

PD-AAU-036

ISN= 46487

**AUDIT  
OF ROCAP INSTITUTIONAL GRANTEEES'  
ECONOMY, EFFICIENCY AND COMPLIANCE  
AUDIT REPORT NO. 1-596-86-26  
AUGUST 18, 1986**

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

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August 18, 1986

MEMORANDUM

TO : Ms. Nadine Plaster, Director, AID Regional Office for  
Central America and Panama

FROM : *Coinage N. Gothard*  
Coinage N. Gothard Jr, RIG/A/T

SUBJECT : Audit Report No. 1-596-86-26, Audit of ROCAP  
Institutional Grantees' Economy, Efficiency and  
Compliance

This report presents the results of audit of ROCAP Institutional Grantees' Economy, Efficiency and Compliance. The Office of the Regional Inspector General for Audit/Tegucigalpa made an economy and efficiency audit of AID's Regional Office for Central America and Panama and six institutional grantees. Specific audit objectives were to evaluate ROCAP and institutional grantee administrative procedures, fiscal procedures and systems, internal control systems, organization, and compliance with applicable laws and regulations.

The administrative policies of two of ROCAP's institutional grantees were not fully developed, those used were outdated, and administrative practices were not in compliance with good business procedure. At the same time, ROCAP policies and procedures needed to be updated. Policy determinations, weak accounting practices or internal control deficiencies at four of the six institutional grantees resulted in the identification of \$71,405 in questioned costs. The costs were either overbillings or billings for costs that were not reasonable or otherwise unallowable for payment by the U.S. Government. The institutional grantee organizations had not been adequately supported by their founding governments, stockholders or beneficiaries. One of the institutions was neither regional nor international, and its status was not clear.

ROCAP project officers were not equipped to review and take actions to correct deficient practices of the institutional grantees; personnel and accounting practices were not functioning in an economical manner; and hiring and promotion practices were not in compliance with AID requirements. ROCAP was billed for family subsidies (a stipend granted to employees for each family member) and, in Guatemala for personal income taxes paid by employees in excess of their withholdings. Founding governments were \$5.6 million in arrears on their payments to certain institutions; for one institution, paid-in capital was \$3.6 million short and delinquent loan repayments were about \$87.5 million. Also, one of the institutions could not legally operate outside Costa Rica without assistance from its parent organization.

We have recommended that ROCAP take action to review and approve new or updated institutional procedures manuals and personnel hiring and selection procedures, and have deficient institutions complete and present to ROCAP their revised administrative policies and procedures. We have also recommended that ROCAP collect \$71,405 in questioned costs, and have the institutions determine and refund to ROCAP \$382,792 in estimated questionable costs. Moreover, we have recommended that ROCAP arrange to assist the institutional grantees to collect delinquent quota, paid-in, and loan payments. Finally, we have recommended that ROCAP obtain legal opinions on ROCAP's association with one of the institutions, and on the less than clear status of the institution and its parent organization.

Your overall agreement with, and early actions on, the report findings and recommendations should result in more effective use of \$91.1 million in funds granted to the six institutions.

Please provide this office within thirty days information related to actions planned or taken to implement the four recommendations in this report.

## EXECUTIVE SUMMARY

The funding portfolio for AID's Regional Office for Central America and Panama totaled \$140.5 million in obligations executed through 24 grants (\$103.5 million) and two loans (\$37 million). The Office had executed 16 of the grants with obligations totaling \$91.1 million to facilitate institutional liquidity, to provide technical assistance, or to obtain the expertise and services of six of the institutions serving the region. The institutions were: Central Bank for Economic Integration; Tropical Agricultural Research and Training Center; Central American Technical and Industrial Research Institute; Interamerican Institute for Agricultural Cooperation; Nutrition Institute for Central America and Panama; and, Secretariat for Central American Economic Integration.

The Office of the Regional Inspector General for Audit/Tegucigalpa made an economy and efficiency audit of AID's Regional Office for Central America and Panama and six institutional grantees. The purpose of the review was to determine whether the Office and the institutional grantees were managing and utilizing resources economically and efficiently; the cause for inefficient or uneconomical practices; and, whether the Office and the institutional grantees had complied with laws and regulations concerning matters of economy and efficiency. Specific audit objectives were to evaluate the Office and institutional grantee administrative procedures, fiscal procedures and internal control systems, organization, and compliance with applicable laws and regulations.

Administrative policies and procedures of AID's Regional Office for Central America and Panama needed to be updated, and administrative policies of two of the six institutional grantees were not in place. Policy determinations, weak accounting practices or internal control deficiencies within four of the six institutions resulted in the identification of \$71,405 in questionable costs during calendar year 1985. The relationship between one of the institutions and its parent organization was not clear.

Administrative policies of three of the six institutional grantees were in place and practices were satisfactory. Another institution had recently published new policies and procedures. Financial and internal control practices of two of the six institutions were satisfactory.

Administrative policies of two of the institutions were not in place, and practices were not in compliance with good business procedure. The policies and procedures of AID's Regional Office for Central America and Panama needed to be updated. We have recommended that administrative policies be formulated, and updated in the case of the responsible AID Office. Policy determinations, weak accounting practices or internal control deficiencies of four institutions resulted in the identification of \$71,405 in questionable costs during calendar year 1985. We have recommended that AID collect the \$71,405, and have the institutions determine and refund ineligible costs from other years. The institutions had not received adequate financial support from founding governments, or

from stockholders and borrowers. The recommendation was geared to assist the institutions in making collections. One of the six institutions was neither regional nor international, and its status was not clear. We have recommended that legal opinions on the institution be obtained.

*Office of the Inspector General*

**AUDIT  
OF ROCAP INSTITUTIONAL GRANTEES'  
ECONOMY, EFFICIENCY AND COMPLIANCE**

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AUDIT  
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ECONOMY, EFFICIENCY AND COMPLIANCE

PART I - INTRODUCTION

A. Background

AID's Regional Office for Central America and Panama (ROCAP) was established in 1962 by an agreement between the United States (U.S.) and the Organization of Central American States (ODECA) to finance and promote activities which further regional cooperation and economic integration in Central America. It was accredited by formal agreement to five governments (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) which together formed the Central American Common Market. ROCAP had received substantially increased AID funding as a result of the January 10, 1984 National Bipartisan Commission report. ROCAP has addressed certain priorities contained in the report, working as it has for over two decades through regional institutions in such areas as agriculture, health and nutrition, energy conservation, and training. ROCAP has also begun working with regional financial institutions seeking ways to revitalize the Central American Common Market.

As of February 5, 1986 the ROCAP funding portfolio totaled \$140.5 million in obligations that were executed through 24 grants (\$103.5 million) and two loans (\$37 million). ROCAP had executed 16 of 24 grants with total obligations of \$91.1 million to facilitate institutional liquidity, to provide technical assistance, or to obtain the expertise and services of six of the institutions serving the region. The institutions were: Interamerican Institute for Agricultural Cooperation (IICA); Nutrition Institute for Central America and Panama (INCAP); Central American Technical and Industrial Research Institute (ICAITI); Central American Bank for Economic Integration (CABEI); Secretariat for Central American Economic Integration (SIECA); and Tropical Agricultural Research and Training Center (CATIE). Exhibit 1 lists the grants by organization.

The Interamerican Institute for Agricultural Cooperation (IICA) was established on October 7, 1942, incorporated under the laws of Washington, D.C., with the objective of stimulating and promoting the development of the agricultural sciences in the Republics of the Americas. The Institute began operations on March 19, 1943 in Turrialba, Costa Rica. Since that time the Institute has moved to another site located on the outskirts of San Jose, Costa Rica. The Institute had about 1,200 employees and an annual operating budget of about \$19.3 million to which ROCAP contributed about six percent.

The Nutrition Institute for Central America and Panama (INCAP) was established February 20, 1946 with the cooperation of the Panamerican Sanitation Office and the assistance of the W.K. Kellogg Foundation. The Institute's objective was to identify and promote the development of the nutritional sciences and their practical application in the Republics of Central America and in Panama. The Institute is located in Guatemala City, Guatemala. It had about 80 employees and an annual operating budget of about \$2 million to which ROCAP contributed about 14 percent.

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The Central American Technical and Industrial Research Institute (ICAITI) was established on May 7, 1955 by the Governments of the Republics of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua in conjunction with the Committee on Economic Cooperation for the Central American Isthmus of Latin America of the United Nations. According to its charter, the Institute is an organization regional in character with the objective of assessing and providing technical services to member governments and to the industrial sector, and to provide technical research on raw materials and natural resources of the region. The Institute had about 120 employees and an annual operating budget of about \$3 million to which ROCAP contributed about 77 percent.

The Central Bank for Economic Integration (CABEI) was established on December 13, 1960 according to a Constitutive Agreement subscribed on behalf of the Republics of El Salvador, Guatemala, Honduras and Nicaragua. Operations started on May 31, 1961. Costa Rica joined in the Agreement on September 23, 1963. This banking institution provided financing and promoted Central American economic integration and development. The Bank is located in Tegucigalpa, Honduras. Its workforce consisted of 437 employees. As a lending institution, the Bank had a loan portfolio of about \$794.8 million, and net income of \$5.3 million. ROCAP had provided the Bank about \$15 million during 1984 and 1985.

The Secretariat for Central American Economic Integration (SIECA) was established on December 13, 1960 in order to promote integrated economic development and to further the Central American Common Market. Participating Governments were Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The Secretariat is located in Guatemala City, Guatemala, with a workforce of 154 employees, and an annual operating budget of \$2 million to which ROCAP contributes about three percent.

The Tropical Agricultural Research and Training Center (CATIE) was created on January 12, 1973 by a contract executed between the Interamerican Institute for Agricultural Cooperation and the Government of the Republic of Costa Rica for a duration of 10 years. On February 23, 1983 the Institution and the Government of the Republic of Costa Rica ratified another contract to continue the Center's life for an additional 20 years. Located in Turrialba, Costa Rica, the Center is a scientific and educational association that carries out field investigations in farming, cattle, forestry and related sciences to benefit tropical American regions, particularly in Central America and the Caribbean. With a workforce of about 180 employees, the Center had an annual budget of about \$11.1 million to which ROCAP contributed about 42 percent.

Exhibits 1 and 2 contain funding and pipeline information on projects executed with the ROCAP institutional grantees.

#### B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa made an economy and efficiency audit of AID's Regional Office for Central America and Panama and six institutional grantees. The audit covered the period from February 20, 1979 through December 30, 1985; however, for two

of the Institutions, operations were reviewed up to March 31, 1986 in order to recognize major management activities. Field visits were made during the period February 4, 1986 through May 1, 1986.

The purpose of this economy and efficiency review was to determine: whether ROCAP and the institutional grantees were managing and utilizing resources economically and efficiently; the causes for inefficient or uneconomical practices; and whether ROCAP and the institutional grantees had complied with pertinent laws and regulations concerning matters of economy and efficiency. Specific audit objectives were to evaluate ROCAP and institutional grantee:

- administrative procedures,
- fiscal procedures and systems,
- internal control systems,
- organization; and
- compliance with applicable laws and regulations.

To accomplish the audit objectives we interviewed officials, and reviewed the systems and records of ROCAP, ICAITI, INCAP and SIECA located in Guatemala City, Guatemala; CABEI in Tegucigalpa, Honduras; CATIE in Turrialba, Costa Rica; and IICA in San Jose, Costa Rica. Due to time and resource limitations, institutional grantee performance under the ROCAP grants was not reviewed. Performance will be covered under future project-specific audits. An exit conference was held with responsible ROCAP officials on April 24, 1986. ROCAP responded to the draft audit report by memorandum dated July 14, 1986. Their comments have been considered and incorporated into this report as warranted. We made the audit in accordance with generally accepted government audit standards.

AUDIT  
OF ROCAP INSTITUTIONAL GRANTEEES'  
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PART II - RESULTS OF AUDIT

The administrative policies of two of ROCAP's six institutional grantees were not fully developed, those used were outdated, and administrative practices were not in compliance with good business procedure. At the same time, ROCAP policies and procedures needed to be updated. Policy determinations, weak accounting practices or internal control deficiencies at four of the six institutional grantees resulted in the identification of \$71,405 in questioned costs. The costs were either overbillings or billings for costs that were not reasonable or otherwise unallowable for payment by the U.S. Government. The institutional grantee organizations had not been adequately supported by their founding governments, stockholders or beneficiaries. One of the institutions was neither regional nor international, and its status was not clear.

Administrative policies of three of the six institutional grantees were in place and practices were generally functioning in a satisfactory manner. Another institution had recently published new policies and procedures. Also, financial and internal control procedures of two of six institutions were in place, and practices were generally functioning in a satisfactory manner. Five of the six institutions qualified as either regional or international institutions.

ROCAP project officers were not equipped to review and take actions to correct deficient practices of the institutional grantees; personnel and accounting practices were not functioning in an economical manner; and hiring and promotion practices were not in compliance with AID requirements. ROCAP was billed for family subsidies (a stipend granted to employees for each family member) and, in Guatemala, for personal income taxes paid by employees in excess of their withholdings. Founding governments were \$5.6 million in arrears on their payments to certain institutions; for one institution, paid-in capital was \$3.6 million short and delinquent loan repayments were about \$87.5 million. Also, one of the institutions could not legally operate outside of Costa Rica without assistance from its parent organization.

We have recommended that ROCAP take action to review and approve new or updated institutional procedures manuals and personnel hiring and selection procedures, and have deficient institutions complete and present to ROCAP their revised administrative policies and procedures. We have also recommended that ROCAP collect \$71,405 in questioned costs, and have the institutions determine and refund to ROCAP \$382,792 in estimated questionable costs. Moreover, we have recommended that ROCAP arrange to assist the institutional grantees to collect delinquent quota, paid-in, and loan payments. Finally, we have recommended that ROCAP obtain legal opinions on ROCAP's association with one of the institutions, and on the less than clear status of the institution and its parent organization.

## A. Findings and Recommendations

### 1. Administrative Policies and Procedures Were Needed

Administrative policies of the Central Bank for Economic Integration (CABEI), the Nutrition Institute for Central America and Panama (INCAP) and the Secretariat for Central American Economic Integration (SIECA) were in place and generally being implemented in a satisfactory manner. New Interamerican Institute for Agricultural Cooperation (IICA) policies and procedures had been published in March 1986. The administrative policies of the Tropical Agricultural Research and Training Center (CATIE) and the Central American Technical and Industrial Research Institute (ICAITI) were not in place, those in use were outdated, and practices were not in compliance with good business procedures. At the same time, about 15 of the 25 ROCAP mission orders still in effect were over 10 years old and outdated. Only one of the 25 provided guidance relevant to the institutions. Policies and procedures provide guidance for officials and employees to carry out their duties in an economical manner. Policies and procedures also form the basis of understanding by which parties to a given activity reach a stated objective. Because ROCAP'S instructions were deficient or incomplete, project officers were not equipped to identify, review and take action to correct defective practices of the institutions. As a result, ROCAP had been billed for unallowable costs, personnel and accounting systems were not functioning in an economical manner, and hiring and promotion practices were not in compliance with AID requirements. ROCAP needs to take decisive action to address these deficiencies.

#### Recommendation No. 1

We recommend that the AID Regional Office for Central America and Panama take action to:

- a) review and approve the March 1986 procedures manual of the Interamerican Institute for Agricultural cooperation;
- b) have the Tropical Agricultural Research and Training Center formulate and present, within fiscal year 1986, a set of administrative policies and procedures;
- c) have the Central American Technical and Industrial Research Institute complete and present for review, within fiscal year 1986, the hiring and selection procedures used under AID financing but withheld from audit staff on the basis of confidentiality;
- d) have the Central American Technical and Industrial Research Institute complete and present for review, within fiscal year 1986, updated administrative policies and procedures; and
- e) update existing instruction relevant to its institutional grantees for use by project officers.

#### Discussion

ROCAP has relied on its institutional grantees' administrative and personnel systems and procedures to effectively handle AID provided resources. At a minimum, the institutional grantees were to have

established administrative policies and procedures, pay scales, acceptable hiring and promotion procedures (including verifications of prior employment and salary), and an adequate filing system containing justifications, waivers and other pertinent administrative and personnel data. Without these basic procedures and systems, the institutional grantees were not in compliance with minimum requirements for handling AID resources.

IICA - Until recently IICA operated with policies and procedures that had been published in April 1977. During March 1986, IICA provided copies of recently enacted policies and procedures. ROCAP should review these documents for consistency with AID and ROCAP requirements.

CATIE - Operations continued in an informal manner. There was no personnel officer for hundreds of employees, the Deputy Director advised us that one was scheduled to be hired in March 1986. Personnel records reviewed did not contain justifications, waivers as necessary, or prior salary history and verification. Employee hiring was done by Division Directors.

On April 4, 1983, the Director of CATIE informed ROCAP that administrative policies and procedures of its parent organization, IICA, were being used. Over a year later on November 15, 1984, IICA's internal auditor reported that CATIE personnel records did not contain medical examination reports; there were many cases where employee personnel actions had not been recorded, and other cases where employee nominations were not documented in the files; overtime was not previously authorized; and professionals living outside the country with identical backgrounds were under contract with different employee benefits.

On February 26, 1985, the Director of CATIE listed in a memorandum several administrative deficiencies and required corrective actions. Among them was the need to: establish a system of security and control over projects of external cooperation (such as with ROCAP); perfect administrative mechanisms and procedures; establish personnel regulations and manuals; support personnel contracts funded by external sources with copies of employment offers or personnel actions; and, have all vacancy announcements for international professional and national personnel approved initially by the Director. This review disclosed that little effective action had been taken to correct the defects.

During its 13 year-history CATIE has done little to establish effective administrative policies and procedures. ROCAP needs to insist on either the prompt establishment of these procedures, or suspend the seven grants totaling \$31.3 million in public funding.

ICAITI - Personnel practices did not follow minimum AID requirements concerning hiring, pay and prior employment verifications. ICAITI had not verified previous employment and salary histories for any of the 12 cases that were reviewed. Personnel records did not contain evidence to justify what an employee's salary should have been or why the employee was hired.

ICAITI officials said that everyone knew one another in the industrial sector and that ICAITI had never made prior employment and salary verifications.

The ICAITI personnel manual was established 25 years ago in 1961. The ICAITI financial and administrative manager said that he had furnished to the ICAITI Director updated hiring and selection procedures. However, the financial and administrative manager refused to furnish a copy of the procedures on the basis of confidentiality. On the other hand, the official had on hand a marked-up copy of the 1961 personnel manual that he said would soon be submitted to ICAITI's Director and Board of Directors.

ROCAP grants executed with the institutional grantees require that all books, records and supporting documents be made available, upon request, to ROCAP or its authorized representatives. ROCAP needs to obtain the subject policies and procedures for prompt review, or suspend funding on the two grants executed with ICAITI that total \$8 million in AID obligations.

ROCAP - It has benefitted as an AID entity from the recommendations of the National Bipartisan Commission on Central America. The ROCAP portfolio has grown from about \$15 million to about \$150 million. The increase in funds carries with it an increase in responsibility to ensure that resources are used in an effective and efficient manner. Heretofore, ROCAP's institutional grantees have put off the development of administrative and internal controls on the basis that funding was scarce. This was not the present case for either ROCAP or for the institutions.

Current ROCAP instructions in the form of Mission Orders provided insufficient policies and procedures to enable ROCAP project officers to effectively deal with the institutional grantees. Project officers were not prepared to: advise the institutional grantees on what ROCAP would or would not pay; obtain from the institutional grantees basic data such as salary schedules for comparison to costs billed; review fringe and employee benefit schemes of the institutional grantees; nor compare actual administrative practices with acceptable policies and procedures. As a consequence, informal relationships had developed between ROCAP project officers and the institutional grantees, resulting in reliance on verbal rather than verified information upon which decisions of all kinds with significant impact in AID funding were based. The one existing ROCAP manual order relating to the institutional grantees was issued almost 10 years before the Commission report and subsequent heightened U.S. interest in Central America. ROCAP needs to update and develop effective policies and procedures suited to the major tasks at hand.

#### Management Comments

AID's Regional Office for Central America and Panama accepted each of the five parts of Recommendation No.1, and had instituted actions requiring

the institutions to respond prior to the end of fiscal year 1986. Work had already begun on updating the Mission Orders, with targeted completion within three months.

Office of Inspector General Comments

Recognition of the AID Regional Office for Central America and Panama efforts to resolve the recommendation is warranted. The recommendation will remain open until management actions have been completed.

## 2. Financial Procedures and Systems Were Deficient

Financial and internal control procedures of CABEI and SIECA were in place, and systems were generally functioning in a satisfactory manner. Policy determinations, weak accounting practices or internal control deficiencies within CATIE, ICAITI, IICA and INCAP led to overbillings to ROCAP, or billings for costs that were not reasonable or otherwise unallowable for payment by the U.S. Government. AID and U.S. Government regulations define a reasonable cost as one that, by its nature or amount, does not exceed that which would be incurred by an ordinarily prudent person in the conduct of competitive business. In determining the reasonableness of a given cost, consideration should be given to whether or not the cost is of a type recognized as ordinary and necessary for the conduct of the business or the performance of the agreement. In addition to overbillings, the institutions claimed, and ROCAP paid for family subsidies, personal income taxes paid by employees in excess of their withholdings, as well as for reserve (contingency) accounts set up in anticipation of salary increases. As a result, \$71,405 in costs were overbilled or otherwise ineligible for payment by ROCAP. Based on our projection throughout the life of all of the projects, ROCAP may have been erroneously billed for an additional \$382,792.

### Recommendation No. 2

We recommend that the AID Regional Office for Central America and Panama:

- a) have the Tropical Agricultural Center for Research and Education determine and refund costs billed for family subsidies under Projects No. 596-0106, 596-0083, 596-0110, 596-0117, 596-0129, 596-0129.10 and 596-0089.10 and, collect \$12,633 in ineligible costs billed during 1985 under Project No.596-0110;
- b) collect from the Interamerican Institute for Agricultural Cooperation \$4,938 in family subsidy costs billed during calendar year 1985 under Project No.596-0090, and have the Institute determine and refund family subsidy costs for prior years under Project No.596-0090 and all years under Project No.596-0094;
- c) collect from the Central American Technical and Industrial Research Institute \$38,831 in salary overbillings under Project No.596-0089 and the industrial component of Project No.596-0095, and have the Institute determine and refund other overbillings under the projects;
- d) have the Central American Technical and Industrial Research Institute determine and refund costs billed for personal income taxes refunded to Guatemalan employees in excess of their withholdings; and, collect \$7,073 used for personal income taxes;
- e) have the Nutrition Institute for Central America and Panama determine and refund costs billed for personal income taxes refunded to Guatemalan employees in excess of their withholdings, collect \$7,763 used for personal income taxes, and \$167 in overbillings; and,

- f) verify whether or not Tropical Agricultural Research and Training Center, Interamerican Institute for Agricultural Cooperation, Central American Technical and Industrial Research Institute, and Nutrition Institute for Central America and Panama determinations of ineligible costs are complete and accurate.

### Discussion

ROCAP had relied on the institutional grantees' accounting and internal control systems and practices to ensure that public monies had been economically and effectively utilized. This reliance has an historical development from the period preceding the Commission's review and substantially increased AID funding for Central America. The increased funding and public focus on the region demand that the institutional grantees modernize their accounting practices and strengthen internal controls.

During the 1960's, while the Central American Common Market flourished, the institutions were able to provide to their staffs generous fringe and employee benefits that could be absorbed by the institutions' own funds.

The subsequent economic reversal often placed the institutions in positions of markedly decreased or even negative cash flows. In spite of the economic squeeze the institutions in general did not reduce or eliminate employee benefits, they started billing the costs to donors.

CATIE - Almost five years had passed since ROCAP provided CATIE a \$70,000 grant to develop accounting and administrative manuals. Yet, at the time of our review, CATIE continued to use on an ad-hoc basis some of the procedures developed in 1977 by its parent organization, IICA. There was no Controller, the official acting in that position doubled as an administrative officer. For international employees such as those working on ROCAP grants, employee benefits included moving and education allowances, medical insurance, post differential, rest and recuperation, and retirement. Employee benefits also included a family subsidy that remunerated each married employee \$450 for a spouse and \$500 for each child on an annual basis. CATIE needed to refund to ROCAP an undetermined amount of family subsidy costs in addition to \$11,295 identified by audit, and \$1,388 of overbillings for per diem costs.

Moreover, land and buildings owned by the parent organization, IICA, were being carried on CATIE financial records as assets and were included on CATIE's annual audited financial statements.

On March 20, 1986 ROCAP Controller staff reported that CATIE had not improved internal controls, specifically for gasoline, oil and automobile maintenance. Their report stated that the CATIE financial department had advised it was working to improve internal control weaknesses; however, the ROCAP officials had been told the same thing two years before.

ROCAP Controller staff also noted that CATIE had failed in several cases to comply with ROCAP travel regulations, and that disallowances and subsequent refunds were due ROCAP because CATIE per diems exceeded rates

authorized by the U.S. Government. Over a year earlier, on February 26, 1985, CATIE's Director said that financial controls of CATIE, in general, were deficient.

As with its administrative procedures and practices, CATIE has been slow to introduce effective policies for the efficient implementation of financial and internal controls.

IICA - An automated information retrieval system was not geared to provide management with timely and accurate data. For example, the system could not readily provide cumulative costs incurred under the various IICA/ROCAP projects.

IICA also owned the land and buildings occupied by CATIE but Certified Public Accountants' reports of audit for IICA did not include these assets. The IICA internal auditor informed us that IICA would begin to carry these assets on its books beginning in its fiscal year 1986. Over the years IICA assets have been understated and those of CATIE have been overstated.

IICA billed ROCAP \$4,938 in questionable family subsidy costs under Project No. 596-0090 during 1985. Two grants were executed with IICA in 1981. IICA needed to determine, and present to ROCAP for review, family subsidy costs billed during the years prior to 1985.

ICAITI - Weaknesses in internal controls and accounting practices led to overbillings to ROCAP of \$38,831 for salaries during 1985. This limited audit sample covered Projects No. 596-0089 and 596-0095. Two factors were involved: first, ROCAP officials did not have base salary data to compare salaries billed; and second, ICAITI accounting practices did not adequately account for exchange rate changes for billing purposes.

Moreover, since ROCAP was lax in reviewing the fringe benefit packages of its grantees, project officers were not aware that ROCAP was being billed for the personal portion of income taxes for Guatemalan employees. The taxes were ineligible for billing to ROCAP because they were unsupported, not allowable and they were not actual costs at the time billed. The ICAITI Controller agreed with the finding and has initiated corrective actions. In the interim, \$7,073 of ineligible billings made to ROCAP during 1985 for the personal portion of income taxes have been identified.

INCAP - Like ICAITI, INCAP made a unilateral decision to bill ROCAP for the personal portion of income taxes to be paid by Guatemalan employees. At the time of the billings these were not actual costs nor were they eligible for payment by ROCAP. INCAP also billed ROCAP for estimated future salary increases of its employees. These too were not actual costs paid to employees at the time of billings to ROCAP, and were ineligible for payment. We identified \$7,929 in ineligible costs for 1985. Two of the three grants were executed during 1985, the other in 1981. INCAP needs to determine and present to ROCAP for review, costs representing income taxes and salary increases for years prior to 1985.

### Management Comments

AID's Regional Office for Central America and Panama had initiated actions to clarify family subsidy costs. The institutions had been making those payments in the spirit of housing allowances for international employees. Since the subsidy was lower than what AID would normally authorize as quarters' allowance, ROCAP accepted the family subsidy as reasonable, and proposed to formally accept the payments in order to resolve Parts a) and b) of the Recommendation. Even though the ICAITI Controller agreed with the salary overbillings in principal, the reported overbillings were about half that reported by audit. ROCAP has initiated actions to make a Controller review and based upon the results issue a Bill for Collection in satisfaction of Part c) of the Recommendation. In order to resolve Part d) of the Recommendation, ROCAP planned to issue a Bill for Collection for the \$7,073 in personal income tax billings, and give the Institution 30 days to determine and present to ROCAP costs billed under the two grants during years prior to 198. Similar actions were proposed to resolve Part e) of the Recommendation. For Part f) of the Recommendation, ROCAP was to initiate on-site review of ineligible costs submitted by four of the institutions to determine their completeness and accuracy.

### Office of Inspector General Comments

The firm actions taken by AID's Regional Office for Central America and Panama should result in prompt and effective resolution of the Recommendation. Parts a) and b) of the Recommendation will remain open until receipt of ROCAP's formal acceptance of family subsidy costs. Parts c), d) and e) of the Recommendation are open until management actions have been completed. Recognizing the time element involved with Part f) of the Recommendation, ROCAP's schedule of on-site reviews is sufficient for resolution.

### 3. Support for Grantees Was Lacking

The institutional grantees had not been adequately supported by their founding governments, and in the case of CABEI, its stockholders and borrowers. The depressed economies of the Central American countries have been the major cause for scarce funding availability and decreasing institutional support. The Central American governments formed these institutions in order to coordinate activities in, and obtain benefits from, CABEI-sponsored advances in the agricultural, industrial, commercial and nutrition sectors. Interested donors such as ROCAP have made significant financial contributions in support of the institutions' stated goals. As of December 31, 1985 the founding governments of CATIE, ICAITI, IICA, INCAP and SIECA (as of March 31, 1986) were \$5.6 million in arrears on their payments. Paid-in contributions in response to a \$50 million capital call by CABEI were \$3.6 million short, and delinquent loan repayments totaled about \$87.5 million. As a result, the activities of these institutions have been sharply curtailed and benefits flowing from them have been delayed.

#### Recommendation No. 3

We recommend that the AID Regional Office for Central America and Panama coordinate with AID bilateral Missions (USAIDs) in Central America:

- a) to encourage or make it possible for the founding governments of the Tropical Agricultural Research and Training Center, Central American Technical and Industrial Research Institute, Interamerican Institute for Agricultural Cooperation, Nutrition Institute for Central America and Panama, and Secretariat for Central American Economic Integration to bring themselves current in \$5.6 million delinquent quota payments; and,
- b) to assist the Central Bank for Economic Integration to find ways to collect \$3.6 million of paid-in contributions and \$87.5 million of delinquent loan repayments.

#### Discussion

One of ROCAP's principal functions is to provide advice and assistance to, and coordinate with, AID bilateral missions (USAIDs) in Central America. The USAIDs function under bilateral agreements within the countries designated for AID economic assistance. Because of their country-specific focus and greater familiarity and influence with the individual national governments, those Missions could be of great assistance in ensuring timely and adequate support for ROCAP's institutional grantees by their member states. ROCAP, in coordination with the USAIDs, can bring attention to the recipient governments the financial status of the institutional grantees, and find the means by which to alleviate the delinquencies.

CATIE - IICA and the Government of Costa Rica founded this institution. The Dominican Republic, Guatemala, Honduras, Nicaragua and Panama later joined as participating governments. During 1985 each of the participating governments committed themselves to pay a quota of \$50,000

to CATIE; IICA committed itself to pay \$1,004,400. Cumulative delinquent quota payments owed to CATIE as of December 31, 1985 were:

Costa Rica	\$127,997	
Dominican Republic	50,000	
Guatemala	0	
Honduras	50,000	
Nicaragua	268,545	
Panama	0	
IICA	0	
TOTAL		\$ 496,542

ICAITI - the founding governments of ICAITI were Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. During 1985 Guatemala committed itself to pay \$100,000 and the others \$75,000 each. Cumulative delinquent quota payments owed to ICAITI as of December 31, 1985 were:

Costa Rica	\$174,978	
El Salvador	375,000	
Guatemala	0	
Honduras	135,500	
Nicaragua	492,338*	
TOTAL		\$1,177,816

IICA - Costa Rica (\$19,295), El Salvador (\$165,511), Guatemala (\$34,106), Honduras (\$0), Nicaragua (\$232,680) and Panama (\$2,255) owed a total of \$45,847 to IICA in quota payments as of December 31, 1985. IICA had 29 participating governments worldwide, and total payments in arrears were \$9,085,578.

INCAP - The founding governments were Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. For 1985 assigned quotas were \$42,000, \$51,000, \$93,900, \$31,200, \$37,200 and \$44,700, respectively. Cumulative delinquent quota payments owed to INCAP as of December 31, 1985 were:

Costa Rica	\$257,210	
El Salvador	61,200	
Guatemala	46,075	
Honduras	126,587	
Nicaragua	111,273	
Panama	33,525	
TOTAL		\$ 635,870

\* Nicaragua paid \$72,487 subsequent to 12/31/85.

SIECA - the founding governments were El Salvador, Guatemala, Honduras and Nicaragua, joined later by Costa Rica. The annual quota was \$400,000 for each country. As of March 30, 1986 cumulative delinquent quota payments were:

Costa Rica	\$1,280,000
El Salvador	0
Guatemala	0
Honduras	1,050,000
Nicaragua	<u>510,000</u>

TOTAL

\$2,840,000  
\*\*\*\*\*

CABEI - according to a January 1986 report prepared by CABEI, the recession during the last five years had a serious adverse impact on its financial situation. Slowed economic activity had impaired the supportive capacity of its sponsors, and political conditions had reduced the flow of capital to the region because it was less attractive to investors. As one of the measures to alleviate CABEI's liquidity problem, on February 15, 1985 the Bank's Governors decided to make an appeal for increased capital in the amount of \$50 million to be paid by each member country in equal parts. The member countries were El Salvador, Guatemala, Honduras and Nicaragua, joined later by Costa Rica. By March 30, 1986 CABEI had received \$46.2 million of the \$50 million appeal. CABEI lost \$3.6 million because Nicaragua's payment was not based on the market rate of exchange.

CABEI's current loan portfolio consisted of four categories. These were loans made to the private sector, public sector, for housing and for social development. As a condition precedent to the first disbursement under its \$35 million grant, ROCAP required CABEI to furnish evidence that the public sector loan repayments of at least four of the member countries were current, or were in compliance with existing payment arrangements with CABEI. On December 20, 1985 ROCAP declared that the condition precedent had been satisfied based on the receipt of certifications from CABEI and from its Certified Public Accountants that four of the five member countries were current in their loan repayments or in compliance with existing arrangements.

In April 1986 we again reviewed the status of the public sector loan repayments and determined that Costa Rica, El Salvador, Guatemala and Honduras were \$7,991,800 in arrears in their public sector loan repayments as of February 28, 1986 (latest available data). However, there was a 45 day to 60 day payment processing cycle; thus, these four member countries were technically in compliance. Nicaragua, as the fifth member country, owed CABEI about \$26.5 million in public sector loan repayments as of January 31, 1986 (latest available data). The actual status of CABEI's public sector loan portfolio included delinquencies totaling about \$31 million.

Thirty four percent of loan repayments under CABEI's private sector loan portfolio were delinquent. If CABEI is to solve its liquidity problem, attention needs to be focused on these private sector delinquencies. As of January 30, 1986 the CABEI loan portfolio showed:

	<u>PAYMENTS DUE</u>	<u>AMOUNT DELINQUENT</u>	<u>PERCENTAGE IN ARREARS</u>
Private Sector	\$159,296,584	\$53,976,905	33.8
Public Sector	440,060,858	31,091,714	7.0
Housing	85,211,039	2,220,487	2.6
Social Development	<u>38,128,420</u>	<u>172,647</u>	<u>.4</u>
Overall	<u>\$722,696,901</u>	<u>\$87,461,753</u>	<u>12.1</u>

Also, CABEI had negotiated credits totaling \$119.1 million from a conglomerate of 34 private banks. The new funds were used to "roll over" CABEI's debt with the same banks. CABEI had originally scheduled repayments over a three and one-half year period even though the amortization schedule allotted five years. CABEI and ROCAP officials said that CABEI was in the process of renegotiating with the banks a revised 12-year repayment schedule.

According to ROCAP documents, CABEI has played an important historical role in mobilizing external resources to meet the region's development needs, accounting for almost 20 percent of the external financing flowing to the region. Most of CABEI's direct loans to productive sectors and for tourism take the form of large projects that are experiencing serious problems. While CABEI was still the region's largest and most creditworthy financial institution, it was experiencing a serious liquidity problem which had not permitted the institution to contribute to increasing the levels of investment needed by the region.

In order to address these clearly complex issues facing the six institutions, a possible alternative would be for the USAIDs, in coordination with ROCAP, to use ESF funding as leverage on the founding governments.

#### Management Comments

AID's Regional Office for Central America and Panama recognized the issues and had communicated its concern to the institutions on numerous occasions. ROCAP was planning to contact the bilateral missions to obtain their advice regarding an approach to these issues. With respect to Part b) of the Recommendation, ROCAP presented evidence that 49 percent of the delinquent loans were due to Nicaragua's debt, and that a major condition precedent to the ROCAP-funded Economic Recovery Project with CABEI had addressed the audit recommendation.

#### Office of Inspector General Comments

The cooperation of the bilateral missions is required so that ROCAP may satisfactorily resolve Part a) of the Recommendation. Due to the evidence submitted by ROCAP, Part b) of the Recommendation is closed as of the date of issuance of this report.

#### 4. Organizational Status Was Unclear

One of the six ROCAP institutional grantees (CATIE) was not international or regional in character. It was created under contract executed between a regional institution (IICA) and the Government of the Republic of Costa Rica. The Director of CATIE was restricted by the parent organization from signing contractual agreements in excess of \$100,000. The Director of the parent organization, in his capacity as Vice President of the Executive Board of CATIE, signed contractual agreements in excess of \$100,000 on CATIE's behalf. According to ROCAP's fiscal year 1987 appropriation request, the AID regional program was to support the overall Central American strategy through appropriate use of "regional institutions" and other regional initiatives to supplement the efforts of the bilateral missions. ROCAP had executed seven project grant agreements totaling \$31.3 million with CATIE. It was questionable whether or not CATIE can effectively and efficiently implement the agreements on a regional basis, or be held liable for non-performance and for the return of public monies. Moreover, the relationship of the IICA Director to CATIE management operations needed to be reviewed and corrected.

#### Recommendation No. 4

We recommend that ROCAP obtain legal opinions on:

- a) AID's exposure to loss resulting from executing grant agreements with the Tropical Agricultural Center for Research and Education for services designed to benefit the region;
- b) whether the Tropical Agricultural Center for Research and Education needs to be formally recognized by the Central American member countries, and approved by the member countries to operate in various regional locations; and,
- c) the propriety of the Director of the Inter-American Institute for Agricultural Cooperation functioning in the capacity of an authorized signatory for the Tropical Agricultural Center for Research and Education.

#### Discussion

We reviewed the charters and by-laws of each of the ROCAP institutional grantees to determine whether or not they were registered as public, non-profit, regional or international institutions legally suited to implement the recommendations of the Commission and activities sponsored by ROCAP and more importantly, the Central America Common Market. Initially, the audit universe included seven institutions that ROCAP treated as institutional grantees. However, prior to executing a new project agreement, the LAC regional contracting officer had reviewed the status of the Central American Business Administration School (INCAE) and determined that it was private rather than public in nature. As a result, the contracting officer executed a contract with INCAE rather than a project grant agreement. The contract was executed in accordance with the requirements of AID Handbook 14.

CATIE was created by a contract between IICA and the Government of the Republic of Costa Rica. The Governments of the Dominican Republic, Guatemala, Honduras, Nicaragua and Panama that now provide funds through quotas, did not participate in CATIE's creation nor formally agree that CATIE could operate in their respective countries.

In order to place personnel in other countries, CATIE was required to transfer the employee to its parent organization. For example, in March 1985 CATIE selected and hired an individual, and requested and obtained ROCAP approval. ROCAP later approved a pay increase for the individual based on CATIE's justification and request. Then, in September 1985 IICA nominated the individual to become an IICA "associate". The individual accepted and IICA approved the nomination retroactive to March 1985, the time of initial hiring by CATIE. In this manner, the individual was able to be placed in a country other than Costa Rica, that is, as an IICA associate. Each of the personnel files that were reviewed for international professionals working on the ROCAP/CATIE projects revealed the same procedures had been followed.

Transfers to IICA were required because CATIE was unable to provide to its international employees quasi-diplomatic status, duty-free status and tax exemptions while working in countries other than Costa Rica. These benefits could only be obtained under IICA auspices.

When IICA placed a CATIE employee on its roles, it billed CATIE for the salary, benefits and other costs of the employee. CATIE, in turn, included the IICA costs in its billings to ROCAP.

Intertwined in the CATIE-IICA relationship was the role of the IICA Director who was also the Vice President of the CATIE Executive Board and empowered to sign contractual agreements for both IICA and for CATIE (in excess of \$100,000). As shown in Exhibit 1, each of the seven agreements executed between ROCAP and CATIE exceed \$1 million. A basic criterion was that agreements be free of conflict-of-interest and that an arms-length posture be maintained. The fact that the IICA Director had three relationships, that is, with IICA-ROCAP, CATIE-ROCAP, and IICA-CATIE was sufficient to warrant management's attention.

#### Management Comments

AID's Regional Office for Central America and Panama obtained draft legal opinions from the Regional Legal Advisor. Included in the opinions was reference to an August 21, 1984 cooperation agreement executed between CATIE and its parent organization that contained provisions for CATIE personnel operations outside Costa Rica, and methodology for integrating these individuals into the IICA personnel system. ROCAP proposed that the Regional Legal Advisor issue these opinions in final to satisfy the audit recommendation.

#### Office of Inspector General Comments

The issuance of the legal opinions in final is sufficient to protect the Agency's interests. Parts a) b) and c) of the Recommendation will remain open until the opinions are formally received.

## B. Compliance and Internal Control

### Compliance

There were two compliance exceptions:

- Administrative policies of two of the six institutional grantees were not in place and administrative practices were not in compliance with good business practice and with minimum ROCAP requirements. (Finding 1).
- The institutional grantees had not been adequately supported by their founding governments, or stockholders and loan recipients in accordance with established agreements. (Finding 3).

Other than the conditions cited, tested items were in compliance with applicable laws and regulations, and nothing came to our attention that caused us to believe that untested items were not in compliance.

### Internal Control

The audit disclosed two internal control exceptions:

- ROCAP project officers were not equipped to identify, review and take action to correct deficient practices of the institutional grantees (Finding 1).
- Policy determinations, weak accounting practices or internal control deficiencies with four of the six institutional grantees led to overbillings to ROCAP or billings for costs that were not reasonable or otherwise unallowable for payment by the U.S. Government (Finding 2).

### C. Other Pertinent Matters

ROCAP has elected to use the AID Handbook 3 project grant agreement format in order to provide \$91.1 million in funding to the six institutions on the basis that more management controls could be realized through the issuance and monitoring of instructions contained in project implementation letters (PILs). AID Handbook 3 permits the use of the project grant agreement format for projects involving regional or international organizations. Normally, however, this format is used between AID and recipient governments. AID Handbook 13, Chapter 5 also provides guidance for granting resources to international organizations. It applies to all AID direct grants to international organizations regardless of the source of funding or whether negotiated in AID/Washington or in the field.

AID Handbook 13, Chapter 5 defines an international organization as a public international organization created by international agreement and having membership consisting primarily of national governments or public agencies thereof, and in which the United States participates pursuant to any treaty or under the authority of an Act of Congress authorizing such participation or making an appropriation for such participation.

AID Handbook 3, Chapters 4 and 6, and Handbook 13, Chapter 2 sections intended to provide guidance on regional and interregional projects have been reserved.

Five of the six ROCAP institutional grantees were public, non-profit and either regional or international in character. Their membership consisted primarily of national governments of Central America, and the United States participated by appropriations made through ROCAP. The institutional grantees seemed to better fit under the umbrella of AID Handbook 13 criteria for grants to public international organizations.

Formats for grants to international organizations under Chapter 5 of AID Handbook 13 permit preaward determinations that:

- the organization is deemed to be well managed, that is, capable of efficient planning, organizing, staffing, directing, controlling and coordinating including acceptable audit and procurement policies and procedures;
- grants are made for technical assistance and not for augmentation of an organizations operating budget; and,
- the program and objectives of the international organization are compatible with those of AID.

In addition, the request for assistance is to be initiated by the organization in the form of a grant proposal.

Preaward reviews, especially of CATIE and ICAITI, in accordance with AID Handbook 13 criteria would have helped ROCAP to determine early on that

CATIE was not an international organization; an arms-length relationship did not exist between CATIE and IICA, and CATIE and ICAITI were not sufficiently well managed to ensure efficient and effective use of public resources.

**AUDIT  
OF ROCAP INSTITUTIONAL GRANTEES'  
ECONOMY, EFFICIENCY AND COMPLIANCE**

**PART III - EXHIBITS AND APPENDICES**

AUDIT  
OF ROCAF INSTITUTIONAL GRANTEES'  
ECONOMY, EFFICIENCY AND COMPLIANCE  
PORTFOLIO OF GRANTS BY INSTITUTIONAL GRANTEE RECIPIENT  
as of February 5, 1986  
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No. of Grants	Institutional Grantee Project No.	Obligations to Date	Cumulative	Start	End	Project Title
-----	-----	-----	-----	-----	-----	-----
	ICAITI:					
	596-0089.20	\$ 4,539,650		9/27/79	6/30/86	Fuelwood Alternative Energy Sources
	596-0095.20	3,500,000		8/24/82	7/29/87	Regional Industrial Energy Efficiency
2	Total ICAITI	\$ 8,039,650				
		=====	\$ 8,039,650			
	INCAP:					
	596-0104	\$ 792,000		8/28/81	9/30/85	Regional Nutrition Technical Outreach
	596-0115	8,000,000		1/1/85	12/31/89	ORT Growth Monitoring and Education
	596-0116	3,250,000		3/28/85	3/31/90	Tech Support for Food Assistance
3	Total INCAP	\$12,042,000				
		=====	20,081,650			
	IICA:					
	596-0090	\$ 3,500,001		6/5/81	5/31/86	Regional Coffee Pest Control
	596-0094	850,000		9/30/81	12/31/85	Regional Agricultural Secretariat
2	Total IICA	\$ 4,350,001				
		=====	24,431,651			
	SIECA:					
1	596-0095.10	\$ 450,000		8/27/82	7/29/87	Regional Industrial Energy Efficiency
		=====	24,881,651			
	CATIE:					
	596-0106	\$ 4,000,000		8/8/83	7/26/88	Regional Tropical Watershed Management
	596-0083	8,155,002		2/20/79	9/30/86	Small Farm Production Systems
	596-0110	1,700,000		7/13/84	6/8/89	Integrated Pest Management
	596-0117	1,950,000		8/19/85	8/31/91	Tree Crop Production
	596-0129.00	4,200,000		8/19/85	8/31/91	Regional Agricultural Higher Education--Guatemala
	596-0129.10	7,000,000		8/19/85	8/31/91	Regional Agricultural Higher Education--Costa Rica
	596-0089.10	4,260,350		9/27/79	12/31/85	Fuelwood Alternative Energy Sources
7	Total CATIE	\$31,265,352				
		=====	56,147,003			
	CABEI:					
1	596-0114	\$35,000,000		9/30/85	9/30/88	Regional Economic Recovery
		=====	\$91,147,003			
16			=====			

AUDIT  
OF ROCAP INSTITUTIONAL GRANTEES'  
ECONOMY, EFFICIENCY AND COMPLIANCE  
COMPREHENSIVE PIPELINE REPORT BY BUDGET ALLOWANCE  
as of February 5, 1986

Project Number 596-	Project Title	Grantee	Life of Project Fund	Obligated	Expended	Pipeline
0089.20	Fuelwood Alternative Energy Sources	ICAITI	\$ 4,539,650	\$ 4,539,650	\$ 3,285,135	\$ 1,254,515
0095.20	Regional Industrial Energy Efficiency	ICAITI	5,400,000	3,500,000	2,130,270	1,369,730
0104	Regional Nutrition Technical Outreach	INCAP	792,000	792,000	680,200	111,800
0115	DRT Growth Monitoring & Education	INCAP	8,000,000	8,000,000	307,257	7,692,743
0116	Technical Support for Food Assistance	INCAP	3,250,000	3,250,000	38,614	3,211,386
0090	Regional Coffee Pest Control	IICA	3,500,000	3,500,001	2,098,664	1,401,337
0094	Regional Agricultural Secretariat	IICA	850,000	850,000	536,357	313,643
0095.10	Regional Industrial Energy Efficiency	SIECA	450,000	450,000	139,475	310,525
0106	Regional Tropical Watershed Management	CATIE	6,000,000	4,000,000	845,957	3,154,043
0083	Small Farm Production Systems	CATIE	8,155,000	8,155,002	7,868,631	286,371
0110	Integrated Pest Management	CATIE	1,700,000	1,700,000	902,233	797,767
0117	Tree Crop Production	CATIE	9,000,000	1,950,000	- 0 -	1,950,000
0129.0	Regional Agricultural Higher Education	CATIE	4,200,000	4,200,000	- 0 -	4,200,000
0129.1	Regional Agricultural Higher Education	CATIE	7,000,000	7,000,000	- 0 -	7,000,000
0089.10	Fuelwood Alternative Energy Sources	CATIE	4,260,350	4,260,350	4,031,572	228,778
0114	Regional Economic Recovery	CABEI	35,000,000	35,000,000	2,411,446	32,588,554
TOTAL			\$102,097,000	\$91,147,003	\$25,275,811	\$65,871,192

AUDIT  
OF RDCAP INSTITUTIONAL GRANTEES'  
ECONOMY, EFFICIENCY AND COMPLIANCE  
QUOTA PAYMENTS IN ARREARS  
as of December 31, 1985

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Country -----	CATIE -----	ICAITI -----	INCAP -----	IICA 1/ -----	SIECA 2/ -----	TOTAL -----
Guatemala	\$ - 0 -	\$ - 0 -	\$ 46,075	\$ 34,106	\$ - 0 -	\$ 80,181
Honduras	50,000	135,500	126,587	- 0 -	1,050,000	1,362,087
El Salvador	- 0 -	375,000	61,260	165,511	- 0 -	601,711
Nicaragua	268,545	492,338	111,273	232,680	510,000	1,614,836
Costa Rica	127,997	174,978	257,210	19,295	1,280,000	1,859,480
Panama	- 0 -	- 0 -	33,525	2,255	- 0 -	35,780
Dominican Republic	50,000					50,000
IICA	- 0 -					- 0 -
	-----					-----
TOTAL	\$496,542	\$1,177,816	\$635,870	\$453,847	\$2,840,000	\$5,604,075
	=====					=====

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1/ We limited our universe to country members for the five Regional Institutions to the Central American countries. There were 29 IICA country members that were \$9,085,578 in arrears on their yearly quotas to IICA.

2/ Represents payments in arrears to the institutions as of 12/31/85 except SIECA, which is documented as of 3/31/86

LIST OF RECOMMENDATIONS

Recommendation No. 1

We recommend that the AID Regional Office for Central America and Panama take action to:

- a) review and approve the March 1986 procedures manual of the Interamerican Institute for Agricultural cooperation;
- b) have the Tropical Agricultural Research and Training Center formulate and present, within fiscal year 1986, a set of administrative policies and procedures;
- c) have the Central American Technical and Industrial Research Institute complete and present for review, within fiscal year 1986, the hiring and selection procedures used under AID financing but withheld from audit staff on the basis of confidentiality;
- d) have the Central American Technical and Industrial Research Institute complete and present for review, within fiscal year 1986, updated administrative policies and procedures; and
- e) update existing instruction relevant to its institutional grantees for use by project officers.

Recommendation No. 2

We recommend that the AID Regional Office for Central America and Panama:

- a) have the Tropical Agricultural Center for Research and Education determine and refund costs billed for family subsidies under Projects No. 596-0106, 596-0083, 596-0110, 596-0117, 596-0129, 596-0129.10 and 596-0089.10 and, collect \$12,633 in ineligible costs billed during 1985 under Project No. 596-0110;
- b) collect from the Interamerican Institute for Agricultural Cooperation \$4,938 in family subsidy costs billed during calendar year 1985 under Project No. 596-0090, and have the Institute determine and refund family subsidy costs for prior years under Project No. 596-0090 and all years under Project No. 596-0094;
- c) collect from the Central American Technical and Industrial Research Institute \$38,831 in salary overbillings under Project No. 596-0089 and the industrial component of Project No. 596-0095, and have the Institute determine and refund other overbillings under the projects;

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- d) have the Central American Technical and Industrial Research Institute determine and refund costs billed for personal income taxes refunded to Guatemalan employees in excess of their withholdings; and, collect \$7,073 used for personal income taxes;
- e) have the Nutrition Institute for Central America and Panama determine and refund costs billed for personal income taxes refunded to Guatemalan employees in excess of their withholdings, collect \$7,763 used for personal income taxes, and \$167 in overbillings; and,
- f) verify whether or not Tropical Agricultural Research and Training Center, Interamerican Institute for Agricultural Cooperation, Central American Technical and Industrial Research Institute, and Nutrition Institute for Central America and Panama determinations of ineligible costs are complete and accurate.

Recommendation No. 3

We recommend that the AID Regional Office for Central America and Panama coordinate with AID bilateral Missions (USAIDs) in Central America:

- a) to encourage or make it possible for the founding governments of the Tropical Agricultural Research and Training Center, Central American Technical and Industrial Research Institute, Interamerican Institute for Agricultural Cooperation, Nutrition Institute for Central America and Panama, and Secretariat for Central American Economic Integration to bring themselves current in \$5.6 million delinquent quota payments; and,
- b) to assist the Central Bank for Economic Integration to find ways to collect \$3.6 million of paid-in contributions and \$87.5 million of delinquent loan repayments.

Recommendation No. 4

We recommend that ROCAP obtain legal opinions on:

- a) AID's exposure to loss resulting from executing grant agreements with the Tropical Agricultural Center for Research and Education for services designed to benefit the region;
- b) whether the Tropical Agricultural Center for Research and Education needs to be formally recognized by the Central American member countries, and approved by the member countries to operate in various regional locations; and,

- c) the propriety of the Director of the Inter-American Institute for Agricultural Cooperation functioning in the capacity of an authorized signatory for the Tropical Agricultural Center for Research and Education.

Appendix 2

LIST OF REPORT RECIPIENTS

No. of Copies

Director, ROCAP	5
AA/LAC	2
LAC/AD/ROCAP	1
LAC/DR	1
LAC/DP	1
LAC/CONT	1
LAC/GC	1
LAC/RLAs	1
AA/M	2
GC	1
LEG	1
M/FM/ASD	3
PPC/CDIE	3
AA/XA	2
XA/PR	1
GAO Panama	1
IG	1
AIG/A	1
IG/PPO	2
IG/LC	1
IG/EMS/C&R	12
IG/II	1
RIG/II/T	1
Other RIG/As	1
USAID/Costa Rica	1
USAID/El Salvador	1
USAID/Guatemala	1
USAID/Honduras	1
USAID/Panama	1