and the reasons for their inclusions cited.

- Evaluation Arrangements - A description of arrangements to be made for the collection of baseline data (if not yet completed), for follow-up surveys and analysis of such data preparatory to or as part of possible project evaluations. The A.I.D. Evaluation Handbook requires that all projects include an information component, i.e., management information system, that will provide data necessary for adequate monitoring and evaluation during implementation.

- Annexes, as appropriate - The annexes, both optional and required, would include such data as Log Frame Matrix, Statutory Checklist of Legislative Requirements, Implementation Schedule, Procurement List, etc.

When completed, the Project Paper is subject to an intensive review. This review may take place at the mission, provided it:

- Falls within the mission's delegated authority;

- Does not raise significant issues requiring higher level approval; and

- Was not identified at the PID stage as having special policy implications requiring review by the geographic bureau.

As a general rule, most Project Papers prepared by missions are reviewed in the field, whereas Project Papers by overseas offices are generally reviewed by the geographic bureaus.

When the Project Paper has been approved, a project authorization package is prepared for the review and approval of the authorizing official. This authorization package consists of the following:

- An Action Memorandum - which summarizes the substance of what is proposed for signature.

- The Authorization Document - which must be included as part of the Project Paper after it has been signed. A Project Paper

is not regarded as complete unless it contains, as its initial section, a copy of the executed authorization.

- The Project Data Sheet - which contains operational and recording information.

- The Project Paper - which was discussed

- Waiver Request and Justifications - which should be prepared for those regulations and procedures to be waived.

The documents in this package are usually prepared by the project committee responsible for drafting the Project Paper and reviewed by members of the Project Paper Review Committee.

When the authorization has been approved and signed, the mission will usually solicit competitive proposals from eligible PVOs. This is done by preparing a Request for Proposals which spells out the objectives of the project, the cost sharing requirements and any other information needed by the PVOs to respond to the request. Eligible PVOs will then prepare proposals in accordance with the selection criteria of the Request for Proposal. Upon preparation, the PVOs will send the proposals to the mission where they are evaluated by a mission review committee. The most responsive proposal(s) selected by the mission review committee is then awarded the grant(s).

When the mission receives an unsolicited proposal that it feels warrants funding, it would then use that proposal for preparing the programming documents to justify the grant project. Upon authorization of the project, the PVO would be awarded the grant.

The control objective of the central and regional bureau programming process is to provide reasonable assurance that A.I.D. competitively awards grants to eligible PVOs based on soundly developed proposals. To achieve this objective, the following control techniques are used:

- **Preparation of requests soliciting proposals for specific programs from eligible PVOs registered with the A.I.D. Office of Private Voluntary Cooperation.**

- **Establishment of independent review boards which are responsible for reviewing and selecting PVO proposals.**

- Assignment of responsibility to A.I.D. Project Officers for reviewing PVO proposals when independent review boards are not used. When a Project Paper is to be prepared from the proposal, the Project Officer is responsible for preparing the Project Paper with the assistance of technical experts from the bureaus. When a Project Paper is not prepared, the Project Officer, with the assistance of technical experts, must ensure that the proposal provides the same level of detail and analyses as the Project paper.

- Authorization of the proposal or the Project Paper by the Assistant Administrator of the bureau or other authorized official.

The control objective of the missions' or offices' programming process is to ensure that grants are competitively awarded to eligible PVOs based on soundly developed proposals which address the missions' or offices' development strategies. To achieve this objective, the following control techniques are used:

- Mission preparation and bureau approval of a Country Development Strategy Statement identifying macro and sectoral issues and problems and a program of varying types of assistance to address them.

- Mission preparation and, as required, geographic bureau approval of the standard programming documents: New Project Description, Project Identification Document, and Project Paper. These documents, prepared under the direction of Project Officers, are used to identify, develop, and justify the PVO projects and/or participation in A.I.D. projects.

- Review and approval of the projects by a mission or appropriate bureau review committee.

- Authorization of the projects by the mission director or the Assistant Administrator of the geographic bureau.

CHAPTER 2

PROGRAMMING PROCESS FOR INSTITUTIONS OF HIGHER EDUCATION AND OTHER NONPROFIT ORGANIZATIONS

Grants and cooperative agreements awarded to universities, nonprofit and international organizations are largely funded by the central bureaus. Central bureau funding for these grants and cooperative agreements amounts to roughly $200 million annually. Of this $200 million, about $150 million is provided by the Bureau for Science and Technology (S&T) and $30 million by the Bureau for Food for Peace and Voluntary Assistance (FVA). About half of the grants and cooperatives are awarded to universities with the other half to a broad variety of organizations

In recent years, cooperative agreements with add-ons have become significant, particularly in the Bureau for Science and Technology. For example, of some 80 grant projects in S&T, 25 to 30 have provisions for add-ons. Under these add-on grants, S&T provides a core grant to the recipient university or nonprofit organization to support a particular program. In the design stage, S&T will circulate a PID soliciting interest on the part of the missions. Those missions interested in the work of the recipient organization's program will state their interest in buying into the grant program. In preparing the Project Paper and authorizing the project, provisions will include so much for the core grant funded by S&T and so much for the add-ons funded by the missions.

It is important for auditors to recognize that A.I.D. is not buying services and commodities under grants and cooperative agreements. According to Chapter 1.a. of A.I.D. Handbook 13, grants are used:

- To support or intensify the activities of independent organizations which contribute to the achievement of Foreign Assistance Act objectives; or

- To develop the independent capacity, integrity, and quality of the recipient as an entity whose function is for the economic or social betterment of underdeveloped countries.

In either event, the nature of the activity to be supported and the characteristics of the organization to be supported must justify the diminished level of managerial control which is to be retained by A.I.D. in grant relationships.

It is appropriate to use grant instruments when emphasis is placed on promotion of the independent capacity, integrity and quality of the entity or the programs supported, rather than on specific work and the manner in which it is performed or the day-to-day activities of the entity as a part of the U.S. Government's foreign assistance program. Insofar as they distribute funds or services or goods, recipients do so as part of their own programs. If the A.I.D. purpose is to obtain goods or services to pursue an assistance program arranged by

A.I.D., then a contract, not an assistance instrument, is the appropriate form of document to formalize the arrangement.

Thus, in auditing grants with add-ons, auditors need to assure themselves that the grants are not being used improperly as substitutes for contracts. One aspect that should be checked is whether the grant contains a large provision for contract services. In such cases, it should be determined why the service was not procured directly rather than through the grant. Auditors should also determine whether the add-on grant was competitively awarded. If not, the "why" should be determined.

In awarding grants and cooperative agreements to universities and other nonprofit organizations, the central bureaus generally follow the normal programming procedures. Under these procedures, the bureaus identify the areas and problems to be addressed within specified funding levels. Based on these strategic considerations, programming decisions are made regarding the type of assistance needed. These programming decisions result in the identification of specific activities and the preparation of concept papers and Project Identification Documents (PIDs). After the reviews and approvals of the PIDs, Project Papers are developed describing the activities in detail. Approvals of the Project Papers result in the authorization of the projects. Authorization of the projects, in turn, serve as the basis for negotiating grant agreements with the universities and other nonprofit organizations.

Because the programs of the central bureaus vary, each is discussed separately below.

A. BUREAU FOR SCIENCE AND TECHNOLOGY

The S&T Bureau is the largest of the central bureaus and offices as indicated below:

	FY 1990 Annual Funding (In Millions)	Number Projects
Bureau for Science and Technology (S&T)	$ 315.9	191
Bureau for Food for Peace and Voluntary Assistance (FVA)	80.7	11
Bureau for Program and Policy Coordination (PPC)	25.0	9
Bureau for Private Enterprise (PRE)	17.0	14
Office of the Science Advisor (SCI)	11.2	4
Office of International Training (OIT)	2.5	2
	$452.0	231

Grants and cooperative agreements represent a large part of the S&T program. For example, of the $315.9 million which was allocated to S&T in FY 1991, roughly $195 million (or 61 percent) is programmed for grants. Of this $195 million, about $45 million is programmed for family planning PVOs, $64 million for universities, $11 million for other nonprofits, and $75 million for international organizations. The remaining $120.9 million allocated to S&T is largely programmed for contracts ($110 million) and contraceptive procurement ($12.9 million).

The S&T Bureau is comprised of nine technical offices and a program office. As indicated below, three offices--Population, Agriculture, and Health--receive about 85 percent of the funds allocated to S&T.

Office	No. of Ongoing Projects	Total Accumulative Obligations Thru FY 90 (In Millions)	Proposed FY 91 Funding (In Millions)	Percent of FY 91 Funding
Population	37	$1,191.9	$ 110.0	34.6
Agriculture*	38	576.8	73.0	23.7
Health	40	505.8	77.2	24.5
Research and University Relations	8	92.6	8.3	2.2
Energy	11	104.4	13.2	4.5
Rural and Institutional Development	24	93.7	9.3	2.5
Nutrition	11	90.1	9.0	2.5
Education	11	44.5	5.8	1.8
Forestry, Environment and Natural Resources	8	57.0	9.5	3.6
Program Office	3	11.2	.6	.1
Bureau Total	191	$2,770.4	$315.9	100.0

* Includes $40 million allocated for the International Agricultural Research Centers.

Under S&T programming procedures, each office should prepare a strategic statement for the ABS which spells out the objectives for the Office and provides the analytical basis for the mix and level of assistance to achieve the objectives. Each office prepares an Action Plan annually to measure the office's progress against the objectives in its strategic statement to the ABS.

In programming grant assistance, the offices usually follow normal programming procedures. In doing so, the offices may use a project to fund one grant such as an add-on grant or a Cooperative Research Support Grant (CRSP). One project may also be used to fund multiple grants to multiple nonprofit organizations. An example of the latter would be the Office of Research and University Relations Project for Joint Memorandum of Understanding (MOV)-Agriculture. Under this project, 24 Historically Black Colleges and Universities (HBCUs) pair up with 24 state universities under Memoranda of Understanding whereby the state universities assist the HBCUs to develop the institutional capability to work in agricultural development abroad. Another example would be the multiple grants awarded to the various international research centers under the Consultative Group in International Research (CGIAR) project.

When a new project is being programmed, a New Project Description (NPD) is prepared. The NPD provides a short description of the project concept and the funding implications. Upon geographic bureau approval of the NPD, the offices prepare a PID. The PID is subject to an intensive review by a Project Committee consisting of representatives from S&T and various bureaus and offices. If the grant is to contain add-ons, the PID is reviewed by missions which may wish to buy in to it. Upon approval of the PID by the Assistant Administrator, the offices then proceed with the detailed project description. Development of the Project Paper serves two purposes, namely:

- As the basis for approval of the project by the appropriate authorizing official; and

- As a historical record of the project rationale description of the project cost estimate and final plan and so on.

The content of the Project Paper is thus determined by these and other purposes set forth in A.I.D. Handbook 3, Chapter 3. Upon completion, the Project Paper is subject to an intensive review by the Project Paper Review Committee, which is independent of the Project Committee that prepared the PID and Project Paper.

When the Project Paper has been approved, a project authorization package is prepared for the review and approval of the authorizing official. This authorization package consists of the following:

- An Action Memorandum - which summarizes the substance of what is proposed for signature.

- The Authorization Document - which must be included as part of the Project Paper after it has been signed. A Project Paper is not regarded as complete unless it contains, as its initial section, a copy of the executed authorization.

- The Project Data Sheet - which contains operational and recording information.

- The Project Paper - which was discussed above.

- Waiver Request and Justifications - which should be prepared for those regulations and procedures to be waived.

The documents in this package are usually prepared by the Project Committee responsible for drafting the Project Paper and reviewed by members of the Project Paper Review Committees.

When the authorization has been approved and signed, the office should solicit competitive proposals from eligible organizations. This is done by preparing a Request for Proposals which spells out the objectives of the project, the cost sharing requirements and any other information needed by the organizations to respond to the request. Eligible organizations will then prepare proposals in accordance with the selection criteria of the Request for Proposal. Upon preparation, the organization will send the proposals to the office where they are evaluated by a review committee. The most responsive proposal(s) selected by the review committee is then awarded the grant(s). At this point, PIO/Ts are prepared and forwarded to the Office of Procurement for preparation of the grant or cooperative agreement.

Though Chapter 2B of A.I.D. Handbook 13 requires that competition be used to the maximum extent practicable, indications are thatmost grants and cooperative agreements are awarded noncompetitively. In these cases, PIO/Ts are prepared and then sent to the Procurement Office for executing the agreements.

B. BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE

Pursuant to Section 214 of the Foreign Assistance Act, Congress appropriates about $30 million annually for the American Schools and Hospitals Abroad (ASHA) program. Under this program, which is administered by the Office of ASHA, organizationally located in Bureau for Food for Peace and Voluntary Assistance (FVA), grant recipients must be U.S.-based nonprofit organizations. In accordance with Section 214 of the Foreign Assistance Act of 1961, as amended, grant assistance is made available to selected schools, libraries, and hospitals overseas founded or sponsored by United States citizens and serving as study and demonstration centers for ideas and practices of the United States and as centers for medical education and research. Grants made under this program help such institutions demonstrate to people overseas the achievements of the United States in education and medicine. The ASHA grants are made to the U.S. sponsors for the exclusive benefit of the overseas institutions and customarily carry matching or cost-sharing provisions. U.S. sponsors are responsible for grant implementation and financial accountability at no cost to the U.S. government.

Since funds are specifically appropriated for the programs, ASHA does not need to follow normal A.I.D. project programming procedures. Under the program, U.S. sponsors submit unsolicited applications or proposals. However, in order for an application to be considered on behalf of an overseas institution, potential applicants (U.S. sponsoring institutions), which are new to the program and those which have previously not done so, must provide the following preapplication information to ASHA:

- Organization's Articles of Incorporation
- Organization's By-Laws
- The Articles of Incorporation or comparable documentation of the overseas school, library or hospital center for medical education and research, with an English language translation, if applicable, notarized as true and correct.
- Evidence of U.S. Internal Revenue Service's recognition of private nonprofit, tax exempt status.
- Latest (within past two years) financial statements of the organization and overseas institution prepared by an independent public accountant(s) indicating organization's conformity with generally accepted accounting principles.

- Applicants new to the program should also furnish a brief statement of the U.S. organization's relationship with the overseas institution and purpose for which funds are needed.

Upon review and approval of this information, ASHA provides the U.S. sponsor with a formal application form. This form, which is used to apply for a grant, must be completed and submitted to ASHA by the end of August for consideration in the following fiscal year.

ASHA receives about 210 to 250 applications annually. These applications are then reviewed and screened by an independent review committee consisting of four to six private members. This committee meets sometime between November and March. The time is fixed when funding for the program has been appropriated and made available to A.I.D.

In evaluating requests for assistance, the following criteria is used:

- The applicant should be a nonprofit U.S. organization which either founded or sponsors the institution for which assistance is sought. Preferably, the applicant should be tax exempt under Section 5601(c)(3) of the Internal Revenue Code of 1954.

- The applicant must demonstrate a continuing supportive relationship with the institution. Evidence of this would be the provision of financial and management support for the institution.

- An instruction program must serve the secondary or higher level and must reflect American educational ideas and practices (education at the elementary school level will not be supported).

- A school offering a broad-based academic program must include instruction on the history, geography, political science, cultural institutions or economics of the United States. English should be used in instruction or taught as a second language. The foregoing subject matter and language requirements need not apply to a school offering a specialized course of study.

- Institutions are expected to reflect favorably upon and to increase understanding of the United States.

- A hospital center, in addition to being a treatment facility, must be involved in medical education and research.

- Programs for post graduate training of staff in the United States and programs for the exchange of personnel with American institutions will be regarded as evidence of ability to demonstrate American ideas and practices in medicine.

- The faculty and staff of a school or a hospital center should include a significant number of U.S. citizens or other persons trained in U.S. institutions who are in residence and teaching at the school or hospital on either a full-time or part-time basis.

- The majority of the users of any institution, e.g., students or patients, must be citizens of countries other than the U.S.

- An existing institution must demonstrate competence in professional skills and must exhibit sound management and financial practices. An applicant for a new institution must demonstrate the ability to achieve professional competence and to operate in accordance with sound management and financial practices.

- The institution must be open to all persons regardless of race, religion, sex, color, or national origin. (The above shall not be construed to require enrollment of students of both sexes at an educational institution enrolling boys or girls only.) Assistance may not be used to train persons for religious pursuits or to construct buildings or other facilities intended for worship or religious instruction.

- The institution must be located outside the U.S. and should not be under the control or management of a government or any of its agencies. The recipient of financial or other assistance from a government or government agency or the observance of national educational or medical standards required by the country where the institution is located does not in itself mean that the institution is "under the control or management" of such government.

- An applicant requesting capital construction assistance must provide information sufficient to permit a firm estimate of the total cost to the U.S. Government of the construction for which assistance is requested. Such an applicant must also provide information and assurances with respect to rights to the land on which construction is planned.

- To help achieve the objectives of the Foreign Assistance Act and ensure that the American Schools and Hospitals Abroad program is as geographically balanced as possible, special consideration will be given to applications for

institutions which increase the geographic distribution of the program and contribute to the economic and social progress of areas that are the focus of A.I.D.'s development efforts.

Between 40 to 50 applications with an average value of $750,000 are selected annually. After the application have been selected by the committee, they are reviewed by ASHA. Upon completion of ASHA's review, a Congressional Notification Letter is sent to Congress indicating the institution to be awarded grants. When Congressional concurrence has been obtained, the ASHA office then prepares the grant agreements.*

C. BUREAU FOR POLICY, PLANNING, AND COORDINATION

The Bureau for Policy, Planning, and Coordination (PPC) funds nine projects which are of a continuing nature. Under PPC programming procedures, each office should prepare a narrative justifying the level of funding requested for each project in the preparation of the ABS. When funds have been appropriated and the level of funds allocated to PPC has been determined, the Assistant Administrator will establish the final level of funding for each office's projects.

Not only are PPC's projects of a continuing nature, but they also are umbrella-type projects. This means that the projects have no project assistance completion date (PACD) and that the contracts and grants funded under the projects must be individually authorized by an Action Memorandum.

About $25 million is allocated annually to PPC for the nine projects. Of this $25 million, approximately $7 million is awarded in the form of contracts. Three of the nine projects account for $7 million in grants. The Socio-Economic Studies project, which receives about $8.3 million annually, accounts for $5.5 million in grants to various institutions The Title IX Program, which receives $.6 million annually, is fully granted to the Institute for Electrical Systems. And the Women in Development Strategies and Resources project, which receives $5 million annually, accounts for $.6 million in grants to various institutions.

Under PPC programming procedures, when a nonprofit institution has been identified to receive a grant, an Action Memorandum will be prepared justifying the award. After the Action Memorandum has been signed by the Assistant

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* Because of the political nature of the program, delays often occur due to Congressional Review.

Administrator, the Project Officer will prepare a PIO/T which is then sent to the Office of Procurement for preparation of the grant agreement.

D. OFFICE OF THE SCIENCE ADVISOR

The Office of the Science Advisor (SCI) funds two umbrella-type projects. The first of these projects is the Innovative Scientific Research project which receives about $6.4 million annually for providing research grants worldwide. The second project is the A.I.D./Israel for Cooperative Development Research project, which receives about $2.5 million annually for providing research grants to joint Israeli and developing country research organizations. Under a third project--Applying S&T to Development--SCI has entered into a cooperative agreement with the National Academy of Science. Under this agreement, the Academy works with those research organizations receiving grants under the Innovative Scientific Research project. In working with these organizations, the National Academy of Science reviews the research papers, provides advice to the research organizations, promotes networking with U.S. research organizations, assists with publication of research results and so on.

Under the Foreign Assistance Act, funds are appropriated for SCI to carry out its programs. Though funds are specifically appropriated for its program, SCI prepares a strategic statement justifying the level of funding requested in the Annual Budget Statement. This level of funding is generally maintained at $11 million annually. When funds have been appropriated and made available, SCI then arranges for an independent review committee to screen and select proposals which will be grant funded.

Under the Innovative Scientific Research project, SCI receives 650 unsolicited proposals annually. Of those proposals, SCI awards around 45 grants with an average value of $150,000. Upon receiving concurrence to the Congressional Notification Letter, Action Memoranda are prepared authorizing the grants. About two-thirds of the grants are awarded to research organizations abroad. In the case of those research organizations abroad, SCI provides the necessary information and funding cite through a PIO/T for the mission contracting office, where the grantee is located, to prepare the grant agreement. The remaining one-third of the grants are awarded to U.S. research organizations. In this case, PIO/Ts are prepared for the Procurement Office.

Under the A.I.D./Israel for Cooperative Development Research project, SCI receives about 250 unsolicited proposals annually. Of these proposals, SCI awards 11 to 12 grants with an average value of $250,000. After selection has been made, a

Congressional Notification Letter is prepared and forwarded to Congress. Upon concurrence with the awards, Action Memoranda are prepared authorizing each award. Upon signing the Action Memoranda, PIO/Ts are prepared requesting the Procurement Office to prepare the grants. These grants are then forwarded to the Science Attache in the American Embassy in Israel who has been designated as Project Officer. The Science Advisor then arranges for grant agreements to be signed by the research organizations.

The control objective of this programming process is to ensure that grants are competitively awarded to the extent possible based on soundly developed proposals which are consistent with the bureau's strategy. To achieve this objective, the following control techniques are used:

- **Preparation of strategy justifying rationale for grant projects;**
- **Assignment of responsibility to Project Officers for preparation of program documents analyzing the technical, administrative, and financial soundness of the grant projects as required.**
- **Appointment of independent review boards to screen and select proposals when multiple grants are to be awarded under umbrella-type projects.**
- **Authorization of the proposals or grant project by the Assistant Administrator or other designated authorizing official.**

CHAPTER 3

BUDGETING PROCESS

Funding for the programming decisions is provided through the budget process. Establishing a budget for the Foreign Assistance Program is an annual process which begins in April,* when the Bureau for Program and policy Coordination (PPC) issues detailed guidance for the preparation of the ABS. The purpose of the ABS is to present the financial aspects of the proposed program for the fiscal year which will be carried out in line with the bureaus' and missions' strategies. The ABS also serves as a source document for statistical budget information used in analyzing such issues as the percentage of funds channelled through PVOs, the project pipeline and the project mortgage.

The key element of the ABS is the project budget data annex which provides the detail for the long-range plan. This data include a listing of each project by appropriation and functional account; budget estimates for the current, forthcoming, and planning years; beginning and end of project; total project cost authorized and planned; pipeline as of prior year; mortgage as of end of current year; percentage of funds channelled through private voluntary organizations; coding sub-category classification of project and nonproject assistance; and Project Assistance Completion Date. These data are designed to assist the bureaus and PPC in understanding the financial basis for the bureaus' and missions' decisions on the planning year funding for on-going projects, the implications of future funding needs of those new projects the bureaus and missions plan to fund incrementally and the proportion of new projects the missions plan to fully fund.

Other annexes provide the following data:

- A table on the long-range plan which summarizes, by appropriation account, the actual and projected estimates for certain specified years.
- Instructions for the preparation of New Project Descriptions (NPDs) which are to be included in the ABS. If these NPDs have been submitted earlier, they should not be included in the ABS (but should be included in the Congressional Presentation).
- A local currency use plan when local currency is generated from commodity import programs, cash transfers, and PL 480 programs.
- A schedule of planned evaluations.
- A table of PL 480 requirements by title.

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* Eighteen months before the budget year begins.

- Priority ranking of projects.
- Summary data on operating expense data.

The ABS should be prepared and transmitted to the bureaus by May 30. The bureaus are then responsible for reviewing and analyzing the submissions from its bureau offices and its overseas missions and offices. These reviews occur from May 31 to July 5, at which time the bureaus must submit a consolidated budget proposal to PPC.

In developing the ABS, it is not uncommon for the geographic bureaus to deviate from the Approved Annual Program Level developed by PPC. Thus, when PPC receives the bureaus' budget submissions, it performs in-depth analyses and reviews of the submissions. These analyses and reviews are facilitated by using the ABS data which the bureaus input into the Agency-level Congressional Presentation Data Base system. Using the data in this system and data maintained by bureaus outside the system, PPC performs the necessary reviews and analyses to ensure the ABS's meet Congressional directives such as earmarks for private voluntary organizations and so on. Among other things, it also calculates the level of funding by appropriation account requested by the bureaus. Based on these and other reviews and analyses, it identifies issues which need to be discussed with the bureaus.

When budgetary issues cannot be resolved at the bureau level, they are then raised to the Administrator level. These issues can include such budget matters as the allocation of funds among the Development Assistance Functional Program accounts when the bureaus' requests exceed PPC's initial allocation; funding for specific bureau projects and countries and so on. To resolve these matters, PPC will develop policy options on the issues which need to be resolved by the Administrator. The Administrator will then review these issues and make the necessary decisions. Once these decisions on the Agency budget have been made, PPC is responsible for assembling the bureau submissions into an overall budget for the Agency.

After the A.I.D. budget has been assembled and approved by the Administrator, PPC integrates it with the International Development Cooperation Agency (IDCA) budget. Upon completion of the IDCA budget, PPC collaborates with the Department of State and other agencies in integrating the IDCA budget into the overall Foreign Assistance Budget. When the Foreign Assistance Budget has been developed, it is presented to the Secretary of State for review. Only after this budget has been reviewed and approved by the Secretary of State is the IDCA budget, which includes the Agency budget, transmitted to OMB. OMB requires that the budget be transmitted by September 15.

In OMB, the Agency's budget proposal for the budget year is again reviewed. OMB decides on the budget level in mid-November and this decision is communicated to the Agency in the form of a limitation on budget authority and outlays. If there is fundamental

disagreement with the OMB decision, the Agency may appeal, setting forth in a latter to the Director of OMB, its case for additional funding. OMB then presents its budget recommendations, together with the Agency's appeal, to the President. A final budgetary level decision is received by early December, which is called the budget "mark".

The budget mark will set one gross figure for the Development Assistance Functional Program and another for Economic Support Fund assistance. In other words, the budget mark does not establish budget levels for the individual functional accounts such as Sections 103, 104, etcetera, nor does it establish levels for individual countries. Thus, when the Agency receives the budget mark, it has the flexibility to determine, by functional account, where the adjustments will be made to meet the budget mark. In making these adjustments, PPC meets with the Administrator and geographic bureaus to work out how and where the adjustments will be made. The geographic bureaus will in turn work out the needed adjustments with the mission and offices as it affects their respective budgets. The ABS process is completed when all the adjustments have been made.

A. CONGRESSIONAL PRESENTATION

The preparation of the annual Congressional Presentation is designed to further justify and explain the Agency's budget request. This process commences in September with the issuance of cable guidance to the field by the Office of Legislative Affairs (LEG) indicating how the budget data should be organized and developed for presentation to the Congress.

Preparation of the Congressional Presentation entails the bureau offices, missions and offices developing narrative and tabular material describing and justifying the budget proposal. In this process, summary program information and supporting data concentrate on programming policy, performance, and accomplishments and emphasize proposed activities to be implemented. This narrative and tabular material should reflect the decisions made when the ABS was approved. When the required material for the mission and/or office program has been prepared, it is submitted to the geographic bureau.

The geographic bureaus are responsible for reviewing the material. In doing so, the geographic bureaus must ensure the budget conforms with the approved ABS and the needed adjustments have been made to conform with the budget mark. This adjustment is necessary since the Congressional Presentation process starts well before the OMB budget mark is provided in early December. The material is then consolidated into an overall Congressional Presentation budget for the geographic bureau. When completed, it is forwarded to PPC.

PPC in turn reviews the geographic bureaus' presentations and develops an Agency Congressional Presentation that is approved by the Administrator. This Agency Congressional Presentation is incorporated into the IDCA presentation which is included in the State Department's Foreign Assistance Budget. In January, the Foreign Assistance Budget is sent to OMB, which transmits it to the Congress as part of the President's Budget.

B. OPERATING YEAR BUDGET

Because of the actions Congress may have taken in the process of passing legislation, the funds provided in the appropriations legislation may differ from the Agency's budget proposal included in the President's budget request. Therefore, once the legislation is passed and signed into law, the Agency must prepare a budget reflecting the provisions of the new legislation. This final budget, developed from a Congressionally approved program as reflected in the legislation, is called the Operating Year Budget (OYB). This budget is prepared by PPC in conjunction with the geographic bureaus and approved by the Administrator.

Under Section 653 of the Foreign Assistance Act, the Agency must notify the Congress within 30 days after passage of the legislation of each country which will receive funds under the legislation and the amount of funds to be provided to that country by appropriation account. This legislative reporting requirement is based on the establishment of the OYB. Thus, to meet this requirement, the OYB must be established as soon as the authorization/appropriation budget reconciliation process has been completed by Congress and signed into law. In doing this, PPC will determine the funding levels for use in preparing the OYB to bring it in line with the legislatively approved budget. These funding levels will be based on the Congressional Presentation and the geographic bureaus' submissions to PPC. The levels include funding by appropriation account, bureau, country, etcetera. PPC will then present any bureau requests for relief from the funding level to the Administrator with its recommendations.

After the Administrator's review and decisions have been made, the OYB is established. When established, the OYB will contain the approved planning level allocated to each bureau for each office, country, and interregional program in each appropriation account. This information, as well as a listing of approved new activities, is submitted to Congress.

In establishing the OYB, the proposed funding for specific projects may be affected which requires a subsequent adjustment of the OYB. Thus, when necessary, the OYB may be revised.

To keep Congress informed of these OYB changes, PPC prepares a quarterly Section 634 Report. This reporting requirement keeps Congress advised of all funding changes to the OYB. In addition, the Agency must also notify Congress in the case of new or substantially revised projects which were not approved during the legislative process.

When Congress appropriates funds and the President signs the legislation, the Treasury issues warrants for each appropriation account to the Office of the President. The Agency is then responsible for requesting Treasury to transfer the warrants for each account from the Office of the President to the Agency. Since the appropriation accounts may include funds for other agencies, the Agency will also request the Treasury to allocate the funds provided under the appropriation accounts to the respective agencies. Upon making this allocation and transfer, the Treasury will specify the accounting symbols the Agency should use when drawing funds from the individual appropriation accounts.

Before the Agency can obligate and draw down funds from the appropriation accounts at Treasury, it must request an apportionment of funds from OMB. Apportionment is the process whereby OMB provides the Agency with the authority to obligate funds up to a specified level for each appropriation account at Treasury. Thus, based on this process, the Development Assistance accounts are fully apportioned immediately; economic support funds are apportioned on an activity-by-activity basis; and operating expense funds are apportioned on a quarterly basis. With the apportionment of funds, the budgetary system for implementing the OYB can start.

The Agency has established a funds control system to ensure that the appropriations made available to carry out the OYB program are used as intended. This funds control system is fully integrated with the Agency's accounting system. Under this system, the Office of Financial Management controls the funds apportioned by OMB under the appropriation accounts by issuing allotments to the Assistant Administrators of the bureaus. These allotments are made to the Assistant Administrators for those funds apportioned under each appropriation for which they have operational responsibility.

After the bureaus have allotted funds by the Office of Financial Management, the respective bureaus will prepare Requests for Advice of Allowance to fund the specific projects and programs of the bureau offices and overseas missions. These Requests for Advice of Allowance are recorded in the bureaus' allotment control records, which provide a running total of the Requests for the Advices of Allowance made to the bureau offices and missions under the each allotment. The bureaus in turn send the Requests for Advice of Allowance to the Office of Financial

Management which reviews the requests to ensure the data is correct and conforms with the OYB. When approved, the Advices of Allowance are charged to allowance ledgers maintained for each bureau allotment. In the case of projects funded by the bureau offices, the Office of Financial Management opens and records the allowance to an account in the Financial Accounting Control System (FACS) for those projects funded by the bureau offices.

With the recording of this allowance to the project account, funds can be obligated up to the amount of the allowance. When the grant agreement is signed, it would be recorded as an obligation. In the case of projects funded by the missions, the Office of Financial Management cables the missions advising them of the projects and programs for which Advices of Allowance have been authorized. Each mission director receiving an Advice of Allowance is responsible for restricting obligations to the amount available in the approved Advice of Allowance. To assist the directors in meeting this responsibility, the mission accounting station maintains budget allowance ledgers for each appropriation account.*

When the mission and/or office has been advised that a budget allowance for a specific project has been authorized, the accounting office will record the amount to the appropriate budget allowance ledger. With this budget allowance, the accounting office is then able to prevalidate documents for availability of funds. Thus, in the case of a grant agreement, the accounting office would prevalidate, by an administrative reservation of funds, that a specified amount of funds to be provided under the agreement is available. This reservation of funds would be recorded to the budget allowance ledger. When the grant agreement has been signed, the agreement becomes the obligating document. The obligation would then be recorded in both the budget allowance ledger and a project ledger.** By this process of administratively reserving funds until the obligating documents have been signed, the accounting office ensures that obligations do not exceed the budget allowances.

The control objective of the budgeting process is to provide A.I.D. funding for authorized PVO activities. To achieve this objective,the following control techniques are used:

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* In the case of the Development Assistance Functional Program, budget allowance ledgers are maintained for each functional account, i.e., health, education, and so on.

** The project ledger is subsidiary to the budget allowance ledger and established at the time the obligation is made. The budget allowance and project ledgers must always be in balance. Subsidiary to the project ledger is the element funds control ledger, the earmark control record, and the commitment liquidation record.

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The control objective of the budgeting process is to provide A.I.D. funding for authorized PVO activities. To achieve this objective,the following control techniques are used:

- Missions and bureau preparation of an ABS identifying PVO funding needs in accordance with resource allocation targets set by PPC. The ABS is also used by PPC to identify and track A.I.D. compliance with the Congressionally mandated PVO funding earmark.

- Mission and bureau preparation of a Congressional Presentation describing the funding needs for PVO activities.

- A.I.D. preparation of an OYB providing the funding levels for PVO activities based on the funds appropriated by Congress.

CHAPTER 4

NEGOTIATION OF AGREEMENT PROCESS

In awarding grants (and cooperative agreements), A.I.D. policy, outlined in A.I.D. Handbook 13, Chapter 2, requires competition be used to the maximum extent possible. For purposes of complying with this policy, the Handbook states that a grant shall be considered to have been awarded on a competitive basis if the award was made after considering the proposals received from two or more potential recipients. This review and selection of proposals is usually performed by a review committee appointed by the bureau or mission.

There are instances when competition is not required. These instances include the following:

- awards based on an unsolicited application when the bureau or mission certifies that the proposal:
  - was not solicited by A.I.D.; and
  - is unique, innovative, or proprietary, and acceptance would be fair, reasonable, and would represent appropriate use of A.I.D. funds to support or stimulate a public purpose;
- awards for which one recipient is considered to have exclusive or predominant capability, based on experience, specialized facilities or technical competence, or based on an existing relationship with the cooperating country or beneficiaries;
- amendments to existing assistance awards;
- follow on assistance awards intended to continue or further develop an existing assistance relationship;
- such other circumstances as are determined to be critical to the objectives of the foreign assistance program by the cognizant Assistant Administrator.

A.I.D. policy requires that noncompetitive awards must be justified in writing by the bureau or mission. The justification shall be submitted to the cognizant grant officer for review (except for a justification made by the cognizant Assistant Administrator and which is not subject to review). If the grant officer rejects the justification, he or she will notify the bureau office or mission in writing, explaining the reasons for rejection. The bureau office or mission may appeal any rejection to the responsible Assistant Administrator. The decision of that official shall be final.

When the selection of the proposal(s) has been made, the Project Officer will prepare a Project Implementation Order/Technical Assistance (PIO/T) providing instructions to the Procurement Office for negotiating a grant agreement with the nonprofit organization(s).

Before negotiating the agreement, the Procurement Office (the grant officer) must determine that the nonprofit organization has the management capability to plan, implement, and account for the grant program. To make this determination, the grant officer will conduct an informal or desk survey, or will establish a formal survey team consisting of a representative of the OIG Audit Office, a representative of the sponsoring bureau technical office and a representative of the Procurement Office. According to A.I.D. Handbook 13, Chapter 4F, a formal survey team should normally be established if:

- Either the grant officer or the bureau technical officer is uncertain about the prospective recipient's capacity to perform technically or financially;
- The prospective recipient has never had an A.I.D. grant, cooperative agreement, or contract before;
- The prospective recipient has not received a Federal award in the last five years; or
- The grant officer otherwise determines it to be in the best interest of the Government.

Whether by means of a formal selection survey, or through an informal or desk survey, the grant officer shall, before awarding any grant:

- Review the proposed program description and financial plan for sufficiency.
- Review and approve the recipient's personnel and travel policies to determine reasonableness, in accordance with the applicable cost principles.
- Make a determination of the prospective recipient's responsibility to the effect that the prospective recipient has:
  - Adequate financial resources, or the ability to obtain such resources as required during the performance of the grant.
  - The ability to comply with the grant conditions.
  - A satisfactory record of performance.
  - A satisfactory record of integrity and business ethics.

- Is otherwise qualified to receive a grant under applicable laws and regulations.

When a formal survey is conducted, the representatives of the OIG Audit Office and bureau technical office should prepare reports. The OIG Audit Office should review and report on the following:

- If the prospective recipient's accounting, record keeping, and overall financial management systems meet the standards set forth in paragraphs 1I, 1J, 1L, and 1M of Handbook 13.

- If the prospective recipient's system of internal controls is considered adequate.

- If the prospective recipient's property management system, if applicable, meets the standards set forth in paragraph 1T of Handbook 13.

- If the prospective recipient's procurement system meets the standards set forth in paragraph 1U of Handbook 13. (Applicable only if the procurement element is either more than 50 percent of the agreement or worth over $250,000.)

The representative of the technical office shall be requested to review and report on the professional and technical experience and competence of the prospective recipient; the consistency of the prospective recipient's program with the objectives of the Foreign Assistance Act; and the conformity of the recipient's program to A.I.D.'s program criteria.

Each office involved in the survey team evaluation will make a written report of its findings and recommendations. The reports will be sent to the grant officer for retention in the official file, and if there are negative findings and recommendations, the grant officer will develop a summary report and send the summary and all individual office recommendations to the head of the sponsoring bureau office for final decision. The head of the sponsoring bureau office will make a written decision and will include reasons for overriding any adverse recommendations of the survey team. Either office may then appeal the decision to the Assistant Administrator of the bureau within which the sponsoring technical office is located.

The grant officer will also make a recommendation as to whether or not a grant is the proper instrument to be used in accordance with Chapter 25 of A.I.D. Handbook 1, Supplement B. If the grant officer and the technical officer do not agree as to the proper instrument, written arguments will be submitted to the Assistant Administrator, Bureau for Management Services, for determination as to the proper instrument.

When the review process is completed, negotiation of the grant can be conducted. The negotiations will include the grant officer, the sponsoring bureau technical office

representative, and the prospective recipient's representative. At the completion of the negotiations, all parties must agree on the program description, the grant budget (including method of payment) and all terms and conditions before the grant is signed by the grant officer. If a letter of credit method of payment is to be used, an oral clearance should be obtained from the Office of Financial Management.

The grant document consists of a letter obligating the funds and attachments to the letter prescribing the terms and conditions of the grant. Normally, the first attachment is a schedule which briefly describes the purpose of the grant, the period of the grant, the amount of the grant, the financial plan, the reporting and evaluation requirements, any special provisions, the indirect cost rate, a provision specifying to whom title will be vested, and the authorized geographic code for procurement of goods and services. The second attachment provides a detailed program description. The third attachment incorporates the mandatory standard provisions for U.S. and non-U.S. nongovernmental grantees as part of the grant agreement.

When signed by the grant officer and countersigned by the PVO, the grant agreement becomes a valid binding obligating document. A.I.D. funds can then be advanced to the PVO for implementation of the grant program.

The control objective of the negotiation and agreement process is to ensure a grant (cooperative) agreement containing all relevant authorization and legal provisions is expeditiously negotiated in accordance with A.I.D. policies and procedures. To achieve this objective, the following control techniques are used:

- **The requirement that the bureau mission or office prepares a PIO/T providing detailed instructions to the Grant Officer.**

- **Clearance of the PIO/T by the A.I.D./W Office of Financial Management or mission accounting station to ensure funds are available and administratively reserved.**

- **The guidance contained in A.I.D. Handbook 1, Supplement B, regarding the appropriate use of grants and cooperative agreements.**

- **The guidance contained in A.I.D. Handbook 13 outlining the requirements of the grant officer, the provisions to be included in the agreement, and the procedures for negotiating the agreement.**

- **The requirement that a justification must be prepared for all noncompetitive awards. All noncompetitive awards not accepted by the grant officer must be approved by the Assistant Administrator.**

- **The grant officer's authority to request preaward audits of grantees.**
- **The signing of the agreement by an authorized A.I.D. grant officer and the nonprofit organization.**
- **The requirement that the A.I.D./W Office of Financial Management or the mission accounting station be provided with a signed copy of the grant agreement for recording the obligation of funds.**

CHAPTER 5

IMPLEMENTATION PROCESS

When A.I.D. awards a grant to a nonprofit organization, it looks to that organization to carry out the approved purpose of the program. Though the organization is not under an enforceable "contractual" obligation to perform, it is nonetheless expected to use its best efforts to achieve the purpose of the grant. Thus, in awarding grants, A.I.D. must ensure it has an effective review process in place to select those nonprofit organizations which have the necessary management, technical and financial capabilities to implement the grants.

According to Chapter 1 of A.I.D. Handbook 13, a grant is in the nature of a financial gift in support of an agreed program. The gift nature of the grant consequently requires that A.I.D. exercise self-restraint in the imposition of program controls on the organization. In other words, since the organization is responsible for implementing the grant, the organization must be given the necessary flexibility to achieve the purpose of the grant. This requires that A.I.D. avoid the imposition of program approvals, reports, and restrictions which go beyond the needs of prudent management and which are inconsistent with the nonprofit organization's need for reasonable program and management flexibility.

This need for flexibility does not relieve A.I.D. of the obligation to exercise prudent oversight of the grant. In agreeing to support a nonprofit organization's program, A.I.D.'s role is to measure and evaluate the organization's progress in achieving the purpose of the grant. This is accomplished through the use of program and financial reporting and through contacts maintained by the Project Officer. Appropriate provisions should thus be included in the grant imposing such requirements as are deemed necessary. The extent of these provisions will be based on whether the organization is to have substantial freedom in pursuing the grant program or A.I.D. is to be substantially involved with the organization during the performance of the grant. In the latter case, a cooperative agreement, not a grant, would be used.

When A.I.D. wants the nonprofit organization to have maximum flexibility in implementing the program, it would generally impose the minimum annual reporting requirements and no prior review and approval of annual work plans and so on. However, when A.I.D. wants to be substantially involved with the nonprofit organization, it would generally impose such requirements as: quarterly reporting; prior review and approval of work plans; joint participation in implementation and evaluation; and prior review and approval of subgrant agreements. A.I.D.'s greater involvement thus means that the Project Officer must assume a more active role both in planning and monitoring such programs.

Implementation of grants (and cooperative agreements) awarded to nonprofit organizations is governed by the guidance contained in the following OMB Circulars:

- Circular A-110 spells out the administrative requirements for obtaining consistency and uniformity in the administration of grants to nonprofit organizations.

- Circular A-122 establishes the cost principles that shall be used by Federal agencies in determining the costs of work performed by nonprofit organizations.

- Circular A-133, which supersedes Attachment F, subparagraph 2b of Circular A-110, establishes the audit requirements and defines the Federal responsibilities for implementing and monitoring such requirements.

The implementing guidance contained in these circulars is incorporated into A.I.D. Handbook 13. In turn, A.I.D. Handbook 13 incorporates this implementing guidance into the grant (and cooperative agreements) in the form of mandatory standard provisions. Other provisions are also included as necessary to comply with the Foreign Assistance Act.

Though the OMB Circulars officially apply only to U.S. nonprofit organizations, A.I.D. has administratively determined that they shall also apply to non-U.S. organizations to the extent practicable.

A.I.D. Handbook 13, Chapter 1E states that any deviations from the mandatory provisions will only be authorized when essential to the performance of the grant (or cooperative agreement). Deviations involving mandatory A-110 requirements must be approved by the Director of OMB. The Assistant Administrator of the Bureau for Management Services is responsible for requesting OMB deviations in accordance with paragraph 7 of OMB Circular A-110.

Deviations to non-U.S. nonprofit organizations' grants (and cooperative agreements) issued overseas must be approved by the A.I.D./W Director of the Office of Procurement or by the Mission Director or other officers who have been delegated authority to execute grants (and cooperative agreements) with non-U.S. organizations.

The following describes some of the aspects to be considered in implementing the grants (and cooperative agreements):

A. ADVANCE PAYMENT METHODS

Under Attachment I of OMB Circular A-110, A.I.D. is authorized to make advance payments to nonprofit organizations who have an acceptable financial management system for controlling and accounting for such funds. These advance payments can be made through the Treasury letter of credit method or by Treasury check method. But advances shall not be made to nonprofit organizations which do not have an

acceptable financial management system. In such cases, A.I.D. should use the reimbursement by Treasury check method.

All nonprofit organizations shall maintain advances of A.I.D. funds in interest-bearing accounts and shall remit to A.I.D., at least quarterly, the interest earned on such advances. Interest amounts up to $100 per year may be retained by the recipient for administrative expenses.

1. **Advance by Treasury Letter of Credit**

A letter of credit is an irrevocable instrument certified by an authorized A.I.D. official that enables a nonprofit organization to withdraw funds from the Treasury through its commercial bank and a Federal Reserve Bank.* Its purpose is to permit advances to qualified organizations in such a way as to minimize the amount of withdrawals from the Treasury in advance of specific operating needs, thereby minimizing the maintenance of Federal cash balances.

According to A.I.D. Handbook 19, Chapter 1B and the Controller's Handbook, Chapter 16, the letter of credit method is used when:

- A.I.D. expects to have a continuing relationship with the organization for at least one year;
- the amount required for advance financing equals or exceeds $120,000 per year;
- the organization has the ability to maintain procedures that will minimize the time lapsing between the transfer of funds and their disbursement; and
- the organization's financial management system meets Federal standards for funds control and accountability.

Pursuant to regulatory standards and practices, A.I.D. is using a consolidated Treasury Financial Communication System - Letter of Credit (TFCS-LOC) to cover the cash needs for all contracts, grants, and cooperative agreements awarded by A.I.D. in lieu of individual letters of credit for each contract,

* Starting January 1, 1991, Treasury will discontinue issuing letters of credit. A.I.D. will issue its own letters of credit to the nonprofit organizations.

grant, and cooperative agreement held by the nonprofit organization. Thus, when the organization is to be financed by the TFCS-LOC method, all of the organization's contracts, grants, and cooperative agreements with A.I.D. must use that method. The consolidated TFCS provides for a single flow of funds from the Treasury to the recipient.

The letter of credit method is not authorized for use with non-U.S. nonprofit organizations organized, located, and operating outside the U.S.

Upon instruction from the bureau and/or mission, the A.I.D. Office of Financial Management will prepare a form requesting the Treasury to open a new letter of credit in favor of the nonprofit organization for a specified amount of funds or amend the on-going letter of credit. Based on Treasury's opening of this letter of credit, the nonprofit organization will request periodic drawdowns through its commercial bank.* Each time the organization requests a drawdown, the bank will notify the Federal Reserve which will notify the Treasury through the Treasury's Federal Communication System (TFCS) of the request. Treasury will in turn notify A.I.D.'s Office of Financial Management through the TFCS. The office of Financial Management will then review and approve the request. When approved, this will be noted in a Treasury Letter of Credit Ledger for the organization maintained by Financial Management. Through the TFCS, Financial Management will notify Treasury to make payment. Treasury in turn will instruct the Federal Reserve to credit the organization's account at the commercial bank. Upon payment, the Federal Reserve will notify the Treasury and Treasury will notify A.I.D. through the TFCS that payment was made. Financial Management will then enter the advance to the organization's letter of credit ledger as a debit.

The nonprofit organization is required to liquidate these advances quarterly by providing Financial Management with a voucher in the form of a SF-272 Federal Cash Transaction Report for the prior three months disbursements. Based on this accounting, which only indicates summary data, Financial Management reviews and certifies the voucher. The voucher is then entered as a credit to the organization's Treasury Letter of Credit ledger. With the entry of this credit, advances for the amount of the credit are cleared from the advance ledger. When a mission is involved, Financial Management also

* When A.I.D. issues the letter of credit, the organization must make drawdowns from A.I.D. directly. These requests will then be processed by A.I.D. through Treasury.

prepares an Advice of Charge, which is sent to the mission along with the voucher.

In addition to using the SF-272 to liquidate advances, the Office of Financial Management uses the report to monitor cash advances. Nonprofit organizations are thus required to provide the reports on a timely basis. According to A.I.D. Handbook 19, Chapter 3K6d(3b), if such reports are consistently not received by the prescribed reporting period in which they are required to be submitted, the Office of Financial Management can delay subsequent requests for advances. Also, if the nonprofit organization continues to drawdown excessive funds, the Office of Financial Management can recommend suspension or revocation of the TFCS-LOC to the grant officer.

2. **Advance by Treasury Check**

The Treasury check method is used when an advance is warranted but the conditions for a letter of credit cannot be met. In using this method, A.I.D. must determine that the nonprofit organization's financial management system meets Federal standards for fund control and accountability.

Advances by Treasury check are to be based upon analyses of the nonprofit organization's requirements and made only in amounts necessary to meet immediate disbursement needs. Such advances are generally to be no more than the nonprofit organization's cash requirements for a 30-day period measured from date of receipt until the advance is expended.

Under the Treasury check method, the nonprofit organization submits Form SF-270, Request for Advance or Reimbursement, to A.I.D. requesting an advance. These requests may be submitted at least monthly. A quarterly request may be submitted if the nonprofit organization can reasonably forecast on SF-270, Section 11J, prescheduled advances for the ensuing three-month period.

Upon receipt by A.I.D., the SF-270 is forwarded to the responsible Project Officer for administrative approval. After approving the SF-270, the Project Officer returns it to the Accounting Office which schedules the request for advance payment on Form SF-1166. The SF-1166 is certified by the authorized certifying officer and then sent to the U.S. Disbursing Office or Treasury for preparation of the check. Upon preparation, the check will be sent directly to the nonprofit organization or to A.I.D. for transmittal to the organization.

In accounting for cash advances, the A.I.D./W Office of Financial Management and each accounting station should establish a cash advance ledger for each appropriation account. Subsidiary ledgers should also be established as a means of controlling the cash advances made to each organization. When cash advances are made, these ledgers should be debited for the amount of the advance. When cash advances are liquidated, these ledgers should be credited for the amount of the advance liquidated.

In liquidating advances, nonprofit organizations are required to submit Form SF-272, Federal Cash Transactions Report, to A.I.D. These reports are reviewed and administratively approved by the Project Officer. They are then reviewed and certified by the authorized certifying officer. After being certified, the reports are used as no-pay vouchers to liquidate the advance and record the expenditure to the nonprofit organization's grant project.

The control objective of the cash advance-liquidation process is to ensure funds advanced to nonprofit organizations do not exceed immediate cash needs and are liquidated in an expeditious manner. To achieve this objective, the following control techniques are used:

- **The guidance provided in OMB Circular A-110, A.I.D. Handbook 19, Chapter 1B, and the Controller's Guidebook, Chapter 16.**

- **The maintenance of cash ledgers and subsidiary cash ledgers and the timely recording of transactions to the ledgers as funds are advanced and liquidated.**

- **The requirement that cash advances be authorized and executed by persons acting within their scope of delegated authority.**

B. COST-SHARING CONTRIBUTION

Cost-sharing is a required contribution by the nonprofit organization from non-Federal sources. It is usually described as a percentage of the total cost of the grant program. Whether a grant will require a cost-sharing contribution will depend upon the nature of the organization. Ordinarily, non-traditional organizations such as family planning intermediaries, cooperatives, consulting firms, and labor institutions are not required to provide cost-sharing contributions. In not requiring cost-sharing contributions, A.I.D. recognizes that these organizations are not charitable organizations with fund-raising capabilities. However, in the case of traditional organizations, cost-sharing contributions are required, since these are charitable

organizations with fund-raising capabilities. These traditional organizations also account for the majority of all grants awarded by A.I.D.

The percentage of cost-sharing varies among the bureaus and missions. For example, in the case of grants awarded under the Matching Grant Program funded by the Bureau for Food and Voluntary Assistance, a 50 percent cost-sharing contribution is required. In the case of grants awarded and funded by missions, a 25 percent cost-sharing contribution is required. But this 25 percent contribution can be waived by the mission when circumstances warrant doing so (see Chapter 4B, Handbook 13). Determining the percentage of the cost-sharing contribution is thus the responsibility of the bureaus and missions funding and awarding the grants.

The cost-sharing contribution can be made in cash and in-kind. When part of the contribution is made in-kind, the nonprofit organization must ensure the value of these contributions comply with the criteria for evaluating in-kind contributions provided in Attachment E of OMB Circular A-110. In regard to the valuation of volunteer services, the attachment states:

- Volunteer services may be furnished by professional and technical personnel, consultants, and other skilled and unskilled labor. Volunteer services may be counted as cost sharing or matching if the service is an integral and necessary part of an approved program.

- Rates for volunteers should be consistent with those paid for similar work in the recipient's or subrecipient's organization. In those instances in which the required skills are not found in the recipient or subrecipient organization, rates should be consistent with those paid for similar work in the labor market in which the recipient or subrecipient competes for the kind of services involved.

In regard to the donated expendable personal property, the attachment states:

- Donated expendable personal property includes such items as expendable equipment, office supplies, laboratory supplies, or workshop and classroom supplies. Value assessed to expendable personal property included in the cost or matching share should be reasonable and should not exceed the market value of the property at the time of the donation.

In regard to the valuation of donated nonexpendable personal property, buildings and land, or use thereof, the attachment states:

- The value of donated land and buildings may not exceed its fair market value, at the time of donation to the recipient or subrecipient as established by an independent appraiser; e.g., certified real property appraiser or GSA representatives, and certified by a responsible official of the recipient or subrecipient.

- The value of donated nonexpendable personal property shall not exceed the fair market value of equipment and property of the same age and condition at the time of donation.

- The value of donated space shall not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately owned building in the same locality.

- The value of loaned equipment shall not exceed its fair rental value.

According to Attachment E, the following requirements pertain to the nonprofit organization's supporting records for in-kind contributions:

- Volunteer services must be documented and, to the extent feasible, supported by the same methods used by the recipient or subrecipient for its employees.

- The basis for determining the valuation for personal services, material, equipment, buildings, and land must be documented.

Unless otherwise specified in the grant, Chapter 4(J) of Handbook 13 requires that the awarding A.I.D. bureau or mission verify annually, or at the end of each funding period, that the organization has met its contribution. To perform this verification, the grant should contain a reporting requirement specifying when the organization should submit Financial Status Reports (Form SF 269). These reports not only indicate the total expenditures incurred under the grant program but also the respective share of expenditures incurred with organization and A.I.D. funds. Thus, as discussed in Attachment G of OMB Circular A-110, the Financial Status is used for verifying the nonprofit organization's cost-sharing contributions.

The control objective of the cost-sharing contribution is to ensure the nonprofit organization has a vested financial interest in the success of the project. To achieve this objective, the following control techniques are used:

- **The guidance contained in Attachments E and G of OMB Circular A-110, and Chapter 4B of A.I.D. Handbook 13.**

- **The provision in the grant agreement requiring a nonprofit organization contribution to be made.**

- **The requirement that the nonprofit organization provide A.I.D. with periodic Financial Status Reports (SF 269) indicating the status of A.I.D. and nonprofit organization funding.**

- **The requirement spelled out in Chapter 4J of Handbook 13 requiring the A.I.D. bureau or mission to verify the nonprofit organization has made its contribution.**

C. IMPLEMENTING PROGRAM

When A.I.D. awards a grant to a nonprofit organization, it expects the organization to implement the grant in accordance with the program description of the grant agreement. Under the program description, the organization may implement the program itself, or, it may implement the program through other indigenous nonprofit organizations (IPVOs). When working through IPVOs, the nonprofit organization would subgrant funds to the IPVOs. In doing so, the nonprofit organization should establish review and approval procedures for funding IPVO proposals and a monitoring and reporting system to track and review the IPVOs' performance under the subgrants. This system should be described in detail in the nonprofit organization's proposal.

Statistical data is not available to indicate what percentage of grants are awarded to nonprofit organizations and implemented by those organizations to achieve specific program objectives. Nor is it known what percentage of grants are awarded to nonprofit organizations and subgranted by those organizations to IPVOs. But it is known that at A.I.D.'s urging, an increasing number of grants are awarded to more experienced nonprofit organizations for subgranting to less experienced IPVOs. Through this arrangement, A.I.D. feels that the experienced nonprofit organizations can play an important technical assistance role in developing the technical, management, and financial capabilities of the IPVOs. And in doing so, they are preparing the IPVOs to assume an important role in the country's development process.

According to Attachment H of OMB Circular A-110, the nonprofit organizations shall be responsible for reviewing the performance of its grant(s) with A.I.D. In conducting these reviews, the organizations shall ensure that time schedules are being met, project work units by time periods are being accomplished, and other performance goals are being achieved. These reviews shall be made in accordance with the objectives set forth in the project description of the grants.

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Attachment H also requires that the nonprofit organizations shall submit a performance report (technical report) for each grant that briefly presents the following information:

- A comparison of actual accomplishments with the goals established for the period. If the output of the program or project can be quantified, such quantified data should be related to cost data for computation of unit costs.

- Reasons why established goals or objectives were not met.

- Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

The attachment requires that A.I.D. prescribe the frequency of these performance reports. In doing so, the attachment states that the performance reports shall not be required more frequently than quarterly or less frequently than annually. According to A.I.D. Handbook 13, Chapter 41, the grant agreement should thus contain a reporting section that will prescribe the performance reporting requirements as well as the financial and any other reporting requirements deemed necessary by A.I.D. Other requirements may include providing evaluations conducted by the nonprofit organizations.

Performance is measured in terms of achieving the goals or objectives contained in the program description. Measuring this performance requires that the nonprofit organizations develop benchmarks which focus on key indicators necessary for reviewing and evaluating the progress, results, and impact of the grant. These benchmarks may be written into the program description of the grant and/or contained in the nonprofit organizations' approved proposals from which the program descriptions are derived. When benchmarks are contained in neither of these documents, the grants may contain provisions requiring the nonptogiy organizations to submit these benchmarks within a specified and limited period, usually three to six months after signing the agreements.

Without benchmarks, it is not possible to objectively evaluate and review the nonprofit organizations' performance. Failure to establish benchmarks means that, in reviewing the organizations' proposals during the programming process, the bureaus and offices did not verify that the necessary benchmarks were established or provision was made to establish benchmarks immediately after signing the grant. It also means that the A.I.D. Contracting or Grant Officer, in negotiating and writing the grant agreement, did not verify if the benchmarks were established or provision was made to establish benchmarks.

The control objective of performance reporting is to ensure that nonprofit organizations are implementing the grants in accordance with the program descriptions and achieving the program goals. To achieve these objectives, the following control techniques are used:

- **The guidance in Attachment H of OMB Circular A-110 and Chapter 4I of Handbook 13 requiring that periodic performance reports be prepared.**

- **The provision in the grant agreements requiring the nonprofit organizations to submit periodic progress reports on performance.**

- **The requirement in Attachment H of OMB Circular A-110 that benchmarks be developed to measure progress and that progress be measured in terms of these benchmarks.**

- **The requirement that A.I.D. Project Officers monitor reporting on progress and other matters.**

D. PROCUREMENT OF GOODS AND SERVICES

Attachment O of OMB Circular A-110 and the legislative requirements of the Foreign Assistance Act, cited in Handbook 1, Supplement B, provides the standards for use by nonprofit orgnizations in establishing procedures for the procurement of supplies, equipment, construction, and other services with Federal funds. These standards are designed to ensure that such materials and services are obtained in an effective manner and in compliance with the provisions of applicable Federal law and executive orders. Pursuant to Chapter 1E of A.I.D. Handbook 13, deviations can only be made by the authorizing grant officer when such deviations are in the best interests of A.I.D.

Based upon the Federal Grants and Cooperative Agreement Act, subgrants and/or contracts awarded under grants are not supposed to be approved on a case-by-case basis. If the review of subgrants and/or contracts is desired, the appropriate instrument to be used is a cooperative agreement. If applicable, the schedule of the cooperative agreement should include the requirement for preaward review of the nonprofit organization's individual subagreements and/or contracts.

A.I.D. reserves the right to review and approve all or part of the nonprofit organization's procurement system for awarding contracts and subgrants. However, if the procurement element is either more than 50 percent of the agreement or worth over $250,000, the grant officer may request that a representative of the cognizant Regional Inspector General for Audit (RIG/A) perform an audit to determine if the

prospective nonprofit organization's procurement system meets the standards set forth in paragraph 1U of Handbook 13.

Nonprofit organizations may use their own procurement policies and procedures. However, as stated in Chapter 1U(6) of A.I.D. Handbook 13, all organizations shall adhere to the procurement standards set forth below:

- The recipient shall maintain a code or standards of conduct that shall govern the performance of its officers, employees, or agents engaged in the awarding and administration of contracts using Federal funds. No employee, officer, or agent shall participate in the selection, award, or administration of a contract in which Federal funds are used, where, to the individual's knowledge, the individual or the individual's immediate family or partner has a financial interest or with whom the individual is negotiating or has any arrangement concerning prospective employment. The recipients' officers, employees, or agents shall neither solicit not accept gratuities, favors, or anything of monetary value from contractors or potential contractors. Such standards shall provide for disciplinary actions to be applied for violations of such standards by the recipient's officers, employees, or agents.

- All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient should be alert to organizational conflicts of interest or noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, invitations for bids, and/or requests for proposals should be excluded from competing for such procurements. Awards shall be made to the bidder/offerer whose bid/offer is responsive to the solicitation and is most advantageous to the recipient, price and other factors considered. Solicitations shall clearly set forth all bid/offer to be evaluated by the recipient. Any and all bids/offers may be rejected when it is in the recipient's interest to do so.

- All proposed sole source contracts or where only one bid or proposal is received in which the aggregate expenditure is expected to exceed $5,000 shall be subject to prior approval by an appropriate official within the grantee's organization.

- Some form of price or cost analysis should be made in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and

similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness allocability and allowability.

- Procurement records and files for purchases in excess of $10,000 shall include the following

  - Basis for contractor selection;

  - Justification for lack of competition when competitive bids or offers are not obtained;

  - Basis for award cost or price.

- A system for contract administration shall be maintained to ensure contractor conformance with terms, conditions and specifications of the contract, and to ensure adequate and timely follow-follow-up of all purchases.

- All negotiated contracts over $10,000 awarded by the grantee shall include a provision to the effect that the grantee, A.I.D., the Comptroller General of the United States, or any of their duly authorized representatives, shall have access to any books, documents, papers, and records of the contractor which are directly pertinent to the specific program for the purpose of making audits, examinations, excerpts, and transcriptions.

1. **A.I.D. Eligibility Rules**

A.I.D.'s policy on ineligible and restricted goods and services is contained in Chapter 4 of A.I.D. Handbook 1, Supplement B, entitled "Procurement Policies." Chapter 4.C. of Handbook 13 spells out the eligibility rules for the procurement of goods and services. Under these rules, if A.I.D. determines that the grantee has procured any of the restricted or ineligible goods and services specified below, or has procured goods and services from unauthorized sources, and has received reimbursement for such purpose without the prior written authorization of the grant officer, the grantee agrees to refund to A.I.D. the entire amount of the reimbursement.

- Ineligible Goods and Services. Under no circumstances shall the grantee procure any of the following under the grant:

  - Military equipment,

- Surveillance equipment,
- Commodities and services for the support of police or other law enforcement activities,
- Abortion equipment and services,
- Luxury goods and gambling equipment, or
- Weather modification equipment.

• Ineligible Suppliers. Funds provided under the grant shall not be used to procure any goods or services furnished by any firm or individual whose name appears on the A.I.D. Consolidated List of Debarred, Suspended, and Ineligible Awardees under A.I.D. Regulation 8, entitled "Debarment, Suspension and Ineligibility" (22 CFR 208). A.I.D. will provide the grantee with a copy of this list upon request.

• Restricted Goods. The grantee shall not procure any of the following goods and services without the prior written authorization of the grant officer:

- Agricultural commodities,
- Motor vehicles,
- Pharmaceuticals,
- Pesticides,
- Rubber compounding chemicals and plasticizers,
- Used equipment,
- U.S. Government-owned excess property, or
- Fertilizer.

2. Source, Origin, and Nationality Rules

The eligibility rules for goods and services are based on source, origin, and nationality and are divided into two categories. One applies when the total

procurement during the life of the grant is over $250,000 and the other applies when the total procurement element during the life of the grant is not over $250,000. The total procurement element includes procurement of all goods (e.g., equipment, materials, supplies) and services. Guidance on the eligibility of specific goods or services may be obtained from the grant officer. A.I.D. policies and definitions on source, origin, and nationality are contained in Chapters 4 and 5 of A.I.D. Handbook 1, Supplement B, entitled "Procurement Policies."

When the total procurement element during the life of the grant is valued at $250,000 or less, the following rules apply:

- All goods and services, the costs of which are to be reimbursed under the grant and which will be financed with U.S. dollars, shall be purchased in and shipped from only "Special Free World" countries (i.e., A.I.D. Geographic Code 935) in accordance with the following order of preference:

  - The United States (A.I.D. Geographic Code 000);

  - The Cooperating Country;

  - "Selected Free World" countries (A.I.D. Geographic Code 941); and

  - "Special Free World" countries (A.I.D. Geographic Code 935).

- Application of Order of Preference: When the grantee procures goods and services from other than U.S. sources, in the order of preference noted above, the grantee shall document its files to justify each such instance. The documentation shall set forth the circumstances surrounding the procurement and shall be based on one or more of the following reasons, which will be set forth in the grantee's documentation:

  - The procurement was of an emergency nature, which would not allow for the delay attendant to soliciting U.S. sources,

  - The price differential for procurement from U.S. sources exceeded by 50 percent or more the delivered price from the non-U.S. source,

- Impelling local political considerations precluded consideration of U.S. sources,

- The goods or services were not available from U.S. sources, or

- Procurement of locally available goods and services, as opposed to procurement of U.S. goods and services, would best promote the objectives of the Foreign Assistance program under the grant.

3. **Ocean Shipment of Goods Rules**

When goods purchased with funds provided under the grant are transported to cooperating countries on ocean vessels, A.I.D. regulations require that:

- At least 50 percent of the gross tonnage of all goods purchased under the grant and transported to the cooperating countries shall be made on privately owned U.S. flag commercial ocean vessels, to the extent such vessels are available at fair and reasonable rates for such vessels.

- At least 50 percent of the gross freight revenue generated by shipments of goods purchased under the grant and transported to the cooperating countries on dry cargo liners shall be paid to or for the benefit of privately owned U.S. flag commercial ocean vessels to the extent such vessels are available at fair and reasonable rates for such vessels.

- When U.S. flag vessels are not available, or their use would result in a significant delay, the grantee may request a determination of nonavailability from the A.I.D. Transportation Division, Office of Procurement, Washington, D.C. 20523, giving the basis for the request which will relieve the grantee of the requirement to use U.S. flag vessels for the amount of tonnage included in the determination. Shipments made on non-free world ocean vessels are not reimbursable under the grant.

- Vouchers submitted for reimbursement which include ocean shipment costs shall contain a certification essentially as follows:

> "I hereby certify that a copy of each ocean bill of lading concerned has been submitted to the U.S. Department of Transportation, Maritime Administration, Division of National Cargo, 400 7th Street, S.W., Washington, D.C.

200590, and that such bills of lading state all of the carrier's charges including the basis for calculation such as weight or cubic measurement."

4. **Marine Insurance**

The eligibility of marine insurance is determined by the country in which it is placed. Insurance is placed in a country if payment of the insurance premium is made to, and the insurance policy is issued by an insurance company located in that country. Eligible countries for placement are governed by the authorized geographic code, except that if Code 941 is authorized, the Cooperating Country is also eligible. Section 504(d) of the Foreign Assistance Act requires that if a recipient country discriminates by statute, decree, rule, or practice with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in the U.S., then any A.I.D.-financed commodity shipped to that country shall be insured against marine risk and the insurance shall be placed in the U.S. with a company or companies authorized to do marine insurance business in the U.S.

Ocean and air transportation shall be in accordance with the applicable provisions contained within this grant.

5. **Air Travel and Transportation Requirement**

This standard provision, which is discussed in Chapter 4C of Handbook 13, is applicable when any costs for air travel or transportation are included in the grant budget. The term "international travel" means travel to all countries other than those within the home country of the traveler. Travel outside the United States includes travel to the U.S. Trust Territories of the Pacific Islands.

The grantee is required to present to the project officer for written approval an itinerary for each planned international trip financed by this grant, which shows the name of the traveler, purpose of the trip, origin/destination (and intervening stops), and dates of travel, as far in advance of the proposed travel as possible, but in no event at least three weeks before travel is planned to commence. At least one week prior to commencement of approved international travel, the grantee shall notify the cognizant U.S. Mission or Embassy, with a copy to the project officer, of planned travel, identifying the travelers and the dates and times of arrival.

Travel to certain countries shall, at A.I.D.'s option, be funded from U.S.-owned local currency. When A.I.D. intends to exercise this option, A.I.D. will, after receipt of advice of intent to travel required above, either issue a U.S. Government SF 1169, Transportation Request (GTR) which the grantee may exchange for tickets, or A.I.D. will issue the tickets directly. Use of such U.S.-owned currencies will constitute a dollar charge to this grant.

All air travel and shipment under the grant are required to be made on U.S. flag air carriers to the extent service by such carriers is available. A U.S. flag air carrier is defined as an air carrier which has a certificate of public convenience and necessity issued by the U.S. Civil Aeronautics Board authorizing operations between the United States and/or its territories and one or more foreign countries.

Use of foreign carrier service may be deemed necessary if a U.S. flag air carrier otherwise available cannot provide the foreign air transportation needed, or if use of such service will not accomplish the Agency's mission. Travel and transportation on non-free world air carriers are not reimbursable under the grant.

U.S. flag air carrier service is considered available even though:

- Comparable or a different kind of service can be provided at less cost by a foreign air carrier;

- Foreign air carrier service is preferred by or is more convenient for the Agency or traveler; or

- Service by a foreign air carrier can be paid for in excess foreign currency, unless U.S. flag air carriers decline to accept excess or near excess foreign currencies for transportation payable only out of such monies.

U.S. flag air carrier service must be used for all Government-financed commercial foreign air travel if service provided by such carriers is available. In determining availability of a U.S. flag air carrier, the following scheduling principles should be followed unless their application results in the last or first leg of travel to or from the United States being performed by foreign air carrier:

- U.S. flag air carrier service available at point of origin should be used to destination or in the absence of direct or through service to the farthest interchange point on a usually traveled route;

- Where an origin or interchange point is not served by U.S. flag air carrier, foreign air carrier service should be used only to the nearest interchange point on a usually traveled route to connect with U.S. flag air carrier service; or

- Where a U.S. flag air carrier involuntarily reroutes the traveler via a foreign air carrier, the foreign air carrier may be used notwithstanding the availability of alternative U.S. flag air carrier service.

For travel between a gateway airport in the United States (the last U.S. airport from which the traveler's flight departs or the first U.S. airport at which the traveler's flight arrives) and a gateway airport abroad (that airport from which the traveler last embarks enroute to the U.S. or at which the traveler first debarks incident to travel from the U.S.), passenger service by U.S. flag air carrier will not be considered available:

- Where the gateway airport abroad is the traveler's origin or destination airport and the use of U.S. flag air carrier service would extend the time in a travel status, including delay at origin and accelerated arrival at destination, by at least 24 hours more than travel by foreign air carrier:

- Where the gateway airport abroad is an interchange point, and the use of U.S. flag air carrier service would require the traveler to wait six hours or more to make connections at that point, or delayed departure from or accelerated arrival at the gateway airport in the U.S. would extend the time in a travel status by at least six hours more than travel by foreign air carrier.

For travel between two points outside the U.S., passenger service by U.S. flag air carrier will not be considered to be reasonably available:

- If travel by foreign air carrier would eliminate two or more aircraft changes enroute;

- Where one of the two points abroad is the gateway airport enroute to or from the United States, if the use of a U.S. flag air carrier would extend the time in a travel status by at least six hours more than travel

by foreign air carrier including accelerated arrival at the overseas destination or delayed departure from the overseas origin as well as delay at the gateway airport or other interchange point abroad; or

- Where the travel is not part of a trip to or from the United States, if the use of a U.S. flag air carrier would extend the time in a travel status by at least six hours more than travel by foreign air carrier including delay at origin, delay enroute and accelerated arrival at destination.

When travel involves three hours or less between origin and destination by a foreign air carrier, U.S. flag air carrier service will not be considered available when it involves twice such travel time or more.

Nothing in the above guidelines shall preclude and no penalty shall attend the use of a foreign air carrier which provides transportation under an air transport agreement between the United States and a foreign government, the terms of which are consistent with the international aviation policy goals set forth at 49 U.S.C. 1502(b) and provide reciprocal rights and benefits.

Where U.S. Government funds are used to reimburse the grantee's use of other than U.S. flag air carriers for international transportation, the grantee will include a certification on vouchers involving such transportation which is essentially as follows:

> "CERTIFICATION OF UNAVAILABILITY OF U.S. FLAG AIR CARRIERS. I hereby certify that the transportation service for personnel (and their personal effects) or property by certificated air carrier was unavailable for the following reasons." (State appropriate reason(s) as set forth above).
>
> The grantee will be reimbursed for travel and the reasonable cost of subsistence, post differentials, and other allowances paid to employees in an international travel status in accordance with the grantee's established policies and practices which are uniformly applied to federally financed and other activities of the grantee. The standard for determining the reasonableness of reimbursement for overseas allowance is the Standardized Regulations (Government Civilians, Foreign Areas), published by the U.S. Department of State, as from time to time amended. The most current subsistence, post differentials, and other allowances may be obtained from the grant officer.

The control objective of the procurement process is to ensure that the nonprofit organizations obtain goods and services in a competitive manner and in accordance with Federal laws, regulations and A.I.D. policies. To achieve these objectives, the following control techniques are used:

- **The guidance provided in Attachment O of OMB Circular A-110 and the guidance provided in A.I.D. Handbook 1, Supplement B, establishing the procedures for the procurement of goods and services with Federal funds.**
- **The mandatory standard provisions for goods and services which are incorporated into the grant agreement by the grant officer.**
- **The requirement that all procurement transactions be documented by evidence demonstrating competitive procurement.**
- **The requirement that sole source procurement be justified and approved by a senior nonprofit organization official.**
- **The requirement that A.I.D. review the nonprofit organization's procurement policies and procedures when procurement is significant.**
- **The requirement that an authorized A.I.D. official approve the use of non-U.S. flag carriers.**
- **The requirement that A.I.D. approve all international travel.**

E. AUDIT RESPONSIBILITIES

OMB Circular A-133, which supersedes Attachment F, subparagraph 2.h. of OMB Circular A-110, establishes and defines the Federal audit requirements and responsibilities for nonprofit organizations receiving Federal awards. The provisions of Circular A-133 apply to audits of nonprofit institutions for fiscal years that begin on or after January 1, 1990. Though Circulars A-110 and A-133 are applicable to U.S. nonprofit organizations and not to international nonprofit organizations and/or IPVOs, Chapter 1 B.2 of Handbook 13 states that they are applied to non-U.S. organizations as a matter of A.I.D. policy to the extent practicable.

Nonprofit organizations receiving Federal grants (and cooperative agreements) are responsible for arranging independent audits of the grants. In conducting these audits, the auditors should test the fiscal integrity of the financial transactions as well as compliance with the terms and conditions of the grants, contracts, and other

agreements. These audits shall usually be performed every year but not less frequently than every two years.

According to OMB Circular A-133, the following audit requirement apply based on awards received:

- Nonprofit organizations receiving $100,000 or more a year in Federal awards shall have an audit done in accordance with the provisions of the Circular. Those institutions receiving $100,000 or more but receiving awards under only one program have the option of having an audit of their institutions prepared in accordance with the provisions of the Circular or having and audit done of the one program.

- Nonprofit organizations receiving at least $25,000 but less than $100,000 a year in Federal awards shall have an audit done in accordance with the Circular or have an audit done of each Federal award in accordance with Federal laws and regulations governing the program in which they participate.

- Nonprofit organizations receiving less than $25,000 a year in Federal awards are exempt from Federal audit requirements, but records must be available for review by appropriate officials of A.I.D. or the subgranting entity.

Nonprofit organizations that receive Federal awards and provide $25,000 or more of it during its fiscal year to sub-recipients shall:

- Ensure that the sub-recipients that receive $25,000 or more have met the audit requirements of the Circular;

- Ensure that appropriate corrective action is taken within six months after receipt of the sub-recipient audit report in instances of noncompliance with Federal laws and regulations;

- Consider whether sub-recipient audits necessitate adjustment of the recipient's own records; and

- Require each sub-recipient to permit independent auditors to have access to the records and financial statements as necessary for the recipient to comply with the Circular.

1. Cognizant Audit Agency Responsibilities

When a Federal agency accepts cognizant contracting officer responsibilities for a nonprofit organization, the audit office of that agency should accept audit cognizance for that organization. When an IG accepts audit cognizance for a nonprofit organization, it should notify OMB of this acceptance so it can be formally designated as the cognizant audit agency by OMB. Up to the present time, the A.I.D. IG has accepted audit cognizance for approximately 150 nonprofit organizations. The IG is presently in the process of requesting OMB to formalize this designation.

In accordance with OMB Circular A-133, the cognizant audit agency is responsible for the following:

- Ensuring that audit are made and reports are received in a timely manner and in accordance with the requirements of the Circular.

- Providing technical advice and liaison to the nonprofit organizations and independent auditors.

- Obtaining or making quality control reviews of selected audits may by non-Federal audit organizations, and providing the results, when appropriate, to other interested organizations.

- Promptly informing other affected Federal agencies and appropriate Federal law enforcement officials of any reported illegal acts or irregularities. A cognizant agency should also inform state or local law enforcement and prosecuting authorities, if not advised by the recipient, of any violation of law within their jurisdiction.

- Advising the recipient of audits that have been found not to have met the requirements set forth in the Circular. In such instances, the recipient will work with the auditor to take corrective action. If corrective action is not taken, the cognizant agency shall notify the recipient and Federal awarding agencies of the facts and make recommendations for follow-up action. Major inadequacies or repetitive substandard performance of independent auditors shall be referred to appropriate professional bodies for disciplinary action.

- Coordinating, to the extent practicable, audits or reviews made for Federal agencies that are in addition to the audits made pursuant to

the Circular, so that the additional audits or reviews build upon audits performed in accordance with the Circular.

- Ensuring the resolution of audit findings that affect the programs of more than one agency.

- Seeking the views of other interested agencies before completing a coordinated program.

- Helping coordinate the audit work and reporting responsibilities among independent public accountants, state auditors, and both resident and nonresident Federal auditors to achieve the most cost-effective audit.

The OIG Office of Financial Audits in A.I.D./W is cognizant for U.S. and international organizations. Chapter 3 of Part II of the OIG Audit Policy and Procedures Handbook sets forth the policies and procedures for carrying out these responsibilities.

The Regional Audit Offices are cognizant for those indigenous nonprofit organizations or IPVOs receiving direct A.I.D. grants from the missions. Accordingly, to carry out these cognizant responsibilities, the Regional Audit Offices must coordinate with the missions in their respective regions to ensure that audit provisions are inserted in the grant agreements. Arrangements must then be made with the missions to ensure that the independent audits are forwarded to the Regional Audit Offices.

2. Scope and Objectives of A-133 Audits

The audits performed by an independent auditor shall be in accordance with "Government Auditing Standards" developed by the Comptroller General of the United States covering financial audits. An audit under the Circular should be an organization-wide audit of the institution. In performing the audits, the independent auditor shall determine whether:

- The financial statements of the institution present fairly its financial position and the results of its operations in accordance with generally accepted accounting principles;

- The institution has an internal control structure to provide reasonable assurance that the institution is managing Federal awards in compliance with applicable laws and regulations, and controls that

ensure compliance with the laws and regulations that could have a material impact on the financial statements; and

- The institution has complied with laws and regulations that may have a direct and material effect on its financial statement amounts and on each major Federal program.

In regard to internal controls, the independent auditor shall determine and report on whether the recipient has an internal control structure to provide reasonable assurance that it is managing Federal contract awards in compliance with applicable laws, regulations, and contract terms, and that it safeguards Federal funds. In performing these reviews, independent auditors should relay upon work performed by a recipient's internal auditors to the maximum extent possible. The extent of such reliance should be based upon the "Government Auditing Standards."

In order to provide this assurance on internal controls, the auditor must obtain an understanding of the internal control structure and assess levels of internal control risk. After obtaining an understanding of the controls, the assessment must be made whether or not the auditor intends to place reliance on the internal control structure.

As part of this review, the independent auditor shall:

- Perform tests of controls to evaluate the effectiveness of the design and operation of the policies and procedures in preventing or detecting material noncompliance. Tests of controls will not be required for those areas where the internal control structure policies and procedures are likely to be ineffective in preventing or detecting noncompliance, in which case a reportable condition or a material weakness should be reported.

- Review the recipient's system for monitoring subrecipients and obtaining and acting on subrecipient audit reports.

- Determine whether controls are in effect to ensure direct and indirect costs were computed and billed in accordance with the guidance provided in the general requirements section of the compliance supplement to the Circular.

Additionally, the OIG has asked the grantees to incorporate audits of indirect cost rates in their A-110 audit reports. The OIG's desk reviews of these rates

serve as a basis for recommending to A.I.D. management that they negotiate final rates with the grantees. This procedure avoids the need for separate federal audits to determine the acceptability of indirect cost rates.

In regard to compliance, the auditor shall determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. In addition, transactions selected for minor programs shall be tested for compliance with Federal laws and regulations that apply to such transactions.

In order to determine which major programs are to be tested for compliance, recipients shall identify, in their accounts, all Federal funds received and expended and the programs under which they were received. This shall include funds received directly from Federal agencies, through other state and local governments or other recipients. To assist recipients in identifying Federal awards, Federal agencies and primary recipients shall provide the "Catalog of Federal Domestic Assistance" (CFDA) numbers to the recipients when making the awards.

The review must include the selection of an adequate number of transactions from each major Federal financial assistance program so that the auditor obtains sufficient evidence to support the opinion on compliance. The selection and testing of transactions shall be based on the auditors' professional judgment considering such factors as the amount of expenditures for the program; the newness of the program or changes in its conditions; prior experience with the program, particularly as revealed in audits and other evaluations (e.g., inspections, program reviews, or system reviews required by Federal Acquisition Regulations); the extent to which the program is carried out through subrecipients; the extent to which the program contracts for goods or services; the level to which the program is already subject to program reviews or other forms of independent oversight; the adequacy of the controls for ensuring compliance; the expectation of adherence or lack of adherence to the applicable laws and regulations; and the potential impact of adverse findings.

In making the test of transactions, the independent auditor shall determine whether:

- the amounts reported as expenditures were for allowable services, and
- the records show that those who received services or benefits were eligible to receive them.

In addition to transaction testing, the independent auditor shall determine whether:

- matching requirements, levels of effort and earmarking limitations were met,

- Federal financial reports and claims for advances and reimbursement contain information that is supported by books and records from which the basic financial statements have been prepared, and

- amounts claimed or used for matching were determine in accordance with matching or cost sharing requirements in OMB Circular A-110. OMB Circular A-122, "Cost Principles for Nonprofit Organizations."

3. **Independent Audit Reports**

Independent auditors are responsible for preparing an audit report at the completion of the audit in accordance with OMB Circular A-133. The audit report shall state that the audit was done in accordance with the provisions of the Circular. It shall also be made up of at least the following three parts:

- The financial statements and a schedule of Federal awards and the auditor's report on the statements and the schedule. The schedule of Federal awards should identify major programs and show the total expenditures for each program. Individual major programs other than Research and Development and Student Aid should be listed by catalog number as identified in the "Catalog of Federal Domestic Assistance". Expenditures for Federal programs other than major programs shall be shown under the caption "Other Federal Assistance." Also, the value of non-cash assistance such as loan guarantees, food commodities or donated surplus properties or the outstanding balance of loans should be disclosed in the schedule.

- A written report of the independent auditor's understanding of the internal control structure and the assessment of control risk. The auditor's report should include as a minimum:

  - the scope of the work in obtaining understanding of the internal control structure and in assessing the control risk,

  - the nonprofit institution's significant internal controls or control structure including the controls established to ensure

compliance with laws and regulations that have a material impact on the financial statements and those that provide reasonable assurance that Federal awards are being managed in compliance with applicable laws and regulations, and

- the reportable conditions, including the identification of material weaknesses, identified as a result of the auditor's work in understanding and assessing the control risk. If the auditor limits his/her consideration of the internal control structure for any reason, the circumstances should be disclosed in the report.

- The auditor's report on compliance should contain:

  - An opinion as to whether each major Federal program was being administered in compliance with laws and regulations, including compliance with laws and regulations pertaining to financial reports and claims for advances and reimbursements;

  - A statement of positive assurance on those items that were tested for compliance and negative assurance on those items not tested;

  - Material findings of noncompliance presented in their proper perspective:

    -- The size of the universe in number of items and dollars,

    -- The number and dollar amount of transactions tested by the auditors;

    -- The number and corresponding dollar amount of instances of noncompliance;

  - Where findings are specific to a particular Federal award, an identification of total amounts questioned, if any, for each Federal award, as a result of noncompliance and the auditor's recommendations for necessary corrective action.

The three parts of the audit report may be bound into a single document or presented at the same time as separate documents. Non-material findings need not be disclosed with the compliance report but should be reported in writing to the recipient in a separate

communication. The recipient, in turn, should forward the findings to the Federal grantor agencies or subgrantor sources.

All fraud or illegal acts or indications of such acts, including all questioned costs found as the result of these acts that auditors become aware of, amy be covered in a separate written report submitted in accordance with the "Government Auditing Standards."

The auditor's report should disclose the status of known but uncorrected significant material findings and recommendations from prior audits that affect the current audit objective as specified in the "Government Auditing Standards. In addition to the audit report, the recipient shall provide a report of its comments on the findings and recommendations in the report, including a plan for corrective action taken or planned and comments on the status of corrective action taken on prior findings. If corrective action is not necessary, a statement describing the reason it is not should accompany the audit report.

Copies of the audit report shall be submitted in accordance with the reporting standards for financial audits contained in the "Government Auditing Standards." Sub-recipient auditors shall submit copies to recipients that provided Federal awards. The report shall be due within 30 days after the completion of the audit, but the audit should be completed and the report submitted not later than 13 months after the end of the recipient's fiscal year, unless a longer period is agreed to with the cognizant or oversight agency.

4. Sanctions

No audit costs may be charged to Federal awards when audits required by the Circular have not been made or have been made but not in accordance with the Circular. In cases of continued inability or unwillingness to have a proper audit in accordance with the Circular, Federal agencies must consider appropriate sanctions including:

- withholding a percentage of awards until the audit is completed satisfactorily;
- withholding or disallowing overhead costs; or
- suspending Federal awards until the audit is made.

The cost of audits done in accordance with the provisions of this Circular are allowable charges to Federal awards. The charges may be considered a direct cost or an allocated indirect cost, determined in accordance with the provisions of OMB Circular A-122, "Cost Principles for Nonprofit Organizations."

The control objective of the audit requirement is to ensure that the nonprofit organizations are arranging for independent audits to test for fiscal integrity of the financial transactions and compliance with the terms and conditions of the Federal grants, contracts, and other agreements. To achieve this objective, the following control techniques are used:

- **The guidance provided in OMB Circular A-110 spelling out the requirements for the independent audits.**

- **The mandatory standard audit provisions incorporated in the grant agreement requiring the OMB Circular A-133 independent audit.**

- **The requirement that the cognizant audit agency ensure independent audits are conducted in a timely manner and in accordance with A-133 and Governmental Auditing Standards.**

- **The requirement that the funding agency follow up with the cognizant agency when audit reports are not received.**

CHAPTER 6

ACCOUNTING PROCESS

After Congress appropriates funds under the various appropriation accounts, the Agency must notify the Congress within 30 days after passage of the legislation of each country which will receive funds under the legislation and the amount of funds to be provided to that country by appropriation account. This legislative reporting requirement is based on the development of the OYB. The OYB thus indicates for each appropriation account the activities to be funded by each mission and/or office within the geographic bureau, as well as the central bureaus and offices. In other words, the OYB establishes how the funds provided under each appropriation account are to be used. Any significant changes to the OYB must consequently be reported to the Congress.

After Congress appropriates funds and the President signs the legislation, Treasury issues warrants for each appropriation account to the Office of the President. The Agency is then responsible for requesting Treasury to transfer the warrants for each account from the Office of the President to the Agency. Since the appropriation accounts may include funds for other agencies, the Agency will also request the Treasury to allocate the funds provided under the appropriation accounts to the respective agencies. Upon making this allocation and transfer, the Treasury will specify the accounting symbols the Agency should use when drawing funds from the individual appropriation accounts.

Before the Agency can obligate and draw down funds from the appropriation accounts at Treasury, it must request an apportionment of funds from OMB. Apportionment is the process whereby OMB provides the Agency with the authority to obligate funds up to a specified level for each appropriation account at Treasury. Thus, based on this process, the Development Assistance Functional Program and other development assistance appropriation line item accounts are fully apportioned immediately; economic support funds are apportioned on an activity-by-activity basis; and operating expense funds are apportioned on a quarterly basis.

With the apportionment of funds, the budgetary system for implementing the OYB can be described. The description that follows is based on the Development Assistance Functional Program appropriation account. This budgetary system was designed to comply with Section 3679 of the Revised Statutes,* which requires that the head of each Agency, subject to the approval of the Director of OMB, prescribe by regulation a system of administrative control designed to:

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* Other applicable laws and regulations include Section 113 of the Supplemental Appropriations Act of 1955; the Congressional Budget Impoundment Act of 1974 and OMB Circular A-34.

- restrict obligations and expenditures against each appropriation or funds to the amount of apportionments or reapportionments made for each such appropriation or fund; and

- enable the Agency head to fix responsibility for the creation of any obligation or the making of any expenditure in excess of an apportionment or reapportionment.

Upon OMB's full apportionment of the Development Assistance Functional Program appropriation, the Office of Financial Management will open an allotment ledger for each functional account for which funds were appropriated, e.g., agriculture, health, education, child survival, and so on.* Based on the OYB, funds under each functional allotment will in turn be allotted to the assistant administrator of each geographic bureau as well as the assistant administrators of central bureaus and directors of offices. These allotments to the bureaus and offices cannot exceed the funds apportioned under each functional account. Upon receipt of the allotments, the assistant administrators are responsible for ensuring that funds allowed to missions and offices do not exceed the amount of each allotment provided to them.

Pursuant to the OYB, the assistant administrators will provide an allowance of funds under each of the functional allotments to the office and missions within their respective bureaus. This is done by preparing a Request for Advice of Allowance of Funds which is then sent to the A.I.D./W Office of Financial Management. The Office of Financial Management then reviews this request to ensure it conforms with the OYB and that sufficient funds are available in the allotment. After this review and approval, the Office of Financial Management will enter the amount of the allowance to the appropriate project in the Financial Accounting Control System (FACS) for central- and geographic-funded grants. In the case of mission-funded grants, the Office of Financial Management will advise the mission by cable (and pouch) of the funds allowed as well as the relevant appropriation accounting symbols and the budget plan code. These allowances of funds will then be recorded in an Allowance Ledger Account opened by the Office of Financial Management for each functional account. Though the respective assistant administrators are responsible for ensuring the Requests for Advice of Allowance of Funds do not exceed the individual allotments, the Allowance Ledger Accounts maintained by Financial Management for each allotment provides the formal means of control over the allowances made to the bureau offices and mission and/or offices.

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* Establishing an allotment for each functional account provides the means of controlling the functional accounts. The total of these functional allotments cannot exceed the appropriation and apportionment amounts. In turn, a share of each functional allotment is allotted to the bureaus and offices based on the OYB allocation.

Since there are differences in accounting for the grant funds in A.I.D./W and the missions, it is necessary to discuss each separately.

A. ACCOUNTING PROCEDURES IN A.I.D./WASHINGTON

When the bureau authorizes a project, the Central Accounting Division within the Office of Financial Management will open a project account in FACS. Thus, when the bureau has prepared a Request for Advice of Allowance and the Funds Control Division in Financial Management has approved it, the budget allowance is entered directly to the FACS account by the Funds Control Division. Upon entry of this allowance, the bureau is able to start processing the grant.

It will be recalled from the programming process that the first step, after authorizing the grant, is the preparation of a PIO/T. Though multiple grants may be funded under one project--an example being the FVA Bureau's project for the Matching Grant Program--a separate PIO/T must be prepared for each grant. However, before the bureau forwards the PIO/T to the Procurement Office, it must be routed to the Central Accounting Division of the Office of Financial Management for prevalidation or reservation of funds. Upon receipt of the PIO/T, Financial Management will verify funds have been made available by a budget allowance. When funds are available, the Central Accounting Division will enter a reservation of funds in the FACS account for the amount of funds requested by the PIO/T. After making this entry, it will approve and enter the accounting symbols on the PIO/T. The PIO/T is then returned to the bureau which then forwards it to the Contracting Officer for award and preparation of the agreement.

When the Grant Officer in the Contracting Office and the nonprofit organization have signed the grant, the original is forwarded to the Central Accounting Division in the Office of Financial Management. Since the signed grant is the obligating document, it is used to enter the obligation to the FACs account.* Upon entry of the obligation, A.I.D. funds can then be disbursed.

It may be recalled from the implementation process that A.I.D. provides nonprofit organizations with advances of funds. These advances are provided to nonprofit organizations in recognition of the fact that they have limited resources. The advances are thus designed to assist the entities in financing the anticipated costs to be incurred under the grant.

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* The grant document is retained in a grant file by the Central Accounting Division.

Treasury policies require that, when the Agency negotiates advance arrangements with nonprofit organizations, the advances be restricted to immediate cash needs. When advances are provided by Treasury letter of credit, two to three days cash needs are considered adequate.* When advances are made by Treasury check, cash needs may warrant a longer period but should not be provided for a period which exceeds 30-day requirements. When circumstances warrant a period longer than 30 days, the assistant administrator of the bureau must justify, in writing, that implementation will be seriously interrupted or impeded by the 30-day rule. Under Agency policy, the period of the extended advance cannot exceed 90 days, regardless of circumstances.

The Letter of Credit Branch, located in the Cash Management and Payment Division of the Office of Financial Management is responsible for accounting for Treasury Letter of Credit advances. The Contracts/Grants/Letter of Commitment Branch** is responsible for accounting for advances under Treasury check. In accounting for the cash advances, the Office of Financial Management has established cash advance ledgers for the advances made under each appropriation.*** To control the specific cash advances made to the nonprofit organizations, both branches have established subsidiary ledgers for the cash advances to each organization. When cash advances are made to each nonprofit organization, these subsidiary ledgers are debited for the amount of the advances. At the end of each month, these debt totals will be posted to the Cash Advance Ledger.

In liquidating these advances, the nonprofit organizations will submit no-pay SF-272 (Financial Status Report) indicating the expenditure of the funds. These no-pay Financial Status Reports will be reviewed and certified by both branches. The amount of the liquidated advances are then posted to the individual subsidiary ledgers as a credit. At the end of each month, the credit balances are posted to the Cash Advance Ledger.

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* Starting in January 1991, A.I.D. will issue the letters of credit since Treasury will no longer do so. The system will work much like it has in the past. The only difference is the nonprofit organization must apply to A.I.D. for advance and A.I.D. will process it for payment.

** Both branches are organizationally located under the Deputy Controller for Cash Management and Payment and Funds Control.

*** Separate financial statements are prepared for the Development Assistance and Economic Support Fund Appropriations.

When liquidating the individual advances to the nonprofit organizations, both branches will also enter the amount of the liquidated expenditures from the no-pay SF-272 to the appropriate FACS accounts. After making these entries to FACS, the Financial Status Reports are forwarded to the Central Accounting Division for filing.

At the end of each month, the budget allowances, obligations, and expenditures recorded in FACS are totaled. The accumulated total for budget allowances would be reconciled to the Allowance Ledgers for each allotment, thereby ensuring the budget allowances posted to the Budget Allowance Ledger agree with the allowances posted to the FACS accounts. The total obligation and expenditure balances would also be posted to the appropriate budget ledgers. From these budgetary ledgers, the Agency would prepare a Statement on Budget Execution (see Part III, Chapter 2.E. on page 51).

B. ACCOUNTING PROCEDURES IN MISSIONS

When the mission wants to fund an authorized project, it will request the bureau to prepare a Request for Budget Allowance, which is then sent to the Funds Control Division in the Office of Financial Management. After the review and approval of this request, the Funds Control Division will advise the mission, by cable (and pouch), of the funds allowed as well as the relevant appropriation accounting symbols and budget plan code. The Funds Control Division will then post the allowance to the appropriate allowance ledger account maintained to control the funds allotted to the bureau under each functional account.

Upon receipt of the allowance of funds, the mission accounting station will open budget allowance ledgers. A separate ledger will be opened for each allowance received under each bureau's functional allotment. As a means of identifying the budget allowances with the allotment under which the funds were provided, the allowances are given budget plan codes. These codes indicate the mission receiving the allowances, the functional allotments from which the funds were derived, the appropriation, and so on. Thus, if allowances of funds are provided for funding health and education projects, one budget allowance ledger would be established for health and another budget allowance ledger for education. All increases and decreases in the allowances for these functional accounts would be reflected in the two ledgers. In other words, additional allowances for health and education projects

would not require establishing new ledgers but only increasing the balances in the current year ledgers.*

Based on the availability of these budget allowances, the mission and/or office can then obligate funds. This obligation would be based on the signing of a grant agreement or amendment to the agreement under which funding is provided. The amount of the obligation would be recorded in the obligation column of the appropriate budget allowance ledger. At the same time that the obligation is recorded in the budget allowance ledger, the mission and/or office accounting station will open a project ledger and record the obligation in this ledger as well.

Since the funds are allowed to the mission director, he or she is responsible for ensuring the funds obligated do not exceed the budget allowances received for each budget plan code or functional account. The formal means of control are the budget allowance ledgers and project ledgers. The accounting station is responsible for ensuring the obligations recorded in the budget allowance ledgers are always in balance with the project ledgers.

The project ledger is basically a subsidiary ledger to the budget allowance ledger. It is maintained for each grant project for which funds have been allowed. Separate ledgers are established for each funding source or budget plan code under the project.

A project ledger should be opened upon signing a grant or cooperative agreement. All obligation transactions should be recorded daily, thereby providing an up-to-date status of any given project. At the end of each month, the obligations recorded in the project ledgers should be reconciled to the respective budget allowance ledgers.

When multiple nonprofit organizations are to be funded under the project, subsidiary project ledgers should be opened for each grant awarded to each organization. In this case, the totals of the subsidiary ledgers would be posted monthly to a controlling project ledger.

Though infrequent, a mission might decide to sign a project agreement with the host country. In this case, the obligation would be made based on the project agreement

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* The budget allowance ledger has four columnar headings: Allowances, Obligations, Disbursements, and Unliquidated Obligations. At the end of each month, the activity summarized under each of these columnar headings is reported to the Office of Financial Management for posting to the A.I.D./W ledgers.

with the host country and the grants awarded to the nonprofit organizations would be sub-obligated and controlled as commitments pursuant to the accounting procedures described in Part III, Chapter 2A.

When the project ledger has been opened and the obligation recorded, the nonprofit organization will request an advance of funds.

It is Agency policy to fund nonprofit organizations on an advance of funds basis. Treasury policies require that, when the Agency negotiates advance arrangements with nonprofit entities, the advances be restricted to immediate cash needs. When advances are provided by Treasury letter of credit,* two to three days cash needs are considered adequate. When advances are made by Treasury check, cash needs may warrant a longer period but should not be provided for a period which exceeds 30-day requirements. When circumstances warrant a period longer than 30 days, either the assistant administrator of the geographic bureau or the mission director must justify in writing that implementation will be seriously interrupted or impeded by the 30-day rule. Under Agency policy, the period of the extended advance cannot exceed 90 days, regardless of the circumstances. Thus, in negotiating with nonprofit and host government entities, Project Officers, in conjunction with the accounting stations, must ensure that advances are restricted to the minimum amount necessary and that when this minimum amount exceeds the 30-day requirement, it must be fully justified in writing by the appropriate level of senior management.

Advances are provided to nonprofit and host governments in recognition of the fact that they have limited resources. This means advances are designed to assist the entities in financing the anticipated costs to be incurred under the projects for a specified period of time.

1. **Letter of Credit**

The A.I.D./W Office of Financial Management is responsible for processing all advances under Treasury letters of credit.** As the processing office for all letters of credit advances, this office would also review and certify the liquidating invoices. Thus, when a mission-funded U.S. nonprofit entity obtains advances under this method, it would apply for the advance through its commercial bank. Using the Treasury's Federal Communication System,

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* Starting in January 1991, A.I.D. will issues the Letters of Credit.

** They will continue to do so when A.I.D. starts opening letters of credit after January 1, 1991.

the commercial bank would send the request through the Federal Reserve Bank to the Treasury. Treasury would then request A.I.D.'s approval to make the advance.*

This Treasury request for A.I.D. approval would be sent to the Letter of Credit Branch located in the Cash Management and Payment Division of the Office of Financial Management. After approving the request, the Branch would note the request in a subsidiary cash advance ledger. When the advance is deposited to the nonprofit organization's account, in a commercial bank by the Federal Reserve Bank, the Treasury will formally notify A.I.D. of the deposit. In accounting for the cash advance, the Branch will debit a subsidiary cash ledger which is established to control the specific advances made to the PVO. The ledger will be debited for the amount of the advance.

In liquidating the advance, the nonprofit entity will prepare and submit to A.I.D. a no-pay SF-272 (Financial Status Report) indicating the expenditure of funds. This no-pay Financial Status Report will be reviewed and certified by the Branch. After certifying the report, the Branch will post the amount of the liquidated advance to the nonprofit organization's subsidiary account as a credit. At the end of each month, the Branch will total the debits and credits to the subsidiary cash advance ledgers. These totals are then posted to the cash advance ledgers for each appropriation. At the end of each month, the Branch will total the debits and credits to the subsidiary cash advance ledgers. These totals are then posted to the cash advance ledgers for each appropriation.

The certified SF-272 is then sent to the Control Accounting Division. The Central Accounting Division will then prepare an Advice of Charge and send a copy of the SF-272 to the mission.

Upon receipt of the Advice of Charge, the mission accounting station will send the SF-272 to the Project Officer for administrative approval. Upon making this approval, the Project officer will return the SF-272 to the mission accounting station which will then record the liquidated advance to the project ledger as an expenditure.

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* Starting in January 1991, A.I.D. will issue letters of credit. The nonprofit entity would request the advance from A.I.D., which would process voucher and request payment by Treasury.

At the end of each month, the mission accounting station totals the obligations and expenditures columns in the project ledgers and posts these totals to the budget allowance ledgers for each allotment. The totals of each budget allowance ledger is posted to the Report U-101, which is then sent to the Office of Financial Management in A.I.D./Washington. From the U-101, the total obligation and expenditure balances for each allotment would be posted to the appropriate budget ledgers of each appropriation. From these budgetary ledgers, the Agency would prepare a Statement on Budget Execution (see Part III, Chapter 2E on page 51).

2. **Treasury Check Advances**

The mission accounting station is responsible for processing all advances by Treasury check. All mission-funded nonprofit organizations should accordingly request advances through the mission accounting station. Upon receiving the request, the mission accounting station would process the SF-270 Request for Advance or Reimbursement as a voucher. The SF-270 may be processed as the initial request for advance or as the liquidation and replenishment of a prior advance. Upon approval, the voucher for the advance is scheduled on Form SF-1166, Voucher and Schedule of Payments. After being certified, the SF-1166 is sent to the U.S. Disbursing Officer (USDO) servicing the mission.

When the USDO has prepared the check for the amount of the advance, it sends the check and voucher to the mission accounting station. Upon receiving the check, the mission accounting station gives it to the nonprofit organization. Upon receiving the paid voucher, the mission records the amount of the advance to an advance ledger.

When the nonprofit entity liquidates the advance, it will send a SF-272 to the mission accounting station. The mission accounting station will review and certify the SF-272 as a no-pay voucher. After doing so, it will not only reduce the advance account for the amount of the liquidation but also post the amount to the project ledger as an expenditure.

At the end of each month, the obligations and expenditures recorded to the project ledgers will be totaled. These totals will be recorded to the budget allowance ledgers for each allotment. The totals of each budget allowance ledger is posted to the Report U-101 for the respective budget allowances under each appropriation. Advances are also posted to the U-101. From the U-101, the total obligation and expenditure balances for each allotment would be posted by A.I.D./Washington to the appropriate budget ledger of each

appropriation. From the budgetary ledgers, the Agency would prepare a Statement on Budget Execution (see Part III, Chapter 2D and 2E on page 51).

The cash advances shown on the U-101 would be recorded to the appropriate cash advance ledger which would be used to prepare the Statement on Financial Condition (see also Part III, Chapter 2D and 2E).

The internal control objective of the reservation and obligation of funds process is to provide reasonable assurance that the prevalidation and obligation of funds is done in accordance with A.I.D.'s funds controls policies and procedures. To achieve this objective, the following are used:

- **The guidance provided in A.I.D. Handbook 19, specifically Appendix 1A to Chapters 1 and 3.**
- **The guidance in Chapter 13 of the A.I.D. Controller's Handbook.**
- **The timely recording of transactions to appropriate ledgers and records.**
- **The requirement that reservations and obligations be authorized and executed by persons acting within the scope of their delegated authority.**
- **The separation of duties and responsibilities in authorizing, processing, and recording reservations and obligations.**
- **The maintenance of appropriate records and documentation supporting all transactions.**

The control objective of the cash advance-liquidation process is to ensure funds advanced to nonprofit organizations do not exceed immediate cash needs and are liquidated in an expeditious manner. To achieve this objective, the following control techniques are used:

- **The guidance provided in A.I.D. Handbook 19, Chapter 1B and the Controller's Guidebook, Chapter 16.**
- **The maintenance of cash ledgers and subsidiary ledgers and the timely recording of transactions to these ledgers as funds are advanced and liquidated.**

- **The requirement that cash advances be authorized and executed by persons acting within their scope of delegated authority.**

- **The separation of duties and responsibilities in authorizing, processing, and recording cash advances and the liquidation of advances.**

- **The limitation of access to records by authorized officials.**

- **The provision of qualified and continuous supervision over the cash advance and liquidation process.**

CHAPTER 7

A.I.D. MONITORING PROCESS

Attachment H of OMB Circular A-110 requires that the sponsoring agency monitor the recipient's performance of the grant. In doing so, it requires the sponsoring agency to make site visits as frequently as practicable to:

- Review program accomplishments and management control systems; and
- Provide such technical assistance as may be required.

A.I.D. guidance provided in Chapter 3 of A.I.D. Handbook, 3, Supplement A, states that:

> "... in the case of grants, reliance is placed primarily on the recipient organization to carry out its own program as approved by A.I.D. For this reason, the degree of monitoring is expected to be materially less than that exercised where a direct A.I.D. contract is involved.
>
> "However, a grant or cooperative agreement is by no means a "hands off" operation, and there are areas where a reasonable degree of oversight must be maintained by A.I.D. to assure that the program is successfully implemented."

Pursuant to Chapter 3 of A.I.D. Handbook 3, Supplement A, the monitoring roles of the Grant Officer and Project Officer are described below.

A. ROLE OF THE GRANT OFFICER IN MONITORING IMPLEMENTATION

Oversight of a grant or cooperative agreement is shared between the Project Officer and the Grant Officer. While there is a clear division of responsibility between these two officials, these functions are closely related and cannot be performed in isolation from each other. Close cooperation is obviously required between the Grant Officer and the Project Officer.

Following his/her role as the negotiator and drafter of the grant or cooperating agreement, the Grant Officer becomes responsible for the interpretation of all provisions of the agreement and for the resolution of questions which may arise in connection with its financing.

Examples of some of the Grant Officer's more significant areas of direct concern are the final determination of overhead rates, requests from the nonprofit organizations for deviations from A.I.D. assistance procedures, approval of travel and procurement policies, refunds of excess advance payments in excess of those provided for in the agreement, and approval of subordinate agreements under a cooperative agreement.

The Grant Officer receives the recipient's periodic financial and audit reports, analyzes them, and informs the Project Officer of any problems of significance that are reflected by these reports.

It is customary for the recipient to communicate directly with the Grant Officer on the above matters.

B. ROLE OF THE PROJECT OFFICER IN MONITORING IMPLEMENTATION

The Project Officer is in direct communication with the nonprofit organization on all program or technical matters relating to the grant or cooperative agreement, such as questions that may be raised by the nonprofit entity on program direction or specific implementation problems. The nature of the relationship between the Project Officer and the nonprofit organization will be governed in large measure by the provisions of the grant or cooperative agreement.

When a grant or cooperative agreement is awarded by a central or regional bureau and the organization's operations are carried out in a foreign country, the A.I.D. Project Officer, either personally or acting through the Project Officer in a field Mission, may assist the organization's representatives in meeting key country officials who are concerned with the project. If the agreement should provide for logistical support in a foreign country, the Project Officer in the Mission will see to it that such support is provided.

To define his/her level of involvement in the affairs of the nonprofit organization, it is essential that the Project Officer become thoroughly familiar with the agreement and its standard provisions. Examples of such provisions would be the requirement that all requests by the nonprofit entity for international travel be referred to the Project Officer for prior approval in order that the A.I.D. Mission may be so informed, or the requirement that the nonprofit organization deliver to the Project Officer a copy of all published works developed under the grant.

There are other general areas of oversight where involvement with the nonprofit organization is expected, irrespective of the nature of the agreement. These other areas are described below.

1. Liaison with the Nonprofit Organization

The Project Officer receives and answers, or arranges for replies to, correspondence relating to implementation and programmatic management of the grant or cooperative agreement. Correspondence relating to financial

management (other than the administrative approval of vouchers) is handled directly by the Grant Officer.

As circumstances warrant, the Project Officer should hold meetings or discussions with the nonprofit organization with regard to any aspect of implementation.

2. **Interpretation of Provisions and Disputes**

When substantive questions come to the attention of the Project Officer which require technical interpretations of any provisions of the agreement, or where disputes with the nonprofit entity arise, it is the responsibility of the Project Officer to refer such issues to the Grant Officer for his/her consideration and resolution. Under such circumstances, the Project Officer should avoid making statements to the recipient which, expressly or by implication, could be construed as an official A.I.D. position, pending receipt of guidance from the Grant Officer.

3. **Recipient Reports**

The Project Officer assures that the nonprofit organization submits such reports as are required by the terms of the grant or cooperative agreement. Upon receipt of each report, the Project Officer is expected to review the document and comment upon its adequacy and responsiveness.

When a nonprofit organization's report is considered deficient or the Project Officer identifies problems, he/she should meet with the organization promptly to discuss the situation. Deficiencies should be frankly reviewed with the nonprofit organization and courses of action to rectify the problems should be suggested by the Project Officer. Depending upon the nature and significance of the problems, the Project Officer should determine whether his/her immediate superior should be alerted and consulted. In such cases, the Project Officer may wish to record the difficulties in a memorandum to his/her superior, with a copy to the Grant Officer and the recipient. This technique puts the recipient on notice that A.I.D. considers the matter of some importance and expects the recipient to remedy the situation.

The periodic financial and audit reports required by the grant agreement are submitted directly by the nonprofit organization to the Grant Officer. Nevertheless, the Project Officer reviews copies of the reports in order to measure physical progress under the grant or cooperative agreement against the expenditure of time and money.

4. **Reports of the Project Officer**

As required by the Mission Director or Assistant Administrator (or their designees), the Project Officer is responsible for the preparation and submission of periodic reports on the implementation status of the grant or cooperative agreement being monitored. These reports should describe briefly the progress achieved by the recipient, major problems encountered or anticipated, and remedial actions taken or required to resolve such problems.

The highlights of the nonprofit organization's progress reports and site visit reports should be drawn upon by the Project Officer in preparing these Project Implementation Reports. A copy of each report should be forwarded to the Grant Officer, in addition to other mission and A.I.D./W officials.

Where a substantive problem requiring the urgent attention of A.I.D. arises during the course of implementation, the Project Officer should prepare a separate memorandum to alert the responsible bureau or mission officer concerned (e.g., Legal Advisor, Program Officer, Grant Officer) and to request assistance or action to resolve the difficulty.

5. **Site Visits**

Among the more significant aspects of the oversight of a grant or cooperative agreement are periodic visits by the Project Officer to the site where work under the agreement is being performed. Scheduling such visits obviously depends upon a number of factors, such as the size, complexity, and term of the agreement, the availability of travel funds, and other priority duties of the Project Officer.

In many cases, however, where the agreement is of major significance, observation at the work site is important to enable the Project Officer to obtain first-hand impressions of the nonprofit organization's progress and to identify incipient problems which may adversely affect its performance unless remedied. These site visits form one of the fundamental bases for the Project Officer's administrative approval of the recipient's vouchers. Such visits should be made with the prior knowledge of the nonprofit organization and the Project Officer should be accompanied by a representative or representatives of the organization.

Where work is performed in the field under a grant or cooperative agreement administered at A.I.D./W, the A.I.D./W Project Officer should request site visits by the Field Project Officer designated for the project.

As soon as possible after each visit, the Project Officer should prepare a brief report highlighting his/her observations and findings and file a copy of the report in the related grant or cooperative agreement file.

Merely knowing that such site visits are a phase of the Project Officer's oversight functions helps to keep the nonprofit organization "on its toes." Properly handled site visits can pay dividends in the early diagnosis of impending problems where A.I.D. can appropriately assist the organization in its resolution before misunderstandings or other avoidable delays arise.

6. **Extensions and/or Amendments**

As the A.I.D. official most conversant with the day-to-day status of the grant or cooperative agreement, the Project Officer should be in a position to anticipate the desirability for curtailment, extension, or amendment of the assistance instrument which he/she is overseeing. In most cases, the nonprofit organization itself can be expected to apply for more assistance or necessary changes in the terms of the agreement. Regardless of how the Project Officer becomes aware of this requirement, he/she should promptly advise the Grant Officer in writing, with a copy to the appropriate program budget office if additional funding may be needed, including his/her views as to the justification for the proposed curtailment, extension, or amendment. Pending an official decision of the Grant Officer, however, under no circumstances should the Project Officer lead the nonprofit organization to believe that such agreement extensions or amendments will be approved. Informal commitments, explicit or implied, to this effect must be scrupulously avoided, particularly where additional funding may be required to amend or extend a grant or cooperative agreement.

7. **Administrative Approval of Vouchers**

An essential feature of A.I.D.'s system of management of the grant or cooperative agreement process is the requirement for administrative approval by the Project Officer of vouchers submitted by the nonprofit organization for payment. This administrative approval--in the form of a prescribed certification--is supplemental to the normal U.S. Government requirement for the financial certification of all payment vouchers by an authorized certifying officer.

The Project Officer is the A.I.D. official who is best and most currently informed concerning the progress, problems, and accomplishments of the recipient. As a consequence, he/she is the logical official to determine that

the recipient's activities are proceeding satisfactorily. Therefore, any request for payment by the nonprofit organization requires approval by the Project Officer to assure that A.I.D.'s interests are adequately protected. In addition, the requirement for such approval becomes a possible means for the Project Officer to obtain remedial action in any case where deficiencies in the recipient's performance becomes known, and correction cannot otherwise be obtained.

8. **Grant or Cooperative Agreement File**

The Project Officer is responsible for ensuring that a properly documented, permanent operational file for each grant and cooperative agreement is established and that it contains all basic documents and reports relating to the agreement. Included will be such documents as the nonprofit organization's proposal, the PID, the Project Paper (or equivalent documents), the PIO/T, and the grant or cooperative agreement. Also included will be the periodic reports submitted by the nonprofit organization, A.I.D. evaluation and audit reports, correspondence with the recipient, and copies of A.I.D. memoranda which the Grant Officer of Project Officer has written or received about the assistance agreement.

It should be noted that this is an operational file, with the official file being maintained by the Grant Officer. The Project Officer should ensure that copies of all pertinent documents are included in the official file.

The maintenance and accessibility of a completely documented and current operational file is important for several reasons. Such a file (1) serves as an essential tool for effective management; (2) facilitates the transfer of responsibility for oversight from the Project Officer to his/her successor in the event of the former's reassignment; and (3) records in A.I.D.'s "institutional memory" system, the accomplishments under the grant or cooperative agreement, as well as the lessons learned for the general guidance of the Agency as a whole.

When a Project Officer is departing from post during the implementation of a grant or cooperative agreement, he/she should ensure that his/her replacement is thoroughly familiar with the operational file and has a clear conception of the status of the assistance agreement, its progress, and its problems. Where a Project Officer departs from post prior to the arrival of the replacement, care should be taken that the operational file is complete, containing copies of all documents necessary to permit the replacement to

assume effective monitoring of the grant or cooperative agreement upon arrival.

9. **Waivers and Deviations**

On occasion, as the nonprofit organization proceeds with its project, waivers or deviations may be necessary from the standard provisions that are part of each grant or cooperative agreement, or from policies or procedures set forth in Handbook 13.

As the Project Officer perceives the need for waivers or deviations in grants or cooperative agreements, he/she forwards the request for approval of the exception to the Grant Officer, together with a supporting justification. Whether the request originates in a field mission or A.I.D./Washington, the Grant Officer submits the request by action memorandum to the Director, Officer of Procurement, or other appropriate approval authority. Handbook 13, Chapter 1E, provides the necessary guidance on this point.

Where the need for a waiver (e.g., procurement source) becomes apparent during the review of the recipient's proposal and prior to A.I.D.'s entering into a grant or cooperative agreement, the Project Officer is responsible for obtaining the necessary approvals. (See Handbook 13, Chapter 1U5.) This approach will reduce the administrative burden and allow maximum flexibility for operational decisions during the period of performance under the grant or cooperative agreement.

The control objective of the monitoring process is to ensure the nonprofit organization complies with the grant agreement and implements the program successfully. To achieve this objective, the following control techniques are used:

- **The guidance contained in A.I.D. Handbook 13, Supplement A, which defines the monitoring roles of the Grant Officer and the Project Officer.**

- **The requirement that Project Officer assures that all reports are submitted as required by the grant agreement and that these reports adequately report on the progress and financial status of the grant program.**

- **The requirement that the Project Officer conduct site visits to review the nonprofit organization's performance.**

- **The requirement that the Project Officer administratively approve all vouchers for payment.**

- **The requirement that the Project Officer ensures that all deviations from the grant agreement are approved by the Grant Officer.**

- **The requirement that the Project Officer ensure all extensions and amendments are prepared as required.**

- **The requirement that the Project Officer follow up on all problems raised in report, meetings, and so on.**

- **The requirement that the Project Officer prepare reports which keep the mission and/or bureau informed of the grant, its progress, and its problems.**

CHAPTER 8

EVALUATION PROCESS

Section 621A of the Foreign Assistance Act of 1961, as amended, requires the Agency to establish a management system that includes:

- "Definition of objectives and programs for United States foreign assistance;
- "Development of quantitative indicators of progress toward these objectives;
- "Consideration of alternative means for accomplishing such objectives; and
- "Adoption of methods for comparing the actual results of programs and projects with those anticipated when they were undertaken ...."

To comply with this legislative requirement, A.I.D.'s policy requires that all projects, including those implemented by grants or cooperative agreements, be evaluated periodically during their implementation.

The Agency uses the logical framework as an evaluation tool for complying with these requirements. Thus, in designing projects, Agency guidance, outlined in A.I.D. Handbook 3, Chapter 12, requires that each Project Paper contain a logical framework. This logical framework, commonly referred to as log frame, is a matrix that breaks a project design down into four separate and distinct levels of objectives: inputs, outputs, purpose, and goal. These objectives at each level are expressed in a quantitative form that can be objectively verified according to identified indicators or measures. The log frame for a project thus expresses an hypothesis that if certain inputs and outputs occur, and if certain assumptions hold true, the purpose and goal will be achieved. The log frame also provides the means for the PVOs and Project Officer to manage by objectives as the project is being implemented.

When a Project Paper is not prepared, the Project Officer should ensure that the nonprofit organization's proposal contains a log frame. This log frame should be reviewed to ensure it is adequate for tracking and measuring progress and results.

Nonprofit organizations normally conduct their own evaluations during implementation. While the organization is expected to follow A.I.D. guidelines, the "Project Evaluation Summary" form is not a requirement. However, the nonprofit is expected to provide a copy of each evaluation to the Project Officer (see Handbook 3, Chapter 4, Appendix 4B and Handbook 13, Chapter 3.M).

The fact that nonprofit organizations may conduct their own evaluations does not mean that A.I.D. does not evaluate their programs. The following discussion applies to A.I.D. evaluations of nonprofit organization activities.

A. PLANNING THE EVALUATION

Bureau offices and missions are required to prepare an Annual Evaluation Plan which provides the schedule of project evaluations and other evaluative studies over a two-year period.* The development of this Annual Evaluation Plan is the occasion for a mission and/or office to identify broader questions of concern to senior managers (e.g., questions related to the nonprofit organization's programs and performance relative to strategic objectives) and to prepare for appropriate assessments that address these questions.

The Annual Evaluation Plan alerts the geographic bureaus to upcoming evaluations that may be of particular importance to its program and policy responsibilities. Annual Evaluation Plans of missions and/or offices are reviewed and approved by the bureaus and incorporated into the bureaus' respective Annual Evaluation Plans which are then reviewed by PPC.

The bureau office or mission director has ultimate responsibility for the evaluation of projects. This responsibility is considered to be part of the bureau, office, and mission directors' accountability for proper management of U.S. development assistance. In this regard, the office, bureau, and mission directors should establish the standards and practices for using evaluation as a management tool. They should participate as fully as their schedules permit in the planning and review of evaluations, particularly as these activities relate to the issues and questions to be addressed and the follow-up actions to be taken. Typically, the bureau, office, and/or mission director delegates responsibility for managing the mission and/or office evaluation system to a U.S. officer designated as the bureau and mission Evaluation Officer.

The bureau and mission Evaluation Officer works with other bureau, office, and mission staff in carrying out the following responsibilities:

- Developing the bureau's, office's, and/or mission's evaluation system (if necessary), formalizing the system, and implementing the procedures of that system;

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* This Evaluation Plan is developed as part of the Annual Budget Submission.

- Preparing the bureau's, office's, and/or mission's Annual Evaluation Plan, incorporating project and program information needs into the plan, integrating the Evaluation Plan into the ABS, and ensuring that sufficient funding is included in the ABS for upcoming evaluations and special studies if their costs exceed the funds budgeted in the projects involved;

- Tracking the scheduling and implementation of evaluations, based on the Annual Evaluation Plan;

- Assisting Project Officers with the writing of the scopes of work for project evaluations and with other aspects of the evaluation process as needed (e.g., team member selection, Team Planning Meetings);

- Ensuring that an A.I.D. Evaluation Summary is completed and submitted to the appropriate A.I.D./Washington offices for all evaluations;

- Following up on all actions to be taken in response to evaluation recommendations to ensure that they are implemented; and

- Maintaining and circulating evaluation findings and lessons learned.

B. CONDUCTING THE EVALUATION

When the decision has been made to conduct an A.I.D. project evaluation, the Project Officer must develop a clear statement of work for the evaluation team. In doing this, the Project Officer, usually in conjunction with the Evaluation Officer, will develop the specific questions to be addressed by the evaluation. These questions depend largely upon the type of project to be evaluated, it stage of implementation, and the issues or problems that need to be resolved. In developing the scope of work, A.I.D. also requires that evaluations examine the following broad concerns that are applicable to virtually any type of assistance:

- Relevance. Are the development constraints the project was initially designed to address major problems that are germane to the current development strategies supported by A.I.D.?

- Effectiveness. Is the project achieving satisfactory progress toward its stated objectives?

- Efficiency. Are the effects of the project being produced at an acceptable cost compared with alternative approaches to accomplishing the same objectives?

- Sustainability. Are the effects of the project likely to become sustainable development impacts--that is, will they continue after A.I.D. funding has stopped?

These issues help focus evaluations on the major concerns. They force evaluators to go beyond mere examination of inputs and outputs and think about the more anticipated effects, what can be done to improve the overall performance of the activity, and what can be done to ensure that this investment produces enduring benefits. Attention to these issues makes the evaluation process useful in promoting policy dialogue.

An evaluation report is required for interim and final evaluations. In addition to this report, the final product of an A.I.D. evaluation includes a completed A.I.D. Evaluation Summary Form (this form replaces the previous Project Evaluation Summary [PES]). The A.I.D. Evaluation Summary consists of two parts. Part 1 includes a schedule of the actions to be taken on the basis of evaluation results, listing who is responsible for the actions and when they are to be completed. It also includes a short abstract of the evaluation report and data on the cost of the evaluation. Part 2 consists of a more detailed summary of evaluation findings, conclusions, recommendations, and lessons learned; comments by the mission and/or office sponsoring the evaluation; and attachments, including a copy of the evaluation report.

The A.I.D. officer responsible for the evaluation is required to complete the A.I.D. Evaluation Summary form. The bureau office and/or mission officer Evaluation Officer is responsible for ensuring that the A.I.D. Evaluation Summary is completed and submitted. The evaluation team may be assigned the task of completing the abstract and detailed summary portions of the form.

All evaluation reports must be submitted as stipulated in the instructions for the A.I.D. Evaluation Summary and according to geographic bureau requirements. Evaluation documents must be submitted within 60 days of receipt of the "final version" of the evaluation report prepared by contractors or by Agency staff. If the A.I.D. Evaluation Summary form cannot include all follow-up actions within 60 days, the bureau office and/or mission should submit copies of the final evaluation report and an A.I.D. Evaluation Summary that lists preliminary actions to be taken by the bureau office and/or mission.

The bureau office and/or mission that sponsored the evaluation is required to respond to the recommendations for action presented in the evaluation report. This response may be a complete or partial acceptance of a recommendation, a proposed alternative action that accomplishes the same objective, or rejection of a

recommendation. The course of action to be followed must be stated in Part 1, and rejection or modification of recommendations must be explained in Part 20 of the A.I.D. Evaluation Summary.

The control objectives of the evaluation process are to ensure that independent evaluations are planned and scheduled to assess the effectiveness, results and efficiency of progress as required; to ensure the purposes of the evaluations are clearly specified in the scope of work; and to ensure that appropriate corrective action is taken on all recommendations resulting from the evaluations. To achieve the objectives, the following control techniques are used:

- **The guidance contained in A.I.D. Handbook 3, Chapter 12 and the A.I.D. Evaluation Handbook, Supplement to Chapter 12 outlining the procedures for planning and conducting evaluations and the follow-up procedures for evaluation recommendations.**

- **The requirement that evaluation plans be developed as part of the Annual Budget Submission process.**

- **The requirement that the geographic bureau and mission and/or office Evaluation Officers see that evaluations are performed as planned.**

- **The requirement that evaluations not be performed by A.I.D. personnel not associated with the design, implementation, and monitoring of the project.**

- **The requirement that the mission and/or office establish an evaluation recommendation follow-up system.**

CHAPTER 9

CLOSEOUT PROCESS

The closeout of a grant or cooperative agreement is the process by which A.I.D. determines that all applicable administrative actions and all required work of the grant or cooperative agreement have been completed by the nonprofit organization and A.I.D. Thus, when a nonprofit organization has completed its activities in accordance with the provisions of the grant or cooperative agreement, the Project Officer so notifies the Grant Officer, who follows the A.I.D. closeout procedures.

Attachment K of OMB Circular A-110 requires that all sponsoring agencies shall establish closeout procedures. In doing so, the attachment specifies the requirements of these closeout procedures. A.I.D. has in turn incorporated these requirements into its closeout procedures which are described in Chapters 1Q and 1R of A.I.D. Handbook 13.

A.I.D. closeout procedures require the following:

- Upon request, A.I.D. shall make prompt payments to a recipient for allowable reimbursable costs under the grant or cooperative agreement being closed out.

- The recipient shall immediately refund any balance of unobligated (unencumbered) cash that A.I.D. has advanced or paid and that is not authorized to be retained by the recipient for use in other grants or cooperative agreements.

- A.I.D. shall obtain from the recipient, within 90 calendar days after the date of completion of the grant or cooperative agreement, all financial, performance, and other reports required as the condition of the grant or cooperative agreement. A.I.D. may grant extensions when requested by the recipient.

- When authorized by the grant or cooperative agreement, A.I.D. shall make a settlement for any upward or downward adjustments to A.I.D.'s share of costs after these reports are received.

- The recipient shall account for any property acquired with A.I.D. funds or received from the Government in accordance with the provisions of Chapter 1.T. of A.I.D. Handbook 13.

- In the event a final audit has not been performed prior to the closeout of the grant or cooperative agreement, A.I.D shall retain the right to recover an appropriate amount after fully considering the recommendations on questioned costs resulting from the final audit.

A. SUSPENSION AND TERMINATION PROCEDURES

Suspension of a grant or cooperative agreement may be requested by the Project Officer pending cooperative action by the nonprofit organization, or pending a decision to terminate the agreement. The recommendation to terminate a grant or cooperative agreement, in whole or in part, is also a responsibility of the Project Officer, and the decision is taken by the Grant Officer whenever it is determined that the nonprofit organization has failed to comply with the conditions of the agreement and that other corrective action is not feasible.

Termination by the Grant Officer of a grant or cooperative agreement, in whole or in part for convenience, may occur when the Project Officer and the recipient agree that continuation of the project would not produce beneficial results commensurate with the further expenditure of funds.

Attachment L of OMB Circular A-110 prescribes uniform suspension and termination procedures for Federal grants and other agreements with recipients. These requirements are in turn incorporated in A.I.D.'s suspension and termination procedures described in A.I.D. Handbook 13, Chapter 1.R.

The Handbook defines termination and suspension as follows:

- Termination - The termination of a grant or cooperative agreement means the cancellation of A.I.D. sponsorship, in whole or in part, under a grant or cooperative agreement at any time prior to the date of completion.

- Suspension - The suspension of a grant or cooperative agreement is an action by the A.I.D. grant officer that temporarily suspends A.I.D. sponsorship under the grant or cooperative agreement, pending correction action by the recipient or pending a decision to terminate the grant or cooperative agreement by A.I.D.

A.I.D. procedures provide for the systematic settlement of terminated grants or cooperative agreements as follows:

- Termination for cause: A.I.D. reserves the right to terminate any grant or cooperative agreement, in whole or in part, at any time before the date of completion, whenever it is determined that the recipient has failed to comply with the conditions of the grant or cooperative agreement. The A.I.D. Grant Officer shall promptly notify the recipient in writing of the determination and the reasons for the termination, together with the effective date. Payments made to recipients or recoveries by A.I.D. under grants or cooperative

agreements terminated for cause shall be in accordance with the legal rights and liabilities of the parties.

- Termination for convenience: A.I.D. or the recipient may terminate grants and cooperative agreements, in whole or in part, when both parties agree that the continuation of the program would not produce beneficial results commensurate with the further expenditure of funds. The two parties shall agree upon the termination conditions, including the effective date and, in the case of partial terminations, the portion to be terminated. The recipient shall not incur new obligations for the terminated portion after the effective date, and shall cancel as may outstanding obligations as possible. A.I.D. shall allow full credit to the recipient for A.I.D.'s share of the noncancellable obligations, properly incurred by the recipient prior to termination.

Upon receipt of and in accordance with a termination notice as specified above, the recipient shall take immediate action to minimize all expenditures and obligations financed by the grant or cooperative agreement, and shall cancel such unliquidated obligations whenever possible. Except as provided below, no further reimbursement shall be made after the effective date of termination, and the recipient shall, within 30 days after the effective date of such termination, repay to the Government all unexpended portions of funds paid by the Government to the recipient which are not otherwise obligated by a legally binding transaction applicable to the grant or cooperative agreement. Should the funds paid by the Government to the recipient, prior to effective date of the termination of the grant or cooperative agreement, be insufficient to cover the recipient's obligations pursuant to a legally binding transaction, the recipient may submit to the Government, within 90 calendar days after the effective date of such termination, a written claim covering such obligations and, subject to the limitations contained in the grant or cooperative agreement, the Grant Officer shall determine the amount or amounts to be paid by the Government to the recipient under such claim in accordance with the applicable Federal cost principles.

The A.I.D. procedures for suspension are as follows:

> If at any time A.I.D. determines (1) that disbursement by A.I.D. would be in violation of applicable law, or (2) that continuation of funding for a program should be suspended or terminated because such assistance is not in the national interest of the United States, then A.I.D. may, following notice to the recipient, suspend the grant or cooperative agreement and prohibit the recipient from incurring additional obligations chargeable to the grant or cooperative agreement other than necessary and proper costs in accordance with the terms of the

grant or cooperative agreement during the period of suspension. Such determinations may be made by the Administrator or Deputy Administrator under either circumstance, or by the cognizant Assistant Administrator in a case where disbursement would violate applicable law. This authority may not be redelegated. If the situation causing the suspension continues to pertain for 60 days or more, then A.I.D. may terminate the grant or cooperative agreement on written notice to the recipient and cancel that portion of the grant or cooperative agreement which has not been disbursed of irrevocably committed to third parties.

The control objective of the closeout process is to ensure that A.I.D. grant obligations end in an orderly manner, with each party's rights and obligations protected and enforced. To achieve this objective, the following control techniques are used:

- **The requirement that closeouts be performed by OMB Circular A-110, Attachment L.**
- **The guidance for closeout of grants contained in A.I.D. Handbook 13, Chapter 1.**
- **The requirement that the Project Officer inform the Grant Officer to close out, terminate, or suspend the agreement.**

This process is vulnerable in that it is highly dependent upon Project Officers to inform Contracting Officers of implementation problems warranting termination, and upon Contracting Officers to fulfill the various procedures required to properly closeout a contract. Given the high work load levels under which these officials operate, termination, and particularly close-out procedures, are often not priority considerations.

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PARTICIPANT TRAINING PROGRAM IN A.I.D.

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PART VII

PARTICIPANT TRAINING PROGRAM

INTRODUCTION

Defined as "the sum total of A.I.D.'s worldwide training portfolio, which is composed of all training conducted outside host countries under all A.I.D. funding mechanisms" (Handbook 10, Section 1.D.3), A.I.D.'s Participant Training Program is the Agency's most visible response to human resources development needs. Since 1944, the Agency has funded or sponsored such training for over 250,000 participants.*

A.I.D. provides two types of training regimens:

- Academic training, which
  - -- is defined as a program in an accredited institution of higher education leading to a degree (generally at the graduate or doctoral level);
  - -- is generally restricted to three years in duration;
  - -- may be managed through A.I.D. missions, central bureaus, or the A.I.D./Washington Office of International Training (OIT); and
  - -- accounted for 51 percent of all participant trainees (9,962) in fiscal year 1989 (see Handbook 10, Section 2.C.2.a).
- Technical training, which
  - -- is defined as all participant training not classified as academic;
  - -- is not intended to result in an academic degree;
  - -- is generally of shorter duration than academic training;
  - -- may be in the form of observational training, on-the-job training, and special seminars or programs;

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* A "participant" is defined as "a foreign national whose education or training is funded and/or sponsored by A.I.D. and takes place outside of his/her home country. The term is a shortened form of "Participant in Development." Foreign nationals traveling on invitational travel orders are not participants." (Handbook 10, Section 1.D.1).

-- is generally managed through A.I.D. missions, although it may be managed through A.I.D. central bureaus or OIT; and

-- accounted for 49 percent of all participant trainees (9,472) in fiscal year 1989 (see Handbook 10, Section 2.C.2.b).

Legislation

The fundamental legislative directives governing the Participant Training Program are found in the Foreign Assistance Act of 1961, as amended. Part I, Section 101 of that Act (22 U.S.C. 2151) contains the most basic statement of purpose for A.I.D. programs, including the Participant Training Program. It states that:

> "... a principal objective of the foreign policy of the United States is the encouragement and sustained support of the people of developing countries in their efforts to acquire the knowledge and resources essential to development and to build the economic, political, and social institutions which will improve the quality of their lives."

Section 105 of that part of the Act (22 U.S.C. 2151c) is more specific in providing A.I.D.'s participant training mandate. It states that:

> "In order to reduce illiteracy, to extend basic education, and to increase manpower training in skills related to development, the President is authorized to furnish assistance on such terms and conditions as he may determine, for education, public administration, and human resource development.... Assistance under this section shall ... be provided for advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities."

Sections 103, 104, and 106 of Title I (22 U.S.C. 2151a, b, and d) specifically authorize training in the agriculture, rural development, nutrition, population, health, and energy sectors, as well as through private voluntary organization and selected development activities.*

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* Training of African participants is generally funded through the Development Fund for Africa (DFA), rather than through the functional accounts (Handbook 10, Section 1.B.1.d).

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A.I.D. Policy

Responding to these Congressional directives, A.I.D. articulated its fundamental participant training policy in Policy Determination Number 8 (PD-8) found in Handbook 1, Section II.K., as well as Handbook 10, Supplement 1.A. Under this policy, the Agency may sponsor participant training to:

- Provide staff development for A.I.D.-assisted projects (e.g., agricultural economists or administrators for a specific A.I.D.-supported agricultural development project).

- Strengthen key development institutions (e.g., establish a cadre of agricultural economists to operate within the host country's agricultural sector institutions). Such training may be provided:

  - under a general participant training program;

  - under a training program focused on a sector; or

  - as a component of a project supporting a specific institution or set of institutions.

- Provide local training capacity. "Training of trainer" efforts should:

  - concentrate on establishing or strengthening local training capacities which are strategic to institutional strengthening and sectoral strategy implementation;

  - give first priority to teaching faculty, though others (administrators, researchers, planners, curriculum and media technicians) may also be trained as needed; and

  - concentrate on those faculty development areas (sectors, regions, professional or technical fields) in which there is a continuing need for additional trained personnel and a lack of local training capacity of sufficient quality.

A.I.D. policy set forth in PD-8 does not encourage:

- General participant training which is not linked to specific development objectives identified in Country Development Strategy Statements (CDSS's)* and sector strategy documents (i.e., policy discourages the use of participant training programs as general scholarship funds).

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* Or Country Program Strategic Plans (CPSP's) in the Africa Bureau.

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- Training of teaching faculty in technical fields or disciplines not judged by CDSS or sector strategy to be of developmental priority.

- Training which could otherwise be accomplished cost effectively in local institutions. Further, there is a presumption that:

  -- training should be accomplished locally if the training capacity exists in a local university or technical institute; and

  -- the first priority for external training should be the development or strengthening of local training capacity through faculty training and other means if there is a substantial need for training in any field in which local capacity is judged to be inadequate.

Finally, PD-8 provides both general and specific policy guidance. In general, A.I.D.'s participant training policy states that:

- Strengthening of sectors targeted in the CDSS, not gross numbers of participant trainees, should drive participant training efforts.

- Participant training programs should be designed to address specific needs and not as general scholarship funds.

- Project Papers should specify how participant training will be provided and should include the cost of training* in economic analyses.

- All participant training programs are expected to either provide opportunities for women or include an additional and acceptable justification and explanation for not providing for "substantial" female participation.

- All participant training programs are expected to be supported by thorough needs assessments and economic analysis, including provisions for recurrent salary costs, if applicable.

- All feasible steps should be taken to ensure that A.I.D.-sponsored trainees return to work:

  -- in their home countries, and

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* A.I.D.'s revised (1988) policy states that project designers will use the Training Cost Analysis (TCA) system in developing training cost estimates (see Handbook 10, Chapter 5).

- in positions where their training is utilized effectively.

- Where return rates or post-training employment is a problem, particular attention should be given to whether the needs assessment and trainee selection processes are appropriate and to whether project design and institutional assessments have adequately considered the professional incentives and support systems needed to attract, retain, and utilize key staff effectively.

More specifically, the policy states that:

- Participant training projects should be funded from respective sector accounts if the training relates primarily or exclusively to development in a specific sector.

- All A.I.D.-assisted countries are expected to have the opportunity to participate in the Participant Training Program, either through the bilateral country program or under regional or sub-regional programs.

- External training funded under Section 105* of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151c) should be limited to general participant training programs and to training as needed for education and human resources project implementation.

- Project-related training should be sufficient to ensure the availability of personnel needed to ensure effective project implementation.

- Project Papers should specify the purposes of any training of personnel:

  - in addition to those expected to be directly employed in an assisted project, or

  - which would result in multiple candidates for a single position.

- Where training is additional or appears to be redundant, project designers should address the social and economic impact of this training in the Project Paper's social and economic analyses.

- Training in the United States should be limited to fields:

  - in which training is not locally available;

  - in which U.S. training is cost effective; or

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* Education and Human Resources Development.

-- which support other strategic considerations (e.g., exposing key leaders to U.S. institutions and practices).

- The Agency has no implicit preference for U.S.-based training rather than local or third-country training.*

- Long-term academic training in U.S. institutions should be concentrated on graduate training and limited to three years in duration.

- Continuation training involving more than one consecutive degree is discouraged unless the initial degree is incidental to enrollment in the second degree program.

- Local and external short-term training is encouraged.

- Post-training follow-up and professional support, such as participation in professional networks and alumni associations, and access to professional journals and information systems should be encouraged.

- Technical Assistance to establish local scholarship programs is to be encouraged.

Program Management and Responsibilities

The Participant Training Program is decentralized. A.I.D. missions, regional and central bureaus, the A.I.D./Washington Office of International Training (OIT), host governments, and a multitude of contractors, educational institutions, and, in many cases, other U.S. Government agencies, are involved in program management.

A.I.D. missions, regional and central bureaus:

- Initiate training projects and programs and other projects and programs containing training components;

- Determine the parameters of that training in concert with host governments;

- Arrange for the selection of participants; and

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* See, however, Handbook 10, Section 8.A., which states that:

> "It is A.I.D. policy to encourage participant training to take place in the United States, unless training in a third country has greater developmental value or is more cost effective."

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- Determine the implementation mode (e.g., contractor,* OIT).

The A.I.D./Washington Office of International Training:

- Has central leadership and coordination responsibility for the Participant Training Program;

- Develops Program policies and procedures;

- Provides assistance, upon request, to missions and host countries concerning the development and management of participant training activities;

- Maintains various services for all participants (e.g., Health and Accident Coverage Program, orientation); and

- Provides programming services to about one-third of all participants through contractors and/or other U.S. Government agency personnel assigned to A.I.D. under Resources Support Services Agreements (RSSA's).**

A.I.D. mission Directors are responsible for:

- Designating a mission official ("mission Training Officer") to:

  -- oversee the management of the mission's participant training portfolio;

  -- ensure that every participant's training program is conducted in accordance with Handbook 10 requirements and procedures; and

  -- prepare and maintain the mission's Country Training Plan (Handbook 10, Sections 3.C.3 and 3.A.).

- Ensuring that all mission personnel and their host country counterparts understand that A.I.D. is responsible for the participant training programs for all participants sent from the host country and that all training, however financed, must comply with Handbook 10 (Handbook 10, Section 3.C.1); and

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* Almost two-thirds of all participants are managed by contractors under mission, bureau, and host government contracts. Host government entities (e.g., embassies in Washington, D.C.) can also manage participants without U.S. contractor involvement (Handbook 10, Section 1.E.).

** See Handbook 12 for a general description of service procurement through RSSA's.

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- Ensuring that proper procedures are followed for the follow-up of returned participants and that such activities are reported to OIT annually (Handbook 10, Section 3.C.2.d).

In addition to these responsibilities, mission Directors also possess the non-delegable authority to:

- Waive part or all of the requirement that the host country pay participants' international travel costs;

- Authorize consecutive academic degrees and programs of longer than three years when justified;

- Establish third-country maintenance rates for participants sent by other missions to study in the host country; and

- Designate a primary and alternative position (both U.S. citizens) to be responsible for the control, preparation, and signature of IAP 66A Certificates for visa eligibility (Handbook 10, Section 3.C.2).

Designated mission Training Officers:

- Oversee the management and implementation of the mission's participant training program as set forth in the Country Training Plan;

- Must understand that their responsibilities are cross-sectoral and multiproject in scope, and that they must be prepared to devote substantial time and effort to these activities;

- May, depending upon the volume of participant training in the mission's portfolio, head a mission training office, which will:

  - act as the mission focal point for administration of its participant training portfolio;

  - provide a point of contact for and with host country officials involved with overseas training programs;

  - process participant training documentation;

  - preprogram English language testing;

  - provide predeparture orientation;

- monitor and evaluate the program;

- follow up upon returned participant activity; and

- act as a repository for the mission's records of past and current participants (Handbook 10, Section 3.D.1; a more detailed listing of training office activities can be found in Handbook 10, Section 3.D.1.c).

Finally, mission and A.I.D./Washington Project Officers are responsible for:

Ensuring that the participant training sponsored by their projects is appropriate, cost effective, and in conformance with the policies, requirements, and procedures of Handbook 10; and

- Assuring that contractors and host counterparts are aware of Handbook 10 requirements and properly implement the participant training project or component (Handbook 10, Section 3.D.2).

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CHAPTER 1

COUNTRY TRAINING PLAN DEVELOPMENT PROCESS

Participant training program design should be guided by a comprehensive, long-range plan for meeting a host country's training needs. A.I.D., therefore, requires that missions develop a comprehensive A.I.D.-host country plan providing information about training needs, resources, and constraints with a five-year projection of training activities (Handbook 10, Section 3.B.3).

1. **Country Training Plan Development** (Handbook 10, Supplement 3A, Section 3A-3)

   The mission Training Officer, with geographic bureau and OIT assistance as required and requested, is responsible for developing the Country Training Plan (CTP). In most cases, the mission or an A.I.D./Washington bureau will hire contractors to develop the Plan.

   CTP development entails two sequential activities--data collection and Plan design.

   a. **Data Collection** (Handbook 10, Section 3A-3.1) - The mission has considerable flexibility in determining the depth and scope of the CTP and thus in the amount of data collection and analysis required to develop the plan. Typically, data collection will include:

      - A review of Project Papers or mission sectoral strategy papers that involve training;

      - Solicitation and submission of training cost and management data, including long-term projections, from mission (and/or A.I.D./Washington) Project Officers in the sectors which involve training;

      - A review of conference studies conducted by A.I.D., other donors, and the host government; and

      - Interviews with:

        -- host government officials in relevant sectors;

        -- selected industry and host government personnel officers;

        -- officials of in-country training institutions; and

        -- representatives of major donor agencies.

b. **Plan Design** (Handbook 10, Section 3A-3.2) - Once the required data is collected and analyzed, the contractor(s), under the general management of the mission Training Officer, drafts the CTP. The contractor should continually consult with mission and, if appropriate, host government officials during the drafting process. Once the draft is completed, the contractor should hold planning meetings with mission technical personnel and host country officials, if appropriate, to:

- Identify additional support or alternative training of host country personnel and training institution support activities beyond those already programmed and planned;

- Identify special trainee selection and use plans for selected projects; and

- Establish priorities among proposed activities by sector.

Once the draft is completed, it should be reviewed by senior mission staff and, if acceptable, approved by mission management.* The CTP should be prepared soon after the Country Development Strategy Statement (CDSS) and updated approximately every two years (Handbook 10, Section 3A-1.3).

2. **Country Training Plan Content** (Handbook 10, Section 3A-2)

The CTP should describe participant and, in some cases, in-country training (see Handbook 10, Section 3A-1.4). While the missions have considerable flexibility in determining the Plan's content, it should, in general, explain how future training activities will be structured and why various training activity decisions were made.

Handbook 10, Exhibit 3A-1 presents the standard CTP outline. In general, the plan consists of an introduction, which sets forth the mission's priority development areas and describes the host country's policies and systems for allocating labor, and the following three analytical sections.

a. **Training Needs and Constraints** (Handbook 10, Section 3A-2.2) - This analysis describes the host country's training needs in the mission's priority

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* Although designed primarily for mission use, the CTP's are also used by the regional bureaus, OIT and A.I.D./Washington Bureau for Program and Policy Coordination (PPC) to determine training needs across countries, help in the development of regional and central training programs, and provide a basis for improved central support services for missions (Handbook 10, Section 3A-1.1.c).

development areas, stated in terms of unfilled technical and managerial positions and/or filled positions where existing personnel require additional training. Topics should include:

- The relative concentration of skills in urban and rural areas;
- General academic and experience qualifications required for skilled and professional positions;
- Unemployment and underemployment of skilled and professional workers;
- Influx of refugees, migratory workers, or specialty workers from sources outside the host country;
- The loss of skilled and professional workers from the host country ("brain drain"); and
- Anticipated demand for skilled and professional labor to work in future A.I.D. projects and programs.

This analysis should also address training constraints. These may include:

- Counterproductive host country policies and systems (or lack of same);
- The nature of public and private host country institutions, cultural values and behaviors;
- The need for remedial study prior to overseas advanced training; and
- The need for English language training.

b. Training Resources (Handbook 10, Section 3A-2.3) - This analysis should describe all resources available to meet host country training needs. These may include:

- In-country and regional training programs;
- Training activities provided by other donors;
- Recent and ongoing activities and resources to support and strengthen in-country training institutions and programs; and

- Recent and ongoing activities and resources to train host country personnel.

c. Mission Five-Year Training Plan (Handbook 10, Section 3A-2.4) - This analysis describes and explains the mission's five-year training plan. It describes the mission's:

- Plans for supporting and strengthening in-country training institutions and programs;

- Plans for development training of host country personnel, including training of staff for host country training institutions ("training of trainers");

- Anticipated management activities, including mission procedures for selecting and supporting trainees, and monitoring and assessing training implementation; and

- Training priorities.

The control objective of this process is to give reasonable assurance that a mission's training portfolio (and, by extension, regional and central bureau portfolios) are designed in accordance with a structured and rational plan for addressing a host country's primary training needs, thus leading to a more effective and efficient use of A.I.D. training resources. To achieve this objective, A.I.D. uses the following control techniques:

- **Policy and procedural guidance for developing the Country Training Plan found in Handbook 10, Supplement 3A;**

- **The requirement that missions and offices periodically develop and/or update Country Development Strategy Statements (CDSS's), or their equivalent, and that Country Training Plans identify sectors, subsectors, and areas of program concentration, as specified in the CDSS, found in Handbook 10, Supplement 3A, Section 3A-2.1;**

- **The requirement that mission Directors, or their equivalent, appoint a Training Officer who assumes responsibility for developing the Country Training Plan.**

CHAPTER 2

PARTICPANT TRAINING PROJECT DESIGN PROCESS

Once the Country Training Plan (CTP) is in place, missions and offices should structure their training portfolios, i.e., design and implement training projects or projects with training components, in accordance with the Plan.* Mission directors are ultimately responsible for ensuring that the mission's training efforts conform to the CTP. Mission Training Officers, Project Officers, A.I.D. technical specialists, contractors, A.I.D./Washington officials, and host government personnel can all become involved in the design process.

When developing a portfolio containing participant training projects and/or development projects or programs containing participant training components, it is A.I.D. policy that:

- Training is to be designed to overcome identified human resource constraints to successful project implementation; and

- A.I.D. missions in their sector-specific training develop a "critical mass" of skilled persons who will be able to initiate and implement specific development activities and prepare others to perform necessary development activities in the future (Handbook 10, Section 2.A).

Many projects and programs in a mission's portfolio, while not designed solely as training activities, will contain training components. Whether the training is managed by the Office of International Training (OIT) in Washington or a contractor, this training must be coordinated with and integrated into other project/program components. It cannot be developed in isolation (Handbook 10, Section 2.B.4).

It is extremely important that the design process be carried out thoroughly and accurately. The design process is one of the most important phases in the overall project cycle. The thoroughness and accuracy of the design documents will determine, in large measure, the speed and ease with which a project can be executed and its success in achieving its stated objectives.

1. <u>Project Identification Document</u> (Handbook 3, Chapter 2)

   The Project Identification Document (PID) is the first formal document in the design process which leads to the approval of a specific project.** It serves as a bridge

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* Regionally and centrally managed projects and programs should be designed to address problems common to area missions as identified in those missions' CDSS's and CTP's.

** Under a sector assistance program, this initial design document may be called a Program Assistance Initial Proposal (PAIP). See Handbook 4, Section 2.D.3 and Handbook 1, Part VII ("Program Sector Assistance Guidance"), Section 9.

from programming analysis in such documents as the Country Development Strategy Statement (CDSS), Annual Budget Submission (ABS), and CTP to project development and subsequent financing decisions. The PID identifies a project to implement and seeks approval for further development activity (Handbook 3, Section 2.A).

a. PID Content (Handbook 3, Section 2.C) - The PID consists of a face sheet and a series of preliminary descriptions and analyses listed in Handbook 3, Section 2.C.2. In general, the PID need not contain a lengthy description of project inputs and outputs. However, it should contain a brief statement describing how A.I.D. expects to carry out the project, i.e., a preliminary sketch of implementation, including a description of the participant training component (Handbook 3, Section 2.D.2.d).

   In addition, the PID should contain the designers' "best estimate" of the project's financial needs and mechanisms, shown in a simple pro forma budget which outlines the project's primary elements or components. The participant training cost budget should be developed by using the Agency's Training Cost Analysis standardized budgeting system (Handbook 3, Section 2.D.3.f).

b. Training Cost Analysis (Handbook 10, Chapter 5) - The Training Cost Analysis (TCA) is a project management system designed to assist A.I.D. staff in determining:

   - What activities should be included in the participant training process;
   - Who should be responsible for each part of the process; and
   - What the estimated costs of the training project or component should be.

   It is also designed for use by contractors in the competitive proposal process. It requires that contractors:

   - Use uniform definitions for training activities;
   - Present cost proposals in a standardized format; and
   - Use a standardized participant activity reporting system (Handbook 10, Section 5.B).

   The system is designed to evolve throughout the life of a project, serving as a useful tool for project managers as well as project designers. Thus, the Training Cost Analysis development process is begun by project designers but will be continually used and modified by Project Officers and other A.I.D.

officials involved in project management throughout the project's active lifetime.

The system consists of several steps and suggests or requires the completion of a variety of forms. These are:

- Checklists of Training Activities;
- Training Cost Analysis Budget Estimate Worksheets;
- Training Cost Analysis Proposal Worksheets;
- Request for Proposal (RFP) Analysis Worksheets; and
- Training Cost Quarterly Reports from the contractors implementing participant training to A.I.D.*

c. **PID Development and Approval** (Handbook 3, Section 2.E) - Mission or Office Project Officers, as designated by the relevant mission Director of Office head, are responsible for PID development. As a general rule, the Project Officer works through a Project Committee of technical experts (often with contractor assistance) to develop the PID. Host country and/or grantee representatives can participate in PID development. However, the Project Officer must ensure that this collaboration does not lead to a U.S. commitment to develop the concept before the PID is reviewed and approved by A.I.D./Washington (Handbook 3, Section 2.E.3).

The mission or office completes the PID in the form described in Handbook 3, Section 2.E.4 and submits it to the appropriate A.I.D./Washington bureau.** The individual bureaus are responsible for maintaining a system for controlling receipt, processing, and response actions for all PID's. Bureau review procedures vary, but, in general, follow the processing steps described in Handbook 3, Sections 2.E.6 and 2.E.7. One of the factors which bureau reviewers should

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* A description of each form and its uses is found in Handbook 10, Section 5.C. The standard forms can be found in Handbook 10, Attachment 5.A.

** In most cases, this will be the relevant geographic bureau. PIDs originating in an A.I.D./Washington bureau are submitted to the appropriate Bureau Assistant Administrator (Handbook 3, Section 2.E.5).

consider is the host country's capacity to implement the project. This will depend, in part, upon the number and quality of local managers and technical experts. If available human resources are inadequate, a project training component will become particularly important and should be closely scrutinized (Handbook 3, Section 2.E.7.b.9).

The bureau Project Officer managing the review process notifies PID designers of the bureau review results. If the PID is approved, reviewers may then proceed to develop the Project Paper (Handbook 3, Section 2.E.9).

2. **Project Paper** (Handbook 3, Chapter 3; Handbook 10, Chapter 2)

Once bureau management approves the PID, designers may begin developing the more detailed Project Paper (PP). Once again, designers must ensure that participant training, if not the primary focus of the project or program, is coordinated and integrated with other components.

The Project Paper is a detailed design document which:

- Serves as the basis for approval of the project by the appropriate A.I.D. official (generally the mission Director); and
- Provides, in summary:
  - a historical record of the original project rationale;
  - a description of project elements, including the participant training component; and
  - analyses supporting the proposed design and initial project implementation and monitoring plans (Handbook 3, Section 3.E.1).

a. **Project Paper Content** (Handbook 3, Section 3.E) - The Project Paper consists of a project data sheet (see Handbook 3, Appendix 3A, Attachment 1) and accompanying descriptions and analyses as outlined in Handbook 3, Section 3.E.2.b and described in Handbook 3, Section3.E.2.c. Among these, the Project Paper should contain an Implementation Plan explaining how the project will be managed. When training is a significant component of a bilateral project, the Implementation Plan should require that the host country present A.I.D. with an acceptable training plan prior to any expenditure of training funds. This plan should include:

- An overview of overseas and in-country training by year for the duration of the project;

- Criteria for participant selection;

- A detailed, time-phased, twelve-month implementation plan including:

  -- a list of candidates already identified for each training activity,

  -- a description of predeparture activities,

  -- testing dates,

  -- remedial study requirements,

  -- refined budgets, and

  -- any other pertinent matter;

- Annual evaluation and planning/implementation schedules (Handbook 3, Section 2.E.2.c.5).

In addition to the general guidance provided in Handbook 3, Handbook 10, Section 2.C. provides more detailed guidance for designing training projects and training components. When developing such PID's and Project Papers,* designers must consider several key training factors. These training factors are:

- **Host Country Personnel and Assessed Training Needs**. A training needs assessment should be performed to establish the availability of existing skilled personnel to implement and maintain the completed project.**

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* The cited guidance does not distinguish those procedures and considerations which should be addressed in the PID from those to be addressed in the Project Paper. However, all should be addressed no later than in the Project Paper.

** The Training Needs Assessment Development and Participant Selection Process is discussed in the following section of this Document.

- **Categories of Training.** Designers must determine whether the project should provide for academic and/or technical training. The latter may be further subdivided into:

  - **Observational Training** which consists of scheduled visits to facilities, frequently in several locations, to learn a process, method, or system through observation and discussion;

  - **On-The-Job Training** which entails learning by doing a specific task on the job through personal side-by-side instruction and interaction; and

  - **Special Seminars or Programs** which are created to meet special, clearly defined needs of participants in a development project.

- **Location of Training.** Designers should determine the most cost effective locations for required training, i.e., in the United States, in third countries, or in the host country (the last of which is not considered to fall within A.I.D.'s Participant Training Program, and thus not governed by Handbook 10 requirements).

- **The Project Training Plan.** A.I.D. and host country designers should collaboratively prepare the project's training plan and implementation schedule. Even when participant training is the sole project component, designers must carefully prepare a realistic training plan. The plan should, as a minimum, address:

  - the number of individual participant programs required,

  - training sources,

  - categories of training desired,

  - the time required to prepare prospective trainees and reintegrate trainees upon return to the host country,

  - availability of participant candidates, as determined through the training needs assessment,

-- lead time for selection and preparation of participants and their programs,* and

-- participant reintegration and follow-up.

- **Management of the Participant Training Program.** Project designers must decide what management mechanism will be most effective and what elements in the training project or component will be handled by the mission, host government, the Office of International Training (OIT) in A.I.D./Washington (through its contractors), and/or a contractor hired by the mission or host government. While contractors now implement nearly all A.I.D. development activities, it is not always necessary that the participant training component be implemented by the technical services contractor (Handbook 10, Section 2.C.5). However, A.I.D. is responsible for all sponsored participants whether their programs are managed by OIT, mission, host country, or A.I.D./Washington contractors; host country entities; or organizations operating under A.I.D. grants or cooperative agreements. In summary, A.I.D.-sponsored participant training may be provided through:

  -- **Direct Training** which is initiated by the mission and assigned to OIT for implementation in the United States. Funds are obligated by a Project Implementation Order/Participants (PIO/P). OIT authorizes expenditures against the PIO/P and OIT's contractors** develop and manage the program on the mission and host country's behalf.

  -- **Contract Training** which is managed through a host country, mission, or other A.I.D. contractor (outside of OIT). Missions are responsible for ensuring that participants are aware of A.I.D.'s sponsorship and that the following clause is included in the design documents and the contractor is informed of the responsibilities incurred:

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* Insufficient lead time has been a chronic problem with the A.I.D. Participant Training Program.

** Prior to 1989, OIT provided direct training services through a Resource Support Services Agreement (RSSA) with the U.S. Department of Agriculture. This relationship ended in 1989, after which services were provided by OIT private contractors.

"Participant training elements of this project will be accomplished in accordance with the policies, procedures, allowances, guidance, reporting requirements, and other requirements of A.I.D. Handbook 10--Participant Training."

-- **Host Country-Managed Training** which is managed by a host country entity, the host country's embassy in the United States or country(ies) of training and/or a contractor responsible for placing and monitoring participants. All requirements of Handbook 10 apply. The Project Officer at the mission or A.I.D./Washington bureau is responsible for ensuring that Handbook 10 requirements are enforced.

b. **Project Paper Preparation and Submission** (Handbook 3, Section 3.E.4) - Project Papers are normally prepared by the Office which produced the PID. A.I.D. direct-hire personnel, contractors, and host country personnel can all participate in their preparation.

The Project Paper review venue (either the mission or an A.I.D./W bureau) is determined during the PID review. In most cases, the Project Paper will be reviewed at the mission and the resulting project authorization signed by the mission Director. As a general rule:

- Project Papers to be reviewed within a field mission are submitted to mission management in accordance with mission and geographic bureau procedures. Such procedures may, or may not, be found in written form, either in bureau directives or specific Mission Orders.

- Project Papers to be reviewed by an A.I.D./Washington bureau are submitted to the bureau Project Development Office (or equivalent) under the mission Director's signature.

c. **Project Paper Review and Approval** (Handbook 3, Sections 3.E.5 and 3.E.6) - Whether the review takes place at the mission or in A.I.D./W, the procedure should include:

- Preparation of an Issues Paper to guide the review; including the review of the design team's training assessment;

- Recommendations to approve or disapprove the submission, with or without modification; and

- Parallel processing actions, e.g., Congressional Notification, budget adjustments, waiver requests and approvals handled promptly by the submitting or A.I.D./Washington backstopping office.

The Project Officer managing the review process selects review committee members. Reviewers may be drawn from A.I.D. technical offices, the Offices of Financial Management, General Counsel, or International Training, the Bureau for Policy and Program Coordination, or any other relevant Agency organizational unit.

The review committee approves the Project Paper and/or makes recommendations to the authorizing official regarding project approval, modification, or disapproval. The authorizing official (mission Director or bureau Assistant Administrator or designee) formally approves the project by signing the Project Authorization.* Once the authorization is signed, A.I.D. can negotiate the Project Agreement with the host government (see Handbook 3, Chapter 6), and implementation and can begin.

The control objective of this process is to give reasonable assurance that project and program designers address all relevant participant training program design problems as early as possible in the design process and that design documents contain clear blueprints for providing sufficient expert human resources to effectuate and sustain the project or program in compliance with Agency, mission or office strategy. To achieve this objective, A.I.D. uses the following control techniques:

- **Policy and procedural guidance for developing Project Identification Documents (PIDs) found in Handbook 3, Chapter 2; and**

- **Policy and procedural guidance for developing Project Papers found in Handbook 3, Chapter 3;**

- **Policy and procedural guidance for addressing participant training issues in Agency design documents found in Handbook 10, Chapter 2;**

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* The Project Authorization is an internal A.I.D. document which gives substantive approval for a project to move from the planning stage to the stage at which a project agreement is ready to be signed and implemented. It does not reserve or commit funds. The authorization "package" generally consists of an Action Memorandum for the authorizing official's signature, a project data sheet, and approved Project Paper (See Handbook 3 , Chapter 5).

- **The requirement that PIDs be reviewed by a committee of technical experts and approved by bureau management before development of detailed Project Papers found in Handbook 3, Section 2.E;**

- **The definitization of participant training costs through a Training Cost Analysis which should be utilized and modified as necessary throughout project implementation, as described in Handbook 10, Chapter 5;**

- **The requirement that the host country present an acceptable training plan to A.I.D. prior to any expenditure of training funds, as described in Handbook 3, Section 3.E.2.c. (Note: Handbook 10, Section 2.C.4 requires the host country and A.I.D. to collaboratively produce this plan); and**

- **The requirement that Project Papers be reviewed by a committee of technical experts and approved by an appropriate A.I.D. management official before the Project Agreement is negotiated, found in Handbook 3, Chapter 3.**

CHAPTER 3

TRAINING NEEDS ASSESSMENT AND PARTICIPANT SELECTION PROCESS

The project's or program's training component must be based upon an assessment of training needs. Handbook 3, Section 3.B.1 requires project designers to, among other tasks:

- Determine the means by which project objectives are to be reached (i.e., project elements or inputs needed); and

- Estimate the resources needed to support the activity.

Handbook 10, Section 4.A amplifies upon these requirements by stating that, as a matter of policy:

- Participant selection must be based on an assessment of human resource availabilities and training needs conducted by the mission, host country, or both; and

- Each participant chosen for A.I.D.-sponsored training must be selected in accordance with an appropriate and open set of standards agreed to by A.I.D. and the host country. These criteria must conform to:

  -- A.I.D.-wide standards;

  -- mission and host country standards; and

  -- project specific standards.

1. Training Needs Assessment (Handbook 10, Chapter 4)

The Training Needs Assessment is:

> "A(n) analysis of the knowledge, skills, and attitudes possessed by individuals of a target group, i.e., a human resources assessment, in order to measure whether there is a "gap" or training need between existing competencies and required performance levels. The target group may be individuals encompassed by a project, an entire sector, or at a country level" (Handbook 10, Section 4.B.3).

Assessments are intended to determine whether there are sufficient numbers of trained personnel to adequately meet the requirements of an A.I.D.-host country development project. The assessments should determine:

- Whether sufficient host country staff resources exist;
- Whether participant training is required to meet staff shortages; and
- The specific types, levels, and locations of required training.

A.I.D.'s missions and bureaus must ensure that all A.I.D.-sponsored participants are selected in accordance with one or more training needs assessments conducted by the mission and/or host country. These assessments must be made in conjunction with project design and development and updated as required during project implementation. The assessment is, therefore, subsumed within the project design process, and may, or many not, be performed by the same individuals designing the project or training component.

Assessments must be conducted in accordance with:

- Handbook 3 project development and design requirements;
- Specific guidance provided in OIT's Training Needs Assessment Guide; and
- Methodologies established by A.I.D. and the training profession as a whole.

These requirements demand that those performing the assessments:

- Ensure that the assessments represent the actual needs of the target group as realistically measured against the host country's priority human resource requirements;
- Measure the capacity of host country educational and training institutions to supply needed training;
- Measure the effect of ongoing public and private sector funded education and training programs, other donor activities and work force attrition; and
- Give special attention to the participation of women in any anticipated A.I.D.-sponsored participant training project, program, or component.*

* Handbook 10, Section 4.C.4 places this responsibility directly upon mission Directors.

2. **Participant Selection** (Handbook 10, Sections 4.D.2 and 4.E)

Once the design documents are completed and approved, the participant selection criteria are formalized and selection can begin.

a. Selection Criteria (Handbook 10, Section 4.E) - A.I.D. missions, working with host country and private sector counterparts (e.g., contractors and/or grantees), must agree upon selection criteria which conform to the A.I.D. criteria set forth below, and which meet host country and project requirements. These criteria must be incorporated into project agreements, contracts, and grants, as appropriate. Moreover, these criteria must be disclosed to all candidates applying for sponsorship or being considered for participant training (Handbook 10, Section 4.C.5).

In general, A.I.D. selection criteria states that participant training nominees must:

- Be citizens and residents of the host country. Deviations from this requirement can only be approved by the Director of OIT.*

- Possess maturity, emotional stability, and leadership potential enabling them to successfully complete the training offered through the program;

- Be physically fit as evidenced by a medical examination;

- Possess adequate English (or third country, if appropriate) language skills except in programs which :

  - include intensive language training in the United States,

  - use interpreters, or

  - are conducted in the nominee's native language.

- Have sufficient academic and/or other experience to meet prerequisites that enable them to successfully complete programs;

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* Holders of "green cards" which permit aliens to work in the United States may not be selected for A.I.D.-sponsored participant training. The reasons for this prohibition are found in Handbook 10, Section 4.E.1.a.

- Have completed or been exempted from any applicable military requirement;

- Have not previously been trained under A.I.D. sponsorship outside the host country, unless an acceptable justification is included in the training request;

- Have a clear understanding of project goals and a strong personal commitment to the planned training;

- Clearly understand that they are obligated to return home after training and work in a position where the training may be effectively utilized;

- Be fully aware of their responsibilities as participants; and

- Meet mission, host country, and project-specific criteria, if applicable, e.g., that the participant trainee agrees to be employed in a specific geographic region of the host country or possess specific indigenous language skills.

b. Selection Procedure (Handbook 10, Section 4.D.2) - Potential participants may be identified in various ways--by the host government, contractors/grantees, the mission, etc. The actual selection procedure is also flexible, so long as the agreed-upon criteria are used.

As a general rule, A.I.D. encourages:

- Host countries to assume the major role in the selection process; and

- The establishment of selection committees with host country, A.I.D., and private sector representation, to review and choose participant trainees.

The degree of A.I.D. oversight and approval is generally a mission or bureau management prerogative and may be contained in the Project Agreement, contracts, grants, Project Implementation Letters (PIL's), or mission-wide guidance statements such as Mission Orders. A.I.D. must, in any event, establish and maintain a system to ensure that the criteria and selection requirements set forth above are enforced.

The control objective of this process is to give reasonable assurance that trainees under the A.I.D. Participant Training Program are fairly selected, capable of completing and

benefiting from their training, likely to fulfill their commitments incurred as a result of their participation in the program, and are chosen to fill identified host country and/or specific development project needs. To achieve this objective, A.I.D. uses the following control techniques:

- General guidance requiring project designers to address project and host country staffing and training needs found in Handbook 3, Chapter 3;
- Participant selection criteria found in Handbook 10, Section 4.E;
- Participant selection procedures found in Handbook 10, Section 4.D;
- The requirement that participant selection be preceded by and based upon a Training Needs Assessment performed in accordance with Handbook 10, Chapter 4 guidance; and
- The requirement that the A.I.D. mission or bureau ensures that all participants are selected in compliance with the cited criteria and procedures and are aware of their duties and responsibilities as A.I.D. participants found in Handbook 10, Section 4.E.

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CHAPTER 4

PROJECT IMPLEMENTATION ORDER/PARTICIPANTS (PIO/P) DEVELOPMENT PROCESS

Once participant trainees have been chosen, mission officials must draw up, or have drawn up, a Project Implementation Order/Participants (PIO/P) covering each trainee. The PIO/P (Form A.I.D. 1380-1) is the mechanism which A.I.D. uses to document and/or request and fund a participant's training. It is A.I.D.'s policy that:

- All A.I.D.-sponsored participants, however managed and funded and wherever trained, must be documented by a PIO/P as follows:

  - each participant who undertakes academic training must be covered by an individual PIO/P; but

  - technical participants who are to be trained as a group may be included on a single PIO/P, if all aspects of the training are the same.

- A current PIO/P must be filed in the A.I.D./Washington Office of International Training (OIT) before a participant can be enrolled in A.I.D.'s Health and Accident Coverage (HAC) Program (Handbook 10, Section 6.A).

1. **PIO/P Content** (Handbook 10, Section 6.D and Attachment 6A)

   The PIO/P provides specific information on:

   - The desired training;

   - The funding project context, including training costs and funding sources (see Handbook 10, Section 6.D.4 for training cost estimate guidelines);

   - The participant(s); and

   - The position(s) for which the training is to prepare the participant(s).

   There are two types of PIO/P's--standard and abbreviated. The document's content will vary with the type utilized.

   a. **Standard PIO/P** (Handbook 10, Section 6.D.2.a) - Most funded PIO/P's, including all those utilized for funded academic and specialized technical training, should follow the format shown in Handbook 10, Attachment 6A. This type of PIO/P consists of a face sheet, training request, and biographical data.

The face sheet contains a broad range of participant, project, logistical, and funding data as explained on pages 6A-4 through 6A-8 of Handbook 10. These data should clearly identify the type, timing, and location of the desired training; the project under which the training will take place; and all sources of funding for the training. In addition, it may contain supplemental information or authorizations, such as the provision or allowance of escort or interpreter services.

The training request contains a more detailed description of the desired training, as explained on pages 6A-9 and 6A-10 of Handbook 10. The request should describe:

- The type and level of training desired;
- The use to which the training will be put (i.e., how will it materially benefit the project, program, or host country);
- Any supplemental training desired or required (e.g., English language training); and
- Appropriate training locations, if known.

Finally, the PIO/P must contain certain biographical data identifying and describing the participant trainee(s); as described on pages 6A-11 through 6A-13 of Handbook 10.

Each PIO/P (standard or abbreviated) must be accompanied by a package of participant training material referred to as "Participant Documentation" or "Supplemental Documentation." This documentation consists of:

- Photographs of the participant;
- Academic transcripts (for academic participants only);
- A completed form A.I.D. 1380-3 setting forth the conditions of training and documenting the participant's agreement to comply with those conditions;
- Any required letter of recommendation; and
- Any required test score (e.g., Graduate Record Exam [GRE], or the Test of English as a Foreign Language [TOEFL]).

b. **Abbreviated PIO/P** (Handbook 10, Section 6.D.2.b and Attachment 6B) - The abbreviated PIO/P format contains less specific information than the standard document and consists of a face sheet and biographical data, without the more detailed training request found in the standard format. This type of PIO/P may be used:

- To document all contractor-managed participant training programs managed through entities other than OIT, if the mission and the host country entity uses a means other than the PIO/P by which to request training program development; and

- To request training* for technical participants who are to attend conferences, workshops, seminars, and off-the-shelf technical program with fixed agenda and dates.

2. **PIO/P Utilization** (Handbook 10, Section 6.D)

The PIO/P serves several purposes, from obligating funds for a participant's training costs, to providing tracking information for A.I.D. managers monitoring the individual project as well as A.I.D.'s overall Participant Training Program.

a. **"Funded" PIO/P** (Handbook 10, Section 6.D.1.c) - Unlike other types of Project Implementation Orders,** the PIO/P may serve to obligate A.I.D. funds.*** When training funds are not included in the Project Agreement (PROAG) the PIO/P may serve as the obligating document. An obligating PIO/P:

- Must establish a firm commitment by the U.S. Government which satisfies the requirements of section 1311 of the Supplemental Appropriations Act of 1955 (31 U.S.C. 1501); and

- Must be countersigned by an official representative of the host government (Handbook 19, Section 2.G.3.b.2).

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* Funded PIO/P's only.

** Project Implementation Order/Technical Services (PIO/T), Project Implementation Order/Commodities (PIO/C).

*** At the time this Document was drafted, FM and OIT were considering halting the use of funded PIO/P's. If this change is approved, all participants would be covered by non-funded PIO/P's, with contracts and grant agreements serving to obligate funds.

A funded PIO/P may be processed as a commitment document to sponsor a participant training program.

b. "Non-Funded" PIO/P (Handbook 10, Section 6.D.1.d) - Non-funded PIO/Ps do not actually obligate or commit funds. They are used to indicate the funds which a contractor or other programming entity estimates will be spent on the training. They are also used to indicate the estimated per month administrative cost of arranging and managing the participant's program. The non-funded PIO/P face sheet should:

- Indicate the estimated costs by enclosing the dollar amount in parentheses; and

- Prominently display the term "NON-FUNDED" typed in capital letters.

c. Data Source Document (Handbook 10, Section 6.D.1.e) - Whether "funded" or "non-funded", a PIO/P is an indispensable source document providing data for OIT's Participant Training Information System (PTIS) and the mission's Participant Training Management System (PTMS).* OIT must receive a properly completed PIO/P before enrolling a participant in the Agency's Health and Accident Coverage (HAC) Program.

3. PIO/P Preparation and Processing (Handbook 10, Section 6.D.3)

Participant training services may be contracted for separately by A.I.D. or may be included as a component of other A.I.D.-direct or host country technical services contracts (see Handbook 3, Supplement A, Chapter 2, Part C, Section 2.F, and Handbook 3, Supplement B, Chapter VII, Section G). However, no matter what form the procurement takes or how the training is implemented, the missions, bureaus, and offices sponsoring participant training must ensure that all participants are documented by a current "funded" or "non-funded" PIO/P throughout the entire extent of the participant's training program. Furthermore, missions alone are responsible for preparing PIO/P for all participant trainees from the host country, including those under mission allotment accounts as well as all regionally and centrally funded training.

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* See the description of the Participant Training Program monitoring process in Volume 2, Part VII, section I.

The mission Training Officer or Project Officer will generally draft the PIO/P, although this operation may be performed by contractors hired by the mission.* In some cases, (e.g., regionally or centrally funded projects), mission personnel may not have all information required to complete the PIO/P. A.I.D./Washington bureaus and offices, and/or their agents sponsoring the training must then transmit the required information to the mission. The type of information generally transmitted can be found in Handbook 10, Section 6.D.3.b. They should also provide the mission with any supplementary documentation needed to complete the documentation "package" (Handbook 10, Section 6.C.2).

When the training is to be provided by or through a contractor, the mission must ensure that the PIO/P contains:

- The contractor's full name;
- The contract number;
- The name and address of the contact person within the contractor organization; and, if possible,
- The contractor's telephone number.

The mission drafter(s) may not substitute any other form for the three (or two) required sections of the PIO/P.

Once drafted, the PIO/P undergoes processing through the mission or office clearance and approval procedure. While this procedure may or may not be explained in mission- or office-specific guidance, such as Mission Orders, it generally entails:

- Review and clearance by appropriate mission or office officials as evidenced in Block 18 of the PIO/P face sheet;
- Review and approval by an appropriate host country official as explained in Handbook 10, Section 6.D.3.d; and
- Final review and approval by the mission Director or other appropriate A.I.D. official.

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* While contractors may draft the PIO/P, the actual clearance, issuance, and numbering of the PIO/P must be done by mission personnel (Handbook 10, Section 6.D.3.e)

The entire "Participant Documentation Package" should then be sent to OIT well in advance of the anticipated commencement of training (Handbook 10, Section 6.D.9.a).

The control objective of this process is to give reasonable assurance that each A.I.D.-sponsored participant trainee and each individual training program is identified and controlled by a single set of standard documents which may or may not obligate and/or commit funds for the training, but will always enable A.I.D. to identify the recipients, locations, funding sources, and implementers of A.I.D. participant training. To achieve this objective, A.I.D. uses the following control techniques:

- **Agency policy regarding the mandatory usage of PIO/P found in Handbook 10, Section 6.A;**
- **Guidance and requirements for Agency officials and contractors preparing PIO/Ps found in Handbook 10, Section 6.D and Attachment 6A;**
- **Requirements for the use of PIO/P as obligating and/or commitment documents found in Handbook 10, Section 6.D and Handbook 19, Section 2.G;**
- **Guidance and requirements for preparing and approving PIO/P found in Handbook 10, Section 6.D.3;**
- **Requirement that PIO/P be approved by mission Directors or other appropriate A.I.D. officials found in Handbook 10, Attachment 6A, page 6A-8; and**
- **Requirement that <u>all</u> PIO/Ps be forwarded to OIT for inclusion of relevant data in A.I.D.'s data base(s) described in Handbook 10, Section 6.D.9.**

CHAPTER 5

TRAINING IMPLEMENTATION PLAN AND BUDGET WORKSHEET DEVELOPMENT PROCESS

Once the Project Implementation Order/Participants (PIO/P) is completed and forwarded to A.I.D./W, the A.I.D./W Office of International Training (OIT) prepares the individual participant's Training Implementation Plan (TIP) and a Budget Worksheet. These are primary control mechanisms which are used throughout a participant's training period.

1. <u>TIP Preparation and Content</u> (Handbook 10, Chapter 9)

   Prepared by an OIT or contractor "program specialist" (staff member or contractor), the TIP is a description of the participant's program as specified in the PIO/P. It is designed to:

   - Provide clarity and details of the training objectives for all concerned;
   - Give continuity to program implementation when personnel change; and
   - Provide a vital communications link between and among the program specialists, mission project officers contract representatives, host country officials, and participants (Handbook 10, Section 9.C).

   It is A.I.D.'s <u>policy</u> that TIP's be prepared for <u>every</u> participant, regardless of the mode of program management or source of funding (Handbook 10, Section 9.A).

   a. <u>TIP Preparation</u> (Handbook 9, Sections 9.D.1, 9.D.2, 9.D.4) - After receiving the PIO/P and analyzing the training program proposed in that document, the program specialist arranges for participant admission to the most appropriate training program or institution. This may or may not be the training venue(s) which may have been suggested in the PIO/P. However, PIO/P suggested venues <u>must</u> be given priority consideration. If they are rejected, the program specialist must seek mission concurrence before programming an alternate venue (Handbook 10, Section 9.D.3.e.)

      As soon as placement is secured, the program specialist prepares the TIP with the content as described below and forwards it, by cable, to the mission for approval (Handbook 10, Attachment 9A contains an example of a TIP cable). The Agency has placed stringent time limits on TIP preparation. The TIP must be cabled to the mission:

      - Within 10 days of PIO/P receipt for simple training programs (e.g., technical courses and workshops); and

- Within 90 days of PIO/P receipt for academic or technical training requiring detailed arrangements* (Handbook 10, Section 9.D.2).

  Upon reception, the mission approves or amends the TIP and notifies the programming agent of its decision.

b. TIP Content (Handbook 10 Section 9.D) - The TIP is a description of the participant's program as specified in the PIO/P. It should:

- Be clear, detailed and descriptive;
- State the purpose of the training or training segments covered by the plan;
- Provide the name(s) of the participant's training site(s) or institution(s);
- Describe how the training purpose is to be achieved;
- Disclose the duration of the training;
- Include the program specialist's concurrence and/or comments on degree objectives proposed in the PIO/P based upon the participant's transcripts, curricula, and other related participant information;
- Contain the participant's "Call Forward" date;**
- Contain a prioritized listing of contractor training activities, general costs, and an indication of whether the activity is mandatory or optional, if applicable;
- Contain all travel information (airline information, flight numbers, etc.) if the TIP covers a short program and serves as the "Call Forward" notice;

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* The 90-day requirement is sometimes unrealistic for some academic training, in which case alternate requirements can be found in Handbook 10, Section 9.D.2.e.

** The date the participant is to arrive in the U.S. for training. This is usually added to the TIP after the mission has reviewed and approved the TIP cable (Handbook 10, Section 9.B.).

- Identify advance maintenance allowance costs, if applicable (see Section 3, below);

- Contain a statement that the "Budget will be forthcoming ASAP," if the TIP is for academic or technical training requiring detailed arrangements (Handbook 10, Section 9.D.2.b.); and

- Contain, if applicable, such additional information as:

  -- provision for post departure orientation;

  -- provision for enrollment in mid-winter Community Seminar(s) and management training;

  -- provisions for participation in special programs or technical training courses;

  -- a listing of special research needs or funding;

  -- reference to all activities covered under special programming fees as shown in the budget; and/or

  -- a further clarifying statement of how training objectives will be met and how any anticipated research supports the development project.*

2. **Training Budget Worksheet Preparation and Content** (Handbook 10, Chapter 10)

The Training Budget Worksheet (A.I.D. Form 1380-95) is a document structured in accordance with the Training Cost Analysis system which communicates the cost estimate of each funded PIO/P program to OIT, the Office of Financial Management (FM), and ultimately the A.I.D. project which sponsors the training (Handbook 10, Section 10.B.1.).

It is A.I.D.'s policy that this worksheet:

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* The purpose of academic training is not achievement of a degree per se, but the attaining of increased capability to support an A.I.D. project or developmental goal. The manner in which the training is to achieve this objective must, therefore, be stressed in the TIP (see Handbook 10, Sections 9.D.3.b. and 9.D.3.c.).

"... be an integral part in the program management of A.I.D. participants funded through PIO/P's. All items pertinent to achieving the training objectives are shown on the budget worksheet. The budget worksheet is recommended for use by all other funding sources as a guide for development of particular training budgets" (Handbook 10, Section 10.A.).

a. Worksheet Preparation (Handbook 10, Section 10.C.) - OIT contractors prepare Budget Worksheets for all PIO/P-funded participants based upon TIP information and using the Training Cost Analysis system (see Handbook 10, Section 10.B.5.). OIT then reviews the worksheets for concurrence with published costs. FM sends a confirmation cable to the appropriate mission for all participants managed through OIT's contractors. This cable contains information describing the participant, the training program, and the approved training program budget. The Mission Training Officer or Project Officer should attach the cable to the worksheet PIO/P contained in the participant's training file. This cable serves as the basis for transfer of mission funds to A.I.D./Washington to pay for the training (see Handbook 10, Attachment 10.B.).

Project managers, either in A.I.D./Washington or the mission, maintain the budget worksheets in their files for at least six (6) months after the participant completes training. OIT may review these worksheets at any time.

Budget worksheets cover only the period allowed by the PIO/P. If training extends beyond the time period covered by the original PIO/P, the mission produces a "PIO/P extension." OIT's contractor must produce a separate budget worksheet for each extension.

b. Worksheet Content (Handbook 10, Section 10.D.) - The budget worksheet must address all items required to efficiently achieve the PIO/P's objectives since the worksheet:

- Serves as a guide to estimating "actual" cost of the training; and
- Is required for the transfer of training funds within A.I.D.'s fiscal system (Handbook 10, Section 10.D.1.).

The worksheet, as illustrated in Handbook 10, Attachment 10A, contains a great deal of information, including:

- Instructional costs;

- Living maintenance allowance (see Section 3, below);
- Miscellaneous costs (see Section 3, below); and
- Supplemental activities (information listed above is further described in Handbook 10, Sections 10.D.2 through 10.D.6.).

3. Allowances (Handbook 10, Chapter 11)

Participant training allowances are the authorized rates established by the OIT Allowance Committee, which may be paid to or on behalf of the participant for maintenance or training related expenses (Handbook 10, Section 11.B.1.). There are two types of allowances:

- Living or maintenance (which must be paid according to a set, published rate unless there is a waiver or approval to pay at a higher or lower rate); and
- Training (which includes payment for those training expenses to which the student is entitled if the contractor is satisfied that the student has properly expended the funds).

All allowances must be shown on the Budget Worksheet.

It is A.I.D.'s policy that it will:

- Pay the ordinary and necessary expenses incurred by participants in the pursuit of the training objective;
- Provide a reasonable and equitable maintenance allowance covering normal day-to-day living costs;
- Not provide financial support for participant dependents;
- Assume no responsibility for participants' personal debts;
- Not act as a collection agency for participants' creditors;
- Not provide allowances for those periods during which the participant is outside of the country of training;
- Not pay, through the participant training accounts, for any training performed within the host country; and

- Not reimburse participants for any tax liability they may incur in the U.S.

a. Maintenance Allowance (Handbook 10, Section 11.C) - this allowance consists of payments made to a participant to cover day-to-day living expenses, routine school supplies, etc. (Handbook 10, Section 11.B.5.). For most participants, it is divided into two parts - the Advance Maintenance Allowance and subsequent maintenance allowances.

The Initial or Advance Maintenance Allowance is paid only once during a participant's program and is calculated to cover 30 nights at the standard Travel Status Maintenance Rate appropriate to the country of training as specified in the most recent Participant Training Notice concerning maintenance rates. This advance:

- May be adjusted if the participant arrives in a high-cost location;
- Should be sufficient to cover normal travel status expenses in the country of training for the first 30 days;
- Is paid to the participant in two parts--one-half by the mission prior to departure and the remaining half by the participant programmer* upon arrival;
- Is not used for major enroute expenses; and
- Is explained in greater detail, including an explanation of mission, programmer, and participant responsibilities in Handbook 10, Sections 11.C.1. through 11.C.3.

Subsequent Maintenance Allowances cover the period from the 31st day of the training program to the program's end. The amount of these payments will depend upon the participant's training category and subcategory as defined in Handbook 10, Sections 11.B.3. and 11.B.4., which are based upon the length, complexity, and type of training which the participant will undertake. These payments:

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* The organization or representative of the organization charged with the management of the participant's training program. It may be an A.I.D. direct hire, an organization funded by a contract, RSSA, PASA, Memorandum of Agreement, host country government or agent, Cooperative Assistance Agreement, or grant. It can be located in the country or origin of the participant and/or in the country of training (Handbook 10, Section 11.B.7.).

- May cover extended travel status costs as discussed in Handbook 10, Section 11.C.4.a.;

- Are generally paid monthly and based on a published A.I.D. Academic Maintenance Rate for the academic or long-term technical training location (not the institution) as discussed in Handbook 10, Section 11.C.4.b. and Attachment 11D (Rate Chart);

- May be supplemented or altered under certain circumstances discussed in Handbook 10, Sections 11.C.5. through 11.C.7. such as:

  -- residence in high cost locations;

  -- incurring of certain ground transportation costs;

  -- attendance at or participation in certain conferences, seminars, and field trips;

  -- attendance at abbreviated or "packaged" programs;

  -- residence in college or university housing (applies to Advance Maintenance Allowance);

  -- personal status of participant ("Top Policy Makers, Executives, and Administrators of National Level and/or National Impact"; applies to short-term programs in the U.S.; see Handbook 10, Attachment 11A); and

  -- "equity" considerations.

b. Books, Training Materials, and Other Miscellaneous Allowances (Handbook 10, Sections 11.D and 11.E) - In addition to the maintenance allowance, academic and long-term technical program participants may also be eligible for other allowances. These include:

- Book and equipment allowances* based on a monthly rate listed in OIT's Participant Training Notices. The OIT Allowance Committee

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* Does not cover computer or other special major equipment purchases. Such proposed purchases must be approved by OIT's "Allowance Committee" to be eligible for A.I.D. financing (Handbook 10, Section 11.D.2.).

may waive the rate limitations under certain circumstances (see Handbook 10, Section 11.D.1.e).

- Typing and typewriter purchase allowances which also cover student photocopying expenses.

- Master's thesis and Doctoral dissertation expense allowances which may be made in addition to normal typing or typewriter purchase allowances.

In addition, A.I.D. may pay a participant's professional society membership fees. However, the organization must be U.S.-based and the participant's school counselor or contractor (programmer) must concur in the application to be eligible for A.I.D. payment. OIT's annual update of its Participant Training Notice on Allowances provides payment information.

c. **Program Closeout** (Handbook 10, Section 11.G.) - As a participant's training approaches termination, the participant programmer (generally a contractor) and the mission Project and/or Training Officer, must ensure that allowances are properly paid or reimbursed to A.I.D. as circumstances demand and training-related items are properly disposed of if purchased through A.I.D. allowances.

Closeout requires:

- Final payment by the programmer of all allowance due the participant.

- Programmer collection of all excess maintenance or training allowance amounts before the participant's departure from the training location if the training program is prematurely terminated.

- Programmer or mission action to collect excess allowances uncollected at participant departure from the training location, as described in Handbook 10, Section 11.G.3.

- Shipment of the participant's books and other printed material via international surface mail. A.I.D. will pay the cost of shipment in accordance with the Equipment Shipping Allowance contained in the relevant Participant Training Notice.

- Proper disposition of items purchased with A.I.D. funds. In general, items which cost more than 50 percent of the participant's annual books and equipment allowance remain A.I.D. property, and, if

possible, should be used at the relevant project site. The programmer and A.I.D. Project or Training Officers should have developed a plan for such disposition when designing the program. Failure to develop such a plan does not relieve A.I.D. or the contractor of responsibility for ensuring proper disposition. In such cases, the Allowance Committee should notify the mission or contractor to send such equipment to OIT for final disposition. In no case should the participant or the participant's programmer dispose of the property (Handbook 10, Section 11.F.4.).

The control objective of this process is to give reasonable assurance that each participant training program's content and costs are clearly identified as early as possible and are revised when necessary; that programming decisions and cost estimations are made in a rational and efficient manner; and that A.I.D. pays for only those participant costs which are reasonable and necessary to complete the approved training program. To achieve this objective, A.I.D. uses the following control techniques:

- **Policy and procedural guidance for completing the Training Implementation Plan found in Handbook 10, Chapter 9;**

- **The Policy requirement that Training Implementation Plans be completed for every A.I.D. participant found in Handbook 10, Section 9.A.;**

- **Policy and procedural guidance for preparing Budget Worksheets found in Handbook 10, Chapter 10;**

- **The policy requirement that Budget Worksheets be prepared for all participants funded through PIO/P and policy recommendation that they be used for all other participants (e.g., those funded through Project Agreements and technical services contracts) found in Handbook 10, Section 10.A.;**

- **The requirement that the A.I.D./Washington Office of International Training review all budget worksheets to ensure cost estimate reasonableness found in Handbook 10, Section 10.C.;**

- **The requirement that missions retain copies of Budget Worksheets in their files for at least six months following training program termination found in Handbook 10, Section 10.C.;**

- **The requirement that Budget Worksheets be required for transfers of training funds within A.I.D.'s fiscal system, found in Handbook 10, Section 10.D.;**

- **The policy and procedural guidance for providing and calculating participant allowances found in Handbook 10, Chapter 11;**

- **The policy requirement that A.I.D. pay only those participant expenses which are ordinary and necessary, based on reasonableness and equity considerations found in Handbook 10, Section 11.A.;**

- **The use of standard rate charts for most participant allowances found in the attachments to Handbook 10, Chapter 11; and**

- **The responsibility placed upon participant programmers and mission Project and/or Training Officer to recover any improper or unused allowance amount upon training termination found in Handbook 10, Section 11.G.**

CHAPTER 6

PRE-DEPARTURE PREPARATION PROCESS

Once the Project Implementation Order/Participants (PIO/P) is completed and approved, the mission, host government, contractors, grantees, or other entities providing Participant Training Program services can implement a myriad of actions to prepare the participant for commencement of his or her training program. These actions can be grouped into a number of distinct subprocesses.* Many of the subprocesses will proceed concurrently, some with little A.I.D. participation. However, A.I.D., generally through mission efforts, must assure itself that all subprocesses are completed before the participant begins his or her training program in the United States or third country location.

1. **English Language Training and Testing Subprocess** (Handbook 10, Chapter 12)

   It is A.I.D.'s policy that all participants demonstrate at least an acceptable minimum level of English language proficiency before departing for their training location if:

   - Their training is to be conducted in English; and
   - They will not be accompanied by an interpreter.**

   a. **Responsibility for English Language Training** (Handbook 10, Section 12.C.) - Missions are responsible for:

      - Ensuring that all participants, except those accompanied by an official interpreter and those whose programs are not conducted in English, have obtained at least minimum English language proficiency before beginning nonlanguage training;
      - Evaluating local resources to determine whether local programs are capable of providing adequate English language training (Handbook 10, Section 12.D.2);

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* In point of fact, many of the subprocesses discussed in this section will begin during or even prior to PIO/P preparation. They will, however, generally terminate after PIO/P completion.

** Interpreters are "qualified individuals with the sole responsibility of providing simultaneous and/or successive translation services to one or more participant." It is A.I.D. policy that participants are provided with interpreter/escort services when not proficient in the language of training. Interpreter and escort services are discussed in Handbook 10, Chapter 23.

- Arranging English language training in the host country to enable participants to meet A.I.D. and, if possible and cost effective, training institution minimum proficiency requirements if higher than A.I.D.'s;

- Arranging for English language training in the United States as a supplement to local English language training, if necessary; and

- Submitting an annual "English Language Testing and Training Report" (Form AID 1380-14) summarizing mission English language training activity to OIT (see Handbook 10, Section 12.C.4. for a description of the type of information and data included in this report, and Handbook 10, Attachment 12A).

OIT is responsible for providing certain services at mission request, including:

- Evaluation of ongoing language training facilities;

- Assistance in developing a language training program;

- Assistance in developing mission testing procedures; and

- Advice as to the kinds of English language training materials available (Handbook 10, Section 12.F).

b. **Testing and Training Procedure** (Handbook 10, Sections 12.B. through 12.E.) - Missions begin the testing and training procedure by administering the American Language Institute/Georgetown University English Proficiency Test (ALI/GU EPT). This test is administered at the mission by a designated member of the mission staff.

Most U.S. educational institutions demand that non-native English language speakers take the standardized Test of English as a Foreign Language (TOEFL). TOEFL test centers are located in some, but not all, host countries. If possible, missions should arrange for such testing if required by the particular educational institution.

If scores on either test do not meet minimum acceptable levels, the mission arranges for in-country English language training. Sources may include:

- Local United States Information Agency (USIA) English language training facilities or Bi-National Centers;

- English language training programs at local institutions; and

- English language training programs sponsored by other donors or other U.S. Government agencies.

Once participants achieve minimum acceptable scores on the ALI/GU EPT and/or the TOEFL, they may be "called forward" to the United States and programmed for U.S.-based English language training if:

- Additional language training is needed to reach educational institution or program requirements; and

- Such training is unavailable in the host country.

When additional U.S.-based training is necessary, missions generally ask that OIT arrange to enroll the participant in the American Language Institute of Georgetown University (ALI/GU). Other U.S.-based institutions should be considered only if "special programmatic benefits would accrue which would be beyond the scope of ALI/GU" (Handbook 10, Section 12.E.3).

A.I.D. may terminate the program of, and return to the host country, any participant who does not achieve minimum acceptable English language proficiency within a reasonable period of time (Handbook 10, Section 12.E.4.).

2. **Pre-departure Medical Examination Subprocess** (Handbook 10, Chapter 13)

It is A.I.D.'s policy that all A.I.D.-sponsored participants covered by the Agency's Health and Accident Coverage (HAC) Program* undergo a standardized medical

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* The HAC Program is a self-funded program administered by OIT through a contractor which is responsible for receiving and reviewing all claims and issuing checks in payment of those claims covered by HAC.

It is A.I.D.'s policy that all participants financed by A.I.D. in whole or in part whose training is in the U.S., including those programmed by host country contractors and host government entities, must be enrolled in the HAC Program unless there is specific U.S. legislation to the contrary.

The HAC Program itself consists of a lengthy series of processes and subprocesses and thus a detailed explanation of the program is beyond the scope of this document. A detailed description of the program can be found in Handbook 10, Chapter 25.

examination prior to issuance of an IAP 66A.* Such examinations are performed to:

- Determine that a participant's health is adequate for the proposed training;
- Give reasonable assurance that returned participants will be able to contribute to their country's development; and
- Minimize HAC expenses.

a. **Responsibilities and Procedures** (Handbook 10, Sections 13.B. through 13.D.) - A.I.D. missions (and bureaus, if there is no A.I.D. mission in the host country) are responsible for:

- Ensuring that all A.I.D.-sponsored participants undergo the prescribed medical examination;
- Ensuring that the resultant medical certification is on file prior to issuance of an IAP 66A;
- Notifying OIT prior to issuance of the IAP 66A and participant departure that the results of the examination are on file in the mission; and
- Ensuring that any local medical examination arrangement is designed to ensure the full integrity of the examination process, including the avoidance of superficial or pro forma examinations and the prevention of fraudulent practices (Handbook 10, Section 13.C).

The mission notifies the participant that A.I.D. requires that a medical examination be completed before the participant's visa can be issued and provides the participant with a copy of A.I.D.'s "Medical Examination and Certification Form" (Form AID 1382-1) to be completed (see Handbook 10, Attachment 13.A.). This form must be used and must be completed in all parts before any visa can be issued.

Specific arrangements for performance of the examination may vary from country to country and even from individual to individual. Although Agency guidance provides considerable flexibility in choosing the source of physician services (physicians under mission contract, host government facility

* A.I.D.'s version of the J-1 visa form (Handbook 10, Section 14.B.3).

physicians, clinics, etc.), the mission must, as stated above, implement a system or procedure to ensure the integrity of the examination. Payment arrangements are also flexible. Depending upon the circumstance, examination may be paid by:

- The mission;
- The host government; or
- The participant (Handbook 10, Section 13.C.).

The examination form is divided into three distinct parts. The first part consists of a medical history to be completed by the participant. This part prominently displays a notice to the participant that:

- A.I.D. does not provide medical insurance for dependents who accompany the participant;
- A.I.D. will not financially compensate the participant for any medical costs resulting from an undisclosed pre-existing condition; and
- Failure to disclose a pre-existing condition may lead to termination of the training.

The second part is completed by the physician and records the results of the physician's examination. The examination is specifically designed to include tests for most conditions which might result in costly treatment and/or serious debility. However, missions may add further tests "where patterns of undetected participant illness emerge or the prevalence of local medical conditions warrants" (Handbook 10, Section 13.C.). Since the physician may not be familiar with the Participant Training Program and the specific purpose of the examination, the mission may provide the physician with a "Guide to Medical Fitness Standards for Applicants" (Handbook 10, Attachment 13B).

Once the examination is completed, the form is returned to the mission for completion of the form's third section. At the mission:

- The Training Officer recommends approval or disapproval of the applicant;
- A designated officer (generally a Project Officer) reviews that determination and certifies the form; and

- The Training Officer or other designated official notifies OIT that the examination results are on file at the mission.

b. Waiver of Medical Clearance (Handbook 10, Sections 13.E. and 13.F.) - Mission Directors and A.I.D. Regional Assistant Administrators, or their designees, may determine that an applicant can be approved for participant training despite the fact that the medical examination revealed an otherwise disqualifying pre-existing condition. The official may decide that:

- The medical condition is not likely to be activated or aggravated during the training period; and/or

- Program objectives or other considerations require that the training be approved despite the possible cost of medical claims.

The determination to waive the participant's medical clearance requirement means that:

- The participant would not be covered under the HAC Program for claims arising from the otherwise disqualifying condition; and

- The mission must make specific arrangements for guaranteed payment of any medical claim arising from the otherwise disqualifying condition. Payment may be from mission, host country or the participant's own funds.*

3. Visa Procurement Subprocess (Handbook 10, Chapter 14)

Once a prospective participant completes his or her medical examination, the mission, contractor, grantee, or other organization prepares the participant's visa certificate of eligibility for mission signature.

It is A.I.D.'s policy that:

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* Reporting and payment procedures for waivers and claims resulting from waived conditions can be found in Handbook 10, Sections 13.F.2. and 13.F.3.

"A.I.D.-sponsored participants are admitted to the United States only under the A.I.D. J-1 visa. A.I.D. J-1 visas may be issued for periods not to exceed one year" (Handbook 10, Section 14.A.).*

a. Restrictions (Handbook 10, Section 14.D.) - The U.S. Government uses the J-1 visa in an attempt to give reasonable assurance that the participant trainee returns to his or her home country for at least two years upon completion of training. Holders of this type of visa:

- May not apply for a U.S. immigrant visa within the two-year period;
- May not come to the United States to work under the terms of 22 U.S.C. 1101(H) or 22 U.S.C. 1101(L), both of which pertain to temporary work under certain conditions in the United States within the two-year period; and
- May not, during their training, engage in activities which both
  - -- produce income from U.S. sources; and
  - -- are unrelated to their training program, except under the criteria and limitations found in 22 CFR 514.24.

b. Procedures (Handbook 10, Section 14; 22 CFR 514.21 through 514.24) - Missions have primary responsibility for ensuring that this subprocess is properly executed, as well as for ensuring that the participant's passport is valid for at least six (6) months beyond the duration of the participant's planned program (Handbook 10, Section 14.E.1.a.).

The mission, contractor, grantee, or host country organization providing the participant's logistical services prepares the visa application. This application (Form IAP 66A)** contains both general and specific data and information about the participant and the program, including:

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* The "J-1" designation refers to the specific section of the Mutual Education and Cultural Exchange Act of 1961 (8 U.S.C. 1101[J]) which applies to this visa category. The legislation does not contain the stated time limitation. Implementing regulations do not place time limits on J-1 student visas (see 22 CFR 414.23[a][1][i]).

** The IAP 66A is the U.S. Information Agency Associate Director for Educational Affair's certificate of eligibility for exchange visitors status. This is the A.I.D. version of the J-1 visa application form (Handbook 10, Section 14.B.3.).

- The PIO/P number;
- A brief description of the training program; and
- The following statement:

> "Participant is scheduled to complete program on or about _____. If further extension is required, approval must be granted by both A.I.D. mission and host government. A.I.D. participant is obligated to return home upon completion of his/her program."

Handbook 10, Attachment 14A contains a copy of this form.

The preparing organization forwards the completed form to the mission. An American officer designated by the mission Director:

- Reviews the form to ensure it is complete;
- Signs the form;
- Oversees the participant's completion of the form and its delivery to the U.S. Embassy Consular Office together with the participant's visa application (Form FS-257A); and
- Ensures that a copy of the completed form is forwarded to OIT.

In addition to receiving copies of the individual Form IAP 66A, OIT must be notified:

- By the mission, of the position of the individual and alternate (both of whom must be U.S. citizens) at the mission who will be responsible for safekeeping of the IAP 66A forms and their proper processing (Handbook 10, Section 14.E.1.c.); and
- By missions/contractors, of the disposition of the IAP 66A forms in their care, through annual submission of Form IAP 66A Usage Reports (A.I.D. Form 1384-1, a sample of which can be found in Handbook 10, Attachment 14B).

c. Visa Extensions (Handbook 10, Section 14.E.2) - Visa extensions, which may be requested for a period of one (1) year or the duration of the training program, whichever is less, are commonly approved.

Contractors generally request visa extensions for their participants through OIT. The specific documentation which should be forwarded to OIT is listed in Handbook 10, Section 14.E.2.c. OIT reviews the application, approves it, if acceptable, and returns it to the contractor. The participant signs the application and either the contractor or the participant sends the application to the U.S. Immigration and Naturalization Service for final review and approval.

d. Participant Dependent Visas (Handbook 10, Chapter 15) - It is A.I.D.'s policy that dependents* of participant trainees should not accompany them or join them in their country of training. However, if both the host government and mission approve, dependents may join participants while training in the United States (Handbook 10, Section 15.A.).

A participant begins the subprocess by submitting a completed form AID 1380-5, "Dependent Certification," together with supporting documentation, to his or her contractor. The contractor forwards all documents, including a duplicate IAP 66A, to the mission. The mission reviews the documentation to ensure that it is complete and contains sufficient evidence that:

- The participant has remained in one place for at least six months of training;
- The participant has successfully completed at least one academic or training term in the country of training;
- The participant has furnished proof of adequate financial resources (e.g., bank statements) in addition to A.I.D.'s maintenance allowance, including return transportation tickets for each dependent who anticipates joining the participant (See Handbook 10, Sections 15.C.1.c and 15.D.2.); and
- Each dependent seeking a visa to join the participant has adequate medical insurance coverage (see Handbook 10, Sections 15.C.1.d., 15.D.3, and 15.D.4.).

The mission training office must make sure that the participant realizes that:

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* Dependents are defined as the spouse and/or children of the participant (Handbook 10, Section 15.B.).

- Dependent visa approval does not constitute approval for employment to support the dependents;

- A.I.D. will provide no financial support for dependents; and

- A.I.D. will not pay the dependent's transportation costs (Handbook 10, Section 15.D.7.).

Only upon satisfying all Handbook 10, Chapter 15 and Form AID 1380-5 requirements may a duplicate IAP 66A for Dependents and Exchange Visitor (J-2) visa be issued.

4. Pre-departure Orientation Subprocess (Handbook 10, Chapter 17)

It is A.I.D.'s policy that all participant trainees receive pre-departure orientation.*

a. Responsibilities (Handbook 10, Section 17.C.) - The mission Training Officer is responsible for coordinating pre-departure orientation for all A.I.D. participants. The Training Officer must:

- Design, conduct, and monitor orientation programs for A.I.D.-sponsored participants;

- Ensure that a U.S. official or technical expert in the appropriate development field is included in the pre-departure orientations to address technical issues;

- Ensure that all relevant individuals, including grantees, recipients of A.I.D. loans, and both mission direct and contract participants, are included in the subprocess;

- Attempt to include relevant and available host country officials, returned A.I.D. participants, and mission training office staff members in the orientation subprocess, if possible (Handbook 10, Section 17.C.3.); and

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* A formal or informal orientation provided to A.I.D.-sponsored participants in the host country prior to departure that is to address those administrative and cultural aspects of the training program that are of immediate value to the departing participant (Handbook 10, Section 17.B.).

- Ensure that the orientation meets the content requirements of Handbook 10, Chapter 17.

b. **Orientation Content** (Handbook 10, Section 17.D.) - The orientation should be divided into three content areas--the program, administrative matters, and cultural aspects.

The first part of the orientation covers the Participant Training Program and addresses:

- The nature of the requested training. To assist in this explanation, the Training Officer may provide the participant with a copy of his or her PIO/P with the face sheet removed.

- The training program and itinerary, especially any English language study which may precede the training. To assist in this explanation, the Training Officer may provide a copy of the applicable Training Implementation Plan, if available.

- The relationship of the participant's training program to the A.I.D. program and the host country development plan.

- The participant's responsibilities (see Section c. below).

The second part of the orientation covers administrative aspects of the participant's training and addresses:

- Completion of the participant's Pre-departure Checklist and its inclusion in the participant's file at the mission (see Handbook 10, Attachment 17A for a copy of the checklist).

- Completion of any remaining visa processing requirement.

- Completion of A.I.D. Conditions of Training forms (see Section c. below).

- Travel plans and assistance mechanisms (e.g., the A.I.D. Passport Leaflet contained in Handbook 10, Attachment 17B should be distributed).

- The Health and Accident Coverage (HAC) Program.

- Clothing requirements (although A.I.D. does not provide a clothing allowance, it does provide advice concerning appropriate clothing for use at the training location).

- Hotel and housing arrangements.

- Motor vehicle operational requirements in the U.S. or other training location.

- Tax matters.*

The third part of the orientation covers cultural aspects of life in the U.S. or other training locations and addresses, in brief:

- Culture, climate, clothing, food, religion, and other customs, as well as political environment in the country of training.

- Beliefs, behavior patterns, and training or academic differences.

- Possible psychological disorientation (i.e., "culture shock").

c. **Participant Responsibilities** (Handbook 10, Chapter 18) - It is A.I.D.'s policy that every participant be advised of the conditions and responsibilities which accompany his or her acceptance of A.I.D.-sponsored training in the U.S. or other training location and agree to conform to those requirements. This advice should be given no later than the pre-departure orientation. Agreement must be evidenced by the participant's signing of the Conditions of Training document (Form AID 1381-6) during the Pre-departure Orientation subprocess.

A.I.D. places responsibility upon both missions and contractors in the host country who program participants to ensure that all participants are told their responsibilities before departure. This requirement includes those participants funded by A.I.D. central bureau programs and participants managed by host country entities (Handbook 10, Section 18.C.1.).

The participants must be told that they must:

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* The value of U.S. training may be considered U.S. income and be subject to taxation at federal, state, and local levels (see Handbook 10, Section 17.D.2.b. and CONTRACT INFORMATION BULLETIN 89-15 dated July 20, 1989).

- Earnestly undertake their program and fully apply themselves to the extent of their abilities;

- Carry a full course load or laboratory schedule as prescribed by the academic or training institution;

- Pursue effectively the practical training phase of their program;

- Promptly submit (if in a degree program) to A.I.D. or the relevant contractor the "Academic Enrollment and Term Report" form (AID 1380-69) at the end of each term;

- Obtain assistance from their faculty advisor or their contractor when a problem arises which may affect program completion;

- Complete their training, unless otherwise fully justified, within the planned length of A.I.D.-sponsored training;

- Promptly leave the country of training upon program completion;

- Pay all personal expenses prior to leaving the country of training;

- Assume personal responsibility for complying with all applicable tax laws in the U.S. and paying all tax liabilities;

- Return to their home country on departure from the U.S. or country of training and resume work utilizing their training for the agreed-upon period. This period of obligation is generally described in the bilateral agreement between A.I.D. and the host government; and

- Comply with all laws of the country and local jurisdiction in which their training takes place.

In addition, all participants must also understand and agree that they will not:

- Seek to extend the length of their training program or their stay for personal convenience;

- Seek to obtain employment in the country of training without prior A.I.D. approval;

- Seek to remain permanently in the country of training;

- Marry during their training without notifying A.I.D. through their contractor;

- Bring their dependent(s) to the country of training without prior approval;

- Seek or accept any public welfare assistance in the country or local jurisdiction of training; or

- Own a motor vehicle without prior approval secured through their contractor or programming agent.

d. Pre-departure Orientation Costs (Handbook 10, Section 17.D.3.d.) - Missions and host governments can jointly fund pre-departure programs. This funding can include contractor support. However, as a general rule:

- Host governments should pay for any in-country travel and per diem expenses incurred by the participants;

- Missions or contractors should pay the actual costs of the orientation program; and

- The cost of the orientation can be paid from project funds if no local currency is available and the mission and/or contractor therefore assumes all or part of the orientation expenses (Handbook 10, Section 17.D.3.e.).

The control objective of this process is to give reasonable assurance that each participant is thoroughly prepared to begin his or her program of training upon arrival at the training location and is capable of completing such training; has complied with all legal requirements incident to arrival at the training location; and understands and has agreed to fulfill his or her responsibilities as an A.I.D. participant trainee. To achieve this objective, A.I.D. uses the following control techniques:

- **Guidance and requirements for ensuring that participants possess an adequate command of the English language (or other language of training) to successfully complete the proposed training program found in Handbook 10, Chapter 12;**

- **Central oversight of mission English language training activity through the use of the "English Language Testing and Training Report" (Form AID 1380-14) found in Handbook 10, Section 12.C.4;**

- Use of standardized language capability tests such as the American Language Institute/Georgetown University English Proficiency Test (ALI/GU EPT) and Test of English as a Foreign Language (TOEFL) to determine English language proficiency as found in Handbook 10, Sections 12.B. through 12.E.;

- Guidance and requirements for giving reasonable assurance that participants will be physically and psychologically capable of completing their training program found in Handbook 10, Chapter 13;

- The specific policy that all participants to be covered by the Agency's Health and Accident Coverage (HAC) Program undergo a pre-departure medical examination found in Handbook 10, Section 13.A.;

- Requirement that all medical examinations conform to A.I.D.'s "Medical Examination and Certification Form" (AID 1383-1) found in Handbook 10, Attachment 13A;

- Placement of responsibility upon missions for instituting systems to give reasonable assurance of the integrity of the medical examination found in Handbook 10, Section 13.C.;

- Medical examination waiver procedures and effects found in Handbook 10, Sections 13.E. and 13.F.;

- J-1 visa procurement guidance, requirements, and restrictions found in Handbook 10, Chapter 14;

- Mandatory use of the U.S. Information Agency Certificate of Eligibility (IAP 66A) for all J-1 and J-2 visas;

- Pre-departure orientation guidance, requirements, and responsibilities found in Handbook 10, Chapter 17;

- Placement of responsibility upon the mission Training Officer to ensure that pre-departure orientation programs adequately prepare the participant to begin training and fully inform the trainee of his or her responsibilities as an A.I.D. participant found in Handbook 10, Section 17.C.; and

- Mandatory use of the "Conditions of Training" form (AID 1381-6) to evidence a trainee's understanding of and agreement to fulfill his or her responsibilities as an A.I.D. participant found in Handbook 10, Chapter 18.

CHAPTER 7

POST-DEPARTURE PARTICIPANT SUPPORT PROCESS

When all the pre-departure subprocesses have been completed, the participant travels to the training location and fulfills his or her approved training program. A.I.D. has developed an elaborate support process made up of a number of subprocesses and subsystems ranging from physically moving the participant to the training location to providing advice, counseling, and assistance during training to help the participant successfully complete the approved training program.

1. Travel and Arrival Subprocess (Handbook 10, Chapter 16)

The mission's and/or contractor's initial concern will be moving the participant to the training site. It is A.I.D.'s policy that:

- Unless waived, a participant's round-trip international travel costs will be paid by the host country or other non-A.I.D. funding source;
- A.I.D. will pay for the participant's travel in the country of training;
- Participants will fly on U.S.-flag carriers if A.I.D. is paying for the travel; and
- Participants will not travel under invitational travel orders (Handbook 10, Section 16.A.).

a. Arrival Notice (Handbook 10, Section 16.I.) - The mission Project or Training Officer is responsible for sending an "Arrival Notice" telegram or cable (see Handbook 10, Attachment 16A) to the country of training (to the USIA Reception Center in the U.S. or to the mission for third-country training) in sufficient time to allow the participant to be met and assisted at the port of entry. If the participant is traveling to the U.S., the cable must be sent at least one week prior to the participant's departure date (Handbook 10, Section 16.I.1.c.).

The cable contains specific information identifying the participant and training program as listed in Handbook 10, Section 16.I.b. which includes:

- PIO/P number;
- The program specialist's identification number if the participant is programmed through the A.I.D./Washington Office of International Training (OIT) or its contractors;

- The contractor's name, number, and address; and

- The amount of advance allowance paid upon departure. If this amount is less than the amount normally advanced for the particular location, the Arrival Notice:

  -- must identify the exact amount paid; and

  -- should be sent "priority" (Handbook 10, Section 16.I.1.d.).

b. Travel Costs and Procedures (Handbook 10, Sections 16.C through 16.H.) - The host country or other non-A.I.D. entity should generally pay for the participant's airline ticket and incidental costs for travel to and from the country of training. However, A.I.D. may pay round-trip international travel costs, excluding incidental costs, if the mission Director:

- Justifies and authorizes a waiver of the host country's or other entity's responsibility; and

- Informs both OIT and the geographic bureau's Regional Assistant Administrator of the waiver.

The waiver may be full or partial and may be either a general country waiver or specific to a particular mission-funded project. For centrally and regionally funded projects, the appropriate Assistant Administrator in A.I.D./Washington justifies and authorizes project-specific waivers when no general country waiver exists. However, in such cases, the appropriate mission Director must review and approve the waiver before it can become effective. This approval, in turn, is final, unless overruled by the relevant geographic bureau's Assistant Administrator (Handbook 10, Section 16.C.4.).

When A.I.D. pays for a participant's international travel:

- All travel must be on U.S.-flag carriers unless U.S. carriers do not service the point of departure in which case the participant must change to a U.S.-flag carrier "at the first practical exchange point" (see Handbook 22, Appendix 9A, Section 134).

- The participant must fly economy class.

- The mission Project or Training Officer and/or the contractor will be responsible for arranging for the travel and obtaining the airline tickets (Guidance concerning "open-ticketing," lay-over" routing, baggage

limitations, unused tickets, and flight coupon redemption can be found in Handbook 10, Sections 16.D.4. through 16.D.7 and 16.H.).*

A.I.D. generally pays for all participant inter-city travel in the country of training but not in the participant's home country. However, A.I.D. may pay home country travel costs if justified and approved by the mission Director.

c. Airport Arrival Service (Handbook 10, Chapter 19) - It is A.I.D.'s policy that participants be met whenever feasible at the U.S. port of entry** and at their arrival in the Washington, D.C./Baltimore area (where they receive further orientation).

Mission Project of Training Officers should cable participant flight numbers and arrival times to USIA in sufficient time to be received at least 48 hours prior to participant arrival. The services provided to the participant will vary with location. When the participant is met:

- At the port-of-entry, USIA Reception Center personnel generally:
  - meet the participant at the airport;
  - help the participant through customs, public health, and immigration control points;
  - make hotel reservations at the airport, if necessary; and
  - assist in making ongoing travel reservations and in alleviating any onward travel problems (Handbook 10, Section 19.C.1.).
- In the Washington/Baltimore area, Washington International Center (WIC) personnel generally:
  - confirm the participant's hotel reservation prior to arrival;
  - meet the participant at the airport;

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* Guidance and requirements for cost-shared travel can be found in Handbook 10, Section 16.E.

** Generally Honolulu, Miami, or New York City.

- help the participant with any immediate travel concerns or problems; and

- arrange ground transportation to the participant's hotel (Handbook 10, Section 19.C.2.).

2. Post-Arrival Orientation Subprocess (Handbook 10, Chapter 20)

Participants undergoing U.S.-based training generally receive a second orientation in Washington, D.C. It is A.I.D.'s policy that all participants training in the U.S. are required to attend appropriate orientation programs in the U.S. which must:

- Focus on both the practical aspects of living in the U.S. and on the customs, values, and institutions of Americans;

- Be tailored to the different needs of long- and short-term trainees; and

- Not seek to inculcate participants with American values.

a. Procedure (Handbook 10, Section 20.D.) - The Washington International Center of Meridian House International (WIC) is under contract to A.I.D. to provide orientation and related services to A.I.D.-sponsored participants. A.I.D. encourages but does not demand that missions enroll all U.S.-based participants in the WIC program.

For participants programmed through OIT contractors, the funded PIO/P should contain the WIC fee and the programming agent schedules attendance. For participants programmed by bureau, mission, or host country contractors, the contractors schedule attendance and pay the fee directly to the WIC.

b. Program Content (Handbook 10, Section 20.C.) - The five-day WIC orientation course generally addresses:

- Administrative and logistical concerns, as listed in Handbook 10, Section 12.C.1.;

- Problems of adjustment to American culture, e.g., family relationships, social customs, the political process, and, for academic participants, differences in study approach between American and non-U.S. universities;

- The need for a "hands-on" introduction to American life; e.g., visits to historical sites or sites of economic or cultural interest, provision for

"home hospitality" in volunteer homes,* and informal discussions with volunteers; and

- Other general matters of participant concern such as money, food, clothing, housing, etc.

In addition to the orientation program, WIC also provides other participant services such as check cashing and travel reservation services, as listed in Handbook 10, Section 20.D.2.

3. Counseling Services Subprocess (Handbook 10, Chapter 27)

A.I.D. assumes a degree of responsibility for participants it sponsors. It is, therefore, A.I.D.'s policy that:

- The Agency will make its best effort to safeguard the overall health and well being of its participants while they are in the U.S. for education and training.

- The Agency will provide a counseling service to assist participants in resolving serious health, emotional, legal, or other problems that may affect their training programs.

- Contractors responsible for managing A.I.D. participants must inform the OIT counselor of serious problems involving participants (Handbook 10, Section 27.A.).

a. Role of the A.I.D. Counselor (Handbook 10, Sections 27.C. and 27.D.) - The A.I.D. Counselor serves as the primary control point in this subprocess. This

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* It is A.I.D.'s policy that programming specialists include in participants' programs scheduled opportunities to meet professional counterparts and receive invitations for hospitality in American homes. The National Council for International Visitors (NCIV) and the National Association for Foreign Student Affairs (NAFSA) provide home hospitality and community contract programming services for A.I.D.-sponsored participants. Both are nonprofit organizations operating under cooperative agreements with A.I.D. A more detailed explanation of home hospitality and community programming can be found in Handbook 10, Chapter 21. NCIV also manages the Mid-Winter Community Seminar program described in Handbook 10, Chapter 22. It is A.I.D.'s policy that missions, bureaus, and contractors should, whenever feasible, ensure that A.I.D.-sponsored participants whose programs last at least one year (academic year for academic participants) attend a Mid-Winter Community Seminar (Handbook 10, Section 22.A.).

person is an OPT staff member who is trained to make arrangements for necessary services to resolve a participant's problem(s). The A.I.D. Counselor is available to assist in the resolution of any A.I.D.-sponsored participant's problems, regardless of the organization managing the specific training program.

The contractor or project manager remains responsible for counseling participants until such time as the nature or seriousness of a participant's problem(s) jeopardizes program objectives or A.I.D. participant training policies. At such time, the contractor or program manager must advise the A.I.D. Counselor of the problem(s). The contractor or program manager must:

- Bring serious problem(s) to the A.I.D. Counselor's attention as early as possible to permit prompt action; and

- Contact the A.I.D. Counselor whenever he or she has any doubt regarding the seriousness of the participant's problem(s) or the need for A.I.D. involvement. Serious problems include, but are not limited to:

  - emotional illness;

  - severe physical illness or injury;

  - death;

  - misconduct;

  - arrest; and

  - failure of the participant to return to the host country.

Once the contractor or program manager refers a problem to the A.I.D. Counselor, the latter coordinates all action and become the central clearing point for all information relating to the problem. The A.I.D. Counselor:

- Becomes the contact point for all physicians, attorneys, university staff, contracting staff, project managers, contractor program specialists, and embassies dealing with the problem, as well as the participant.

- Becomes the mission's contact point regarding the participant's problem.

- Arranges for medical escorts to accompany sick participants to the host country, and coordinates all matters relating to a participant's death while in training.

- Assumes full responsibility for the case until the problem is solved, at which time program management responsibility reverts to the contractor.*

b. Counseling Service Procedures (Handbook 10, Section 27.E.)

The A.I.D. Counselor handles problems arriving through either emergency or routine referrals.

It is A.I.D.'s policy that all A.I.D.-sponsored participants studying in the United States must have access to assistance at all times in case of emergencies (Handbook 10, Section 28.A.). Emergency assistance is defined as:

> "(A)ssistance provided or coordinated by the A.I.D. counselor or other A.I.D. officer if the counselor is unavailable to resolve or alleviate serious participant problems such as illness, accident, emotional or adjustment difficulties, legal infractions, etc." (Handbook 10, Section 28.B.).

In the event of such an emergency, anyone having knowledge of the situation may contact the A.I.D. Counselor using the Emergency Contact Information Procedure described in Handbook 10, Chapter 28 and Handbook 10, Section 27.E.1.b.

Routine referrals are generally made by the responsible contractor directly to the A.I.D. Counselor in OIT. The type of information required for such referrals is described in Handbook 10, Section 27.E.2.b.

The control objectives of this process is to give reasonable assurance that the A.I.D. participant receives adequate nonmonetary support and assistance to efficiently and effectively enter upon and complete the planned course of training. To achieve this objective, A.I.D. uses the following control techniques:

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* The contractor always retains responsibility for the participant's fiscal matters and travel arrangements.

- **Guidance and procedures for physically transferring the A.I.D. participant from the host country to the location of training found in Handbook 10, Chapter 16;**

- **A.I.D. policy holding that, in the absence a valid A.I.D. waiver, host countries will pay a participant's international travel costs found in Handbook 10, Section 16.A;**

- **Use of the Arrival Notice System to give reasonable assurance that participants are assisted in entering the country of training as described in Handbook 10, Section 16.I.;**

- **Contractual agreements with the United States Information Agency and Washington International Center for providing assistance to arriving participants found in Handbook 10, Chapter 19;**

- **Policy guidance requiring that all participants receiving U.S.-based training receive orientation upon arrival found in Handbook 10, Chapter 20;**

- **Policy guidance requiring that A.I.D. provide counseling services to assist participants in resolving serious health, emotional, legal, or other problems during the course of training found in Handbook 10, Chapter 27;**

- **Establishment of the A.I.D. Counselor system to provide a focal point for participant counseling services found in Handbook 10, Sections 27.C. and 27.D.; and**

- **A.I.D. policy guidance stating that all A.I.D.-sponsored participants studying in the U.S. must have access to emergency assistance at all times, found in Handbook 10, Section 28.A.**

CHAPTER 8

PAYMENT PROCESS

All participant training costs, including contractor costs, are paid through advances* and subsequent liquidation. In the past, there were two primary avenues or systems for processing and accounting for participant training payments. One was through a standard advance/liquidation system for participants managed under mission and host country contracts.** The other was through advances and liquidations accounted for through the Washington-based Master Disbursing Account for participants managed through the A.I.D./Washington OIT and its contractors. The Master Disbursing Account system is being eliminated. By the beginning of Calendar Year 1991, all payments under the Participant Training Program should follow standard A.I.D. advance/liquidation procedures.

1. **Advances to Mission and Bureau Contractors and Other Participant Management Entities Under the Standard System** (Handbook 1, Supplement B, Sections 15.B.1.c.6., 15.C.1.d.1., and 15.E.1.e.; Handbook 19, Section 3.K.; Handbook 11, Chapter 1, Section 3.5.4.; FAR Subpart 32.4.; AIDAR 732-4; Controllers Guidebook, Chapter 16, Section III.D.; 41 CFR 1-30.4; 41 CFR 7-30.4; Part III, Chapter 1, Section D.2., Chapter 3, Section F.4., and Chapter 4, Section E.2. of this Document)

   Two-thirds of all A.I.D. participants are managed through A.I.D.-direct or host country technical services contractors (or through another form of host country entity, such as a government agency). Over 300 contractors were providing participant training services as of August 1990. In such cases, all program costs, including tuition, support costs, contractor costs, etc., are paid through these technical services contracts. The advance liquidation procedures for such contracts, and their limitations, are set forth in meticulous detail in the cited locations. The Agency's standard payment implementation and approval procedures can be found in Handbook 19, Sections 3.H., 3.I., and 3.J. Advance payments are generally made by A.I.D./Washington, the Office of Financial Management (FM) notifies missions and bureaus of the liquidation of disbursements through Advices-of-Charge. Official accounting records are kept by the mission or bureau official accounting station (e.g., mission Controller's Office).

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* Advance payments are defined as: "... payments of monies to a prime contractor or supplier prior to or in anticipation of future performance under a contract or procurement arrangement ... they are not based on actual performance or actual cost incurred." (Handbook 1, Supplement B, Section 15.B.c.6.a.)

** A.I.D.'s authority to provide advance payments for authorized purposes can be found in Section 635 (b) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2395).

a. **Revised Treasury Letter of Credit Payment Procedure** (Handbook 19, Appendix 1.B., Section B.3.d.3.) - As a general rule, A.I.D. can advance funds to an approved "recipient"* through either an electronic funds transfer (if a U.S. entity) or by U.S. Treasury check (any entity) (Handbook 19, Section 3.K.4.).

Electronic transfers have traditionally been processed through the Letter of Credit--Treasury Financial Communications System (LOC-TFCS; see Handbook 19, Section 3.K.6.). Under this system's procedures (see TFM 6-2500), the A.I.D. Contracting Officer, through the mission's or office's accounting station, asks FM to open and administer the LOC. Once opened, the recipient could electronically withdraw funds, when needed, directly from the U.S. Treasury through the recipient's commercial bank. FM's Program Accounting and Finance Division (LM/PAFD) monitored the withdrawals to ensure that they complied with A.I.D. and U.S. Treasury requirements. These advance payments were then entered to an advance ledger maintained for each recipient.

As a general rule, the recipient is required to liquidate advances on a quarterly basis by providing FM with a voucher for disbursements covering the previous three (3) months. Based on this accounting, which identifies costs in summary form, FM reviews and certifies the voucher. The voucher amount is then entered as a credit to the recipient's Treasury letter of credit ledger. With the entry of this credit, advances for the amount of credit are cleared from the advance ledger. FM then prepares an Advice of Charge (AOC) which is sent to the mission or bureau, together with the voucher.

The mission or bureau Project Officer is responsible for reviewing and administratively approving the voucher. After this approval, the voucher is sent to the accounting station where it is entered to the project commitment liquidation record.

This system is changing in one important respect. As of January 1991, recipients will no longer be able to submit disbursement requests directly to the U.S. Treasury for payment. Henceforth, all requests for electronic transfer of advance funds must be made to FM. FM, after reviewing and certifying the recipient's request, the Office of Financial Management processes the advance request and records it on a "tape" of approved requests

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* "(A) ny contractor, grantee, or other organizational entity, both profit and nonprofit, who (sic) has been authorized to receive an advance under the authority of Handbook 19, Section 3.K.1." (Handbook 19, Section 3.K.2.).

which is submited to the U.S. Treasury for disbursement. The advance monies are then transferred to the recipient's commercial account. Whereas FM, under the older LOC system, had the power to veto a payment to a recipient and FM inaction resulted in the U.S. Treasury transferring the monies, FM, as of 1991, must actively approve an electronic transfer before advance monies can be transferred.*

b. Operating Year Budget Transfers (Handbook 2, Sections 3.N. through 3.P.) - Geographic and central bureaus in A.I.D./Washington can, and do, develop and manage projects, the sole purpose of which is to provide a participant training mechanism for multiple missions. These are regional or central bureau, not mission, projects.

The regional or central bureau can hire a contractor to manage the project or use OIT and its contractor(s). Payments are made through advances and liquidations as appropriate to such contracts. Funds are transferred from mission budgets to the bureau managing the project through an "Operating Year Budget (OYB)** Transfer."

An "OYB transfer" takes place when funds are moved between A.I.D. accounts (Handbook 2, Section 2.A.9.). In the case of regional and central bureau participant training projects, the bureau notifies missions in its area of responsibility that the training project has been or will be available for mission participation. If the mission wishes to take advantage of the services offered, it identifies the number of participants to be trained from the host country through the project and transfers an appropriate level of funding from its OYB to the regional or central bureau's OYB.*** The mission must subsequently submit PIO/P's to the bureau for each participant as explained elsewhere in this chapter. Since this is a bureau project, a bureau Project Officer administratively approves all liquidating vouchers, while the bureau accounting station maintains the official accounting records.

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* FM officials estimate that, under the new system, transfers can be completed within 24 to 48 hours of disbursement request reception at FM.

** For an explanation of the OYB process, see PART II, Chapter 2, Section D. of this Document).

*** This is sometimes erroneously called a "buy-in" to the bureau's technical services contract. It is not, since the contractor's funding is derived from the bureau's OYB (which was augmented through the transfer). Under a true buy-in, funds from the mission's OYB would implement the buy-in.

In theory, it is possible to "string together" a series of transfer and buy-in arrangements involving multiple entities both in the field and in A.I.D./Washington. For example, a geographic bureau may develop a participant training project involving OYB transfers or "true" buy-ins from several missions. The geographic bureau may, in turn, implement the project by "buying into" a central bureau (e.g., Bureau for Science and Technology [S&T]) contract, or by utilizing OIT's contractors. In all cases, the mission must develop the PIO/P's identifying each participant. Official accounting records may be kept at the mission, bureau, or FM, depending upon the precise type(s) of mechanism(s) used.

2. Payments Through the Master Disbursing Account (Handbook 19, Section 10.J.)

In 1973, A.I.D. instituted a revised system for accounting for participant training managed by OIT (or its equivalent).*

This system:

- Provided for the distribution of funds for all training costs incurred under mission or A.I.D./Washington projects where management was provided through OIT;
- Eliminated cross-disbursing by A.I.D./Washington against mission allotments;
- Dispensed with the need for Advices of Charge for payments made against individual PIO/P's;
- Provided for accrual of participant costs against mission and office allotments at predetermined amounts as training took place as a basis for liquidating the amount obligated for training;
- Provided for quarterly transfers of credits from A.I.D. allottees to the A.I.D./Washington Office of Financial Management (FM) in the amount equal to accruals during the period as a basis for funding training cost

* This was originally termed "noncontract training" since training services were, at that time, provided primarily through A.I.D. direct-hire personnel or through RSSA's (see Handbook 12) with other U.S. Government agencies. The final RSSA, with the U.S. Department of Agriculture, ended in 1989. OIT contractors now provide such services and have been paid under this system. The Agency originally intended that this system be used for all participants regardless of management method. However, in practice, it was generally used only for participants managed through OIT.

disbursements without further adjustment of mission or A.I.D./Washington program office obligations to reflect actual amounts disbursed by A.I.D./Washington; and

- Was designed so that nonexpenditure transfers (credits to A.I.D./Washington) in the accounts of A.I.D. allottees were made on the "Summary of Allotment Ledger Transactions and Reconciliation with Disbursing Officer's Accounts, Report Control Symbol U-101" (see Handbook 19, Chapter 9.).

The precise transfer mechanism and procedures are discussed in detail in Handbook 19, Sections 10.J.2. through 10.J.6. This system was designed in such a way that:

- A.I.D./Washington did not maintain costs by individual PIO/P's or individual participants;

- Reports on training cost by PIO/P were not furnished to missions or program offices;

- PIO/P continued to be used as implementing documents;

- Actual costs of training were reflected in the A.I.D./Washington Master Disbursing Account (MDA) maintained by FM;

- The MDA was the central account used to disburse actual training costs;

- No adjustments were made for differences between A.I.D./Washington disbursements and the "modified standard rates" which formed the basis for fund transfers into the MDA;

- A.I.D./Washington (FM and OIT) monitored MDA disbursements;

- Amounts due from participants as a result of overpayments or erroneous payments were billed by A.I.D./Washington;

- Mission transfers to A.I.D./Washington based on participant training accruals were reported on the U-101 Reports and reflected in the country segment of the Appropriation Allotment Report (W-211) as disbursements, decreasing the unliquidated balance of the mission allotments;

- The allotment segment of the Appropriation Allotment Report (W-211a) reflected participant training transfers at the appropriation level as credits to "pseudo" allotments;

- The credits were reduced by the distribution of disbursements made from the MDA;

- The "pseudo" allotment credit balances in the W-211a report offset participant training accruals charged to regular allotments (mission or A.I.D./Washington program offices), thereby effecting agreement with net expended funds for each appropriation in the central general ledger controls maintained by FM; and

- Central monitoring responsibility fell primarily upon FM.*

This system proved, from FM's viewpoint, to be too unwieldy to provide adequate control over training cost disbursements since:

- Disbursements were not matched to specific participants with resultant problems in justifying advance liquidations;

- The system was never extended to cover all A.I.D.-funded participants; and

- Amounts in the MDA grew excessively large. This was due in part to the practice of not matching inflow of mission funds into the MDA with disbursements for actual costs, but primarily to the U.S. Department of Agriculture's failure to bill A.I.D. for training services over a period of several years during the 1980's.

FM plans to terminate use of this system, thus halting use of the MDA. When this charge is implemented, all participant training cost payments will be made under the standard advance/liquidation system. As a result:

- FM will access mission funds using mission funding citations (there will be no transfer of funds to A.I.D./Washington);

- Missions will continue to send PIO/P's to OIT for work-up of the Training Budget Worksheet;

- FM will control disbursements through the Budget Plan Code shown on each PIO/P, i.e., disbursing authority, but not funding authority, would be transferred from missions to FM (PIO/P's would no longer be funding documents;

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* See Handbook 19, Section 10.J.6.c. for an explanation of system review, monitoring, follow-up, and reporting.

- FM will notify missions of disbursements by Advices-of-Charge and missions accounting stations will keep all official accounting records;

- FM will forward liquidating vouchers (Standard Form 1034) to missions for review and resulting accounting adjustments; and

- Missions will account for participant training funds at the PIO/P level.

The control objective of this process is to give reasonable assurance that Participant Training Program costs are paid in conformance with all Agency advance/liquidation procedures and requirements. To achieve this objective, A.I.D. uses the following control techniques:

- **Policy guidance concerning payment through advances and liquidations found in Handbook 1, Supplement B, Chapter 15;**

- **Procedural guidance concerning payments through advances and liquidations by means of both Treasury checks and Letters of Credit found in Handbook 19, Chapter 3;**

- **Procedures and requirements for advance payments under host country contracts found in Handbook 11, Chapter 1;**

- **Procedures and requirements for advance payments under direct A.I.D. contracts found in Handbook 14 (FAR Subpart 32.4. and AIDAR 732-4);**

- **Guidance and requirements for accounting station personnel concerning advance payments and liquidations found in the Controller's Guidebook, Chapter 16;**

- **Procedures and requirements for advance payments and liquidations of participant training costs through the Master Disbursing Account found in Handbook 19, Chapter 10;**

- **Placement of payment certification responsibility upon Agency Authorized Certifying Officers found in Handbook 19, Sections 3.H.1 and 3.K.6.c.3;**

- **Placement of payment administrative approval responsibility upon Agency Project Officers found in Handbook 19, Section 3.H.2.; and**

- **Specific accounting station procedures for voucher review and liquidation of advances, including separation of duties and responsibilities found in mission- and office-specific guidance such as Mission Orders, at Handbook 19, Chapters 3 and 8 and the Controller's Guidebook.**

CHAPTER 9

MONITORING PROCESS

Participant monitoring is the regular tracking and updating of information concerning:

- Participant nominations;
- Placement efforts;
- Ongoing training activities; and
- Participant attendance, performance and successful completion of training, where appropriate.

Monitoring is of great importance because A.I.D. must assure itself that U.S. funds are being disbursed in accordance with statutory requirements and that the expenditure of those funds is achieving intended benefits (Handbook 3, Section 11.A.).*

Participant monitoring is intended to assure that A.I.D. is continually aware of a participant's status to help ensure that all phases of the participant's training experience are successful, including assurance that:

- The participant has arrived, settled into appropriate living quarters, and is participating in the training program.
- The training program meets A.I.D. mission requirements.
- The participant is enrolled in a full course of study if in an academic program or is regularly attending scheduled activities and/or sessions of a technical program.
- The participant is progressing satisfactorily in his or her program.
- The participant is not experiencing serious personal or health problems which could threaten successful program completion.
- Departure arrangements are made upon completion or termination of the training program and the appropriate A.I.D. mission is informed of the arrangements.
- The A.I.D. mission is advised when participants are awarded training certificates (Handbook 10, Section 26.C.).

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* As general policy, Section 101(a) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151) demands that "... United States development resources be effectively and efficiently utilized."

1. **Monitoring Procedures and Responsibilities** (Handbook 10, Section 26.D.)

As a general rule, the primary responsibility for all aspects of project monitoring lies with the Project Officer to whom the project has been assigned. In most cases, this will be a mission Project Officer. For some regional and central bureau projects, the responsible Project Officer will be located in the A.I.D./Washington geographic or central bureau. When the responsible Project Officer is located in a mission, the appropriate geographic or central bureau designates a Washington-based "backstop" Project Officer to assist the mission in monitoring the project.

Participant training monitoring responsibility must reside with the appropriate A.I.D. official(s), either at the mission or in A.I.D./Washington. However, as a general rule, the contractor or other organization which was responsible for arranging the training performs day-to-day monitoring and periodically reports the results to the appropriate A.I.D. official.

a. U.S. Monitoring (Handbook 10, Section 26.D.) - A.I.D. allows contractors considerable flexibility in developing their monitoring systems. In general, such systems will include contractor:

- Review of relevant documents, such as candidates resumés, English language test scores, Academic Enrollment and Term Reports (see below), attendance records, and special reports and other communications from training institutions.

- Telephone calls with participants, training institution registrars, faculty advisors, foreign student advisors, etc.

- Site visits to evaluate new training institutions and programs or to interview participants, academic advisors, etc.

- "Advice" to participants on personal matters, dependent issues, financial constraints, housing matters, etc.

- Submission of progress and financial reports to the A.I.D. office responsible for the particular participant.

b. Mission Monitoring (Handbook 10, Section 26.D.2.) - A limited amount of monitoring activity will be mission-centered. This monitoring is particularly important and difficult when a mission-hired contractor, rather than an OIT

contractor, is the programming agent and is thus performing day-to-day monitoring.*

A.I.D. missions are responsible for:

- Monitoring participants' progress through the use of Academic Enrollment and Term Reports (see below).

- Communicating with the appropriate agents in the United States or third country when monitoring information is not provided.

- Determining if participants return home at the conclusion of their program and notifying the U.S. or third-country agent immediately if the participants fails to comply with the terms of the training agreement and return to the host country.

c. **Contractor Reporting** (Handbook 10, Section 26.E.) - A.I.D. depends heavily upon written and oral reports from training institutions, participants, and particularly from contractors to support its Participant Training Program monitoring system. Each contractor's reporting responsibilities are set forth in its specific A.I.D. contract. As a general rule, A.I.D. expects, but does not require, that contractors:

- Contact academic participants at least twice per term;

- Contact technical program participants at least once during the life of the program;

- Provide reports of participant contacts to the A.I.D. Project Officer or other A.I.D. official managing the contract; and

- Provide site visit reports to the appropriate A.I.D. office, bureau, and/or mission.

While these guidelines are flexible, A.I.D. demands that certain forms be submitted to OIT and/or the mission as part of every contractor's monitoring responsibilities. These are:

- The Participant Data Form (AID 1381-4), which provides data for the Participant Training Information System (see below);

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* Two-thirds of all participants are monitored under mission, regional, or central bureau rather than OIT contracts.

- The Academic Enrollment and Term Report (AID 1380-69) which contractors must obtain from relevant training institutions and pass on to the appropriate A.I.D. Project Officer (see Handbook 10, Attachment 26.A.);

- The Visa Extension and Support Information Form (IAP 66A), which the contractor uses to ensure that participants maintain valid visas during the course of their training (see Handbook 10, Attachment 14.A); and

- The Returned Participants Follow-Up Activities Report (see the description of the Post-Training Follow-Up Process, below).

It is the A.I.D. Project Officer's responsibility to contact a contractor and request such reports if the contractor fails to provide them as stipulated in its contract.

2. **Participant Training Information System** (Handbook 10, Chapter 24)

The Participant Training Information System (PTIS) is A.I.D.'s computer-based repository of official data on all A.I.D.-sponsored participants including those managed through OIT, A.I.D. direct contractors and grantees, host country contractors, and host government entities (Handbook 10, Section 24.C.1.). A.I.D. uses this system to implement its policy that the Agency "maintains current and accurate data on all A.I.D.-sponsored participants" (Handbook 10, Section 24.A.). It is a primary tool for tracking and monitoring participants during training.

a. **Responsibilities** (Handbook 10, Sections 24.D. and 24.E.) - OIT is responsible for maintaining the PTIS and generating reports based on its data. Bureaus and missions with projects having participant training elements are responsible for ensuring that all required data input documents such as PIO/P and IAP 66'A are submitted to OIT. The appropriate A.I.D. Project Officer is also responsible for reviewing and signing any PIO/P prepared by contractors, grantees, or host country entities and submitting those PIO/P's to OIT in a timely manner (Handbook 10, Section 24.E.1.d.).

Grantees, contractors, and host country entities managing particular participant programs must submit Participant Data Forms (PDF's) to OIT for inclusion in the PTIS data base. However, the A.I.D. Project Officer managing the particular contract is responsible for ensuring that the grantee or contractor submits the PDF as required. If it does not, OIT should notify Agency management, and, if necessary, initiate remedial action under the terms of the individual contract and in collaboration with the A.I.D. Project Officer to enforce compliance. A.I.D. cannot delegate its fundamental monitoring responsibility to any other entity.

b. **Content and Procedures** (Handbook 10, Section 24.E.) - Since the PTIS is intended to "capture" a broad range of information from all A.I.D. participants, it uses a number of basic data input documents. Four documents provide most of the PTIS's data:

- The PIO/P provides program and funding data;
- The Certificate of Eligibility for Exchange Visitor (Form IAP 66A) provides visa information;
- The Medical Certificate Cable from the mission to OIT provides medical information; and
- The Participant Data Form (PDF) discussed below, is the primary data source document and serves for enrolling participants in the Agency's Health and Accident Coverage (HAC) Program.

OIT performs all data entry from these documents.

c. **The Participant Data Form** (Handbook 10, Section 24.E.3.) - The Participant Data Form (AID 1381-4) is the primary PTIS input document. An example can be found in Handbook 10, Attachment 24.A.

The entity managing the participant's program completes the initial PDF and forwards it to OIT. It must be submitted to OIT before the participant arrives in the U.S. to enable the participant to be immediately enrolled in the HAC Program. Other submission deadlines (e.g., for amendments) are described in Handbook 10, Section 24.E.3.a.

The PDF contains a control number, which serves as a participant's personal identification number throughout the entire duration of his or her training period. It is extremely important that a participant never be assigned more than one such number during a training program.

The PDF is divided into four parts:

- Part One provides administrative data, including the participant's country of origin and training. The programming specialist should be able to complete this section as soon as the participant's PIO/P arrives at the programmer's office.
- Part Two provides program data such as the participant's major course(s) of study, degree objective, length of training, and training institution, as well as the contractor's name and address. This data

should be made available to OIT no later than the day the participant arrives in the country of training.

- Part Three is reserved for program changes such as program extensions or termination, changes of training location or facility, etc.

- Part Four contains termination and departure information crucial for both the PTIS and HAC Programs.

3. **Monitoring Participant Employment** (Handbook 10, Chapter 29)

One of the reasons A.I.D. monitors participant activity is to give reasonable assurance that the participant complies with the terms of his or her entry into the U.S. and appropriate training agreement(s). Participant employment can have a major impact on a training program, and, if allowed, must be closely monitored.

It is A.I.D.'s policy that:

> "(P)articipants (holders of J-1 visas) not work or accept employment except in connection with a fellowship, assistantship, on-the-job training, or practical training experience which is an integral part of the participant's approved program as reflected in the PIO/P and IAP 66A. In these cases, when a stipend or salary is paid, the participant's allowance shall be reduced by the net amount of salary or stipend paid." (Handbook 10, Section 29.A.)

a. **Exceptions to the General Policy Rule** (Handbook 10, Section 29.C.1.) - The U.S. Code of Federal Regulations (22 CFR Chapter V, Part 514, implementing the Mutual Educational and Cultural Exchange Act of 1961, as amended [22 U.S.C. 2451, et seq.]) allows a participant under a J-1 visa to hold part-time employment (up to 20 hours per week) if:

- Such employment is required by an urgent financial need which has arisen since the participant arrived;*

- It does not cause the participant to reduce preparation and studies below the full-time level;

- The participant's programming agent approves the action in writing; and

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* Financial needs caused by arrival of accompanying dependents is not sufficient in and of itself to justify employment (Handbook 10, Section 29.C.1.).

- The Director of OIT approves the action.

b. **Procedures** (Handbook 10, Section 29.C.) - Contractors submit a "Request for Approval of A.I.D.-Sponsored Participant Work" (AID Form 1381-5A; see Handbook 10, Attachment 29A) to OIT when they believe participant employment is justified.

The request should:

- Explain the nature of the financial need;
- Contain a justification for the employment;
- Define the employment time period;
- Explain the nature of the employment, salary, and hours to be worked per week;
- Contain a statement verifying that the participant's academic performance has been above average and is not likely to suffer as a result of the employment; and
- Provide the name of the individual responsible for monitoring the participant's employment and its effect, if any, on the participant's program (Handbook 10, Section 29.C.2.).

OIT reviews the request. If acceptable, the Director of OIT signs and approves the form, authorizing the employment. The contractor must notify OIT immediately and take steps to have the participant discontinue the employment if that employment is detrimentally affecting the participant's performance under the training program (Handbook 10, Section 29.C.4.).

4. **Monitoring Participant Performance: Extensions and Transfers** (Handbook 10, Chapter 30)

Through its various contractors, A.I.D. must monitor each participant's performance throughout his or her training program. Such monitoring may reveal that a particular participant's training experience would be enhanced through extension of his or her program or a transfer of management and monitoring responsibility to an alternate contractor.

a. **Program Extensions** (Handbook 10, Section 30.C.1.) - A "program extension" is a time extension to a participant's training program which was not anticipated by the A.I.D. mission (Handbook 10, Section 30.B.1.). It is A.I.D.'s policy that:

> "(P)rogram extensions not be granted unless there is clear justification for continued training. In the case of academic training which will exceed three years in length, the program extension must be granted by waiver either in the initial PIO/P or in an amended PIO/P signed by the mission director." (Handbook 10, Section 30.A.1.)

The participant initiates an extension by obtaining written support from his or her academic advisor and passing such support and an extension request to his or her program specialist. The academic advisor's statement should identify:

- The reason for the extension; and
- The exact time frame of the extension.

The program specialist assesses the request. If the program specialist believes the request is justified, it is passed on to the mission or A.I.D. project manager for review and approval. If A.I.D. considers the request justified, it seeks host country approval. If the host country approves, the mission processes an amended PIO/P (if additional funds are required) or cable confirmation approval to OIT (if no additional funds are required). The mission must forward a new Participant Data Form to OIT to update the PTIS. The mission must also ensure that the participant's visa is extended, if necessary.

b. Contractor Transfers (Handbook 10, Section 30.C.2.) - "Contractor transfer" is the transfer of programming responsibility from one entity to another (Handbook 10, Section 30.B.2.). A.I.D. may allow or insist upon transfer of management or monitoring activity to an alternate entity for any of various reasons, including the contractor's failure to implement and maintain an acceptable monitoring system.

It is A.I.D.'s policy that contractor transfers must be properly documented in order for the new contractor to be aware of student progress and expenditures to date (Handbook 10, Section 30.A.2.).

A "Project Transmittal Sheet" (AID Form 1382-8; see Handbook 10, Attachment 30A) must be used to shift programming responsibility. This document provides the new management/monitoring entity with the necessary fiscal data to continue appropriate maintenance and allowance payments.

The control objective of this process is to give reasonable assurance that A.I.D is adequately informed of every participant trainee's status, progress, problems, and location and obtains such information in time to take corrective or remedial action should problems arise in the

course of a participant's training program, thus giving reasonable assurance that A.I.D. funds provided for participant training are expended as intended. To achieve this objective, A.I.D. uses the following control techniques:

- General monitoring guidance and procedures for A.I.D. Project Officers found in Handbook 3, Chapter 11;

- Monitoring guidance and procedures for Participant Training Program monitoring found in Handbook 10, Chapter 26;

- Placement of responsibility upon mission officials for determining whether participants have returned to the host country at the completion of their training programs found in Handbook 10, Section 26.D.;

- Requirement for explicit specification of contractor reporting requirements in all contracts for participant training services found in Handbook 10, Section 26.E;

- Use of the Academic Enrollment and Term Report found in Handbook 10, Attachment 26A;

- Required use of the Participant Data Form (AID 1381-4) for all A.I.D. participants found in Handbook 10, Section 24.E.;

- Establishment and utilization of the PTIS to centralize all basic data for every A.I.D. participant found in Handbook 10, Chapter 24;

- Placement of responsibility for maintaining the PTIS upon the A.I.D./W Office of International Training found in Handbook 10, Section 24.D.;

- Use of a single control number as provided on the Participant Data Form to track a participant throughout his or her entire training period found in Handbook 10, Section 24.E.3.c.;

- Policy guidance and procedures for approving and monitoring participant employment found in Handbook 10, Chapter 29; and

- Policy guidance and procedures for extending participant training programs and transferring contractor management and monitoring responsibility found in Handbook 10, Chapter 30.

CHAPTER 10

EVALUATION PROCESS

"Evaluation" is the term A.I.D. uses to describe "... the general process and specific activities undertaken to analyze and assess the performance and results of projects, programs, policies, and/or procedures" (Handbook 3, Section 12.B.).*

Section 621 A(b) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2381a) requires that A.I.D.:

> "... establish a management system that includes ... adoption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken ...."

To comply with this requirement, A.I.D. must establish and maintain an effective system for evaluating all Agency-funded development activity, including the Participant Training Program. It is, therefore, A.I.D.'s policy that:

- Information be systematically collected to assess and describe the value of the Participant Training Program and that the Participant Training Program be evaluated regularly using data largely generated by and readily available from the mission's PTMS** or other mission and/or A.I.D./Washington project information systems.

- Information thus collected be used for ongoing monitoring and evaluation of mission participant training projects and projects with participant training components so as to make adjustments and improvements as needed in the management and implementation of such projects or components.

- Information generated from ongoing monitoring and evaluation also be used for periodic mid-course evaluations of participant training projects and participant training components as well as for impact evaluations*** during and after the life

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* Evaluation differs from monitoring in that the latter is a continuing day-to-day process of overseeing development activity while the former is a "snapshot" of that activity's status at a particular point in time.

** Participant Training Management System. A mission-specific system for collecting and analyzing participant data.

*** Participant training impact evaluations are assessments, either during the life or after the conclusion of a project, of the effectiveness of the participant training in terms of the benefits to the individual trainee's work to the host country employing organization and to the host country's development objectives. Data and program information collected during ongoing monitoring and evaluation should form the basis and starting point for the evaluation of project impact on the host country over the long-term (Handbook 10, Section 34.B.2.).

of such projects to determine whether the participant training contributed to meeting project purposes and goals (Handbook 10, Section 34.A.).

1. Evaluation Program Requirements (Handbook 10, Section 34.C.)

A.I.D. requires that project design documents provide for establishment of an appropriate evaluation agenda and clearly set forth the evaluation responsibilities (Handbook 10, Section 34.C.3.). Project Papers will normally include an Evaluation Plan. The Plan is to contain five essential elements which must be incorporated into all project designs from their earliest stages (Handbook 3, Appendix 3.K., Section A.). Every project design must include:

- Baselines;
- Targets;
- Progress indicators;
- Planning assumptions; and
- Causative factors (Handbook 3, Appendix 3K, Section B.).

The Agency further requires that evaluations of participant training components be included in both mission and A.I.D./Washington annual evaluation plans. Participant training evaluations may be scheduled during project implementation or following a project's termination and should address:

- Implementation and management issues;
- Effectiveness and relevance of the training;
- Cost effectiveness;
- Training utilization; and
- Impact upon the host country's human resources development, institutional development, and overall development goals.

2. Evaluation Procedures (Handbook 10, Section 34.D.)

A well designed evaluation effort can provide information that is useful for A.I.D. and host government decision making and for decision makers at several management levels. Collaborative evaluations (mission, A.I.D./Washington, host government, and/or contractor personnel) should be planned and undertaken with the satisfaction of multiple information needs in mind (Handbook 3, Section 12.D.2.).

a. **Responsibilities** (Handbook 3, Section 12.E.) - Regional and central bureau Assistant Administrators are responsible for the administration of all project (and nonproject) assistance within their jurisdictions. These responsibilities include management and/or oversight of project evaluations. Each bureau is responsible for the development and supervision of its own arrangements for both conducting evaluations and utilizing evaluation results (Handbook 3, Section 12.E.1.).

Mission and A.I.D./Washington Office Directors and chief officers are responsible for planning, conducting, and using evaluation results in accordance with bureau requirements and procedures (Handbook 3, Section 12.E.2.a.).

In general, A.I.D. Project Officers, assisted by designated mission or office Evaluation Officers, are responsible for administering the project evaluation system during project implementation (Handbook 3, Sections 12.E.2.b. and 12.E.2.c.). The A.I.D./Washington Bureau for Program and Policy Coordination's Evaluation Office (PPC/E) is, in general, responsible for supervising all Agency impact evaluations (Handbook 3, Section 12.E.4.). However, for participant training projects and components, the mission Training Officer, or equivalent, is responsible for administering the evaluation system. He or she :

- Administers Participant Training Evaluation System (PTES) questionnaires to participants (see description of PTES below);
- Translates questionnaire responses into usable information through computer* processing by the mission-specific PTMS; and
- Interprets the participants' training programs in reports completed at the end of the project or at other points and forwards the reports to the Project Officer.**

b. **Participant Training Evaluation System** (Handbook 10, Section 34.D.1.) - A.I.D. defines the Participant Training System (PTES) as:

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* May be hand-tabulated if mission lacks this computer capacity.

** Participant reports can stand on their own or be included in overall project evaluation reports discussed in Handbook 3, Section 12.G.

"... the methods, activities, data collection capacity of the PTMS (maintained by the missions) and generic forms that form the basis on which A.I.D. systematically collects and assesses information on participant training, whether for making corrections and improvements in program implementation and operations or for evaluating the overall impact of the Participant Training Program" (Handbook 10, Section 34.B.3.).

The computerized PTES:

- Which consists of generic questions and topics, must be part of all A.I.D. evaluations in order that a consistent and worldwide primary data base of relevance, effectiveness, and efficiency be available on which broad evaluations may be structured (Handbook 10, Section 34.C.5.).

- Creates a central core of information which must be routinely gathered in a standardized manner so that statements can be made and generalizations be drawn about the worldwide Participant Training Program.

- Provides information for:

  -- ascertaining whether the program was administered in compliance with the participant training outlined in Handbook 10 and related circulars;

  -- describing characteristic features of the programs;

  -- determining whether the individual participant training programs were appropriate and accomplished their designated training objectives; and

  -- determining program results.

- Is based on a linear progression from preparation through training to return and then resumption or assumption of the work for which the training prepared the participant. The system gathers information prior to a participant's departure, during the training, and after the participant returns to the host country.

- Core information is augmented by the specific information gathering needs of the mission, host country, contractor, and/or other entity.

- Allows for multiple methods and permits the use of a wide variety of evaluative questions beyond those discussed in Handbook 10, Chapter 34.

c. PTES Source Documents and Evaluation Tools (Handbook 10, Section 34.D.2.) - Many documents and sources provide PTES data. These include:

- The mission's Country Training Plan;
- The Project Paper;
- PIO/P;
- Training Implementation Plans (TIP's);
- Academic Enrollment and Term Reports (AETR's);
- Training Cost Analysis (TCA) reports;
- Former evaluation reports;
- Special reports;
- Audits; and
- Questionnaires.

The questionnaires are particularly important for gathering information at the individual participant level. As a general rule, each participant will be asked to complete four questionnaires, the first of which is administered just prior to departure for training and the last of which is administered about two years after the participant's return to the host country. Examples of these questionnaires can be found in Handbook 10, Attachment 34A.

The control objective of this process is to give reasonable assurance that participant training projects and components, including training programs of individual participants, are effectively evaluated. To achieve this objective, A.I.D. uses the following control techniques:

- **General evaluation policy and procedural guidance found in Handbook 3, Chapter 12;**

- **Placement of responsibility for adequate evaluation upon bureau Assistant Administrators and mission Directors found in Handbook 3, Section 12.E.;**

- **Policy and procedural guidance for evaluating participant training programs found in Handbook 10, Chapter 34;**

- **Mandatory use of the Participant Training Evaluation System (PTES) found in Handbook 10, Section 24.C.;**

- **Periodic submission of participant questionnaires as one of several data sources for the PTES found in Handbook 10, Section 34.D.2; and**

- **Placement of responsibility upon mission Training Officers for maintenance of the PTES found in Handbook 10, Section 34.D.3.b.**

CHAPTER 11

POST-TRAINING FOLLOW-UP PROCESS

Once the participant's training ends, either with program completion or prematurely due to some unforeseen circumstance, A.I.D. takes action to terminate the training program in an orderly fashion, return the participant to the host country, and provide certain follow-up support services after the participant's return.

1. **Program Termination** (Handbook 10, Chapter 32)

Termination is the ending of participant's A.I.D. sponsorship and the participant's return to the host country. It is A.I.D.'s policy that:

> "... all participants be afforded every reasonable opportunity to complete their programs. However, A.I.D. participants are also subject to certain restrictions and requirements contained in Handbook 10 or established under applicable law of the country of training and the violation of any of these may result in the termination of A.I.D. sponsorship and return home" (Handbook 10, Section 32.H.).

a. **Bases for Termination** (Handbook 10, Section 32.C.) - A participant's training program may be terminated as a result of:

- Normal on-schedule program completion;
- Successful early completion of academic or technical training;
- Voluntary action by the participant;
- Expiration of project time;
- Lack of project funds;
- Overwhelming mission or host country need for the participant's return to the host country; or
- Actions (or conditions) by the participant justifying A.I.D.'s termination of the participant's training program, such as the participant's:
  - failure in his or her academic program;
  - failure to carry a full course load or laboratory schedule as prescribed by the academic or training institution;

- failure to effectively pursue the practical training phase of their program;

- having health problems which materially interfere with the training program;

- conducting themselves contrary to the laws of the country of training;

- owning an automobile without prior A.I.D. approval from their contractor or programming agent;

- being convicted of driving while intoxicated;

- being convicted of serious driving infractions or reckless or negligent (sic) driving;

- bringing dependents to the country of training without prior approval;

- obtaining employment in the country of training without prior A.I.D. approval; and

- failure to abide by the commitments in the Conditions of Training or to comply with other requirements specified in Handbook 10.

b. **Termination Procedures** (Handbook 10, Section 32 D.) - Contractors perform most of the logistical activity involved in terminating a participant's program and returning the participant to the host country. However, the A.I.D. mission and A.I.D./Washington OIT will become more actively involved if:

- The participant's program is prematurely terminated; or

- The participant does not return to the host country upon program termination.

When terminating a participant's training program:

- The contractor (or receiving mission or third-country institution in the case of third-country training) informs the mission and Project Officer of the established program completion date prior to termination.

- The contractor informs the OIT Counselor when the participant's program is terminated due to the participant's poor performance,

misconduct, or unlawful or prejudicial conduct in the U.S. The contractor and A.I.D. counselor thereupon coordinate further termination action.*

- The contractor (receiving mission or institution in third country) completes the Participant Data Form (PDF), A.I.D. Form 1381-4, and forwards it to OIT within 30 days of termination to enable OIT to update the PTIS data base.

- If applicable, the contractor helps the participant apply for professional society membership** and provides the appropriate book shipping allowance for the participant.

- The participant completes a program evaluation form and submits it to the contractor.

- The contractor writes a letter to the participant outlining travel reservations and airline ticket arrangements.

- The contractor informs the mission, by cable, of the participant's flight number and estimated arrival time.

- The mission notifies OIT, the project manager, and the contractor of the participant's arrival in the host country or of the participant's failure to return as anticipated (see below).

2. Nonreturnees (Handbook 10, Chapter 33)

A "nonreturnee" is an A.I.D.-sponsored participant who has been formally reported by the mission, contractor, training institution, or other entity as not having returned to the host country. A nonreturnee may have remained in the U.S. or third country

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* If training is being given in a third country, the receiving (training country) mission and/or training institution must provide the mission and/or OIT with an explanation of the termination cause (Handbook 10, Section 32.D.2.).

** It is A.I.D.'s policy that all participants (with the exception of those receiving scholarships or fellowships in the context of the Tax Reform Act of 1986) have the opportunity to join appropriate American professional societies or subscribe to appropriate professional journals. At their discretion, missions may arrange for a maximum of three year's funding for this purpose. See Handbook 10, Chapter 31 for a more detailed explanation of professional society memberships for A.I.D.-sponsored participants.

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beyond the training termination date but traveled to and stayed in another country to delay or avoid returning to the host country (Handbook 10, Section 33.B.).

A.I.D. missions must include, in every bilateral project providing for participant training, terms and conditions which bind the host country to ensure that A.I.D.-sponsored participants will return at the end of their training and are employed for an agreed-upon period. The period is generally a minimum of two years for each year or partial year of training (Handbook 10, Section 33.C.2.).

It is A.I.D.'s policy that:

- A.I.D.-sponsored participants are obligated to return to the host country upon completion of training to apply their skills in development-related activities for which the training was authorized.

- All feasible steps be taken to ensure that A.I.D.-sponsored participants return to work within the host country and in positions where their training can be effectively utilized.

- Waivers of the two-year residency requirement will be rarely granted* (Handbook 10, Section 33.A.).

A.I.D. has developed two distinct sets of procedures for dealing with nonreturnee incidents depending upon the location of management and monitoring responsibility, i.e., at OIT or the mission.

a. U.S.-Based Procedure (Handbook 10, Section 33.D.) - If a participant fails to report to OIT's contractor/program specialist for departure processing upon termination of the training program, the contractor must refer the case to OIT's Visa Officer in writing. The notification should identify the participant's:

   - Date and place of birth;

   - Last known address and phone number; and

   - Program duration, as well as any other pertinent information.

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* A.I.D. does not consider marriage to an American citizen, the existence of American citizen children, and/or a "no objection" statement from the participant's embassy in the U.S. to be in themselves a valid reason for granting a waiver.

OIT's Visa Officer:

- Immediately attempts to contact the participant by telephone to clarify the situation and explain to the participant the importance of complying with the provisions of the J-1 visa regulation.

- Notifies the cognizant bureau Training Officer and mission Training or Project Officer of impending U.S. Immigration and Naturalization Service (INS) referral, if the participant cannot be located or does not adhere to appropriate visa requirements.

- Asks the mission Training or Project Officer to take any appropriate action through the host government, participant's family, or employer which would serve to encourage the participant's return.

- Formally notifies the INS that the participant is delinquent in returning to the host country and requests that INS begin deportation proceedings.

b. **Mission-Based Procedure** (Handbook 10, Section 33.D.2.) - Contractors operating under mission or host country contract must notify the appropriate mission Training or Project Officer or host country entity upon completion of a participant's training. The contractor must provide the participant's departure date and expected host country arrival date.

Missions, in turn, must:

- Maintain current documentation supporting all program extensions. If the mission decides that a training program is no longer justified, it must terminate the training and order the participant's return to the host country.

- Maintain a centralized and current data base in collaboration with the host government and, when appropriate, the private sector which lists their A.I.D.-sponsored participants, both in training and terminated. This system is to be used to track the participant's return to and employment in the host country. In addition, OIT provides each mission with a monthly "Report of Participants in Training During Fiscal Year ___, U.S. Training Only." This report is derived from the PTIS data base. Missions must review this report to verify the return of their participants (Handbook 10, Section 33.D.2.g.).

- Identify nonreturnees using the above-described systems.

- Take appropriate action through the host country, the participant's family, or the participant's employer to encourage the participant to return to the host country.

- Ask the contractor which was managing the participant to verify, if possible, that the participant does not intend to return to the host country. The mission must make such request within 30 days of identifying a participant as a nonreturnee. The contractor then has 30 days to investigate and report to the mission upon the participant's continued presence outside the host country.

- Notify OIT of the results of the contractor investigation if it appears the participant does not intend to immediately return to the host country. OIT then has 30 days in which to consult with all parties and report to the INS for possible deportation action.

The mission tracking system should contain information on the return or nonreturn of all A.I.D.-sponsored participants from the host country. If the nonreturnee rate rises to a point that it begins to hamper development efforts, the mission, in collaboration with the host country, should take steps to address the problem. Such steps may include:

- Requiring bonding of participants;

- Setting limits on participant passports;

- Denying requests that participant dependents be allowed to join participants during training;

- Suspending long-term training, U.S. training, or all training;

- Conducting overseas training only on a reimbursable basis;* and

- In extreme circumstances, issuing Bills for Collection to the host government for the costs of nonreturnees' training.

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* Reimbursable training programs are authorized under Section 607(a) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2357). Such training is generally operated on an advance of funds basis and is administered by OIT's Reimbursable Training Programs Division (OIT/RTP). Such programs have generally be established to provide a training mechanism for nationals of countries which do not have a formal continuing U.S. development aid program, e.g., Nigeria. For more information on reimbursable training programs, see Handbook 10, Chapter 37.

Missions which identify a chronic nonreturnee problem must take all appropriate corrective action and assure that the problem has been effectively addressed before entering into any further Project Agreements requiring A.I.D.-sponsored participant training (Handbook 10, Section 33.D.2.f.).

3. **Participant Follow-Up** (Handbook 10, Chapter 35)

Participant follow-up is a two-part process which includes:

- Activities for returned A.I.D. participants designed to further the technical and nontechnical objectives of all A.I.D.-sponsored participant training; and

- The maintenance of mission records on former participants for the purpose of tracking and contact (Handbook 10, Section 35.B.).

It is A.I.D.'s policy that:

- Projects with participant training components be designed and implemented so that participants will return to the project no later than six (6) months prior to the Project Assistance Completion Date (PACD).

- Projects with participant training components contain additional specific funding for appropriate continuing education and follow-up activities on the participant's return.

- Every A.I.D. mission, in collaboration with the host country:

  -- provides general follow-up activities to returned A.I.D. participants; and

  -- maintains and updates records for a minimum of three years on former participants who were trained for periods of three months or longer.

- Missions will extend the follow-up period beyond the normal three years in order to track and support returned A.I.D.-sponsored participants who demonstrate significant professional achievement in their employment or personal advancement.

- Follow-up activities are to encourage friendship and understanding between the U.S. and other countries by continuing to broaden the returned participant's knowledge about the U.S., its people, institutions, culture, goods, and services (Handbook 10, Section 35.A.).

a. **Responsibilities** (Handbook 10, Section 35.C.) - Mission directors, other mission personnel, and OIT have certain responsibilities for implementing A.I.D.'s follow-up policy.

Mission directors are ultimately responsible for all official mission activity. In regard to participant follow-up, in particular, they must:

- Assign a mission employee to the post of Follow-Up Officer (see below).
- Give personal attention and support, in collaboration with the host government, to implementing participant follow-up activities as is warranted by the activity's importance.
- Periodically determine host government interest and mission capacity to implement any or all of the recommended follow-up activities.
- Assure that "Certificates of Achievement" (see below) award ceremonies are held at least once a year.
- Approve the mission's annual "Returned Participants Follow-Up Activities Report" (see below).

Project Officers are responsible for monitoring and/or managing all official project or program activities occurring in their assigned portfolios. In regard to participant follow-up in particular, they must "actively support follow-up" when designing and/or implementing a project with a participant training component by:

- Assuring that specific funding is included to provide returned participants with appropriate continuing education and follow-up activities during the project's lifetime.
- Assuring that all participants return from training at least six months prior to the PACD and resume project activities in order to facilitate their reintegration by orienting the returned participant to project activities through team building and supplying continuing education and follow-up.
- Assuring that the technical assistance team, if any, and the host government provide all required activities for the returned participants.
- Assisting the mission's Follow-Up Officer to conduct follow-up activities and maintain a timely and complete record of all returned participants, including the identification of successful former

participants for supplemental follow-up activities and possible reporting to OIT as a "success story."

Mission Follow-Up Officers, with the use of the mission-specific Participant Training Management System (PTMS), where applicable, must:

- Plan and develop the mission's general follow-up program and, with each Project Officer, ensure implementation of individual project follow-up activities.

- Maintain personal and/or written contact with returned participants for a minimum of three years, especially those participants who have received training for three months or longer, in order to obtain information needed to:

  - accomplish general follow-up objectives, and

  - maintain statistics and data on returned participants for impact and/or evaluation activities.

- Arrange for the formal presentation of "Certificates of Achievement" (see below) to all returned A.I.D.-sponsored participants.

- Submit to OIT the "Returned Participants Follow-Up Activities Report" (see Handbook 10, Attachment 35B) by the close of each calendar year.

- Notify OIT of any participant activities of special merit or "success stories" as they may occur.

- Undertake or assist in the conduct of any of the follow-up activities suggested in Handbook 10, Chapter 35.

OIT has broader responsibility to:

- Formulate Agency follow-up policy and strategy; and

- Compile an annual survey of A.I.D.'s worldwide follow-up activities for the Deputy Administrator based on all Returned Participants Follow-Up Activities Reports.

b. **Follow-Up Activities** (Handbook 10, Section3 5.D.) - Missions must design their follow-up activities to:

- Assist all returned participants who were in programs of three months or longer to utilize, reinforce, extend, and transmit to others the technical and managerial knowledge acquired during their training; and

- Promote friendship and understanding between the U.S. and the host country.

To achieve these objectives, A.I.D. uses the following mechanisms and procedures:

- Issuance of "Certificate of Achievement" - A.I.D. awards these certificates (see Handbook 10, Attachment 35A) to all foreign nationals who successfully complete A.I.D.-sponsored participant training programs in order to "give personal recognition to the participant and to create a favorable climate for continued follow-up activities." In order to do this, missions must:

  - determine the most effective method of certificate presentation under local conditions;

  - inscribe each certificate, which is then signed by the mission Director; and

  - report to OIT on "presentations of significance."

- Scheduling of Conferences, Workshops, and Seminars - Such gatherings can be organized along technical lines to extend the participants' training in modern techniques or to expose them to advanced technical and managerial knowledge.

- Newsletter Publication - Technically oriented newsletters can be valuable in those countries where many former participants are located far from the capital city. They can help maintain systematic contact with and among former participants who:

  - share a professional interest in sector and project development and in A.I.D./host country achievements;

  - are interested in the professional and social activities of former participants; and

  - seek information about the availability of technical publications, aids, services, etc. Missions can generally use follow-up or project funds to pay publishing costs.

- Professional Journal Publication - A professional journal can provide more formal technical information to assist participants in expanding and monitoring their knowledge and training than can a newsletter. It can also contain articles addressing specific technical applications, participant technical accomplishments, and examples of various proven methods of overcoming problems. To be most effective, journals should be issued at least quarterly.

- Creation and Support of Alumni Associations - Although A.I.D. alumni associations can be effective support mechanisms, they should only be used if:

  - host country political conditions are favorable;

  - participants show "earnest personal interest"; and

  - adequate numbers of former participants are willing to assume the leadership and responsibilities necessary to assure the continuous and meaningful operation of an association.

  Host country technical associations can often have greater long term impact than A.I.D.-sponsored associations. Whether A.I.D. or host country sponsored, alumni associations, once established, should maintain only an informal relationship with A.I.D.

- Organization of a Technical Literature Service - Missions can establish a "Technical Literature Service" for former participants in countries where it is impossible to purchase relevant technical literature and materials or establish reliable contacts with U.S. technical information sources. Missions:

  - should establish such services only with host government's consent, collaboration, and strong likelihood of future support;

  - are authorized to purchase copies of textbooks, professional or technical books, periodicals, and other publications for presentation or loan to former participants;

  - should place returned participants on the publication mailing lists of USIA and A.I.D. to receive each Agency's periodical publications and provide them with other relevant A.I.D. literature when available; and

-- or contractors, may purchase books or other appropriate specialized publications for participants through their own procurement facilities in accordance with A.I.D. procedures.

- Extension of Membership in American Professional Societies - Missions are authorized to renew professional society memberships, or to enroll returned participants in American professional societies and to pay for subscriptions to journals for participants who do not possess the required funding for their own membership.

- Use of Returned Participants to Orient New Participants - Missions should invite selected returned participants to assist in orienting new participants prior to their departure.

- Organization of English Language Refresher Courses - Courses in technical English organized for selected professional groups can broaden their knowledge of professional terms and help them to expand their access to technical information in their fields. Maintenance English also supports former participants' proficiency in a language with worldwide use and permits the obtaining of social and cultural information.

The control objective of this process is to give reasonable assurance that individual participant training programs are ended in an orderly manner, with the participant returning to the host country to support project or program objectives and that former participants maintain a continuing relationship with A.I.D. to the benefit of both the participant and the United States. To achieve this objective, A.I.D. uses the following control techniques:

- **Policy and procedural guidance for terminating participant training in an orderly fashion found in Handbook 10, Chapter 32;**

- **Guidance and criteria for prematurely terminating a participant's training found in Handbook 10, Section 32.C;**

- **Placement of responsibility on the mission to inform OIT of a participant's arrival or nonarrival as scheduled in order to update the Agency's central data bases found in Handbook 10, Section 32.D.;**

- **Policy and procedural guidance for locating participants after program termination and facilitating their return to the host country found in Handbook 10, Chapter 33;**

- **Requirement that A.I.D. formally notify the U.S. Immigration and Naturalization Service (INS) if a participant refuses to depart from the U.S. at the close of hie or her training program found in Handbook 10, Sections 33.D.1.d. and 33.D.2.d.;**

- **Requirement that A.I.D. missions, in collaboration with host governments, maintain centralized data bases containing information on all A.I.D. participants from the host country both in training and terminated from A.I.D.-sponsored training found in Handbook 10, Section 33.D.2.;**

- **Requirement that A.I.D. must take appropriate action to address chronic problems of excessive numbers of nonreturnees from a given host country found in Handbook 10, Section 33.D.2.f.;**

- **Policy and procedural guidance for maintaining contact with returned participants and providing such participants with the technical or managerial support required to enable them to assist in their countries' development as anticipated found in Handbook 10, Chapter 35;**

- **Requirement that missions maintain and update participants' records for a minimum of three (3) years following training termination found in Handbook 10, Section 35.A.;**

- **Placement of responsibility upon mission Directors to give personal attention to establishing and maintaining participant follow-up systems found in Handbook 10, Section 35.C.1.a.;**

- **Designation of a mission Follow-Up Officer to coordinate participant follow-up activities found in Handbook 10, Section 35.C.1.c.;**

- **Required use of the "Returned Participants Follow-Up Activities Report" (Handbook 10, Attachment 35B) to document follow-up activity found in Handbook 10, Section 35.C.1.c.4.; and**

- **Requirement that A.I.D. project designs be structured in such a way that participants return to the project no later than six months prior to the Project Assistance Completion Data found in Handbook 10, Section 35.A.**