

June 1989

# CENTRAL AMERICA

## Humanitarian Assistance to the Nicaraguan Democratic Resistance





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

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Comptroller General  
of the United States

B-230756

June 1, 1989

To the President of the Senate and the  
Speaker of the House of Representatives

This report discusses the Agency for International Development's expenditure of \$17.7 million in humanitarian assistance to the Nicaraguan Democratic Resistance from April 1 through September 30, 1988. This report was prepared pursuant to provisions of Public Law 100-276, which required GAO to independently audit the administration and expenditure of these funds.

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

A handwritten signature in black ink that reads 'Charles A. Bowsher'. The signature is written in a cursive, flowing style.

Charles A. Bowsher  
Comptroller General  
of the United States

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# Executive Summary

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## Purpose

On April 1, 1988, Public Law 100-276 authorized the provision of \$47.9 million to support peace and democracy in Central America and required GAO to independently audit the administration and expenditure of these funds.

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## Background

The \$47.9 million authorized to support peace and democracy in Central America included \$17.7 million in nonlethal humanitarian assistance to the Nicaraguan Democratic Resistance, \$17.7 million to aid children injured in the Nicaraguan war, \$10 million for activities of a Verification Commission established to monitor the delivery of assistance to Resistance combatants in Nicaragua and the cease-fire agreement between the Resistance and the Nicaraguan government, and \$2.5 million for administrative operation expenses.

These funds were transferred from unobligated fiscal year 1986 appropriations of the Department of Defense (DOD) to the Agency for International Development (AID), which was responsible for administering the assistance programs. Other unobligated fiscal year 1986 DOD funds were also made available to AID to pay for transportation expenses.

To implement the assistance program, the AID Administrator established a Task Force on Humanitarian Assistance in Washington, D.C., with field offices in Honduras and Costa Rica. The assistance AID furnished included food, clothing, and medical services for as many as 47,000 Resistance combatants, support personnel, and family members. Communications equipment was also provided, and AID paid for the costs of housing, office, and vehicle rental for the Resistance. Limited cash payments were also made to individuals for the purchase of food, clothing, and other basic needs. Additionally, AID provided Nicaraguan currency for the purchase of food and other commodities by Resistance personnel located in Nicaragua.

This report concerns the \$17.7 million humanitarian assistance program for the Nicaraguan Resistance. GAO is reporting separately on funds authorized for child survival assistance and activities of the Verification Commission.

In conducting its work GAO closely monitored program operations to determine if (1) only nonlethal goods were provided, (2) cash payments were made for authorized purposes and were properly controlled, and (3) funds were expended in compliance with specified time limits and earmarkings.

## Results in Brief

- GAO found that
- no lethal goods were provided under the assistance program, according to available evidence;
  - AID applied adequate controls to administer procurements, monitor the delivery of goods, and make cash payments;
  - legislative limits on fund expenditures resulted in over \$1.2 million in program funds not being obligated;
  - some implementation problems caused occasional delays in deliveries and shortages of supplies for the Resistance; and
  - the use of program funds was inappropriate in a few instances, but AID corrected these problems when they were discovered.

## GAO's Analysis

### No Evidence That Lethal Items Were Provided

The legislation authorizing the humanitarian assistance stated what types of aid were proper and prohibited the delivery of lethal equipment. AID's assistance conformed to these requirements. Table 1 shows the types and amounts of assistance furnished to the Resistance.

**Table 1: AID Task Force Disbursements to the Nicaraguan Democratic Resistance Under Public Law 100-276**  
(As of November 16, 1988)

Type of assistance	Amount
Food and consumables	\$5,204,728
Medical aid	2,914,020
Clothing	3,734,880
Communications equipment	1,500,000
Cash payments	
Family assistance	2,023,559
Cash for food	615,863 <sup>a</sup>
Program support/shelter	485,144
Returned to Treasury	1,221,806
<b>Total</b>	<b>\$17,700,000</b>

<sup>a</sup>These funds were disbursed for use inside Nicaragua; thus, AID could not verify exactly how the cash was used.

### AID Procedures Are Adequate

GAO's review of the program and AID accounting records showed that transactions could be adequately tracked and verified. AID's offices in Central America, where most of the supplies were purchased, were able to exercise controls to ensure that purchases were permissible under the law and to verify suppliers' legitimacy and the reasonableness of prices.

In addition to program staff, AID (1) assigned auditors from its Office of the Inspector General to monitor program administration and (2) contracted with the accounting firm of Price Waterhouse to provide more detailed audit coverage. AID's Office of the Inspector General supervised the work of the Price Waterhouse auditors. In Honduras, approximately 20 auditors were overseeing the operations. The extensive audit coverage included a concurrent financial and compliance audit of the program. According to AID, the extensive coverage was necessary because of the program's sensitive nature.

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### Legislated Funding Limits and Earmarks Not All Met

The law authorizing the humanitarian assistance stated that the amount of funds obligated in April and May 1988 was not to exceed \$2.9 million per month and the obligation for each of the next 4 months was limited to \$2.7 million. Expenditures for communications equipment were not subject to the monthly limits but were not to exceed \$1.5 million. However, AID did not begin fully operating until mid-April and only obligated about \$1.3 million in that month. AID was not required to return the unobligated \$1.6 million to the Treasury at that point. The funds remained available for expenditure throughout the program, provided the monthly limitations were not exceeded. AID did not exceed the monthly ceilings. Of the \$17.7 million authorized, \$16.5 million had been obligated by the end of the program. AID returned the unobligated balance of \$1.2 million to the Treasury.

The law also earmarked \$2.19 million of this assistance for the Indian resistance force known as the Yatama. However, according to AID, the Yatama required only \$1.2 million to provide the needed food, clothing, shelter, and other assistance. Therefore, AID did not use about \$990,000 earmarked for Yatama assistance. AID considers these funds to have been included in the balance returned to the Treasury. AID handled the funds provided in accordance with the limitations in Public Law 100-276.

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### Delays in Supply Deliveries

AID encountered some problems that resulted in occasional delays in supply deliveries and resulted in temporary shortages of goods and services provided to the Resistance. These problems were caused in part by

- the legislated monthly spending limits, which prevented the stockpiling of commodities;

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- an increasing number of Resistance personnel entering Honduras from Nicaragua and requiring assistance, which placed difficult demands on a hastily created aid program;
  - the remote and isolated locations of Resistance personnel, which required the airdrop or trucking of supplies over barely passable roads and hindered deliveries; and
  - management weaknesses within the Resistance, which caused problems in inventory management and in the determination of requirements.

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### Inappropriate Use of Assistance

In a few instances, AID program funds were not used appropriately or as intended. For example, some of the Resistance combatant families living in refugee camps had received food rations from a United Nations refugee program as well as from the AID humanitarian assistance program. Also, food valued at about \$27,000 was provided to about 100 Honduran military troops, even though it was intended only for the Resistance. In another instance, U.S. withholding tax was not deducted from payments made to Resistance personnel in the United States. Most of these problems were carryovers from previous U.S. government assistance programs for the Resistance. AID has taken action to discontinue these practices.

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### Recommendations

Assistance program operations have been closely scrutinized by AID managers, AID's Office of the Inspector General, Price Waterhouse auditors, and GAO. This scrutiny resulted in the discovery of a few instances in which program funds were used inappropriately or not as intended. In each of these cases, AID has taken steps to correct the problems, and therefore GAO makes no recommendations.

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### Agency Comments

In commenting on a draft of this report (see app. I), AID stated that the report is a fair representation of the \$17.7 million humanitarian assistance program. The Agency suggested minor modifications to some of the report language, which GAO has incorporated where appropriate.

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**Abbreviations**

AID	Agency for International Development
DOD	Department of Defense
GAO	General Accounting Office

# Introduction

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On March 31, 1988, the U.S. Congress passed a joint resolution authorizing \$47.9 million to be used in support of peace and democracy in Central America. The legislation, which became law on April 1, 1988 (Public Law 100-276), required that the U.S. Agency for International Development (AID) administer a \$17.7 million program in humanitarian assistance to the Nicaraguan Democratic Resistance, \$17.7 million for children who are victims of the Nicaraguan civil strife, and \$10 million for activities of a Verification Commission to monitor, among other things, the delivery of humanitarian assistance to the Resistance by a neutral organization and the cease-fire agreement between the Resistance and the Nicaraguan government. The legislation also provided AID with \$2.5 million for expenses incurred in administering these programs.

Under the legislation, funds needed to carry out the assistance program were to be transferred to AID from unobligated balances of Department of Defense (DOD) appropriations provided in the DOD Appropriations Act of 1986, which were due to expire on September 30, 1988. Additional funds were also made available to AID from the same DOD appropriations to pay for transportation expenses incurred in implementing the assistance program.

The legislation required that assistance provided be compatible with the Guatemala Peace Accord of August 7, 1987, the Declaration of the Presidents of the Central American Nations of January 16, 1988, and the Sapoa Agreement of March 23, 1988, between the government of Nicaragua and the Nicaraguan Resistance. These three agreements, which were signed by the Presidents of each Central American country, established the framework for the Arias, or Central American, Peace Plan. Basically, these agreements called for an end to hostilities in Central America; cease-fire agreements; a process of reconciliation; and, in the case of the Sapoa Agreement, oversight by the Verification Commission of democratic progress and of the delivery of humanitarian aid to the Resistance in Nicaragua.

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## Program Elements of \$17.7 Million Humanitarian Assistance

Under Public Law 100-276, the \$17.7 million humanitarian assistance included food, clothing, shelter, and medical services and supplies for the Resistance and payment for these items and services. The funds were made available through September 30, 1988. The amount of funds obligated in April and May 1988 was not to exceed \$2.9 million per month, of which at least \$400,000 was to be used for medical services and supplies. Obligations for each of the next 4 months were limited to \$2.7 million. The law earmarked \$2.19 million of the assistance for the

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Indian resistance force known as the Yatama. The law also authorized the expenditure of \$1.5 million to purchase communications equipment for the Resistance. The communications expenditures were included as part of the \$17.7 million but were not subject to the monthly spending limitations.

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## AID's Role

AID established a Task Force in Central America to implement the humanitarian assistance program in Central America. By mid-April 1988, AID had selected experienced staff for the Task Force and had opened an office at the U.S. Embassy in Tegucigalpa, Honduras, to oversee field operations in that country. The Task Force included a chief of field operations, a procurement officer, a controller, field operations officers, and several contract support staff. The Task Force had increased its personnel from 12 in April 1988 to 23 by September 1988. In May 1988 AID opened a second field office in Costa Rica with one staff member to oversee delivery of assistance provided in that country.

An important goal of the humanitarian assistance program was to ensure that the Resistance continued as a viable organization able to negotiate with the Nicaraguan government. To achieve this goal, AID had to modify certain elements of the humanitarian assistance program. For example, under the Sapoa Agreement, the Resistance was to be relocated during the first 15 days of April to seven cease-fire zones within Nicaragua where they would be allowed to receive AID-purchased humanitarian supplies delivered by a neutral organization. However, because the Resistance and the Nicaraguan government did not agree on how the cease-fire zones would operate, many of the Resistance remained in or returned to Honduras, and AID began providing assistance to the Resistance combatants located within Honduras.

According to AID officials, this action was taken because (1) the Nicaraguan government prevented deliveries to the Resistance within Nicaragua and (2) the Resistance desperately needed food and clothing. The first shipments of assistance in Honduras were made on April 19, 1988.

Because of the impasse in negotiations between the Resistance and the Nicaraguan government, in May 1988 AID began supplying Nicaraguan currency to Resistance officials in Honduras, who then delivered the money to Resistance personnel in Nicaragua to buy food. AID continued this so-called "cash-for-food" program from a prior program because Resistance troops in Nicaragua were having difficulty obtaining food.

AID officials called the program a “last resort” effort to provide assistance to the Resistance within Nicaragua and also noted that the program was partly intended to reduce the flow of troops into Honduras where food was more readily available.

## Objectives, Scope, and Methodology

Public Law 100-276 required that the Comptroller General conduct an independent audit of funds expended under the legislation. After discussions with staff of the House leadership, the Senate Foreign Relations Committee, and the House Committees on Appropriations, Foreign Affairs, and Permanent Select Intelligence, we agreed to monitor AID program operations closely and conduct a concurrent compliance audit of the entire \$47.9 million assistance package. We performed our review in Washington, D.C., Honduras, and Costa Rica. We also monitored cash payments to Resistance recipients in Miami, Florida.

In Washington we met with officials from AID and the Department of State. Between April 19 through September 30, 1988, we conducted fieldwork in Honduras and Costa Rica. In Honduras and Costa Rica we met with representatives from the AID Task Force on Humanitarian Assistance, the Department of State, the Resistance, and local suppliers in Honduras that distributed AID-funded goods and services to the Resistance.

Working closely with AID and Price Waterhouse auditors, we reviewed records and monitored the disbursement and uses of funds, commodities, and supplies. During the audit, we reviewed AID accounting records, purchase orders, internal memorandums, and cables. We examined obligations incurred by AID in Honduras and independently compiled financial data to verify that AID’s accounting records were correct. We also reviewed AID’s internal accounting and inventory controls.

We examined procurement procedures to determine if AID used sound commercial practices and paid reasonable and competitive prices for goods purchased. We made numerous on-site inspections and field visits to Resistance camps located on the border to verify that deliveries of cash, supplies, and services were in accordance with applicable laws, regulations, and agreements. We accompanied AID-contracted aircraft to observe the delivery of supplies by airdrops to Resistance camps in Honduras, inspected the Resistance’s warehouse and medical facilities, and made field visits to observe cash payments made to Resistance personnel.

We examined the Resistance administrative systems and procedures to procure and distribute supplies and services and inventory and disbursement procedures. We closely monitored the Resistance's procedures and controls for distributing cash under the family assistance payment and cash-for-food programs.

We performed our review from April to October 1988 in accordance with generally accepted government auditing standards. Title IX of the Defense Department Appropriations Act (Public Law 100-463, Oct. 1, 1988) authorized an additional \$27.1 million in humanitarian assistance to the Nicaraguan Resistance. We have been requested to review the expenditure of these funds. Accordingly, we will continue to monitor assistance program operations.

# AID Adopted Appropriate Procedures and Controls

AID established adequate procedures to administer and control the \$17.7 million in humanitarian assistance for the Resistance. It adopted a tight, hands-on approach and played a direct role in administering and controlling procurements and payments and in monitoring the delivery of cash, commodities, and supplies. The procedures included close oversight of day-to-day operations by the Inspector General for AID and auditors from Price Waterhouse.

AID has provided the following types of assistance to the Resistance:

- Food. Resistance combatants, support personnel, and family members received food rations. By October 1988, AID was feeding more than 47,000 people.
- Clothing. AID provided standard military attire and other gear, such as trousers, shirts, boots, ponchos, field packs, canteens, and mess kits, to combatants. The goods were shipped from the United States to Honduras on DOD aircraft.
- Medical supplies and services. About \$2.9 million in medicines and other medical supplies purchased in the United States and Central America was delivered to the Resistance in Honduras. Financing for a medical care system was also provided.
- Communications equipment. Resistance combatant units received radios and batteries to improve communication capabilities.
- Family assistance payments. Cash payments were provided to selected Resistance personnel living in the United States, Honduras, and Costa Rica to purchase food, clothing, and other basic needs.
- Cash for food. Payments in Nicaraguan currency (cordobas) were provided to Resistance personnel in or planning to return to Nicaragua to purchase food, clothing, and medical care.
- Program support. AID funded Resistance administrative and support costs such as office and housing rent, utilities, vehicle rental and maintenance, and office supplies.

AID expenditures by type of assistance and purchase location are shown in table 2.1.

Chapter 2  
**AID Adopted Appropriate Procedures  
and Controls**

**Table 2.1: AID Task Force Disbursements  
for Goods and Services** (As of  
November 16, 1988)

Type of assistance	In region	In United States	Total
Food and consumables	\$5,204,728	\$0	<b>\$5,204,728</b>
Medical aid	2,386,020	528,000	<b>2,914,020</b>
Clothing	0	3,734,880	<b>3,734,880</b>
Communications equipment	0	1,500,000	<b>1,500,000</b>
Cash payments			
Family assistance	1,788,709	234,850	<b>2,023,559</b>
Cash for food	615,863	0	<b>615,863</b>
Program support/shelter	485,144	0	<b>485,144</b>
Returned to Treasury	0	1,221,806	<b>1,221,806</b>
<b>Total</b>	<b>\$10,480,464</b>	<b>\$7,219,536</b>	<b>\$17,700,000</b>

## Operation and Transportation Expenses

The legislation also provided AID \$2.5 million for administrative expenses. Through September 30, 1988, these expenses amounted to approximately \$2.15 million. In addition, the legislation stated that transportation costs were to be funded from other unobligated DOD appropriations. These expenses included the rental of aircraft and trucks to deliver the humanitarian assistance. Approximately \$3.3 million was spent to transport supplies from the United States to Honduras with DOD aircraft and to deliver assistance to the Resistance camps within Honduras using local commercial trucking firms and an air cargo company.

Table 2.2 shows the breakdown of transportation costs obligated from other DOD appropriations through September 30, 1988.

**Table 2.2: Transportation Costs for  
Delivery of AID Task Force Goods and  
Services**

Type of transportation	Obligation
Air	
United States to Honduras	\$789,000
Parachutes and rigging	730,000
Honduras air cargo	1,055,768
Honduras surface	788,020
<b>Total</b>	<b>\$3,362,788</b>

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## Special Procurement Procedures Authorized

The Congress provided special procurement authorities to AID within the legislation. Under these special authorities AID Task Force personnel

- executed purchase orders and contracts and waived competitive procedures and formal advertising for procurements not to exceed \$100,000 and
- made advance payments of dollars and local currency, as required.

Under this authority, AID expedited the procurement process by waiving agency rules of solicitation and competitive procedures and used greater flexibility in negotiating with local businesses for needed supplies. According to an AID Task Force official in Honduras, the special procurement authority was used extensively to procure food from local suppliers in Honduras and other countries in Central America. The majority of the local suppliers in Honduras have small businesses and insufficient cash flow to handle the requirements of the normal AID procurement process.

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## Resistance Participation

Although AID directly administered procurements, it relied on the Resistance to prepare and submit purchase requisition orders for the quantity and types of goods to be purchased. The requisition orders consisted of memorandums signed by the Resistance's Supply Officer and the Chief Accountant. The Task Force in Honduras reviewed the requisitions to ensure that requested supplies, quantities, and prices were both reasonable and allowable under the legislation.

Upon approval of requests, Task Force staff compared and negotiated prices for the goods with several local suppliers before contracting with a supplier. The Task Force in Honduras also contracted with Honduran commercial truckers and a Honduran air cargo company to deliver the supplies to Resistance camps. Price Waterhouse auditors often accompanied supply deliveries to the camps. AID procedures required that payments be made to suppliers only after receiving the original purchase order, invoice, and delivery receipt submitted from the suppliers through the Resistance to AID.

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## Cash Payments to the Resistance

AID has made two types of cash payments to the Resistance: family assistance payments and cash for food. As of September 30, 1988, AID's Task Force in Honduras had distributed \$2.6 million in cash payments to Resistance combatants located in Honduras, Costa Rica, Nicaragua, and

the United States. The cash payments issued to the Resistance and family members were to be used to purchase food and other assistance as authorized in the legislation. The recipients were required to sign certifications stating that funds received would be used only to purchase authorized commodities. Each cash payment distributed to Resistance personnel was verified by AID and Price Waterhouse auditors. We accompanied AID and Price Waterhouse auditors when five of these payments were made to observe procedures and controls.

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### Legality of Cash Payments

Some members of Congress questioned the propriety of the cash payment programs. They were concerned that the cash payments might not be legal under the legislation and that AID might not be able to ensure that the funds would be used for the intended humanitarian purposes. In May 1988, the Department of Justice and AID legal advisors advised AID that the legislation permitted cash payments to the Resistance, noting that humanitarian assistance included "food, clothing, shelter, medical services, medical supplies, and payment for such items or services." The Department of Justice and AID legal advisors stated that cash payments to the Resistance could be made but could be used only to purchase the goods and services authorized by the legislation for humanitarian assistance.

In our letter (B-225832, Oct. 14, 1988) to Senator Daniel K. Inouye, Chairman, Subcommittee on Foreign Operations, Committee on Appropriations, we addressed the legality of the cash payments to the Resistance. We stated that, in our view, AID's interpretation that the legislation permits cash payments to the Resistance was reasonable under the circumstances and that we found no reason to object to the cash payments.

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### Family Assistance Payments

The family assistance payment program was conducted in accordance with procedures established under a previous U.S. government program to assist the Resistance. Payments under the program are provided to senior Resistance personnel and specialists to defray living expenses. According to AID records, dollar payments are provided to about 40 Resistance members and families living in the United States. Payments in lempiras (Honduran currency) are made to approximately 2,200 Resistance members in Honduras. Similar payments to 60 Resistance members in Costa Rica are discussed in chapter 5. AID disbursed more than \$2 million in family assistance payments through November 16, 1988.

The monthly family assistance payments to Resistance personnel in the United States and Honduras ranged from \$25 to \$2,750; about 95 percent of the monthly family assistance payments were under \$300 monthly. The amounts paid generally varied based on the recipient's military rank. For example, the Commander-in-Chief received \$2,750 monthly, regional commanders about \$800, and force commanders about \$400. The troops receiving payments were paid about \$25 to \$100 monthly.

The Commander-in-Chief of the Resistance determines which combatants are eligible to receive family assistance payments and the amounts to be paid, and must approve all changes in the payment schedule. The Resistance Finance Office prepares monthly payment schedules and submits them to the AID Task Force in Honduras for review. AID Task Force staff, Price Waterhouse, and AID auditors recheck the payment schedules to ensure that the lists conform to the eligibility criteria established by AID in consultation with the congressional representatives. The criteria for eligibility include the following:

- The number of recipients cannot exceed the total number of recipients paid under the previous U.S. government assistance program.
- The total amount of payments may not exceed the previous program's payroll.
- Wholesale changes cannot be made in the list of payees.

#### Payments in the United States

Family assistance payments to Resistance personnel in the United States are administered by the Resistance Administrative Office in Miami, Florida. Before issuing a payment by check, the payment schedules are reviewed by AID to ensure compliance with the eligibility criteria. Recipients residing in the Miami area pick up their checks at the Resistance Administrative Office. Those who do not live in the Miami area receive checks by registered mail with a self-addressed envelope containing a receipt that the recipient must sign and return to the Resistance Office—other checks are sent directly to the recipient's bank account. Price Waterhouse and AID auditors have monitored all these payments, and GAO auditors monitored some.

#### Payments in Honduras

For payments to the Resistance personnel in Honduras, Price Waterhouse and AID auditors count the funds prior to disbursement to Resistance paymasters. The Resistance paymasters then distribute the funds to Resistance personnel at various locations, including the border

camps. Each combatant is required to state his name, pseudonym, and unit to the Resistance paymaster. The paymaster reviews the payment schedule to ensure that the combatant is eligible to receive a payment. Price Waterhouse and AID auditors verify that the combatant's name is on the schedule and that the amount paid is correct. Each recipient is required to sign a receipt showing his name, unit, salary, and a receipt number. This system has worked to screen out ineligible recipients. For example, in a number of incidents, an individual's stated name did not match the payroll listing and, as a result, the individual was denied payment. During one family assistance payment, 67 Resistance members were denied payments because their names did not appear on the payment schedules.

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## Cash-For-Food Payments

The cash-for-food program consists of the payment of Nicaraguan currency to Resistance personnel for the purchase of food and other supplies in Nicaragua. Payments in cordobas have not exceeded the equivalent of \$1 per day per person. The amount to be paid was computed based on an AID estimate of daily low-income living costs in Nicaragua. All cordoba payments have been monitored by AID and Price Waterhouse auditors. The first cash-for-food payment was made on June 2, 1988, and as of November 16, 1988, about \$615,000 had been distributed.

The Resistance Finance Office administers the cash-for-food program but relies on the Resistance field commanders to prepare a list identifying the number of Resistance combatants planning to reenter Nicaragua or already inside the country who are eligible to receive the payments. The list is reviewed by the Resistance Finance Office and AID Task Force officials to verify, to the extent possible, the number of troops to be paid. This verification is based on an examination of documentation AID maintains regarding the number and movement of Resistance troops.

After purchasing the currency, the cordobas are counted by AID and Price Waterhouse auditors, separated into bundles by payment locations, and then turned over to Resistance representatives, usually either field commanders or Resistance couriers. These representatives, accompanied by AID and Price Waterhouse auditors, transport the currency to field locations, where the bundles are given to personnel departing for Nicaragua. The recipients of the cordobas sign receipts stating that the funds will be used only for food and subsistence. The recipients then distribute the cordobas to the Resistance combatants. AID has attempted to verify delivery of the currency into Nicaragua by requiring that

recipient units radio confirmation of the amount received and the date. However, there was no way to verify how the funds were used inside Nicaragua.

According to AID, a major problem with the cash-for-food program has been the difficulty associated with obtaining cordobas. At the inception of the program in June 1988, AID purchased currency at a rate of 78 cordobas to one dollar. However, by September 1988 the rate had risen to approximately 2,000 cordobas to one dollar. The volatile currency exchange rate hindered AID in identifying suppliers with a sufficient amount of cordobas to meet the increasing demand. As a result, there have been delays in purchasing and transferring cordobas to the Resistance. In addition, because of the length of time required to transport the cordobas from Honduras to units in Nicaragua and the rapid inflation rate, the purchasing power of the amount delivered to field units has been less than anticipated.

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## AID Operations in Honduras Have Been Closely Monitored

Program operations in Honduras have been monitored on a continuous basis by AID and Price Waterhouse auditors. AID has relied heavily on its own and Price Waterhouse auditors to monitor program operations and investigate potential problem areas. Price Waterhouse has conducted a concurrent financial and compliance audit of the humanitarian assistance program. The objectives of its audit were to determine if the

- use of funds and program costs complied with the legislation (that is, if only nonlethal items were purchased) and were permissible and reasonable under federal regulations and agreement terms,
- procurement procedures and practices were commercially sound,
- internal controls were adequate, and
- family assistance payments were made in accordance with procedures established in a prior assistance program.

Price Waterhouse has issued 72 interim reports on program operations that have provided detailed information on the extent of the audit work performed related to program operations. As part of its audit, Price Waterhouse maintained a minimum of two auditors at the Resistance's warehouse in Tegucigalpa to conduct inventories, examine Resistance shipping procedures, and inspect the loading of goods onto commercial trucks making deliveries to Resistance camps. Price Waterhouse auditors also observed the loading of supplies at local supplier warehouses and observed the loading of goods onto the air cargo plane used to make airdrops to camps that were inaccessible by road.

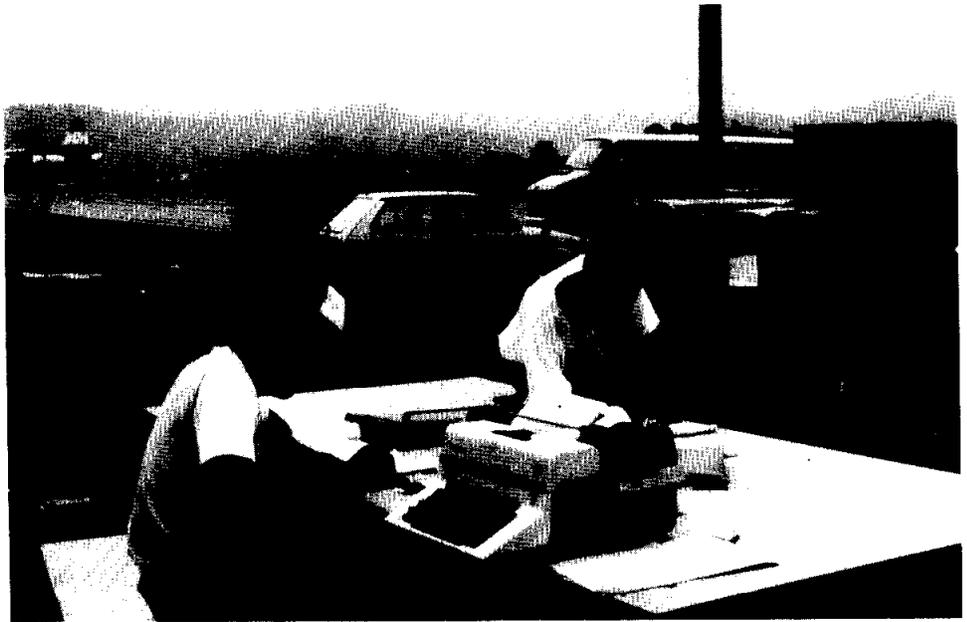
Price Waterhouse and AID auditors also observed the unloading of all 32 of the DOD transport planes that delivered quartermaster gear and medicines from the United States to Honduras. Officials from U.S. military customs and Catholic Church observers were also usually present. When flights arrived, approximately 15 Price Waterhouse auditors randomly checked boxes to verify their contents as the boxes were loaded on trucks for delivery to the Resistance warehouse. At the warehouse, Price Waterhouse auditors conducted complete inventories of the goods received and compared their inventory counts with the Resistance's supply inventory counts.

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**Figure 2.1: Loading Supplies Delivered  
From the United States by DOD Aircraft**



**Figure 2.2: Price Waterhouse Auditors  
Inventorying Goods Delivered by DOD  
Aircraft to Tegucigalpa Airport**



Price Waterhouse auditors also accompanied most (559) of the food deliveries to Resistance camps, observed 11 airdrops of food and other assistance, and inventoried medicines and medical supplies at the Resistance medical warehouse.

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## Conclusion

AID established adequate controls and procedures to carry out the humanitarian assistance program. The controls and procedures included close monitoring of the program by AID's Office of the Inspector General and Price Waterhouse and the establishment of field offices in Honduras and Costa Rica to directly control procurements and payments. We found no evidence that lethal equipment was provided to the Resistance using the humanitarian assistance funds.

# Implementation Problems Resulted in Delays and Supply Shortages

Although AID did well in providing effective, timely assistance to the Resistance, it experienced some implementation problems that resulted in delivery delays and supply shortages. These implementation problems resulted primarily because of (1) legislatively mandated monthly budget ceilings, (2) increased numbers of Resistance personnel in the border regions, (3) the isolated locations of most Resistance personnel, and (4) management weaknesses within the Resistance organization.

## Legislative Constraints on Assistance

Public Law 100-276 authorized \$17.7 million for humanitarian assistance and communications equipment for the Resistance. The law set monthly ceilings on expenditures for humanitarian assistance as well as a limit on expenditures for communications equipment and certain earmarks. Specifically, the legislation required that

- monthly expenditures for April and May 1988 were not to exceed \$2.9 million, of which at least \$400,000 was to be expended for medical supplies and services;
- monthly expenditures from June to September 1988 were not to exceed \$2.7 million;
- \$2.19 million of the above was to be spent only on the Indian resistance force known as Yatama; and
- total expenditures for communications equipment, although not subject to the monthly ceilings, were not to exceed \$1.5 million.

These monthly budget ceilings limited AID's ability to efficiently plan, program, and budget for Resistance food and other commodity purchases. Most significantly, AID was able to obligate only about \$1.3 million of the \$2.9 million available during the start-up month of April 1988, as AID began program operations in the middle of the month. The \$1.6 million saved in April was not required to be returned to the Treasury at that point but remained available for expenditure throughout the program, provided the monthly limitations were not exceeded. AID did not exceed the monthly ceilings. Of the \$17.7 million authorized, \$16.5 million had been obligated by the end of the program. AID returned the unobligated balance of \$1.2 million to the Department of the Treasury. (See table 2.1 for fund disbursements.)

The monthly budget restrictions also prevented AID from procuring large quantities of goods and stockpiling items, such as food, medicines, and clothing, for future use or for emergencies. As a result, when emergencies did occur—like the sudden influx of about 1,200 Resistance combatants and family members to Honduras from Nicaragua in August

1988—AID was unable to purchase more supplies immediately. Purchasing additional commodities for these individuals would have resulted in AID's exceeding the monthly ceiling. AID was also unable to stockpile certain basic goods that are locally available only on a seasonal basis. For example, during the months of June and July 1988, there were shortages of beans, sugar, and milk in Honduras. AID therefore had to purchase these commodities in Guatemala and El Salvador, and, as a result, delivery to the Resistance was delayed. These implementation problems and resulting shortages were well publicized, and AID was criticized about its operation of the program.

In one case, however, a Resistance Commander's publicized allegations of food shortages were false. According to the Resistance Commander, his unit had not received meat in 6 weeks and the quantities of food products delivered to his unit were inadequate. Price Waterhouse, AID, and GAO auditors investigated the allegation and found that between May 1 and July 31, 1988, the Task Force had delivered 11,748 pounds of meat to this unit and that the Resistance Commander had signed receiving documents for 35 of the 50 deliveries. Many of the receiving reports noted that the Resistance Commander had received beef and chicken and that his unit had received the same amount of food that was provided to other Resistance units with equal personnel levels.

During implementation of the assistance program, AID and GAO officials briefed congressional staff on the difficulties arising from the monthly spending limits and suggested that such limits not be included in subsequent assistance legislation. The current law (Public Law 100-463, Oct. 1, 1988) authorizing \$27.14 million in humanitarian assistance does not contain monthly spending limits.

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## Supply Shortages Result From Rapid Increase of Personnel in Honduras

The continuing flow of Resistance combatants from Nicaragua into Honduras also resulted in supply shortages. According to AID, each Resistance combatant was to receive a full outfit of quartermaster gear, including a shirt, trousers, boots, and poncho, during April 1988. However, because of budget restrictions, coupled with the influx of combatants into Honduras, AID could not always provide each arriving combatant with a complete set of quartermaster gear. In addition, the number of Resistance combatant family members needing assistance in Honduras significantly increased from an estimated 21,000 in April 1988 to approximately 32,000 by October 1988. Because of the monthly ceilings, AID had difficulty programming and budgeting to meet the Resistance families' increasing food requirements.

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## Isolated Locations of Resistance Personnel Hinder Deliveries

Delivery of humanitarian assistance was also hindered because of environmental and geographic factors. Supplies and services had to be delivered to Resistance camps located in isolated, rugged locations in Honduras. Most of the Resistance personnel are located along the Honduran-Nicaraguan border in the Yamales and Bocay regions. To deal with these problems, AID contracted for trucks, airdrops, helicopters, and occasionally boats to deliver supplies.

Supplies intended for the Yamales area are delivered by trucks over extremely bad roads. Heavy rains often make the roads impassable for days. Furthermore, upon delivery to the major Resistance distribution centers in Yamales, the goods often have to be transported to camps located in even more isolated, rugged areas.

There are no roads in the Bocay area, where AID had to deliver supplies to many different camps. To supply these camps, AID leased aircraft from private companies and dropped pallets of supplies by parachute to clearings located near the camps (see figs. 3.1 and 3.2). An AID official told us he believes that this delivery system worked well because the Resistance rarely complained about lost or damaged supplies. One AID official estimated that the Resistance recovered 95 percent of the supplies dropped by parachute.

However, according to a Resistance Commander of one of the camps in the Bocay region, 30 percent of the goods dropped by parachutes in the area of his command were either lost or destroyed because the small drop zone was in a deep ravine surrounded by thick jungle foliage. After several months, AID discontinued airdrops in this area and began dropping supplies at a more accessible location. The supplies were then distributed to their final destination by helicopter.

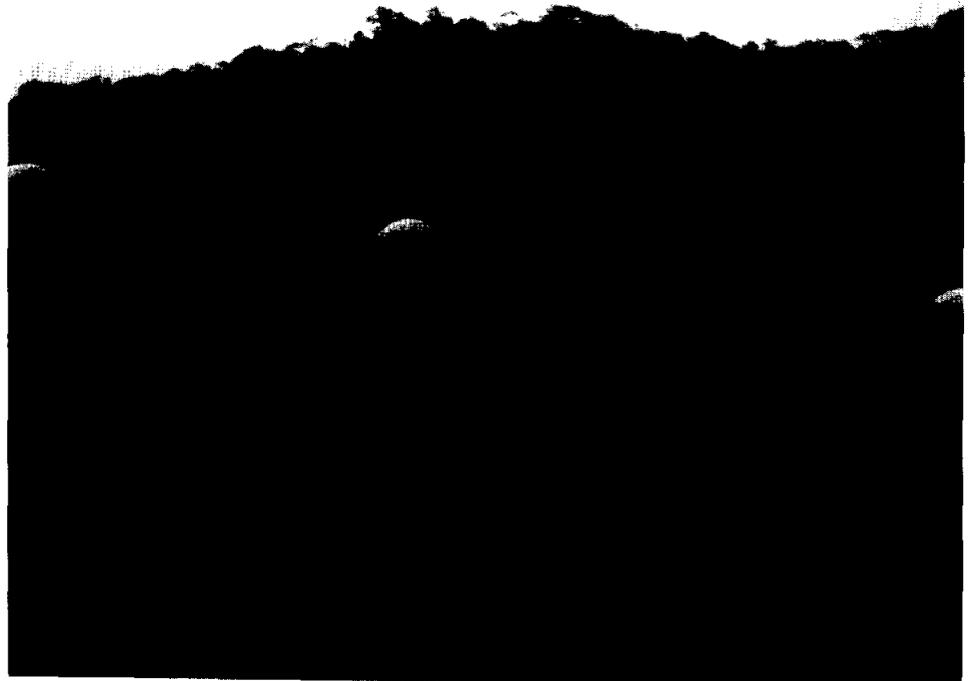
The use of airdrops was less successful for supplying the Yatama, located in the Mosquitia region. For example, during the months of May and June 1988, the Task Force conducted eight airdrops to the Yatama forces. According to a Yatama General Staff Officer, in two of the airdrops, most food products were lost because food sacks were torn upon impact or landed in swamps. Approximately 34,000 pounds of food were lost as a result of these two airdrops. AID subsequently began transporting food and other supplies to the Yatama by boat.

**Chapter 3**  
**Implementation Problems Resulted in Delays**  
**and Supply Shortages**

**Figure 3.1: Air Cargo Plane Drops Pallets With Food and Other Supplies to Resistance Camps Inaccessible by Road**



**Figure 3.2: Pallets Containing Supplies Land on Drop Zones Near Resistance Camps**



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## Resistance Management Weaknesses

Weaknesses in the Resistance's inventory management procedures, in the distribution of supplies to Resistance units in the camps, and in the communication of requirements have hampered the implementation of the humanitarian assistance program. Price Waterhouse conducted several physical inventories of the food, clothing, medicines, and other supplies stored in the Resistance's warehouses and compared the inventory record results with the information recorded by Resistance personnel. In a July 1988 inventory, Price Waterhouse auditors found differences between the quantities of goods stored and the quantities registered in the Resistance's inventory records for 74 percent of the 47 different types of products stored.

Price Waterhouse attributed the differences partly to the Resistance's failure to document all incoming and outgoing supplies stored in the warehouse, prepare warehouse receiving documents in a timely manner, and conduct periodic inventories. As a result, the Resistance was not always aware of the quantity and types of goods on hand or of the need to purchase goods for its units in the camps.

AID also found problems with Resistance procedures for distributing supplies to its units in the camps. Since August 1988 the Task Force has been providing food reserve rations for 500 people to accommodate the regular flow of Resistance combatants and family members entering Honduras from Nicaragua. However, the Resistance did not have storage facilities for the additional food rations and instead distributed the reserve rations to the units along with regular food rations. AID is providing additional building materials and tools to units in remote areas in an attempt to improve storage facilities.

These management problems were partly caused by a shortage of experienced and trained management personnel. The highest ranking Resistance management official stated that he had no previous management experience. The AID Task Force Medical Advisor reported that medical program management needs far exceeded the number of qualified Resistance administrators and clerical support staff. According to the Medical Advisor's report, Resistance medical program staff suffered from burnout, and their management of the Resistance medical system was inconsistent and disorderly. This led to problems with the Resistance inventory, storage, and distribution system for medical supplies. To correct these problems, the Medical Advisor recommended that additional Resistance personnel be trained to manage and control medical resources.

Implementation problems have also been caused by inadequate communication among Resistance units in the field, the Resistance leadership in Tegucigalpa, and AID. As a result, AID and Resistance officials have not always been informed of situations requiring actions. For example, a doctor at one Resistance medical facility was unaware that AID would permit him to change patients' diets and to store food in anticipation of increased patient needs. Although Resistance officials in Tegucigalpa were aware of the program's flexibility, they apparently had not informed all field medical personnel.

In another case in June 1988, a young child reportedly died at a Resistance hospital because a lack of fuel for the hospital's power generator prevented necessary emergency surgery. According to an AID official, fuel was provided when requested by the Resistance; however, the Resistance failed to make a timely request or inform the Task Force that the fuel was critical. AID officials said they would have taken emergency measures, as they have on other occasions, to expedite fuel delivery if they had been made aware of the situation.

In an effort to cope with communications and supply problems, AID conducted a seminar in Honduras during September 1988 for selected members of the Resistance and is planning to provide additional training for the Resistance in supply management, inventory, and storage practices.

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## **\$2.19 Million Earmarked for the Yatama**

The legislation earmarked \$2.19 million in assistance for a Mosquitia Indian group called the Yatama. The earmarked funds were to provide the Yatama organization with an allotment of the humanitarian assistance. According to the AID official responsible for this program, each Yatama combatant has been provided with a complete set of quartermaster gear and sufficient amounts of food and other assistance. However, the cost of these goods was only about \$1.2 million. As a result, about \$990,000 of the earmarked funds were not expended for assistance for the Yatama. AID considers these funds to have been included in the \$1.2 million returned to the Treasury. AID complied with the limitations contained in the legislation in handling these funds.

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## **Conclusion**

AID encountered some difficulties in providing assistance to the Resistance. These problems were caused chiefly by monthly spending limitations in the law, increases in the numbers of personnel needing assistance, isolated locations of the Resistance camps, and a shortage of trained experienced Resistance management personnel. AID is attempting

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**Chapter 3**  
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to improve Resistance management skills through training courses for personnel in supply positions.

# Some Assistance Used Inappropriately

Although AID adopted adequate procedures to administer and control the \$17.7 million in humanitarian assistance, in several cases funds were not used appropriately or as intended. These cases involved abuses of food assistance, failure to comply with U.S. tax withholding requirements, and failure to adhere to family assistance payment criteria.

## Abuses of Food Assistance

During the initial stages of the program, AID staff in Honduras worked with Resistance personnel to determine food requirements based on the number and location of troops, Resistance families, and support personnel. By October 1988 food was being provided to approximately 47,000 Resistance combatants, family members, and support personnel.

## Double Rations

In late May 1988, we found indications that some Resistance combatant family members living in refugee camps administered by the United Nations High Commission for Refugees were receiving refugee food rations as well as supplementary family rations from the humanitarian assistance program. A U.S. Embassy refugee officer told us and AID officials that double rations had been provided during previous assistance programs and were also being provided under the AID program. In response to this information, Price Waterhouse auditors investigated the food program and determined that 184 Resistance combatant families, or approximately 1,000 people living in the refugee camps, were receiving food rations from both programs. Subsequently, AID instructed the Resistance Supply Office to remove the 184 families from the list of those eligible to receive food assistance.

Other information suggests that the number of Resistance families receiving double rations may have been more than the 184 families identified by the Price Waterhouse investigation. In June 1988, an AID study reported that up to 40 percent of the Nicaraguan refugees, or approximately 2,200, were family members of Resistance combatants. According to the report, significant numbers of refugees received additional food rations every month from representatives of the Resistance. The report also stated that the additional food provided to the refugees created resentment among other Nicaraguan refugees in the camps and the local Honduran population, especially since much of this food was being sold by the recipients. According to AID officials, the double rations had been provided during the previous U.S. assistance program. AID has tightened the distribution process and has asked Price Waterhouse to monitor each distribution closely and cross-check Resistance rolls with refugee camp rolls to try to reduce the double rations.

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## Assistance Provided to Honduran Military

In August 1988 we found that about 100 Honduran military personnel had improperly received food under the AID program. According to AID Task Force officials in Honduras, they were not aware that food purchased for the Resistance had been given to Honduran military troops. After further investigation we found that this practice was a carryover from a previous U.S. government assistance program. The value of the unauthorized food assistance provided to the Honduran military between April and August 1988 totaled about \$27,000. AID requested reimbursement for this amount from the U.S. government agency that had administered the prior assistance program to the Resistance and approved this practice. In January 1989, AID was reimbursed \$27,300 for the improperly used funds.

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## Failure to Withhold Taxes From Some Cash Payments

In May 1988 AID auditors monitoring the family assistance payments in Miami reported that social security and income tax had not been withheld from the assistance payments. According to AID Task Force officials, they were told that the Resistance beneficiaries in the United States had been exempt from paying taxes under the previous U.S. government assistance program. In June 1988 AID's Office of the Inspector General requested an opinion from the Internal Revenue Service regarding income tax and social security contribution withholdings from paychecks for the Resistance beneficiaries living in the United States.

In October 1988 the Internal Revenue Service notified AID that Resistance beneficiaries who had been in the United States for at least 31 days of the current calendar year and a total of 183 days<sup>1</sup> of the current and 2 preceding calendar years would be subject to federal income tax withholding. AID is in the process of identifying those beneficiaries who are subject to tax withholdings. In November 1988 taxes were withheld from payments to four of the recipients to properly reflect their tax status during the period beginning April 1, 1988. AID is continuing to obtain current tax status information to ensure that appropriate funds are withheld from all of the payments. In commenting on a draft of this report, AID provided a more detailed description of efforts made to resolve the tax withholding issue. (See app. I.)

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<sup>1</sup>The Internal Revenue Service uses a multiplier specified in the Internal Revenue Code to determine whether beneficiaries have met this criterion.

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## Pooling of Funds Violates Payment Criteria

During one of the family assistance payments to the Yatama, we observed that the beneficiaries placed half of their payments in a pool to be administered by Yatama commanders. According to the Yatama commanders, these funds are used to purchase food and clothing for those Yatama members who do not receive payments. According to a number of Yatama beneficiaries, this “voluntary” practice was intended to avoid divisiveness among the Yatama force.

The pooling of payments by the Yatama violates AID’s criterion of limiting the number of family assistance payment recipients. By pooling and distributing payments to other troops, the Yatama exceeded the ceiling established on the number of beneficiaries eligible for family assistance payments. AID took action to discontinue this practice among the Yatama beneficiaries.

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## Conclusion

A few instances of inappropriate use of food supplies occurred, and U.S. withholding tax was not deducted from some payments made to Resistance personnel in the United States. These cases were discovered because of the extensive audit coverage and AID’s effective management of the program. AID either tightened controls or modified its procedures to correct these problems when they were identified.

# AID's Operations in Costa Rica

AID set up a Task Force Office in the AID Mission in San Jose, Costa Rica, to provide humanitarian assistance to Resistance personnel located in the southern part of Nicaragua. Only one staff person was assigned to the Task Force, established in May 1988, but it receives substantial program and logistical support from other AID Mission personnel. AID's program in Costa Rica finances and supports a medical assistance program and makes family assistance payments to 58 Resistance beneficiaries. We found that the AID Task Force in Costa Rica applied appropriate procedures to monitor and control the purchase and distribution of medical goods and services and cash payments. As in Honduras, Task Force activities in Costa Rica are monitored by AID and Price Waterhouse auditors.

## Background

The Medical Assistance Program was established in November 1986 under a previous U.S. program to provide medical services to Resistance combatants. The medical services include hospital care/surgery and laboratory/X-ray, dental, and outpatient care. In May 1988, AID initiated operations in Costa Rica, using the same medical assistance infrastructure and Program Administrator as the previous assistance program. As in the prior program, the Program Administrator is responsible for authorizing payments for goods and services. Initially, the Resistance combatants awaiting medical care or recovering from medical treatment in Costa Rica were lodged in one of six recuperation homes—most of them located in the San Jose area. Each recuperation home provided lodging, food, and clothing for 15 to 30 combatants during their stay in Costa Rica.

In July 1988, AID relocated the combatants requiring medical assistance to a single recuperation center in an effort to improve the quality of care for the combatants requiring assistance. The center houses approximately 150 combatants. The Task Force medical program in Costa Rica has provided about \$437,000 in assistance through September 30, 1988. Most of the assistance has been used for surgery and related medical costs.

## Task Force Applied Adequate Procedures

We believe that AID has applied appropriate controls to oversee the procurement and distribution of the medical goods and services to the Resistance and to pay local suppliers, clinics, and physicians. The Task Force Office in Costa Rica worked closely with the Program Administrator and Resistance personnel to provide humanitarian assistance by coordinating daily with the Program Administrator and by periodically

visiting the recuperation center, post-operation clinic, and other facilities. The Task Force in Costa Rica relied on the Program Administrator and a Nicaraguan physician, who was licensed in Costa Rica, to identify the types of goods and medical services to be provided for the Resistance personnel.

AID's Office of the Inspector General and Price Waterhouse auditors monitored program operations in Costa Rica on a continuing basis. Price Waterhouse auditors monitored program operations by

- examining medical supply documentation;
- visiting the principal medical care facilities to confirm the type and cost of medical service rendered and to review facility rental costs;
- observing food suppliers of the program, confirming related invoices, and comparing quoted prices against prices paid; and
- reviewing Resistance-issued checks to ensure that they were issued to appropriate suppliers.

Price Waterhouse auditors also reviewed payments to determine if the expenses incurred were reasonable, allowable, and adequately supported.

We also made four visits to Costa Rica to examine AID operations and review the medical and family assistance payment programs.

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## Family Assistance Payments

Family assistance payments are managed by the local Resistance Administrative Commission in San Jose, Costa Rica. The procedures used to administer the payments are similar to those used in Honduras. In Costa Rica, three Resistance commanders identify the combatants who are eligible to receive payments and the amounts of those payments. Generally, payment amounts correspond to the military grade of the recipient. Family assistance payments are provided monthly to approximately 60 combatants, and the individual payments range from \$300 to \$975.

The Resistance paymasters are responsible for issuing payments to the beneficiaries; the recipients must be present to receive the funds and provide an identification card before receiving payment. Each receipt includes a statement that the funds will be used only to purchase food and other assistance authorized under the law. AID and Price Waterhouse auditors monitored these payments. As of September 30,

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1988, AID had distributed about \$226,000 in family assistance payments to Resistance combatants in Costa Rica.

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### Pooling of Family Assistance Payments

As with the Yatama in Honduras, Resistance beneficiaries of family assistance in Costa Rica were initially pooling about 10 percent of their payments, reportedly to purchase food and clothing for Resistance combatants located in Nicaragua. Because pooling the funds resulted in an excess number of recipients, AID took action to discontinue this practice.

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### Conclusion

The program in Costa Rica consisted of a limited medical assistance program and family assistance payments to about 60 Resistance personnel. Because the AID program manager in Costa Rica, with substantial support from AID Mission personnel, applied adequate controls, the funds were expended only for these purposes. As in Honduras, AID and Price Waterhouse auditors monitored program operations.

# Comments From the Agency for International Development

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON D.C. 20523

Frank C. Conahan  
Assistant Comptroller General  
United States General Accounting Office  
National Security and  
International Affairs Division  
Washington, DC 20548

Dear Mr. Conahan:

A.I.D. greatly appreciates the efforts of the GAO auditors in the concurrent audit of Phase I of the program. Those involved in the audit brought up issues that needed to be addressed as the program progressed and gave advice on improvements to be made in the different project areas. We believe this accounts for the favorable audit report that TFHA has received and hope that the Phase II report is of the same quality.

Following are AID's comments on the draft report:

Now on p. 4.

1. On page 7 of the Executive Summary insert the following at the end of the first full sentence on the page: "under the supervision of the A.I.D. Office of Inspector General."

Now on p. 9.

2. On page 17, change second sentence of second full paragraph to read as follows: "A.I.D. continued this cash for food program from a prior program because Resistance troops in Nicaragua were having difficulty obtaining food."

Now on p. 10.

3. On page 19, change the third line on the page to read as follows: "airdrops to Resistance camps in Honduras, inspected the Resistance's warehouse".

Now on p. 12.

4. On page 20, Chapter 2, insert the following after the first paragraph: " At the very beginning of A.I.D.'s delivery of humanitarian assistance to the Resistance, the A.I.D. Administrator recognized the need for close oversight and monitoring of the day-to-day delivery of goods and services. He requested the A.I.D. Inspector General to closely monitor the administration of the program. The A.I.D. Office of Inspector General contracted with the accounting firm of Price Waterhouse and Company to make current, financial and compliance audits of the expenditures

**Appendix I  
Comments From the Agency for  
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under the program. The Inspector General's Regional office in Tegucigalpa, Honduras closely monitored the quality of audit work done by Price Waterhouse and Price Waterhouse auditors audited the day-to-day delivery of goods and services. Interim audit reports were issued on financial and compliance aspects of the program's administration. This close oversight contributed to the integrity found in the delivery of goods and services to the Resistance."

Now on p. 14.

5. On page 23, add the following sentence to the end of the first full paragraph: "The majority of the local suppliers in Honduras are small and have insufficient cash flow to handle the requirements of the normal AID procurement process."

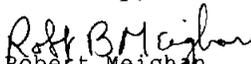
Now on p. 29.

6. On pages 47 and 48, change the section concerning FAP to read as follows: "In May 1988, A.I.D. auditors monitoring the Family Assistance Payments in Miami reported that social security and income taxes were not being withheld from the payments. Some Resistance beneficiaries told TFHA officials that they had inquired whether these payments made under the previous programs were taxable, but had not received a definitive answer. In September 1988, Task Force employees met with the IRS, and after explaining the nature of the Family Assistance Program, requested an opinion as to whether these payments might be subject to U.S. tax withholding. In October 1988, the Task Force received that opinion, which held in summary that all beneficiaries under the program who were resident aliens (green card holders), or who met a substantial presence test, would be subject to withholding. The substantial presence test is decided by means of a rather complicated formula contained in the U.S. tax laws. In November 1988, taxes were withheld from payments to four of the recipients to properly reflect their tax status during the period beginning April 1, 1988. A.I.D. then developed a certificate which each beneficiary is required to sign prior to receiving payment. From the certificate, a determination can be made as to the U.S. tax liability of the individual. If the individual is subject to U.S. tax withholding, he/she is required to fill out a W-4 form, and taxes are withheld from his/her payment if required by U.S. tax laws. All persons being paid in Miami have been checked by this system, and beneficiaries in Honduras and Costa Rica are also being checked. TFHA does not yet have certificates from a minor percentage of the beneficiaries being paid in Honduras and Costa Rica, mostly because those individuals are inside Nicaragua and not available to sign the certificate. Of the approximately 2,660 beneficiaries currently under the Family Assistance Program, Task Force officials locate around six persons each month who are subject to tax withholding from their Family Assistance payment."

**Appendix I  
Comments From the Agency for  
International Development**

In summary, I found the report to be a fair representation of Phase I of the Humanitarian Assistance project. I would like to personally thank each of the GAO auditors assigned to audit this Phase. Their assistance was invaluable and they are to be commended on a job well done.

Sincerely,

  
Robert Meighan  
Acting TFHA Director

cc: Alan Woods, A.I.D. Administrator  
Herbert Beckington, A.I.D. Inspector General  
William Schoux, TFHA/Honduras Director

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