United States General Accounting Office

GAO

Report to Congressional Committees

ctober 1990

CENTRAL AMERICA

Assistance to Children Affected by the Nicaraguan Civil Strife

AO/NSIAD

GAO

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

142517

National Security and
International Affairs Division

B-240256

October 25, 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

The funds authorized in Public Law 100-276 (April 1988) to support peace and democracy in Central America included $17.7 million to aid children affected by the Nicaraguan civil strife. This report discusses the Agency for International Development's administration and expenditure of these funds. It is one of a series of reports prepared in response to a provision in Public Law 100-276, calling upon GAO to audit the management of foreign assistance provided to Central America. The prior reports dealt with humanitarian assistance to the Nicaraguan Resistance and activities of the Verification Commission.

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. Copies will be made available to others on request.

The report was prepared under the direction of Joseph E. Kelley, Director, Security and International Relations Issues, who may be reached on (202) 275-4128 if you or your staff have any questions. Other major contributors are listed in appendix II.

Frank C. Conahan

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

On April 1, 1988, Public Law 100-276 authorized the provision of $47.9 million to support peace and democracy in Central America. The Congress stipulated that $17.7 million of these funds would be provided for medical care and other types of relief to children that were victims of the Nicaraguan strife.

Under the law, GAO was required to independently review the administration and expenditure of these funds. Specifically, GAO determined if the Agency for International Development (AID) and participating organizations provided authorized types of assistance and established adequate controls to administer and monitor the procurement and delivery of goods and services provided under the Children's Survival Assistance Program.

Background

In April 1988, AID established the Task Force on Humanitarian Assistance in Washington, D.C., with field offices in Honduras and Costa Rica, to administer the Children's Survival Assistance Program and other Public Law 100-276 assistance efforts. The task force established guidelines for identifying eligible persons, and AID granted funds to 10 private voluntary organizations and 1 international relief organization to deliver assistance in Costa Rica, Honduras, and Nicaragua. However, limited assistance was provided in Nicaragua because the Nicaraguan government banned this program in October 1988.

Although the law authorized funds to remain available until expended, AID officials believed that most of the children's needs specified by the law had been met by the end of 1989 and directed most participating organizations to cease expending funds by March 31, 1990. As of June 15, 1990, AID had obligated about $10.3 million, and of this amount, AID's grantees had expended about $9.7 million. In December 1989, the Congress authorized a follow-on program, under Public Law 101-215, to provide medical care and other relief to adults as well as children that were victims of civil strife in any Central American country. The legislation authorized AID to use any unobligated funds from the children's program for this program.

Results in Brief

AID complied with Public Law 100-276 requirements in administering the children's program by selecting appropriate organizations, adhering to funding restrictions, and ensuring that the assistance provided was authorized. The selected organizations generally provided assistance to eligible beneficiaries and established adequate controls to administer

and monitor the procurement and delivery of goods and services. However, three organizations had provided medical care to some ineligible persons. As a result, AID and the organizations tightened their controls. Further, one organization lacked adequate documentation for certain expenses, another had an inadequate financial management system, and another procured excess quantities of a medication used to treat life-threatening cases of allergies and severe asthma.

In addition, four organizations encountered problems in implementing their projects due to delays in obtaining AID's approvals and the transfer of activities from Nicaragua. In another case, a factory constructed to produce items for braces and artificial limbs was not fully productive until the latter stages of the program.

GAO's Analysis

Implementation of Children's Survival Assistance Program

In accordance with the law, AID provided funds to nonpolitical private voluntary and international relief organizations, funded authorized types of activities, and reserved half of the program's funds to support activities inside Nicaragua. The 11 organizations participating in the children's program generally provided authorized types of assistance to the target population.

Two organizations—the World Rehabilitation Fund and the Pan American Development Foundation—had provided medical care to 167 persons in Honduras that AID officials believed were ineligible for assistance. As a result, AID tightened its control by changing the eligibility requirements. In addition, health facilities in Costa Rica had inappropriately distributed medicines to 4,785 adults, but the responsible organization, Catholic Relief Services, took effective action to discontinue this practice in February 1989.

Internal Controls Over Funds

The task force required participating organizations to adhere to accounting and procurement standards. Task force officials and auditors from several private accounting firms reviewed various aspects of the program. The organizations had generally established systems to adequately track expenditures, ensure reasonable prices for items procured, and screen potential beneficiaries. However, the American Red Cross lacked documentation for some expenses, and the World Rehabilitation

Fund did not maintain an adequate financial system. As a result, the Fund exceeded its authorized expenditure limit by about $139,000.

Neither Catholic Relief Services nor its procurement contractor had adequately analyzed medical needs before procuring medicines and supplies. As a result, they procured excess quantities of a particular medication and had to destroy 48,000 vials of expired medicine valued at $12,960.

Problems in Implementing the Program

Some organizations experienced problems in implementing their projects. CARE (Cooperative for American Relief Everywhere) and Project HOPE could not meet certain goals because of delays in obtaining AID's approval for their activities. Because they had to relocate from Nicaragua, Catholic Relief Services had an excess supply of certain medicines and supplies, and the Pan American Development Foundation had problems finding a suitable project site in Honduras.

In addition, a prosthetics factory constructed by the World Rehabilitation Fund did not produce many items for eligible beneficiaries until late in the program because Fund officials had not coordinated production and testing and because of problems in installing equipment.

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 GAO's findings and conclusions. Their comments have been incorporated in the report where appropriate.

Contents

Executive Summary		2
Chapter 1 Introduction		8
	Program Implementation	9
	Activities and Expenditures	10
	Objectives, Scope, and Methodology	12
Chapter 2 Implementation Issues and Problems		14
	Delays in Obtaining Project Approvals	14
	Difficulties Encountered Due to Transfer From Nicaragua	15
	Limited Use of Prosthetics Factory	16
Chapter 3 Compliance With Requirements and Establishment of Controls		18
	Compliance With Legislative Requirements	18
	CSAP Organizations Provided Assistance to the Target Population	18
	CSAP Organizations Established Controls	21
Appendixes	Appendix I: Activities of Organizations Participating in the Children's Survival Assistance Program	26
	Appendix II: Major Contributors to This Report	31
Tables	Table 1.1: CSAP Organizations	9
	Table 1.2: CSAP Obligations and Expenditures	12
	Table 3.1: CSAP Beneficiaries	20

Abbreviations

AID	Agency for International Development
CARE	Cooperative for American Relief Everywhere
CRS	Catholic Relief Services
CSAP	Children's Survival Assistance Program
GAO	General Accounting Office

Chapter 1

Introduction

On July 17, 1979, after nearly 2 years of civil strife, a coalition led by members of the Sandinista National Liberation Front party overthrew the existing government in Nicaragua. As the party consolidated its power, dissatisfaction with its rule prompted some Nicaraguans to join an armed opposition force referred to as the Nicaraguan Resistance. The ensuing conflict between the Resistance and the Sandinista government extended over a 9-year period and resulted in injuries and the involuntary migration of Nicaraguan and Honduran civilians. It also resulted in a deterioration in health care in Nicaragua and an influx of refugees into Costa Rica and Honduras.

Public Law 100-276, effective April 1, 1988, provided $47.9 million to the Agency for International Development (AID) to support peace and democracy in Central America. This amount included $17.7 million for humanitarian assistance to the Resistance, $17.7 million to aid children that were victims of the Nicaraguan civil strife, $10 million for activities of a Verification Commission, and $2.5 million for administrative expenses. These funds were transferred to AID from unobligated fiscal year 1986 Department of Defense appropriations.

Since the law was enacted, we have issued reports in June 1989 and February 1990 on our reviews of expenditures under Public Law 100-276 for humanitarian assistance and the Verification Commission.[1]

This report concerns the $17.7 million provided to assist children that were physically injured, orphaned, or displaced by the Nicaraguan civil strife, including services such as prosthetic and rehabilitation care, medicines, and immunizations. Funds were to remain available for this program, referred to as the Children's Survival Assistance Program (CSAP), until expended. Further, AID was initially required to reserve at least half of the funding for activities in Nicaragua. In December 1989, the Congress enacted Public Law 101-215, which authorized a follow-on program to include victims of civil strife, including adults, in any Central American country. The law also authorized AID to use unobligated CSAP funds for this program.

[1]Central America: Humanitarian Assistance to the Nicaraguan Democratic Resistance (GAO/NSIAD-89-152, June 1, 1989) and Central America: Activities of the Verification Commission (GAO/NSIAD-90-65, Feb. 23, 1990).

Program Implementation

In April 1988, AID established the Task Force on Humanitarian Assistance in Central America to implement the CSAP and to provide other assistance authorized in Public Law 100-276. The task force headquarters staff in Washington, D.C., administered the CSAP with some assistance from field personnel in Honduras and Costa Rica.

In early April 1988, AID solicited proposals from 24 private voluntary and international relief organizations, and by mid-May 1988, it had selected and signed grant agreements with nine private voluntary organizations to provide assistance in Honduras, Costa Rica, and Nicaragua. By June 1988, using the criteria in Public Law 100-276, AID had developed guidelines that specifically defined who would be eligible for assistance. (As discussed in ch. 3, AID modified these guidelines in May and June 1989.) In September 1988 and March 1989, AID signed grant agreements with a 10th private voluntary organization and a United Nations international relief organization.

Table 1.1 identifies the organizations selected to provide assistance in each country.

Table 1.1: CSAP Organizations

Country	Organization
Nicaragua	Adventist Development and Relief Agency
	Catholic Relief Services
	International Medical Corps
	National Association of the Partners of the Americas
	Pan American Development Foundation
	Project HOPE
	Save the Children
	World Rehabilitation Fund
Honduras	American Red Cross
	Pan American Development Foundation
	Project HOPE
	United Nations High Commissioner for Refugees
	World Rehabilitation Fund
Costa Rica	CARE[a]
	Catholic Relief Services

[a]Cooperative for American Relief Everywhere.

Although AID had planned to provide most CSAP assistance in Nicaragua, one organization—International Medical Corps—was unable to obtain Nicaraguan government approval for its project, and in October 1988,

the Nicaraguan government prohibited all CSAP activities. As a result, AID had to make significant adjustments to the program. AID instructed the seven organizations that planned to operate in Nicaragua to cease operations and gave them the option of transferring their projects to Honduras or Costa Rica. Three organizations—Pan American Development Foundation, Project HOPE, and World Rehabilitation Fund—transferred activities to Honduras; one—Catholic Relief Services (CRS)—transferred its activities to Costa Rica; and three—Adventist Development and Relief Agency, National Association of the Partners of the Americas, and Save the Children—ended their CSAP involvement.

At the time of the ban, four organizations—Adventist Development and Relief Agency, CRS, National Association of the Partners of the Americas, and Pan American Development Foundation—had purchased and shipped items, such as vehicles, medicines, and office and medical equipment, to their project sites. With AID's approval, these organizations either used these items for CSAP activities in Honduras or Costa Rica or other AID-funded activities or donated items to private voluntary or international relief organizations working in Nicaragua, Honduras, or Costa Rica. Chapter 2 and appendix I provide additional information on the transfers.

Activities and Expenditures

According to available statistics, CSAP organizations provided assistance to about 240,000 persons in Nicaragua, Honduras, and Costa Rica from May 1988 to April 1990. Due to the Nicaraguan government's ban on CSAP activities, only two organizations were able to provide assistance in Nicaragua. Before October 1988, the National Association of the Partners of the Americas had delivered medical supplies and milk powder to private clinics and orphanages, and Save the Children had shipped clothing to a private orphanage and prepared plans for the orphanage's repair. Thus, most of the assistance was provided in Honduras and Costa Rica and involved the following:

- medicines, medical equipment, and supplies;
- surgical and other clinical services;
- rehabilitation services and braces and artificial limbs;
- supplementary food rations and crop production supplies;
- clothing, shoes, and personal hygiene and household items;
- training in child health and nutrition issues;
- improvement of health, water, and sanitation facilities;
- emergency shelter; and
- vehicles and motorcycles for health technicians.

(See app. I for details on the assistance each CSAP organization provided.)

AID officials believed that the Congress intended the CSAP to be an emergency short-term assistance program. However, as AID officials began implementing the program, they realized that the number of persons suffering from traumatic injuries was smaller than expected. Thus, they permitted certain organizations to provide long-term primary health care and training activities.

By April 1990, all organizations had completed their activities. Before this, AID required the organizations to submit proposals for the disposition of nonexpendable property, such as vehicles and computers, acquired during the program. In accordance with its property disposition regulations, AID authorized the donation of these items to Ministries of Health or private voluntary or international relief organizations in Honduras, Nicaragua, and Costa Rica or the use of the items to support other AID-funded projects.

As of June 15, 1990, AID had obligated about $10.3 million of the $17.7 million authorized for CSAP activities, and CSAP organizations had expended about $9.7 million for activities conducted from May 1988 to April 1990. (See table 1.2 for a breakdown of total CSAP obligations and expenditures.) Although the legislation provided that funds were to remain available until expended, AID officials believed that the highest priority needs of the target population had been met by December 31, 1989, and directed most organizations to cease expending funds by March 31, 1990.[2]

[2]In June 1989, AID instructed all but two CSAP organizations to cease delivery of services on December 31, 1989. The Pan American Development Foundation and the World Rehabilitation Fund were allowed to deliver services until April 1990 because they were scheduled to receive funds under the follow-on program.

Table 1.2: CSAP Obligations and Expenditures (As of June 15, 1990)

Organization	Obligation	Expenditure			
		Honduras	Costa Rica	Nicaragua	Total
Adventist Development and Relief Agency	$1,360,000	$42,053	$390,608	$927,333	**$1,359,994**
American Red Cross	440,000	429,342	•	•	**429,342**
CARE	1,165,000	•	1,028,86	735,000	**1,063,867**
CRS	1,200,000	•	1,162,02	537,975	**1,200,000**
International Medical Corps	19,310	•	•	19,310	**19,310**
National Association of the Partners of the Americas	618,000	•	•	607,013	**607,013**
Pan American Development Foundation	1,850,000	1,353,276	•	362,570	**1,715,846**
Project HOPE	1,000,000	763,205	•	9,795	**773,000**
Save the Children	48,000	•	•	47,938	**47,938**
United Nations High Commissioner for Refugees	554,355	554,355	•	•	**554,355**
World Rehabilitation Fund	2,066,000	1,919,064	•	1,470	**1,920,534**
Total	**$10,320,665**	**$5,061,295**	**$2,581,500**	**$2,048,404**	**$9,691,199**
Amount unobligated	7,379,335				
Total available	**$17,700,000**				

In February 1990, AID reprogrammed all unobligated CSAP funds—about $7.4 million—for the follow-on program. According to an AID official, AID will also reprogram any obligated funds that have not been expended after all expenditures are accounted for.

Objectives, Scope, and Methodology

Our objectives were to determine if AID and participating organizations provided authorized types of assistance under the CSAP and established adequate controls to administer and monitor the procurement and delivery of goods and services in accordance with Public Law 100-276.

We met with officials from the AID Task Force and the Department of State in Washington, D.C., and the AID missions and U.S. embassies in Tegucigalpa, Honduras, and San Jose, Costa Rica. At these locations, we reviewed records and observed the delivery of goods and services. We did not observe the delivery of the goods that were distributed inside Nicaragua. We also interviewed U.S. representatives from the participating organizations.

To determine if the assistance provided was authorized, we reviewed eligibility guidelines and procedures and project records concerning the monitoring and delivery of goods and services. We also visited several

CSAP project sites to observe treatment procedures and deliveries of supplies and services.

To determine if controls were adequate, we reviewed procedures for purchasing and delivering goods and services and conducted spot checks of the financial and procurement records of the private voluntary organizations with CSAP projects in Honduras and Costa Rica. We also reviewed reports of firms hired to audit CSAP organizations and monitored the distribution and uses of funds, commodities, and supplies as well as the provision of medical and rehabilitation services.

We conducted the review between April 1988 and 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 Issues and Problems

CSAP organizations provided assistance as planned; however, five encountered problems in implementing their activities. CARE and Project HOPE encountered difficulties in obtaining project approval, and as a result, project implementation was delayed. Also, due to the transfer of activities from Nicaragua, CRS had to donate or exchange medicines that were inappropriate for use in Costa Rica, and the Pan American Development Foundation had problems finding a new work site in Honduras. Finally, the World Rehabilitation Fund made a large investment in a production facility that was not fully productive until the latter stages of the project.

Delays in Obtaining Project Approvals

Project HOPE and CARE submitted proposals for projects in Honduras in September 1988, but AID and the two organizations did not agree on specific project activities until several months later. Although AID approved the proposals in early November 1988, several days later, it withdrew approval because officials from AID's mission in Honduras believed that the two organizations had overstated the number of displaced persons and Nicaraguans living in Honduras and that the projects would conflict with AID's health programs. The mission recommended that the task force obtain better information on the number of people that qualified for CSAP assistance.

AID hired a consultant in November 1988 to obtain additional information and make recommendations on CSAP activities. The study, completed in December 1988, recommended that only one of the organizations receive funding. CARE later withdrew its proposal for Honduras, and Project HOPE resubmitted its proposal and obtained AID's approval in March 1989. However, AID did not approve Project HOPE's implementation plan until late July 1989 because, according to AID and Project HOPE officials, it took time to reach an agreement on eligibility and reporting requirements. Project HOPE officials said that the delayed approval prevented it from making a planned second procurement and delivery of medicines and medical supplies.

CARE also experienced delays in implementing its project in Costa Rica. CARE officials negotiated with AID mission officials in Costa Rica and the task force between October 1988 and February 1989 on the assistance to be provided and the eligibility requirements. In February 1989, AID approved CARE's proposal; however, CARE could not implement its project until AID modified its eligibility criteria to satisfy Costa Rican Ministry of Health requirements. In May 1989, AID issued the modified criteria and requested that CARE obtain information on the Ministry of Health's

financial investment in clinics expected to receive assistance. CARE submitted this information to AID in July 1989 and began providing assistance in August 1989. According to AID and CARE officials, the project approval process took longer than expected primarily because complex eligibility issues had to be resolved.

According to CARE officials, the lengthy approval process left only 5 months to implement project activities in Costa Rica and contributed to the inability of some Costa Rican private voluntary organization grantees to provide as much assistance as planned. For example, Clinica Biblica, a clinic in San Jose, signed a $30,000 contract to provide specialized medical services but was able to treat only 20 patients at a cost of about $5,600.

Difficulties Encountered Due to Transfer From Nicaragua

As discussed in chapter 1, in October 1988, the Nicaraguan government prohibited CSAP activities, and organizations selected to operate in Nicaragua transferred or cancelled planned projects. In particular, two organizations—CRS and the Pan American Development Foundation—experienced problems in implementing their programs after transferring from Nicaragua.

Catholic Relief Services

At the time of the ban, CRS had purchased three vehicles, medicines, and medical supplies and had hired most of its in-country staff. Some items, including two vehicles and a container of medicines, had already arrived in Nicaragua. In November 1988, AID authorized CRS to transfer its project to Costa Rica. Subsequently, CRS shipped the vehicles and other items from Nicaragua and began providing CSAP medicines and medical supplies to Costa Rican Ministry of Health clinics in January 1989.

According to CRS officials, except for certain medicines (malaria, tuberculosis, antiparasite, and aspirin) and sutures, most of the medicines and supplies purchased for Nicaragua were suitable for the project in Costa Rica. Malaria and tuberculosis are more prevalent in Nicaragua than in Costa Rica, and two of the antiparasite medications had been replaced by less toxic medicines. Aspirin was generally not used for children in Costa Rica because it had been linked to a childhood liver disease. Further, the Ministry of Health would not authorize most of the CSAP clinics to use sutures.

According to a CRS official, after transferring the project, only 2 months remained to use one of the malaria medicines before it expired in July

1989. To minimize waste, the Costa Rican government used most of it to rid bodies of water of malaria-carrying mosquitos. CRS also exchanged a quantity of another malaria medicine, valued at about $60,000, with its procurement contractor, for other more appropriate medicines. Further, Ministry clinics distributed the less toxic of the two antiparasite medicines to children and provided the other medicine to older teenagers and adults. AID authorized CRS to donate excess aspirin and other items, including sutures, to the Ministry.[1]

Pan American Development Foundation

By October 1988, the Foundation had purchased over $283,000 of medical equipment, hospital supplies, and generators for use in Nicaragua; had shipped two vehicles and office equipment; had initiated searches for potential patients; and had hired in-country staff. In October 1988, AID gave the Foundation the option of transferring its project to Honduras or Costa Rica. By January 1989, the Foundation had received AID's preliminary approval to assist a Honduran Ministry of Health hospital in Tegucigalpa; however, hospital labor union representatives objected because they feared that the hospital would use CSAP funds to treat Nicaraguan Resistance members. The Foundation was not able to find another site until March 1989.

Limited Use of Prosthetics Factory

The World Rehabilitation Fund spent about $178,000 to build a factory in Honduras for manufacturing components used to assemble braces and artificial limbs. By funding the factory, AID officials hoped to provide a more affordable Central American source for the devices and to offer replacement and repair services to CSAP beneficiaries after the program ended.[2] The Fund planned to reduce the number of imported items used by its laboratory in Honduras to construct devices. The laboratory, also funded with CSAP monies, began operating in October 1988.

In October 1988, AID authorized the Fund to proceed in constructing the factory, and in January 1989, the Fund began to implement its plan. By

[1]AID officials agreed that the Ministry could provide the aspirin to persons that did not qualify for CSAP assistance because large amounts would expire if the supply was restricted. CRS officials believed that sutures also would have to be distributed outside the CSAP target population if they were to be used before becoming non-sterile.

[2]To support this objective, AID authorized the Fund, in September 1989, to study if the factory and other rehabilitation services should continue operating after the CSAP ended and how they could become financially self-sufficient. The study, completed in December 1989, concluded that the factory and services should continue, but that external financial support was needed for at least another year.

June 1989, the factory was sufficiently complete to begin limited production of unsophisticated items such as wooden ankle blocks and leather straps. However, complete testing of more complex items, such as suction valves and knee units, did not begin until mid-November 1989. Consequently, these items were not available to CSAP beneficiaries until late November 1989. The project ended on April 30, 1990, and as of that date, about 100 CSAP beneficiaries had received devices with factory-produced items.

Fund officials stated that the factory's late start was partly caused by delays in the purchase, shipment, and installation of the production equipment. The Fund and a contractor hired in January 1989 took several weeks to determine the types of equipment and supplies to order. In March 1989, the Fund began purchasing equipment and supplies but was unable to install all equipment until late November 1989 because vendors could not deliver some equipment promptly, certain materials were not readily available in Honduras, and it took time to ship items to Honduras and clear them through customs. Further, once in Honduras, certain equipment could not be operated immediately because of missing or broken parts.

The Fund had not coordinated activities of the factory with the laboratory, which was responsible for some of the testing of the items and using the items to construct devices. As a result, the laboratory had not tested or used most of the factory-produced parts. According to a Fund official, the factory and the laboratory did not coordinate activities because they were controlled by different managers until mid-November 1989 when the Fund named one person to manage both facilities.

AID did not closely monitor the factory's progress. AID officials acknowledged that the factory made a limited contribution to the CSAP and that they did not ask the Fund to provide any schedules or production goals for the factory.

The Fund's CSAP project ended in April 1990. AID, however, granted $2,180,000 in additional funds, authorized under Public Law 101-215, to provide prosthetics devices to eligible persons under the follow-on program. According to AID and Fund officials, this money should ensure that the factory will remain operational, and its output will benefit children that the Congress sought to assist when it authorized the CSAP.

Compliance With Requirements and Establishment of Controls

AID and CSAP organizations generally complied with legislative and other requirements and established adequate controls to administer procurement and distribution of goods and services. CSAP organizations provided assistance to the target population; however, about 5,000 ineligible persons received CSAP benefits. In addition, the American Red Cross lacked adequate documentation for some authorized expenses, and the World Rehabilitation Fund had an inadequate financial management system. Furthermore, CRS did not adequately analyze medical needs before procuring medicines, and as a result, it had to destroy excess quantities valued at about $13,000.

Compliance With Legislative Requirements

Public Law 100-276 specified that AID would provide funds for certain types of assistance, such as prosthetics and rehabilitation, and that assistance must be provided through nonpolitical private voluntary and international relief organizations. Further, AID was required to reserve at least half of the CSAP funding, or $8.85 million, for activities in Nicaragua. However, the law stipulated that none of this assistance could be provided to or through the Nicaraguan government.

AID complied with these requirements by selecting appropriate types of organizations, funding authorized assistance, and reserving $9.4 million for use in Nicaragua. We did not review activities in Nicaragua; however, officials from the two organizations that operated in Nicaragua told us that their organizations provided assistance through private clinics and orphanages, not to or through the Nicaraguan government.

CSAP Organizations Provided Assistance to the Target Population

According to Public Law 100-276, only those children affected by the Nicaraguan civil strife were eligible for CSAP assistance, and priority was to be given to the children with the greatest needs. By June 1988, AID had established preliminary guidelines that defined eligibility more specifically than the law did. To be eligible, children were to be 17 years of age or younger or 17 or younger at the time of injury. The Nicaraguan conflict was determined to have started in 1979. Children with the greatest needs were those with traumatic, conflict-related injuries such as wounds resulting from bullets or mines or burns suffered in explosions.[1]

[1]During the course of the CSAP, AID discovered that there were few traumatic injury cases and thus permitted CSAP organizations to also provide nonemergency, primary health care services.

CSAP Organizations Selected Sites

Using AID's guidance, results of health surveys, and host government statistics, CSAP organizations selected sites for project activities in areas judged to be most heavily populated by the target population. In early 1989, CARE and Project HOPE officials reported that it would be difficult to adhere strictly to the eligibility criteria. These organizations planned to provide assistance through Costa Rican and Honduran Ministry of Health facilities; however, Ministry policy required facilities to deliver health care in a nondiscriminatory manner. Thus, AID could not demand that the facilities use CSAP commodities only for children affected by the strife.

AID officials stated that using the existing health infrastructure in Honduras and Costa Rica was the only means for AID to comply with the statutory requirement to provide CSAP assistance. They also noted that it was not politically feasible or cost-effective for AID to build a separate network of clinics to provide treatment to a select population consisting largely of Nicaraguans. Thus, they concluded that, in order to satisfy Public Law 100-276 requirements, it was necessary to permit participating organizations to provide assistance at facilities that served a larger population than the target population.

In May 1989, AID authorized CARE and Project HOPE to provide assistance through Ministry facilities under certain conditions. Specifically, AID stipulated that CSAP organizations should work, to the extent possible, through Ministry facilities in areas in which eligible beneficiaries made up about 20 percent of the population. Otherwise, they had to prove that Ministry funding at a particular facility equaled or exceeded the value of CSAP-funded donations.[2] CARE and Project HOPE provided such evidence.

Some Ineligible Persons Received Assistance

According to available statistics, CSAP organizations provided about 241,000 individuals with direct benefits such as commodities, training, or services and indirect benefits such as improvements to local sanitation, water, or health facilities. Table 3.1 provides a breakdown of the number of persons treated by each CSAP organization.

[2]CRS also provided assistance, including supplying medicines initially purchased for use in Nicaragua, through Ministry of Health facilities in Costa Rica. However, there were not enough Costa Rican health facilities to absorb the medicines in areas where eligible beneficiaries were about 20 percent or more of the population. Thus, AID required CRS to apply the 20-percent criterion only to facilities that were added after the new guidelines were issued in May 1989.

Table 3.1: CSAP Beneficiaries

Organization	Number
American Red Cross	42,000
CARE	35,562
Catholic Relief Services	51,436
National Association of the Partners of the Americas	46,604
Pan American Development Foundation	615
Project HOPE	50,272
Save the Children	80
United Nations High Commissioner for Refugees	13,500
World Rehabilitation Fund	885
Total	**240,954**

We found that 4,952, or 2 percent, of the 240,954 beneficiaries did not meet AID's eligibility requirements. Those ineligible included 167 Honduran children who received specialized medical and rehabilitation services from the Pan American Development Foundation and the World Rehabilitation Fund in Honduras and 4,875 adults who received CSAP-funded medicines from Ministry of Health facilities in Costa Rica.

Foundation and Fund officials said that they believed the law and AID's preliminary guidance allowed them to treat any Honduran child that lived in an area where health care services had deteriorated as a result of the conflict. They believed that the Nicaraguan strife had caused a deterioration in the quality and availability of health care services and that the Honduran government might suspend their CSAP projects or turn down future non-CSAP work if large numbers of Hondurans were excluded from CSAP assistance.

AID officials stated that they believed Public Law 100-276 required AID to limit assistance as much as possible to children whose health problems were directly linked to the Nicaraguan conflict, particularly those who had suffered traumatic injuries such as wounds from bullets or mines. Therefore, allowing the Foundation and the Fund to treat non-Nicaraguan children whose medical needs were the result of inadequate health care would turn the CSAP into a general health care program and thus contradict legislative intent. Further, it would be difficult for AID to determine if the level of health care had deteriorated in a certain area.

Consequently, AID believed that the two organizations had interpreted the law and preliminary criteria too liberally. In June 1989, AID issued guidelines that stated that the Foundation and the Fund could provide

assistance only to those non-Nicaraguan children injured, orphaned, abandoned, displaced, or unable to obtain health care services for reasons directly related to the strife. Foundation and Fund officials noted that, to comply, they had to reject greater numbers of Hondurans for treatment, including those that would previously have been treated.

CRS provided medicines and medical supplies to Ministry clinics in Costa Rica and required clinic officials to sign agreements stipulating that these items would be used to treat children under 18. In February 1989, CRS learned that six clinics had distributed medicines and medical supplies to 4,785 adults and requested Ministry officials to ensure that clinics discontinued this practice. Subsequent monthly reports indicated that the six clinics had stopped treating adults with CSAP-funded items. The CRS official who administered the project believed that the care had been improperly provided because clinic personnel misunderstood the restrictions governing CSAP donations.

CSAP Organizations Established Controls

AID required participating organizations to maintain adequate financial management and procurement systems and to monitor the distribution of goods and services to ensure that assistance was being provided to eligible beneficiaries. AID also recommended that the organizations working in Honduras and Costa Rica arrange for a concurrent audit. CSAP organizations generally complied with these requirements; however, the American Red Cross and the World Rehabilitation Fund had some problems.

Organizations Established Systems

The CSAP organizations in Honduras and Costa Rica established systems that included procedures for tracking expenditures, obtaining price quotations for each procurement, screening beneficiaries, and monitoring deliveries.[3] In addition, officials from AID and CSAP organizations and auditors from several private accounting firms reviewed expenditures, conducted field visits, and inspected deliveries of goods and services.

Several organizations operating in Honduras and Costa Rica took measures to ensure that goods were provided to eligible beneficiaries. The American Red Cross conducted surveys to determine the specific needs and number of children that qualified for CSAP assistance and required beneficiaries to sign receipts for CSAP items. Price Waterhouse auditors

[3]We did not review the financial, procurement, and distribution systems established for CSAP projects in Nicaragua.

observed several distributions and concluded that the Red Cross was distributing goods to eligible beneficiaries. CRS, CARE, and Project HOPE coordinated their activities with Ministry officials to ensure that assistance was provided to facilities serving the greatest number of eligible beneficiaries and required Ministry officials to maintain inventory and patient statistics.

The Foundation, the Fund, and CARE also screened patients through interviews to determine if they met AID's eligibility requirements. In addition, the Foundation and the Fund hired auditors to review screening practices, and the auditors attested to their general adequacy.

Concurrent Audits Revealed Some Weaknesses

Although CSAP organizations generally maintained adequate financial management, procurement, and distribution systems, the American Red Cross and the Fund had some problems. In April 1990, Price Waterhouse reported that the American Red Cross either lacked or had received insufficiently detailed documentation for $16,046 paid to the Honduran Red Cross and the League of the Red Cross. An American Red Cross official acknowledged that the expenditures had not been properly documented but stated that the expenditures had been verbally approved by American Red Cross officials and were made for legitimate project activities.

In its February 1990 report covering activities from May 1988 through June 1989, Price Waterhouse reported that the Fund's office in Honduras had not maintained accurate and properly classified accounting and payroll records, had not reconciled bank accounts, and had not adhered to its budget. According to Price Waterhouse and Fund officials, the lack of a qualified accountant was a major cause of these financial deficiencies. Price Waterhouse also reported that the Fund had purchased goods without analyzing costs as required and had not established adequate procedures to inventory and distribute medical supplies and equipment.

As a result of the inadequate accounting system and failure to adhere to a monthly budget, the Fund exceeded expenditure limits established by AID. By June 1989, the Fund's expenditures exceeded the authorized amount of $1.15 million by about $139,000. AID officials stated they were not aware of the overexpenditure until August 1989 when they received a report from the Fund. According to Fund headquarters officials, they did not immediately report the overexpenditure to AID

because they were not aware of it until after they had received expenditure reports from the Honduras office for May and June 1989.

To compensate for the overexpenditure, the Fund reduced expenditures and did not bill AID for overhead expenses from April to November 1989. The Fund later hired a qualified accountant, and in June 1989, the Honduras office improved its accounting system by beginning to classify accounting and payroll records properly, reconciling bank accounts, and adhering to a monthly budget. In October 1989, we reviewed the Fund's financial records and found no significant problems. The Fund also began adhering to procurement procedures, inventoried its holdings, and established inventory and distribution procedures. In its June 1990 report, Price Waterhouse reported that the Fund had improved its financial management system and procurement practices and had established an adequate inventory management system.

Procurement of Excess Medicine

In February 1990, CRS destroyed 48,000 vials of epinephrine, valued at $12,960, because its shelf-life had expired. The medicine was excess because neither CRS nor its procurement contractor had adequately analyzed specific needs of the CSAP target population for epinephrine, a medication used to treat life-threatening cases of allergies and severe asthma, or other types of medicines and supplies.

In June 1988, CRS contracted with the Catholic Medical Mission Board[4] to manage procurement for its project in Nicaragua. The Board began procuring items in June 1988, and by September 1988, it had expended about $1 million for medicines and other items. In January 1989, CRS moved its project from Nicaragua to Costa Rica and began providing these medicines and other items to local clinics.

CRS provided two lists of recommended medicines and relied on the Board to use these lists and other available data to determine appropriate quantities and types. However, Board officials ordered medicines based on, for example, the numbers of patients treated at selected clinics, not on the frequency of specific illnesses. According to the medical adviser for the project, the Board procured a quantity of epinephrine that was sufficient to supply all of Central America for a year.

[4]The Board is a nonprofit organization with extensive experience in supplying medicines to church clinics in Nicaragua.

If an analysis had been performed, it is likely that a smaller quantity of epinephrine would have been ordered because the medicine is used only in emergency situations. The lack of such an analysis also increased the possibility that other medicines were purchased in excess; however, the purchase of epinephrine was the only clearly documented case. CRS officials acknowledged that too much epinephrine was purchased. They stated that AID's description of the CSAP as an emergency program contributed to their decision to order medicines before the medical needs of Nicaraguan children could be carefully analyzed.

With AID's permission, CRS tried to redistribute the excess epinephrine before destroying any quantities. It donated a portion to the Costa Rican Ministry of Health for national distribution to non-CSAP assisted regional hospitals and an additional quantity to Peru for use by the charitable organization Caritas. It also donated, at our suggestion, a small portion to one of the Costa Rican private voluntary organizations participating in CARE's CSAP project. However, its efforts to donate the remaining epinephrine to other organizations in Central America were unsuccessful.

Activities of Organizations Participating in the Children's Survival Assistance Program

Adventist Development and Relief Agency

The Adventist Relief and Development Agency, a U.S.-based private voluntary organization, signed an agreement with AID to provide medical care, clothing, food, and urgent medical care and rehabilitation referrals for children in 20 rural Nicaraguan communities. By October 1988, when the Nicaraguan government prohibited CSAP activities, the Agency had purchased all of the project's vehicles, office equipment and supplies, clothing, some spare parts, and 182 metric tons of rice. The majority of these items were en route to Nicaragua. The Agency donated the items to other CSAP projects in Honduras and Costa Rica and to its projects in Haiti, Honduras, Peru, and Bolivia and gave the rice to the United Nations High Commissioner for Refugees program in Costa Rica. It spent all of the funds AID provided—about $1.4 million—during 1988 and 1989 on its CSAP project, including the items donated with AID's approval to other projects.

American Red Cross

AID provided the American Red Cross with $440,000 to implement a CSAP project to provide assistance to children living in the southern area and the eastern Atlantic coast area of Honduras. The American Red Cross used its CSAP funds to purchase and deliver, with the assistance of the Honduran Red Cross, medical supplies and equipment, nutritional supplementation and personal care, and hygiene articles to these children. During this project, it also distributed commodities donated by Red Cross chapters from other countries and the United States. According to the American Red Cross, it provided assistance to over 42,000 children. As of June 15, 1990, the American Red Cross had expended about $430,000 for activities conducted from May 1988 to November 1989.

CARE

CARE, a U.S.-based private voluntary organization, received about $1.2 million in CSAP funds from AID to (1) establish an information coordination unit to disseminate information to all CSAP organizations; (2) assess war-related needs of children in Nicaragua, Honduras, and Costa Rica; and (3) conduct activities in Costa Rica. From May to December 1989, CARE provided materials and training to the Costa Rican Ministry of Health and grants to Costa Rican private voluntary organizations working with the CSAP target population. CARE also provided supplementary food rations to eligible beneficiaries living in five refugee camps and near selected rural Ministry health posts.

CARE provided items, including 4 mobile health units, 30 motorcycles, medical equipment, and medicines, to Ministry of Health facilities serving areas populated by significant numbers of Nicaraguans. CARE

also supported eight projects operated by local Costa Rican private voluntary organizations that provided specialized medical care, preventive health and dental care, supplementary feeding, and shoes to refugee children and other eligible persons. According to CARE officials, 36,000 beneficiaries were served by its project from August through December 1989. As of June 15, 1990, CARE had expended about $1.06 million.

Catholic Relief Services

CRS, a U.S.-based private voluntary organization, planned to expend about $3 million to provide medicines, medical equipment, and supplies to clinics throughout Nicaragua. It had hired local staff, acquired office equipment, and purchased medicines, medical supplies, and two vehicles before the Nicaraguan government banned CSAP activities. Accordingly, it transferred its project to Costa Rica, and AID reduced the grant amount to $1.2 million. CRS spent about $38,000 on CSAP activities in Nicaragua, mainly for personnel, storage, and shipping costs.

Most of the items procured for Nicaragua were used in the Costa Rican project. During this project, CRS delivered medicines, medical equipment, and supplies to Ministry of Health facilities and refugee camps located in areas thought to be most heavily populated by Nicaraguans. According to CRS officials, the Costa Rican Ministry agreed that the CSAP medicines and medical supplies would be used only for children that were 17 or younger. These officials said that there were 51,436 beneficiaries of its Costa Rican CSAP project from January to December 1989. As of June 15, 1990, CRS had expended the entire $1.2 million of CSAP funds.

International Medical Corps

The International Medical Corps, a U.S.-based private voluntary organization, planned to upgrade a private Nicaraguan medical facility for use as a pediatric surgical center and to work with another CSAP organization to recruit medical specialists, identify patients, and deliver medical care. However, the Nicaraguan government never granted approval for these activities. In planning the project, it spent about $19,000 for personnel and travel costs incurred during 1988.

National Association of the Partners of the Americas

The National Association of the Partners of the Americas, a U.S.-based private voluntary organization, planned to equip various Nicaraguan clinics and orphanages with food, medicines, and medical equipment and supplies. Before the Nicaraguan government banned the CSAP, the Association sent 11 shipments of commodities purchased with CSAP funds to

Nicaragua and used CSAP funds to pay for the transport of one container of items donated by the Ecumenical Refugee Council of Wisconsin. According to Association officials, the donated items (medicines, medical equipment and supplies, toys, and clothes) were distributed to eight private orphanages in the cities of Managua, Limon, and Esteli and reached about 3,200 children. The Association also distributed milk powder to about 46,600 children through its network of private clinics in Nicaragua. The Association spent $607,013 of the $618,000 it received from AID.

Pan American Development Foundation

AID granted about $1.9 million to the Pan American Development Foundation, a U.S.-based private voluntary organization. The Foundation initially planned to equip a private medical facility in Nicaragua with resources needed to conduct surgery on children with traumatic injuries. However, the Nicaraguan government's ban on CSAP activities prevented the Foundation from providing any assistance in Nicaragua. Accordingly, the Foundation transferred its project to Honduras.

The Foundation spent about $363,000 for its planned project in Nicaragua, mainly for personnel costs and the purchase of medical and office equipment and supplies. The majority of the items purchased were used in Honduras; the remainder, valued at about $65,000, are stored in a Miami, Florida, warehouse because they were not needed in Honduras. According to a Foundation official, the items will be used for a project in Nicaragua included in the follow-on program to the CSAP.

In Honduras, the Foundation provided surgical services for CSAP beneficiaries at an Adventist hospital located near Tegucigalpa, Honduras, by using referrals and its own detection teams to locate eligible beneficiaries that appeared to need the type of services offered at this hospital. It arranged and paid for the transportation of potential patients and their companions to the hospital where their patients were tested to determine if they needed and could withstand the rigors of surgery. Honduran surgeons, contracted by the Foundation, performed the needed orthopedic and plastic surgeries. As of June 15, 1990, the Foundation had expended about $1.4 million for activities in Honduras from March 1989 to April 1990 and had accepted 615 patients for treatment. The Foundation expended a total of about $1.7 million for activities in Nicaragua and Honduras.

Project HOPE

Project HOPE, a U.S.-based private voluntary organization, received a grant of about $1 million and conducted CSAP activities in Honduras consisting of (1) financing repairs to nine Honduran Ministry of Health facilities; (2) donating medicines, medical supplies, and equipment to 18 Ministry facilities; and (3) supporting health education and training for Ministry personnel. According to Project HOPE officials, it provided benefits to about 50,000 beneficiaries. As of June 15, 1990, $763,000 had been spent for activities conducted in Honduras from April 1989 to March 1990.

Project HOPE also planned to establish health centers to dispense primary health care services in four zones in Nicaragua and to supply medicines and supplies to other private voluntary organizations working with other private clinics in the zones. However, the Nicaraguan government never responded to Project HOPE's requests to establish a CSAP project. Project HOPE spent about $9,800 on CSAP activities for Nicaragua, mainly for initial travel and personnel costs. Total expenditures for Honduras and Nicaragua were about $773,000.

Save the Children

Save the Children, a U.S.-based private voluntary organization, had to curtail its planned activities, which were to assist orphans and displaced children in the Esteli and Leon regions of Nicaragua, due to the Nicaraguan government's ban. It spent about $48,000 for project activities, mainly for personnel and travel costs; however, $1,500 was expended to ship clothing to 80 children at a private orphanage and to prepare renovation plans for the orphanage.

United Nations High Commissioner for Refugees

AID granted $554,355 to the United Nations High Commissioner for Refugees, an international relief organization, to provide assistance to Nicaraguan children living in refugee camps in Honduras. This organization expended these funds for agricultural implements to grow vegetables, supplementary food rations, medicines, basic household goods, personal hygiene items, fumigation services, and improved sanitation and water facilities.

In addition, the organization financed the transfer of a flooded refugee camp to a new site on higher ground. According to organization officials, 13,500 beneficiaries received CSAP assistance through activities conducted from January 1989 to December 1989.

World Rehabilitation Fund

AID granted about $2.1 million to the World Rehabilitation Fund, a U.S.-based private voluntary organization specializing in rehabilitation services. The Fund established a center in Tegucigalpa, Honduras, to provide comprehensive rehabilitation services and prosthetic and orthotic devices. The center included a factory that manufactured and tested items used to construct the devices and a mobile laboratory and workshop that provided services to beneficiaries in locations outside of Tegucigalpa. The Fund provided CSAP assistance from May 1988 through April 30, 1990, and expended about $1.9 million. Fund officials stated that 885 patients had been admitted into its rehabilitation program.

The Fund planned to conduct activities, including establishing a prosthetics laboratory, in Nicaragua, and it sent a representative to Nicaragua in July 1988 to establish contacts with groups that could refer children for rehabilitation services. However, the plans never materialized because of the Nicaraguan government's ban on CSAP activities. Thus, only $1,470 was expended in Nicaragua, which was in connection with the July 1988 trip.

Major Contributors to This Report

National Security and International Affairs Division, Washington, D.C.

Stewart L. Tomlinson, Assistant Director
Sharon L. Pickup, Evaluator-in-Charge
David G. Jones, Evaluator
Patrick A. Dickriede, Evaluator