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CENTRAL AMERICA

Assistance to Promote Democracy and National Reconciliation in Nicaragua



.



United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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September 24, 1990

The Honorable Patrick J. Leahy
Chairman, Subcommittee on Foreign
Operations
Committee on Appropriations
United States Senate

The Honorable Christopher J. Dodd
Chairman, Subcommittee on Western
Hemisphere and Peace Corps Affairs
Committee on Foreign Relations
United States Senate

The Honorable David R. Obey
Chairman, Subcommittee on Foreign
Operations, Export Financing and
Related Programs
Committee on Appropriations
House of Representatives

The Honorable George W. Crockett, Jr.
Chairman, Subcommittee on Western
Hemisphere Affairs
Committee on Foreign Affairs
House of Representatives

In response to your request, we reviewed the Agency for International Development's administration of \$9 million to promote democracy and national reconciliation in Nicaragua, including assistance for free and fair elections. These funds were appropriated under Public Law 101-119 for the period October 1, 1989, to February 28, 1990.

We are sending copies of this report to other interested congressional committees; the Administrator, Agency for International Development; the Secretary of State; and the Director, Office of Management and Budget.

Please contact me at (202) 275-4128 if you or your staff have questions concerning this report. Major contributors to this report are listed in appendix I.

Joseph E. Kelley
Director, Security and International
Relations Issues

Executive Summary

Purpose

The Congress has been concerned that assistance provided to promote democracy and national reconciliation in Nicaragua be spent according to legislative intent. As a result, four congressional subcommittees asked GAO to examine the Agency for International Development's (AID) administration of funds authorized for election support and monitoring in Nicaragua. GAO's objectives were to determine whether AID and its grantees had complied with applicable requirements and had established adequate accounting controls.

Background

Public Law 101-119 (Oct. 21, 1989) authorized AID to spend up to \$9 million to promote democracy and national reconciliation in Nicaragua, including assistance for elections held in February 1990. The law required that up to \$5 million be made available to internal groups and earmarked \$1.05 million for three specific groups.

The legislation required AID to use funds provided to internal groups in a manner consistent with the charter and operating procedures of the National Endowment for Democracy. The law also permitted contributions to the Nicaraguan Supreme Electoral Council and imparted the sense of Congress that such funds would be used only for technical electoral purposes.

AID obligated \$8.96 million, including \$8.8 million in grants, to the Endowment, Center for Training and Electoral Promotion, Council of Freely-Elected Heads of Government, Center for Democracy, and Freedom House, and the remainder to cover management and oversight expenses. The Endowment granted about \$7 million to four U.S. organizations that supported activities of the National Opposition Union (the main opposition coalition), the Institute for Electoral Promotion and Training (a civic institute), the Nicaraguan Confederation of Labor Unity (an independent labor union), and Via Civica (a civic association).

As of June 30, 1990, AID, the Endowment, and their grantees had expended about \$6.9 million. Any unobligated funds and obligated funds that remain unexpended after all program activities cease are to be returned to the U.S. Treasury.

Results in Brief

AID and Endowment grantees generally complied with applicable requirements, except that the Institute for Electoral Promotion and Training paid some unauthorized salaries and campaign costs. The two U.S. organizations responsible for monitoring the Institute's activities

recouped most of these payments. Grantees generally established adequate procedures and accounted for funds, but the Confederation of Labor Unity lacked certain controls and did not strictly adhere to AID requirements before expending funds. The National Opposition Union and the Institute for Electoral Promotion and Training did not receive funds or equipment until 3 weeks prior to the election because it took time to satisfy AID requirements and to obtain Nicaraguan government approvals; thus, they were unable to carry out some planned preelection activities.

The Center for Democracy was unable to obtain visas for most of its election day delegation, Via Civica did not obtain legal status until April 1990, and the Center for Training and Electoral Promotion was unable to obtain the Nicaraguan government's approval for some educational activities. As a result, these groups limited or cancelled some activities.

GAO's Analysis

Compliance With Requirements and Accountability for Expenditures

Public Law 101-119 authorized funds for election support and monitoring. AID specified that these funds could not be used to pay campaign expenses or salaries of presidential and National Assembly candidates. AID established accounting and audit requirements and arranged for surveys of the National Opposition Union and other internal groups to assess accounting controls and compliance with applicable laws.

GAO found that most activities were conducted in accordance with restrictions. However, the Institute for Electoral Promotion and Training paid \$119,018, or 9.2 percent of its total outlays, for some questionable salary, campaign, and undocumented expenses. As of July 1990, the two U.S. groups that monitored Institute activities had recouped \$92,350 and were taking steps to recoup the remainder.

GAO and private auditors found that grantees had generally established adequate procedures and accounted for expenditures. However, the Confederation of Labor Unity did not fully implement accounting procedures and expended funds before completing registration of its grant with the Nicaraguan government. Further, Via Civica and the Confederation did not maintain separate accounts.

Implementation of Activities

AID and Endowment grantees generally implemented planned activities, but some grantees had difficulties. The National Opposition Union did not receive equipment and the Institute for Electoral Promotion and Training did not receive funds until 3 weeks before the election because it took time to establish accounting procedures and to obtain the Nicaraguan government's approval to use funds and equipment. Thus, these groups were unable to fully verify voter registration lists or air some advertisements. However, they were able to conduct poll-watcher training, which they believed contributed significantly to ensuring free and fair elections.

The Center for Democracy carried out preelection activities but was unable to obtain visas for most election observers and thus had to limit the monitoring of voting. Via Civica did not obtain legal status until April 1990 and thus could not expend funds before the election. The Center for Training and Electoral Promotion assisted the Nicaraguan Supreme Electoral Council, as planned, but was unable to obtain approval from the Nicaraguan government to distribute some educational leaflets or to produce a training videotape and two television spots.

Recommendations

GAO makes no recommendations in this report.

Agency Comments

In their oral comments on a draft of this report, AID officials generally agreed with our findings and conclusions and suggested minor modifications, which GAO has incorporated in the report where appropriate.

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Abbreviations

AID	Agency for International Development
CAPEL	Center for Electoral Training and Promotion
GAO	General Accounting Office
IPCE	Institute for Electoral Training and Promotion
UNO	National Opposition Union

Introduction

In February 1989, the presidents of five Central American countries signed an agreement calling for, among other things, free elections in Nicaragua. The Nicaraguan government agreed to hold elections on February 25, 1990, for the presidency, the National Assembly, and municipal councils and to invite observers from the United Nations and the Organization of American States. In October 1989, the Nicaraguan Supreme Electoral Council registered about 1.75 million voters in Nicaragua's nine regions.

The National Opposition Union (UNO), a 14-party coalition formed in September 1989, was the primary opposition to the governing party—the Sandinista Front for National Liberation. During the preelection period, the UNO and the Sandinista party conducted various activities, including civic education campaigns, political rallies, and poll-watcher training. On election day, Supreme Electoral Council officials; poll watchers from UNO, the Sandinista Front, and other political parties; and election observers monitored voting procedures and ballot counting. The UNO presidential candidate, Violeta Chamorro, won 54 percent of the vote and was inaugurated on April 25, 1990.

Public Law 101-119, enacted on October 21, 1989, authorized up to \$9 million in unexpended funds from Public Laws 100-276 and 101-14¹ to be used to promote democracy and national reconciliation in Nicaragua, including assistance for free and fair elections. The legislation required the Agency for International Development (AID) to use these funds for support and monitoring of the election process and authorized up to \$5 million for internal groups, such as political organizations and independent labor unions. It also earmarked \$1.05 million for two U.S. observer groups and an electoral assistance group based in Costa Rica. These funds included \$400,000 for the Council of Freely-Elected Heads of Government, \$250,000 for the Center for Democracy, and \$400,000 for the Center for Training and Electoral Promotion (CAPEL).

The legislation required those funds that were used to assist internal groups to be administered consistent with the charter and standard operating procedures of the National Endowment for Democracy. The Endowment is a privately incorporated U.S. organization formed to encourage democracy and pluralism through grants to independent institutions. The legislation also imparted the sense of Congress that

¹Public Law 100-276 (Apr. 1, 1988) authorized \$47.9 million to provide humanitarian assistance to the Nicaraguan Resistance, aid to children affected by the Nicaraguan civil strife, and support for a commission established to monitor conditions in Nicaragua. Public Law 101-14 (Apr. 18, 1989) authorized \$49.75 million for humanitarian assistance to the Resistance.

UNO's representative on the Nicaraguan Supreme Electoral Council should seek to ensure that funds provided to the Council would be used solely for technical electoral purposes, such as ballot boxes and ballot printing.

Program Implementation

In October 1989, AID assigned responsibility for the program to its Task Force on Humanitarian Assistance in Central America.² In addition to its headquarters staff in Washington, D.C., the Task Force hired two personal service contractors to monitor program activities in Nicaragua. Although AID's Office of the Regional Inspector General in Honduras planned to monitor the program closely, its efforts were limited because it was unable to obtain visas for its staff from the Nicaraguan government.

In November 1989, the Endowment, the three groups specified in the legislation, and Freedom House—a U.S. organization formed to assist human rights and pro-democracy movements abroad, submitted program descriptions and estimated costs. By the end of December 1989, AID had approved these submissions; established accounting requirements and guidelines on the use of funds; and signed grant agreements with the Endowment and the other four groups.

Activities and Expenditures

Of the \$9 million authorized, AID obligated about \$8.96 million, including \$8.8 million in grants, to the Endowment, the three groups specified in the legislation, and Freedom House, and the remainder to cover its management and oversight expenses. Table 1.1 shows the breakdown of these obligations.

²AID established the Task Force in April 1988 to administer humanitarian assistance to the Nicaraguan Resistance and related assistance programs in Central America.

**Table 1.1: Public Law 101-119
Obligations**

Organization	Obligation
AID	\$144,000
Grantee	
Council of Freely-Elected Heads of Government	502,760 ^a
Center for Democracy	397,240 ^b
Freedom House	82,000
CAPEL	400,000
National Endowment for Democracy	7,435,000
Total Obligated	\$8,961,000
Amount Unobligated	39,000
Total Available	\$9,000,000

^aIncludes \$102,760 granted in February 1990, in addition to the \$400,000 earmarked in Public Law 101-119, to cover expenses for additional delegates and to monitor transition events.

^bIncludes \$147,240 granted in February 1990, in addition to the earmarked \$250,000, to cover expenses for additional delegates and to study post-election needs for encouraging democracy.

The Council, the Center for Democracy, and Freedom House primarily conducted election monitoring, and CAPEL conducted civic education activities, provided technical assistance to the Nicaraguan Supreme Electoral Council, and sponsored an observer group.

To implement its program, the Endowment granted about \$7 million to the National Democratic Institute, the National Republican Institute for International Affairs,³ the Free Trade Union Institute,⁴ and the International Foundation for Electoral Systems⁵ to support activities of the UNO and other internal groups in Nicaragua. It retained the remaining funds for administrative expenses and a contingency fund.

The National Democratic Institute and the National Republican Institute for International Affairs received about \$6.3 million to support registration verification, poll watching, civic education, and other non-campaign activities of the UNO and the Institute for Electoral Promotion and Training (IPCE), a civic association established by Nicaraguan political leaders. Of this amount, the two institutes granted about \$3.4 million to UNO and IPCE, retained about \$799,000 for management costs and other program-related expenses, and reserved the remaining \$2 million for

³The two institutes are U.S. nonprofit organizations established to promote and strengthen democratic institutions overseas.

⁴The Free Trade Union Institute is a U.S. organization associated with AFL-CIO.

⁵The International Foundation for Electoral Systems is a nonprofit U.S. education and research foundation that supports free electoral processes in emerging democracies.

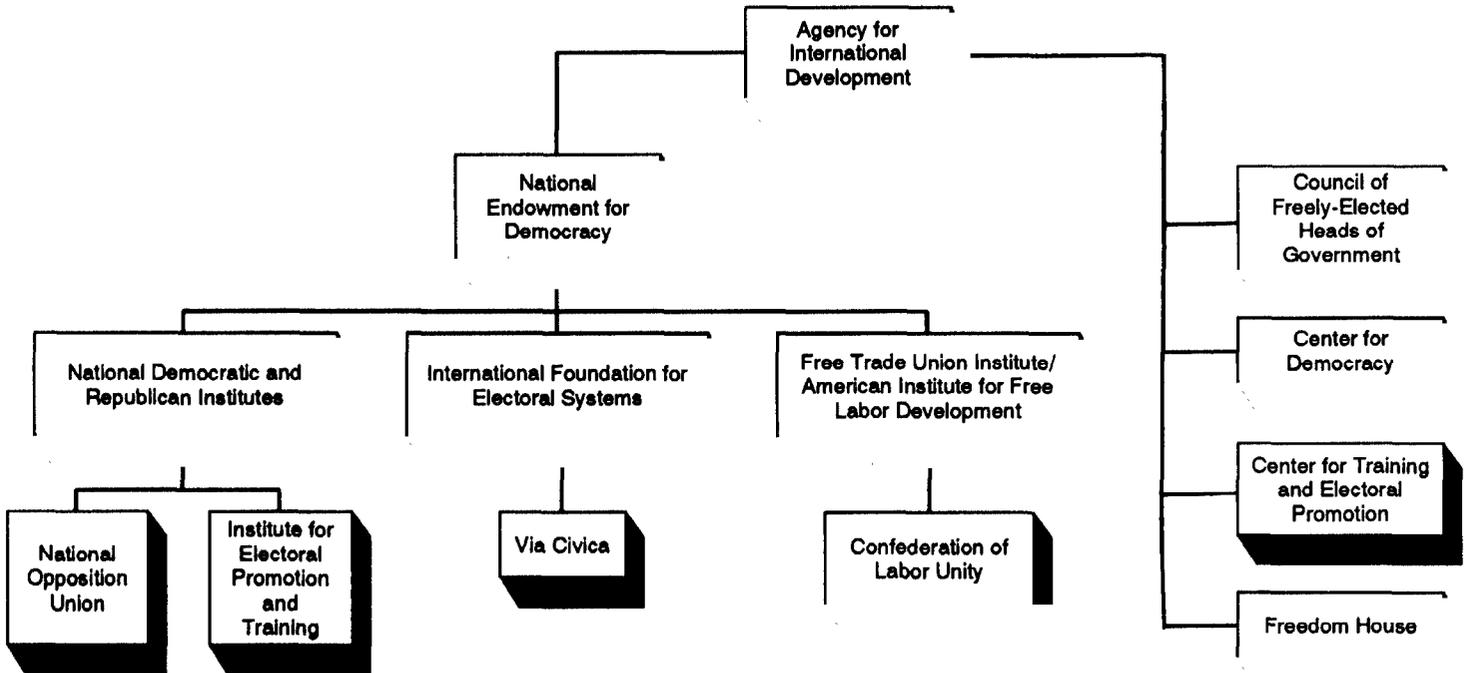
payment of electoral taxes UNO owed to the Nicaraguan Supreme Electoral Council.

The Free Trade Union Institute received an Endowment grant of \$493,013, primarily to support the Nicaraguan Confederation of Labor Unity, an independent trade union. These funds were administered by the American Institute for Free Labor Development.⁶ The Confederation primarily conducted activities to promote voter education and trained activists to get out the vote. Also, the International Foundation for Electoral Systems received \$220,000 to support Via Civica, a local civic association. Via Civica planned to expend these funds for civic education activities before the election but was unable to obtain the Nicaraguan government's approval to receive the funds until April 1990. As a result, the group used a small portion of the funds to support inaugural activities after the election.

Figure 1.1 shows a diagram of the funding arrangements for AID and Endowment grants.

⁶The American Institute for Free Labor Development is a regional institute of AFL-CIO that assists independent trade unions in Latin America.

Figure 1.1: Public Law 101-119 Funding Arrangements



Under Public Law 101-119, AID had to obligate funds by February 28, 1990, but could authorize activities to extend beyond that date. AID ceased obligating funds on February 28, 1990, and authorized most grantees to conduct activities until May 31, 1990. In May 1990, AID authorized the Center for Democracy to study post-election changes to encourage democracy and extended the Center's grant until June 30, 1990. AID also permitted the National Democratic and Republican Institutes to expend \$50,000 to provide assistance to IPCE through December 31, 1990, to support post-election activities. Further, AID authorized the Endowment to use \$510,256 of the unexpended funds from its initial grant to support democracy-building activities, through December 31, 1990, of Via Civica, several youth groups, three radio stations, and La Prensa—a newspaper organization.

AID permitted grantees to charge relevant expenses to their grants for activities commencing on or after October 1, 1989, which was the beginning of the voter registration period. As of June 30, 1990, AID, the Endowment, and their grantees reported that of the available \$9 million, they had expended about \$6.9 million. Table 1.2 shows a breakdown of these expenditures.

Table 1.2: Public Law 101-119 Expenditures (as of June 30, 1990)

Organization	Expenditure
AID	\$86,172 ^a
AID Grantees	
National Endowment for Democracy	40,074
Council of Freely Elected Heads of Government	168,720
Center for Democracy	372,467
CAPEL	281,535
Freedom House	82,000
Subtotal	944,796
Endowment Grantees and Internal Groups	
National Democratic Institute	1,142,511 ^b
National Republican Institute	1,175,912 ^b
UNO	1,719,189
IPCE	1,289,692
American Institute for Free Labor Development	135,579
Confederation of Labor Unity	357,434
International Foundation for Electoral Systems	0 ^c
Via Civica	27,719
Subtotal	5,848,036
Total Expenditures	\$6,879,004

Note: Figures for the National Democratic Institute and the National Opposition Union reflect expenditures as of March 31, 1990; for the Endowment, Center for Electoral Promotion and Training, and the National Republican Institute as of April 30, 1990; for AID, the Council, Freedom House, Institute for Electoral Control and Promotion, and Via Civica as of May 31, 1990; and for the remaining groups as of June 30, 1990.

^aFigure reflects salary payments to two personal service contractors hired to monitor program activities.

^bIncludes \$815,000 paid by each organization to the Supreme Electoral Council on UNO's behalf for electoral taxes.

^cThe Foundation expended funds from other sources to cover Public Law 101-119 related expenses.

As of July 30, 1990, AID, the Endowment, and their grantees, except for Freedom House, the American Institute for Free Labor Development, and the Confederation, were continuing to charge expenses against their Public Law 101-119 grants. According to an AID official, any unobligated funds and unexpended obligated funds will be returned to the U.S. Treasury after all program activities cease and all expenditures are charged.

Objectives, Scope, and Methodology

At the request of the Chairmen of the Subcommittees on Foreign Operations, Senate and House Appropriations Committee; Subcommittee on Western Hemisphere Affairs, House Committee on Foreign Affairs; and Subcommittee on Western Hemisphere and Peace Corps Affairs, Senate

Committee on Foreign Relations, we reviewed the administration of funds authorized under Public Law 101-119. Our objectives were to determine whether AID, the National Endowment for Democracy, and their grantees had complied with Public Law 101-119 and other applicable requirements and whether they had established adequate controls to account for expenditures.

We met with AID officials and representatives of each U.S. and Nicaraguan organization that received these funds. We also met with auditors from the public accounting firm of Price Waterhouse. At each location, we reviewed pertinent documents on program activities and expenditures. We conducted our review in Washington, D.C.; Atlanta, Georgia; San Jose, Costa Rica; Managua, Nicaragua; and several rural areas in Nicaragua.

To determine whether grantees complied with Public Law 101-119 and other applicable requirements, we reviewed the legislation, Endowment operating procedures and guidelines, grant agreement requirements, and expenditure records. In Nicaragua, we attended training seminars and reviewed training materials. We also reviewed promotional materials, such as pamphlets, billboards, hats, and T-shirts, and television, radio, and print advertisements. We visited UNO headquarters in Managua and three regional offices to observe the use of equipment and accompanied two observer delegations to three regions on election day.

To determine whether funds were properly controlled, we reviewed financial records of AID, the Endowment, and their grantees and spot-checked supporting documentation for selected expenditures. We also reviewed accounting and procurement procedures and examined invoices, purchase orders, payroll records, and audit reports. Further, we coordinated our work with Price Waterhouse and other audit firms to avoid duplication of effort.

We were unable to verify whether funds provided to the Nicaraguan Supreme Electoral Council were used solely for technical electoral purposes because the Council did not permit us to review its expenditure records. Council officials provided information on the Council's accounting system and activities, but we could not verify their statements.

We conducted our review from November 1989 to June 1990 in accordance with generally accepted government auditing standards.

We did not obtain written agency comments on this report. However, we did obtain oral comments from AID officials on a draft of this report. They generally agreed with our findings and conclusions and suggested some minor modifications, which we have incorporated in the report where appropriate.

Implementation Problems Limited Some Activities

AID and Endowment grantees generally met project objectives, but some groups could not fully carry out planned activities. IPCE and UNO did not gain access to funds or equipment until about 3 weeks prior to the election and thus could not fully conduct verification and civic education activities. The Center for Democracy had to limit election-day monitoring because it could not obtain visas for most delegates, and Via Civica was unable to conduct a parallel vote count or recruit as many activists as planned because it did not receive legal status until after the election. Further, CAPEL was unable to obtain approval to distribute educational pamphlets at two rallies or to air some television spots.

IPCE and UNO Experienced Delays

Although Public Law 101-119 funds were available in late October 1989, UNO and IPCE did not become eligible to receive the funds until mid-December 1989 because it took time to satisfy AID requirements and negotiate grant agreements. Further, the Nicaraguan government did not grant approval until early February 1990 for the two groups to receive funds.

Actions Required Prior to Signing Grant Agreements

After Public Law 101-119 was enacted, the Endowment began negotiating with AID and the National Democratic and Republican Institutes to reach agreement on UNO and IPCE program activities and restrictions on the use of funds. The Endowment signed agreements with AID on November 27, 1989, and with the Institutes by December 4, 1989. On December 12, 1989, Price Waterhouse certified that UNO and IPCE had adequate accounting and internal control systems and had complied with agreement terms and applicable Nicaraguan laws. By December 13, 1989, the Institutes had reached agreement with UNO and IPCE on program activities and budget requirements. At that time, about 6 weeks after the legislation was enacted, UNO and IPCE became eligible to receive funds.

Endowment and Institute officials emphasized that they expedited the process for finalizing grant agreements to the fullest extent possible. They noted that it took time to satisfy AID's requirements on the use and accountability of funds. Specifically, the Institutes had to hire an accounting firm to set up accounting and internal control systems for UNO and IPCE as well as a procurement agent. Further, UNO had to hire accounting personnel and resolve disagreements within its political council on budgetary and equipment requirements. AID officials stated that the normal time required to finalize grant agreements is usually much longer than 6 weeks.

Release of Funds to IPCE

According to Nicaraguan law, organizations, including groups such as UNO and IPCE, must obtain legal status, register foreign donations with the Ministry of External Cooperation, and deposit foreign donations in the Central Bank of Nicaragua. Ministry approval is required before the Central Bank can release funds. According to National Democratic and Republican Institute officials, they had been informed, in October 1989, by Ministry and Central Bank officials that the process for granting approvals and releasing funds would take 3 to 5 days. However, about 3-1/2 months elapsed before the Ministry authorized the Central Bank to release funds to IPCE.

The two Institutes granted about \$1.3 million to IPCE to cover expenses for various activities, including poll-watcher training, verification of voter registration lists, civic education programs, and salaries for administrative staff. In early November 1989, IPCE requested legal status and permission to receive foreign donations, including Public Law 101-119 funds and funds from a prior joint Institute grant. The Ministry approved the donations on November 11, 1989, and authorized IPCE to open an account at the Central Bank. However, IPCE encountered the following delays before it was able to deposit and withdraw funds from either grant:

- After IPCE received approval to open an account, Institute officials attempted unsuccessfully for over a month to wire funds from the previous grant. On December 19, 1989, the Central Bank agreed to accept cashier's checks, and IPCE provided checks totaling \$200,000 from the prior grant. (Although Public Law 101-119 funds became available to IPCE on December 13, 1989, IPCE officials were reluctant to deposit these funds until the Ministry had authorized the bank to release the \$200,000 already deposited.)
- On January 2, 1990,¹ the bank cleared IPCE's checks and deposited the funds. The next day, IPCE requested permission from the Ministry to withdraw the funds. On January 9, 1990, the Ministry stated that before funds could be released, IPCE would have to amend its bylaws because it had improperly registered as a profit-making organization when requesting legal status.
- On January 15, 1990, the Ministry informed IPCE that it would authorize the bank to release the deposited funds but that it would withhold approval from IPCE to withdraw any additional funds until the National Assembly approved the amended bylaws. Four days later, the bank released the funds. On the same day, IPCE provided Public Law 101-119

¹The bank was closed from December 23, 1989, through January 1, 1990, for the holidays.

funds in cashier's checks totaling \$230,000 and submitted amended bylaws to the Ministry.

- On January 22, 1990, the Ministry provided the bylaws to the office of the Nicaraguan president; 2 days later the Ministry provided them to the National Assembly. On January 28, 1990, former President Carter met with Nicaraguan government officials, who subsequently agreed to release IPCE funds on the condition that IPCE would allow the Supreme Electoral Council to monitor its activities. On January 31, about 3 weeks prior to the election, the Central Bank released \$233,000 to IPCE.

After the initial release of the funds, IPCE began spending and made additional deposits.

Release of UNO Vehicles and Equipment

The Institutes granted about \$2.1 million in Public Law 101-119 funds to UNO. Of this amount, UNO expended about \$1.6 million to purchase vehicles and equipment to support UNO and IPCE poll-watcher training, verification of voter registration lists, and long-term party activities. UNO experienced delays in gaining access to Public Law 101-119 funds and reaching agreement with Nicaraguan customs officials to release vehicles and equipment purchased with these funds. Like IPCE, UNO required approval from the Ministry of External Cooperation to withdraw funds from the Central Bank. This approval was contingent on receiving documentation that UNO had paid required electoral taxes on the items to the Supreme Electoral Council.²

To maximize its efforts, UNO wanted to purchase vehicles and equipment locally and distribute them as quickly as possible after signing its agreement with the Institutes on December 13, 1989. However, UNO encountered the following delays in obtaining approval for purchasing arrangements and securing the release of items:

- On December 22, 1989, Central Bank officials informed UNO that the bank had a scarcity of U.S. dollars. Because UNO needed dollars to pay local suppliers, UNO and the two Institutes requested approval from the Supreme Electoral Council to allow the Institutes' procurement agent to make dollar payments directly to Nicaraguan suppliers. The Council approved this arrangement on January 11, 1990, and also required UNO to make deposits in the Central Bank to offset these purchases. The

²Under Nicaraguan law, the Council was entitled to retain 50 percent of funds donated to UNO. However, the Institutes actually had to pay an amount equal to 100 percent to retain sufficient funds to cover UNO's needs. For example, in order for UNO to retain \$1.6 million needed to purchase vehicles and equipment, the Institutes had to pay \$1.6 million, rather than 50 percent of that amount.

Institutes' procurement agent began ordering vehicles and equipment, and initially purchased 88 vehicles for about \$743,000; however, Customs was not authorized to release the vehicles until UNO had paid electoral taxes and import duties. By January 19, UNO had deposited funds to cover amounts owed for electoral taxes.

- On January 18, a Managua dealer delivered 21 of the 88 vehicles to UNO headquarters, but UNO could not use them because Customs had not authorized the local transit authority to allow UNO to register and license the vehicles. At that time, the other 67 vehicles remained in Custom's custody because dealers refused to deliver them until UNO obtained authorization.
- During the week of January 22, 1990, Customs officials informed UNO that it had to hire a customs broker and pay sales tax and duties on each vehicle. On January 31, 1990, UNO deposited \$800,000 in the Central Bank to cover the duty, and Customs released the vehicles to UNO on February 2, 1990. The transit authority registered the vehicles 3 days later, and UNO distributed them on February 6, 1990, about 3 weeks before the election.

UNO also experienced delays in obtaining the release of other items from Customs. After the purchase of vehicles, the Institute's procurement agent purchased 8 boats, 190 bicycles, 60 motorcycles, 19 generators, and office equipment. By early February 1990, local suppliers had delivered most of these items to Customs. According to UNO and Institute officials, the process for obtaining release was complex and required different paperwork for each item. Also, UNO's customs broker had to register each type of equipment with the appropriate government agency.

By election day on February 25, 1990, Customs had released all items except the radios. UNO was able to distribute all the vehicles and motorcycles and 180 bicycles before the election but did not have sufficient time to distribute generators, 12 motorcycles, 6 boats, 10 bicycles, and some office equipment. The radios were released from Customs in March 1990.

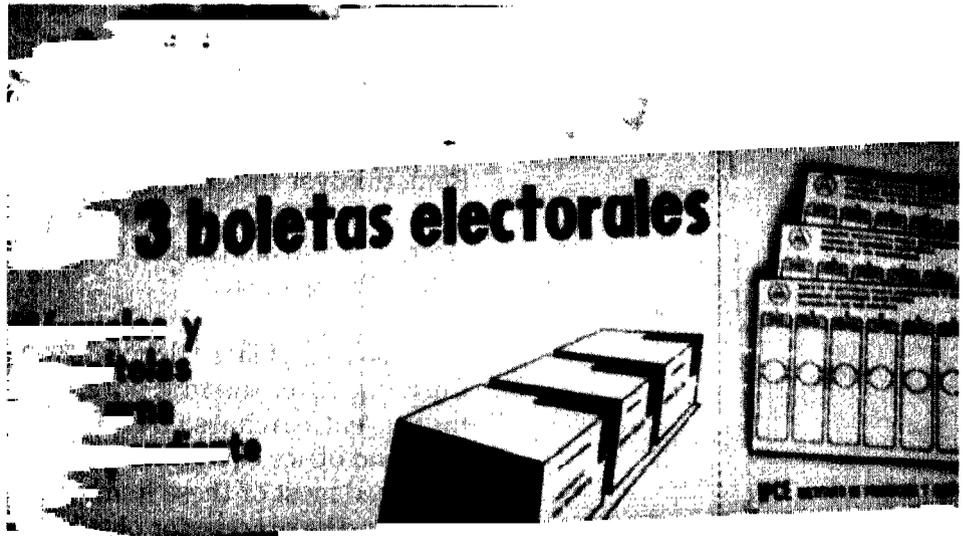
Impact of Delays

According to UNO and IPCE officials, the delays in obtaining funds and equipment limited UNO's support to IPCE and IPCE's ability to fully carry out planned activities. Although IPCE had planned to verify the accuracy of nearly 100 percent of the voter registration lists before the election, it was only able to verify about 50 percent. Also, IPCE could not carry out its civic education program. The organization had intended to air several radio spots and use portable billboards and vehicles as sources

platforms throughout Nicaragua to encourage voter participation. Because IPCE did not receive funds and the use of UNO vehicles until about 3 weeks prior to the election, it was only able to run a limited number of spots, did not have time to move billboards, and visited only three of nine regions with vehicles as sound platforms.

Figure 2.1 shows a billboard in Managua, Nicaragua that IPCE displayed prior to the election to provide instructions on voting procedures.

Figure 2.1: IPCE Billboard in Managua, Nicaragua, With Instructions on Voting Procedures^a



^aTranslated, this billboard says "There are three electoral ballots. Mark them and deposit them in the corresponding ballot box."

Despite these problems, UNO, IPCE, and U.S. officials believe that the availability of Public Law 101-119 funds contributed to ensuring free and fair elections. They noted that UNO and IPCE were able to support and carry out a comprehensive training program for poll watchers as planned and that the presence of these trained poll watchers, combined with IPCE's limited civic education activities, encouraged a large voter turnout. In their view, the activities of observer groups, funded with Public Law 101-119 monies, also inspired confidence in the electoral process. The officials also stated that the funds were useful because UNO and IPCE would be able to use equipment and vehicles for post-election activities.

Difficulties for Observer and Other Groups

The Center for Democracy, Via Civica, and CAPEL encountered difficulties in obtaining Nicaraguan government approvals for their activities. As a result, these organizations scaled back or canceled some activities.

The Center for Democracy Experienced Difficulties in Obtaining Visas

AID granted \$397,240 to the Center for Democracy, primarily to monitor preelection and transition activities. From October 1989 through February 1990, the Center sponsored a series of observer delegations comprised of prominent U.S., European, and Central American foreign dignitaries. The Center planned to sponsor an election day delegation comprised of 7 Center staff and about 50 U.S. and foreign dignitaries, including 22 Americans, 20 Costa Ricans, 4 Hondurans, and 4 Guatemalans. However, the Nicaraguan government denied visas to two Center staff members and the U.S. and Costa Rican delegates and discouraged the Hondurans from visiting Nicaragua under the auspices of the Center.³ As a result, the Center's delegation consisted of only 10 persons—4 Guatemalan officials, 5 Center staff members, and 1 U.S. citizen.⁴

The Center had planned to divide the delegation into several teams that would visit all nine regions in Nicaragua to monitor voting on election day. Because the delegation's size was greatly reduced, the members traveled as one team and were able to visit only 16 polling places in Managua and two regions. Center officials believe that difficulties in obtaining visas stemmed from the government's disapproval of a Center report and public statements of Center officials regarding violence at an UNO political rally in Masetepe, Nicaragua, in December 1989.

Delay in Obtaining Legal Status Limited Via Civica's Activities

Via Civica was unable to obtain legal status until after the election; as a result, it could not complete all of its planned activities. On December 1, 1989, the International Foundation for Electoral Systems signed an agreement to provide Via Civica \$220,000 in Public Law 101-119 funds to (1) purchase office equipment, (2) provide civic education on the mechanics of voting, (3) conduct three public opinion polls, and (4) increase its volunteer activist force from 2,200 to 8,000. Via Civica

³At the Nicaraguan government's request, 7 of the 20 Costa Ricans agreed to travel to Nicaragua under the government's auspices. The Hondurans and remaining Costa Ricans did not visit Nicaragua.

⁴This individual was not part of the original delegation but agreed to join the delegation in mid-February and already had a visa.

planned to use this volunteer network to conduct a parallel vote count and get-out-the-vote activities. These activities were a continuation of projects funded under two prior Endowment grants.

Prior to expending funds, AID required all grantees to comply with Nicaraguan laws requiring organizations to obtain legal status and register foreign donations. Until the grantees either complied or presented evidence as to why they were unable to comply, AID agreed that grantees could use other sources of funding and request reimbursement of Public Law 101-119 funds. On January 8, 1990, Via Civica requested permission from the Ministry of External Cooperation to receive the donation. The Ministry denied the request and informed Via Civica that it first had to obtain legal status. Although Via Civica submitted its application for legal status on February 1, 1990, the National Assembly did not grant legal status until April 17, 1990.

Because Public Law 101-119 funds were not available prior to the election, Via Civica relied on funds remaining from a previous Endowment grant. Although Via Civica was able to conduct polls and seminars on voting procedures and print educational advertisements, it did not have sufficient funds to conduct a parallel vote count and could only increase its volunteer force to 2,500 members. After funds became available, Via Civica requested reimbursement of \$27,719 for expenses between March 1, 1989, to May 31, 1990, including \$15,000 for the purchase of 100,000 Nicaraguan flags distributed during the presidential inauguration in April 1990, and the remainder for administrative expenses. According to Endowment officials, the purpose of purchasing flags was to promote the restoration of the Nicaraguan flag as a national symbol.

CAPEL Was Unable to Obtain Approval for Some Activities

AID granted CAPEL \$400,000 to provide technical assistance to the Supreme Electoral Council, sponsor an observer group, and conduct civic educational activities. CAPEL was able to complete most of these activities; however, the Council cancelled or rejected some. In the final week before the election, CAPEL planned to air-drop about two million civic education leaflets to crowds at the final UNO rally on February 18, 1990, and the final Sandinista Front rally on February 21, 1990. It also planned to televise six 30-second civic education spots and an 8-minute videotape to train Council voting table officials. However, the Council cancelled the airdrop and rejected two of the television spots. CAPEL cancelled production of two other spots because it had difficulty purchasing air time. Further, CAPEL was unable to reach agreement with the Council on the content of the videotape until February 15, 1990. Because of a

shortage of air time, CAPEL chose to air only the television spots and cancelled production of the videotape.

According to CAPEL officials, Council officials stated that they cancelled the airdrop because it was too dangerous and that the Nicaraguan president, Daniel Ortega, had objected to the content of one of the two television spots. CAPEL officials did not believe that the airdrop was too dangerous, and attributed their difficulties in reaching agreement with the Council to political sensitivities surrounding the election.

Compliance With Requirements and Accountability of Funds

AID and Endowment grantees generally conducted activities according to legislative and other requirements and established adequate controls to account for Public Law 101-119 funds. However, IPCE paid \$119,018, or about 9.2 percent of its total expenditures, in unauthorized salaries and UNO campaign activities. As of July 31, 1990, the two U.S. groups responsible for overseeing IPCE activities had recouped \$92,350 of these costs and were taking steps to recoup the remainder. Further, the Confederation of Labor Unity lacked certain accounting controls and did not fully comply with AID requirements for adhering to Nicaraguan law. Also, the Confederation and Via Civica did not account for Public Law 101-119 funds separately as required by AID.

Legislative Requirements and Other Restrictions

Public Law 101-119 specified that funds provided to internal groups would be administered in accordance with the charter and operating procedures of the National Endowment for Democracy. The Endowment charter specifically restricted grantees from financing the campaigns of candidates for public office. The legislation also provided for contributions through the UNO to the Nicaraguan Supreme Electoral Council, as necessary, and imparted the sense of Congress that the UNO representative on the Council would seek to ensure that any funds going to the Council would be used for technical electoral purposes, such as ballot boxes and ballot printing.

Further, AID and the Endowment included specific guidelines in all grant agreements to clearly define activities that could or could not be funded under Public Law 101-119. For example, the agreements provided that, among other things,

- vehicles could not be used as sound platforms for endorsing a political party or candidate but could be used for regular party business and to support get-out-the-vote efforts;
- television, radio, and print advertisements could not name a candidate or party but could promote democracy, urge citizens to vote, and inform voters of voting procedures;
- T-shirts, posters, buttons, and other promotional material could not name a candidate or party; and
- salaries could not be paid to candidates.

In February 1990, AID modified these guidelines to permit payment of salaries to employees who were also candidates for municipal councils. Endowment and Institute officials had requested the modification

because IPCE employed some municipal candidates to monitor voter registration activities in October 1989 and wanted to retain these individuals until the election to supervise verification of voter registration lists and the training of poll watchers. According to an IPCE official, no other funds were available to pay these salaries, and it would have been difficult to replace the employees and train additional staff in time to carry out planned activities.

The Endowment's charter prohibits the financing of campaigns; however, Endowment and Institute officials emphasized that salaries for the municipal candidates were compensation for full-time non-campaign activities. Also, voters do not choose individual candidates but rather elect each party's entire slate for the municipal council. Further, they noted that municipal candidates do not campaign for themselves and would likely use the salary for living expenses because they had no other means of support.

Grantees Conducted Authorized Activities

AID and the Endowment expended funds only for authorized activities, except that IPCE paid salaries to some National Assembly candidates and expenses for some UNO television and radio campaign advertisements. We were unable to verify whether the Supreme Electoral Council had expended taxes UNO paid for technical electoral purposes only because the Council would not grant us access to its financial records.

Grantee Activities

During three trips to Nicaragua, we observed various activities funded with Public Law 101-119 funds. Activities included training seminars; television, radio, and newspaper advertisements; observer monitoring; and use of office equipment and vehicles. In these instances, we found that grantees had used equipment and vehicles only for authorized purposes and had conducted activities that focused on encouraging voter participation and distributing information on voting procedures.

Price Waterhouse found that, as of July 31, 1990, IPCE had paid \$119,018 in questionable expenses from October 31, 1989, to April 30, 1990, including \$16,754 for expenses lacking adequate support documentation, \$24,070 in salaries to 37 employees performing non-campaign duties who were also UNO candidates for the National Assembly, \$76,252 for television and radio advertisements that promoted UNO's campaign, and \$1,942 in duplicate salaries. The expenses represented about 9.2 percent of IPCE's total expenditures.

National Democratic and Republican Institute officials disallowed all questionable expenses. As previously discussed, the candidates' salaries were not allowable because grant agreement guidelines permitted salary payments only to municipal candidates, and the campaign advertisements were not allowable under the Endowment charter. As of July 31, 1990, Institute officials had recouped \$92,350 by withholding reimbursement from IPCE for this amount in allowable expenses and were negotiating with IPCE on a plan for repayment of the remaining amount.

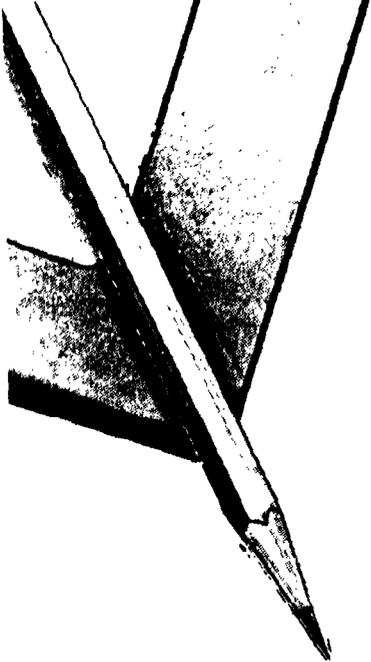
Institute officials believed that the disallowed expenditures occurred due to the IPCE's high level of activity after Public Law 101-119 funds became available in early February 1990. During that month, IPCE officials trained poll watchers, verified voter registration lists, and promoted civic education and voter participation. These officials noted that IPCE received and spent funds over 3 weeks and not over an extended period, as originally intended, which would have allowed for a more orderly disbursement of funds.

Use of Supreme Electoral Council Tax

To comply with Nicaragua's electoral law, the Institute paid about \$1.63 million in Public Law 101-119 funds to the Supreme Electoral Council for electoral taxes on UNO's behalf, as of July 31, 1990. According to the Council president, the governing Sandinista party was the only other recipient of foreign donations and paid about \$220,000 in taxes. This official also stated that tax revenues were commingled with other funds, such as government appropriations and bilateral donations, in a general fund totaling \$20 million. The general fund was used to pay for ballot paper and ink, per diem for poll watchers, and other election expenses.

We conducted a limited review of Council activities, including radio and newspaper advertising and actions of voting officials on election day at 20 of 4,392 polling tables, and interviewed the UNO representative on the Council. In these instances, we found no evidence that the Council had funded partisan activities. However, we were unable to fully verify how the Council expended the UNO tax because Council officials would not grant us access to expenditure records. Figure 3.1 is an example of a Council newspaper advertisement that was published in a daily newspaper, La Prensa, in February 1990.

Figure 3.1: Supreme Electoral Council Advertisement Promoting Voter Participation^a



**La mejor
herramienta
es tu
voto**

En las elecciones del 25 de Febrero de 1990 podemos elegir a nuestros gobernantes entre los candidatos a Presidente y Vicepresidente, representantes ante la Asamblea Nacional y miembros de los Concejos Municipales.

**Votar es elegir
tu voto es libre y directo**

TU VOTO ES SECRETO



consejo supremo electoral

Garantía de Elecciones Libres y Honestas.

^aTranslated, the advertisement reads, "The best tool is your vote. In the elections of February 1990, we can elect our leaders among the candidates for President and Vice-President, Representatives to the National Assembly and members of the Municipal Councils. To vote is to choose. Your vote is free and direct. Your vote is secret. Supreme Electoral Council. Guarantor of free and honest elections."

Source: La Prensa

In February 1990, the Council president stated that a private accounting firm was auditing Council expenditures and that the firm's report might be available in the future. As of July 1990, the firm had not yet issued a report. In March 1990, the charge d'affaires at the U.S. Embassy in Managua requested that the Council account for the UNO tax but had not received a response as of June 1990. As of July 31, 1990, Institute officials estimated that UNO still owed about \$89,000 in taxes. Final payment is being withheld until the exact amount is determined and the Council submits a request for payment.

Accountability of Funds

AID required each grantee to maintain an adequate system to account for expenditures charged to the Public Law 101-119 program and to arrange for an independent concurrent audit. To facilitate the audit and to ensure accountability, funds were to be maintained in a separate bank account. Further, all groups were required to comply with applicable Nicaraguan laws prior to expending funds.

Compliance With AID Requirements

In November 1989, AID hired Price Waterhouse, a public accounting firm, to survey the accounting systems of CAPEL and the four internal groups to certify whether each had adequate controls and had complied with grant agreement requirements. At the time of the surveys in December 1989, UNO and the Confederation of Labor Unity had not yet established fully reliable accounting procedures, and UNO had not hired any accounting staff. Further, the Confederation had not registered its grant, and Via Civica had not obtained legal status as required by Nicaraguan law.

During December 1989, Price Waterhouse assisted UNO in establishing accounting controls and procedures, and UNO hired accounting staff. On December 18, 1990, Price Waterhouse certified the accounting systems of UNO, IPCE, CAPEL, and Via Civica. During December and January 1990, the accounting firm of Deloitte and Touche assisted Confederation personnel in making improvements required for certification. The Confederation was certified on January 26, 1990. In letters certifying the accounting systems of Via Civica and the Confederation, Price Waterhouse reported that two groups still had not complied with Nicaraguan law on foreign donations.

We found that the Confederation had expended Public Law 101-119 funds before it fully registered the grant with the Nicaraguan government. On February 7, 1990, the American Institute for Free Labor Development received \$396,000 from the Endowment. Prior to this date, the Institute transferred funding from other sources to support the Confederation's activities. These Public Law 101-119 funds became commingled with other funds and were used to fund Confederation activities. On February 16, 1990, the Confederation registered \$10,000 of its \$493,013 grant with the Ministry of External Cooperation; however, it never registered the remainder. As of June 30, 1990, the Confederation reported expenditures of about \$357,434 in Public Law 101-119 funds.

Institute officials believed that they were authorized to transfer funds to the Confederation after the Confederation was certified by Price Waterhouse. Further, they noted that Confederation officials were reluctant to fully register the grant prior to the election because they feared the Nicaraguan government might delay the release of funds. Endowment officials believe that the Confederation made a good-faith effort to register the grant and, in June 1990 sought AID's approval to authorize Confederation expenditures. In their view, the Confederation's reluctance to fully register the grant was defensible, since compliance with Nicaraguan law might have jeopardized the Confederation's program. On June 29, 1990, AID agreed to authorize the Confederation's expenditures.

Adequacy of Accounting Procedures

GAO and private auditors found that grantees had established adequate procedures and had properly accounted for expenditures except that the Confederation had some weaknesses in accounting controls. Further, Via Civica and the Confederation did not account for Public Law 101-119 funds separately as required by AID.

In December 1989, the American Institute for Free Labor Development hired the accounting firm of Deloitte and Touche to evaluate the Confederation's financial system. The firm reported several deficiencies. For example, the Confederation did not have adequate procedures for authorizing cash payments and obtaining support documentation. Further, its accounting personnel had not prepared financial reports. The auditors recommended, among other things, that the Confederation establish procedures for handling funds, prepare accountability statements, and create a separate bank account and financial records for Public Law 101-119 transactions. During December 1989 and January

1990, Deloitte and Touche auditors assisted Confederation personnel in designing an adequate accounting system to address these issues.

In April 1990, the firm completed its second and final evaluation. It reported that Confederation accounting personnel had taken some action but had not fully implemented its recommendations. For example, improvements were still needed in implementing administrative controls, compiling support documentation, and preparing financial reports. Also, the Institute conducted only limited oversight of Confederation accounting activities.

Institute officials stated that they intend to assign a program officer and hire a full-time accountant to improve oversight and resolve weaknesses. They also noted that the Confederation had established its accounting system in December 1989 and had not had sufficient time to implement and perfect the system.

In addition, Via Civica and the Confederation did not comply with AID requirements to account separately for Public Law 101-119 funds. Specifically, neither had established a separate bank account or maintained separate accounting records while expending funds.

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