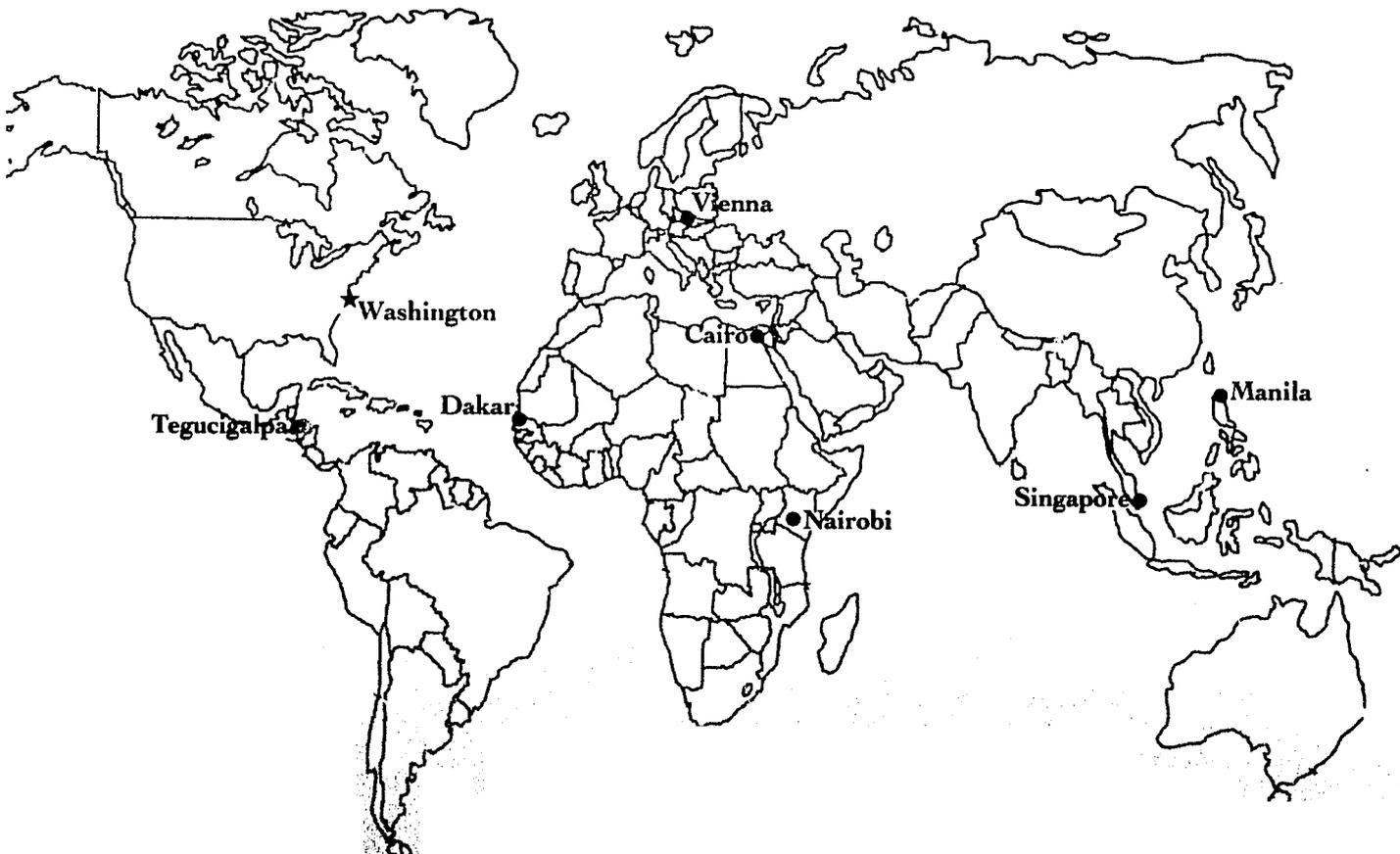

**Audit of Selected Mission Systems
at USAID/Bolivia**

**Audit Report No. 1-511-92-004
December 31, 1991**



**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of Selected Mission Systems
at USAID/Bolivia**

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December 31, 1991**

USAID/Bolivia needed to improve internal controls to minimize the potential for fraud, waste, and abuse as required by the Federal Managers' Financial Integrity Act.

AGENCY FOR INTERNATIONAL DEVELOPMENT

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December 31, 1991

MEMORANDUM

TO: USAID/Bolivia Director, Carl Leonard
FROM: RIG/A/T Acting, *Darryl T. Burris* Darryl Burris
SUBJECT: Audit of Selected Mission Systems at USAID/Bolivia, Audit Report No. 1-511-92-004

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of selected mission systems at USAID/Bolivia. The final audit report is being transmitted to you for your action.

In preparing this report we reviewed your comments on the draft report. A summation of your comments has been included after each appropriate finding. The Mission's comments are presented in their entirety in Appendix II.

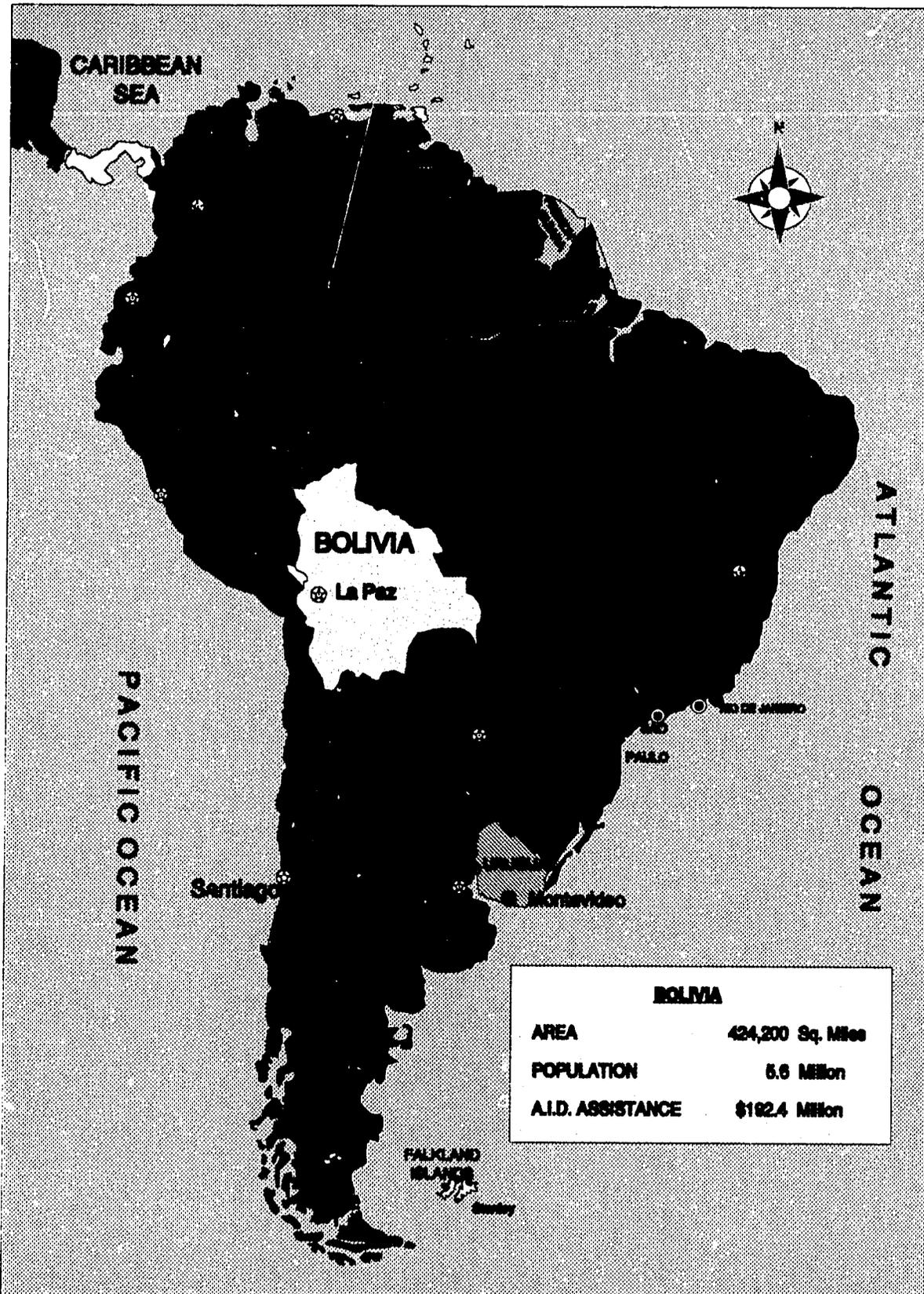
The report contains six recommendations. Recommendations No. 1, 2, 3, 4.2, 5.1, 5.4 and 6 are closed upon issuance of the report. We added an additional part to recommendation No. 5 (Recommendation No. 5.3) which was not in our draft report. The new part of the recommendation is resolved. Recommendations No. 4.1 and 5.2 are unresolved. Please respond to this report within 30 days indicating any actions taken to implement the recommendations.

I appreciate the cooperation and courtesies extended to my staff during the audit.

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EXECUTIVE SUMMARY

The Federal Managers' Financial Integrity Act requires USAID/Bolivia to have internal accounting and administrative controls over its programs. These controls represent the various management objectives and techniques required to ensure that programs and related functions are effectively managed in conformance with applicable laws and regulations. As of March 31, 1991, USAID/Bolivia had a portfolio consisting of 43 active projects valued at \$192.4 million. Obligations and expenditures for these projects as of that date were \$147.1 and \$101.3 million, respectively.

The Office of the Regional Inspector General for Audit/Tegucigalpa made an audit of the systems of internal controls for seven functions at USAID/Bolivia. These functions employ significant policies and procedures used by USAID/Bolivia to manage projects. The audit period covered April 1 to June 30, 1991 and was conducted in accordance with generally accepted government auditing standards. A list of the audit objectives is shown on page 1 and the scope and methodology used to answer them is found on page 35.

The audit found that USAID/Bolivia could strengthen its systems of internal controls for six of the seven functions reviewed. Specifically, the Mission needed to:

- Fully document and expand its procedures for using quantitative indicators to measure and monitor project achievements (see page 3).
- Implement its written procedures for follow-up on project evaluation report recommendations to ensure appropriate resolution (see page 7).
- Establish a system to ensure that the Government of Bolivia made required counterpart contributions to projects (see page 11).
- Strengthen accountability procedures for project commodities in order to minimize waste and abuse (see page 14).
- Follow up on returned participant trainees to ensure that they were effectively utilizing their training (see page 18).

- **Establish and implement procedures for preparing project assistance completion reports so that assurances exist that completed projects are administered according to A.I.D. regulations (see page 21).**

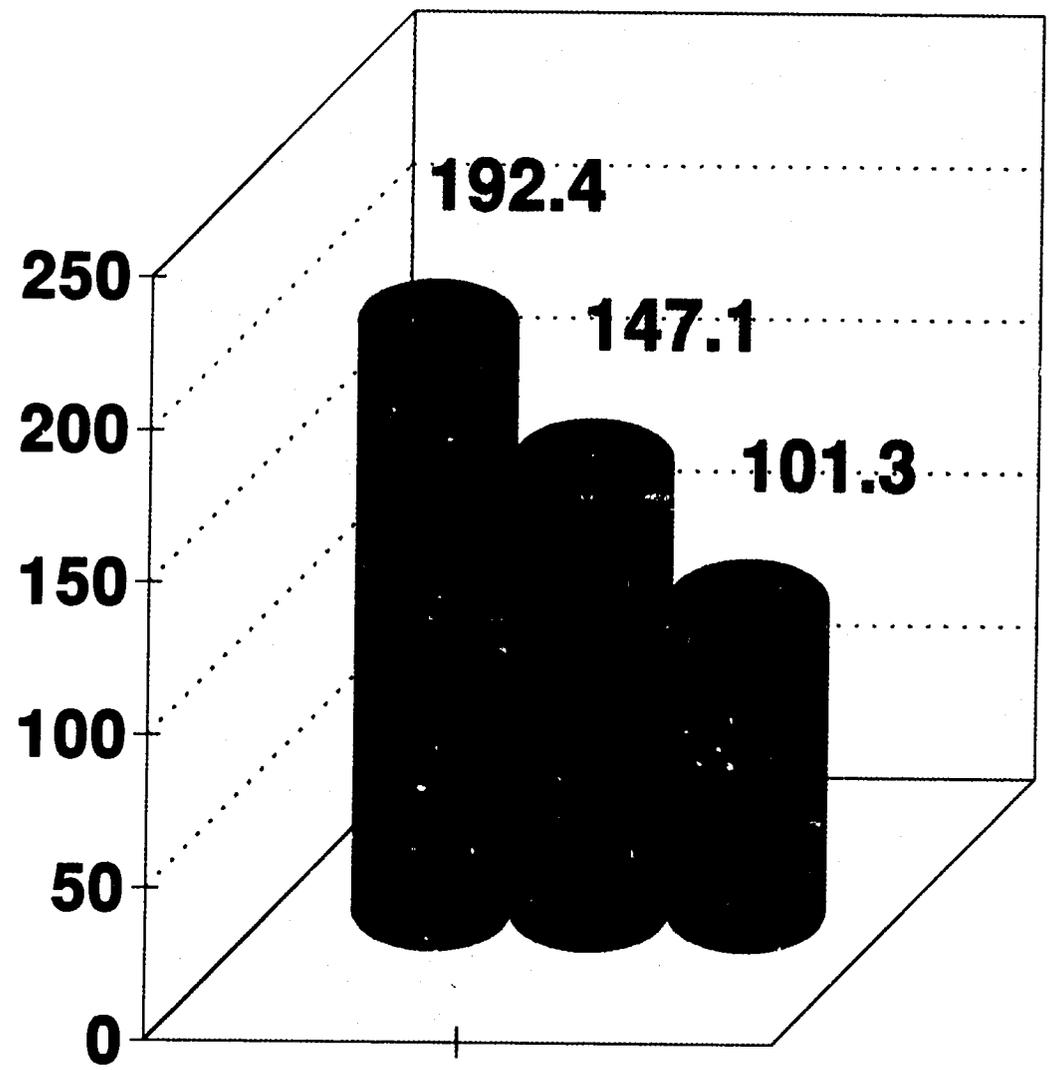
The report contains six recommendations to strengthen internal controls for the weaknesses discussed above. It also presents our assessment of internal controls (see page 25) and reports on USAID/Bolivia's compliance with applicable laws and regulations (see page 33).

Office of the Inspector General

**Office of the Inspector General
December 31, 1991**

USAID/BOLIVIA PROJECT PORTFOLIO AS OF MARCH 31, 1991

IN MILLIONS



■ TOTAL VALUE ■ OBLIGATED ■ EXPENDED

INTRODUCTION

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires USAID/Bolivia to have internal accounting and administrative controls (typically characterized as internal controls) over its program portfolio. These internal controls are to provide reasonable assurance that obligations and costs are proper; funds and assets are safeguarded; and revenues and expenditures are properly accounted for. Office of Management and Budget Circular A-123 requires the head of each agency to develop and maintain documented systems of internal controls. Internal control systems are the policies and procedures used by USAID/Bolivia to insure that its program portfolio is effectively and efficiently managed in accordance with applicable laws and regulations. The Office of Management and Budget also issued guidelines required by the FMFIA to help agencies evaluate their systems of internal accounting and administrative control.

As of March 31, 1991 USAID/Bolivia had a project portfolio consisting of 43 active projects valued at \$192.4 million. Obligations and expenditures for these projects as of the same date were \$147.1 and \$101.3 million, respectively. While various systems of internal control are required to manage and control a mission's portfolio, only selected systems applicable to project functions were selected for this audit. These systems were selected because of their importance to achieving project objectives and because prior Office of Inspector General audits frequently disclosed problems in these areas.

Audit Objectives

The Office of the Regional Inspector General for Audit/Tegucigalpa audited USAID/Bolivia's systems of internal controls for selected functions to answer the following audit objectives:

1. Did USAID/Bolivia establish and monitor quantitative indicators to measure project achievements in accordance with Section 621A(b) of the Foreign Assistance Act?
 2. Did USAID/Bolivia ensure that evaluation recommendations were appropriately resolved and implemented in accordance with A.I.D. Evaluation Handbook requirements?
- 1 -

3. Did USAID/Bolivia follow A.I.D. Handbook 3 to ensure that host country contributions were met in accordance with Section 110 (A) of the Foreign Assistance Act?
4. Did USAID/Bolivia account for project commodities and ensure that they were effectively used in accordance with Public Law 97-255 and A.I.D. Handbooks 3 and 15?
5. Did USAID/Bolivia ensure that participants trained overseas received required medical certifications and worked on project activities for a certain period of time in accordance with A.I.D. Handbook 10 and Office of International Training Participant Training Notice 87-14?
6. Did USAID/Bolivia ensure that project assistance completion reports were prepared and recommendations for follow-up were appropriately implemented in accordance with A.I.D. Handbook 3, Chapter 14?
7. Did USAID/Bolivia ensure that A.I.D. funded procurement instruments were closed out in accordance with Contract Information Bulletin No. 90-12?

In answering these audit objectives, we tested whether USAID/Bolivia followed applicable internal control procedures and complied with certain provisions of laws and regulations. Our tests were sufficient to provide reasonable, but not absolute, assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. However, because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Bolivia followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problems areas, we performed additional work:

- to conclusively determine that USAID/Bolivia was not following a procedure or not complying, in any significant manner, with a binding requirement,
- to identify the cause and effect of the problem noted, and
- to make recommendations, if appropriate, to correct the condition and cause of these problems.

Appendix I contains a complete discussion of the scope and methodology for this audit.

REPORT OF AUDIT FINDINGS

Did USAID/Bolivia establish and monitor quantitative indicators to measure project achievements in accordance with Section 621A (b) of the Foreign Assistance Act?

USAID/Bolivia did establish and monitor quantitative indicators to measure project achievements, however their effectiveness as a management tool can be enhanced through improved planning at the project design stage and better use during the implementation phase.

USAID/Bolivia's Mission Order entitled "Evaluation System" provided a general description of the policies and procedures regarding quantitative indicators and the development of monitoring and evaluation plans. Quantitative indicators were developed in project papers and semi-annual reports discussed progress achieved against targets. However, as discussed in the following section, this Order can be expanded to improve project management by elaborating on how quantitative indicators/data management requirements should be formulated during the planning and implementation phases of projects.

Further Guidance On Developing And Utilizing Quantitative Indicators Is Needed

The Foreign Assistance Act (FAA) requires A.I.D. to develop a management system that includes quantitative indicators for measuring progress toward defined objectives. Our review of four projects to assess whether indicators were established and used in the Mission's management system found that project design teams received no guidance on establishing indicators, the project purpose was not quantified, funds were not budgeted for gathering baseline data, and reporting by the host government or contractor on progress achieved toward established targets could be improved. This occurred because USAID/Bolivia's procedures for complying with the FAA did not give guidance in several critical areas concerning the planning for and utilization of quantitative indicators in the project officer's management system. As a result, USAID/Bolivia does not have the basis necessary to detect problems rapidly, ensure that the project purpose is being achieved and demonstrate the impact of its \$192.4 million project portfolio.

Recommendation No. 1: We recommend that USAID/Bolivia:

- 1.1 amend its Mission Order on Evaluation System to include guidance for: (a) considering data management requirements at the Project Identification Document stage, (b) project design teams when planning monitoring and evaluation components of projects which includes developing budgets to make these components viable, (c) informing host governments and contractors of their roles and responsibilities for gathering data on performance indicators and incorporating them into annual work plans and periodic progress reports, and (d) requiring project officers to periodically assess the relevance of quantitative indicators as conditions change and more realistic targets become apparent; and**
- 1.2 report this weakness in its 1991 internal control assessment under Section III, technique r.**

Performance data generated through objectively verifiable indicators is one of the principal tools Agency managers need to assess project progress, rapidly detect problems and demonstrate the impact of projects. Objectively verifiable indicators, when expressed as a unit of measure and tied to a target statement of the desired result, provide reliable performance data for managers. Indicators can be devised to measure progress toward a project's purpose (end of project status) and its inputs/outputs.

The FAA requires the development of quantifiable indicators to measure progress towards objectives for foreign assistance programs. Section 621A (b) requires A.I.D. to:

establish a management system that includes ...

- definition of objectives and programs for United States foreign assistance;
- the development of quantitative indicators of progress toward these objectives;
- orderly consideration of alternative means for accomplishing such objectives; and
- adoption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken....;

A.I.D. policies and procedures to comply with this requirement are fragmented throughout Handbook 3, training course material, the A.I.D. Evaluation Handbook, and cables issued by individual bureaus. USAID-/Bolivia implemented guidelines on quantitative indicators in a Mission Order titled "Evaluation System".

To test whether USAID/Bolivia had established and monitored quantitative indicators we selected four projects for review¹. One of these projects (Justice Sector) did not contain any Logical Framework; therefore, our analysis is limited to three projects. The results are shown below:

- For all three projects we concluded that the Logical Frameworks needed improvement. For two projects (511-0598 and 511-0589) the purpose was not quantified. For the other project (511-0594) the outputs were not quantified. Respective project officers agreed the Logical Frameworks could have been better.
- The Project Identification Document made no mention of how to measure progress or determine the impact of the project. This condition existed for all three projects reviewed.
- For two projects (511-0594 and 511-0589), the statements of work for the project paper design team gave no guidance or direction on planning for measurable progress, developing quantitative indicators, or planning a data management component. For the other project the Mission could not locate the statement of work.
- For all projects, funds were not budgeted for gathering initial baseline data or data at a later point in time.
- For one project (511-0598), baseline studies were not done. For another project (511-0594) these studies were not done when the project started, however, the project officer told us no harm was done because project interventions were delayed and the studies were done at a later date.
- For three projects, the project officers adjusted indicators, to a limited extent, as implementation progressed and conditions changed. One indicator had been changed for two of the projects. One project officer pointed out another indicator which needed to be changed.
- The roles and responsibilities of Government of Bolivia implementing entities for data gathering/reporting were not set forth in the project paper, project agreement or project implementation letters. This condition existed for all three projects reviewed.

¹ Projects reviewed were Community and Child Health (511-0594); Strengthening Financial Markets (511-0598); Private Agricultural Organization (511-0589); and Justice Sector (511-0609).

- For two projects (511-0598 and 511-0589), the annual work plans did not discuss any targets or quantifiable indicators. One annual work plan (511-0594) did incorporate quantitative indicators but they were not the ones used in the Logical Framework or the semi-annual report.
- For one project (511-0594), periodic progress reports did not discuss progress achieved against quantitative indicators. The second project (511-0589) reviewed showed that this was done to a limited extent. Progress reports for the third project (511-0598) did a good job of reporting progress against quantitative indicators but they were not the ones in the Logical Framework or semi-annual report.
- For two projects (511-0594 and 511-0589), the project officers had not issued guidelines to the technical assistance contractor for incorporating quantitative indicators in their annual work plans or progress reporting.
- All three project officers were reporting progress against quantitative indicators in semi-annual reports. However, for two projects (511-0594 and 511-0589), there was no quantitative indicator for the project purpose in the semi-annual report. Also, indicators in the semi-annual reports were not necessarily those developed in the Logical Framework.

In our opinion, the above occurred because USAID/Bolivia's procedures did not elaborate sufficiently on how to properly plan data management requirements and use quantitative indicators in the Mission's project management system. The Mission Order briefly discusses performance indicators and semi-annual reviews to assess progress against them. However, this Order primarily addresses the Mission's evaluation process and gives scant guidance for planning for quantitative indicators or incorporating them into the project officers' monitoring plan and the Mission's project management system.

USAID/Bolivia does not have the basis necessary to detect problems rapidly, ensure that the project purpose is being achieved and demonstrate the impact of its \$192.4 million project portfolio.

This condition curtails USAID/Bolivia's capability to measure project progress, identify problems quickly and demonstrate the impact of its efforts. While the project officer or head of his division might have detailed knowledge of project problems, this does not ensure they are brought to the

attention of the Mission Director or bureau officials. Consequently, the Mission should provide additional guidance for certain critical areas to ensure that indicators are more fully developed and used in the Mission's project management system.

Management Comments and Our Evaluation

Management agreed with this finding and recommendation. They provided us with a draft copy of their Mission Order which was being revised to incorporate the requirements specified in our recommendation. In addition, a monitoring and evaluation specialist was hired who will ensure that project impact indicators and supporting budgets are developed and will also work with project managers to ensure improved utilization of performance indicators. A management information specialist was also hired to design and manage an information system on the Mission's alternative development portfolio.

We concur with USAID/Bolivia's reported action, and Recommendation No. 1.1 is closed upon report issuance. With regards to including this problem in the 1991 Internal Control Assessment (Recommendation No. 1.2) USAID/Bolivia furnished us a copy of their assessment which reported this weakness. Recommendation No. 1.2 is also closed on report issuance.

Did USAID/Bolivia ensure that evaluation recommendations were appropriately resolved and implemented in accordance with A.I.D. Evaluation Handbook requirements?

USAID/Bolivia did not ensure that project evaluation report recommendations were appropriately resolved and implemented.

Although USAID/Bolivia had a Mission Order that required a follow-up system on evaluation recommendations, it was not implemented. This occurred because of staffing disruptions which are discussed below. The effectiveness of USAID/Bolivia's evaluation program could be substantially increased by implementing internal guidance regarding a follow-up system.

Project Evaluation Recommendations Were Not Tracked To Ensure Prompt Resolution And Implementation

The A.I.D. Evaluation Handbook requires missions to establish a system to follow up on evaluation recommendations. USAID/Bolivia designed a system in a Mission Order; however, it was not implemented. This occurred because of staffing disruptions and a low priority placed on

recommendation follow-up. Consequently, the effectiveness of approximately \$1 million which will be spent on evaluations in the near future could be lessened and the improvements that evaluations can make to A.I.D. projects valued at \$192.4 million might not be realized.

Recommendation No. 2: We recommend that USAID/Bolivia:

2.1 comply with the A.I.D. Evaluation Handbook by fully implementing its Mission Order for establishing a follow-up system for project evaluation recommendations; and

2.2 report this weakness in its 1991 internal control assessment under Section III, technique r.

The purpose of evaluations is to assist managers to improve the performance and effectiveness of projects. Evaluations assess whether planned results are being achieved and what impact a project is having. One of the beneficial aspects of evaluations are recommendations to correct deficiencies or make necessary adjustments to project planning.

The evaluation process is not complete until actions have been taken to satisfy the report's recommendations. To achieve this end, the A.I.D. Evaluation Handbook, titled A.I.D. Program Design and Evaluation Methodology Report No. 7, requires missions to respond to evaluation recommendations and to establish a system for following up on the decided course of action. The evaluation team is required to prepare a project evaluation summary form which documents actions to be taken on recommendations. This form includes a schedule of the actions to be taken, identifies the persons responsible, and date when the actions are to be completed.

USAID/Bolivia established written procedures to comply with the Evaluation Handbook requirements in a Mission Order dated October 18, 1989. This order states:

The evaluation personal service contractor shall assist the evaluation officer in the establishment and implementation of systems to track the status of evaluation recommendations. As one way of helping to strengthen follow-up, the Evaluation Personal Service Contractor shall attend all semi-annual project reviews to track completion of evaluation action decisions. Evaluation Personal Service Contractors shall summarize all evaluation-related decisions made at the Semi-annual Reviews and monitor their implementation over the subsequent six months until the next Semi-annual Review.

The follow-up system described above was not implemented due to staffing disruptions and a low priority assigned to this task. The Mission Evaluation Officer (who resigned during our audit) had served in that capacity since June 1990. Prior to this time, the position was handled on a part-time basis by the Deputy Director of the Program Office. The position was still vacant at the end of our fieldwork.

Even during the period when there was a full-time evaluation officer the prescribed follow-up system was not implemented. The outgoing Evaluation Officer told us other priorities pre-empted implementing the system. However, an alternative procedure was employed which required follow-up to be done by project officers.

We tested the alternative procedure by randomly selecting an evaluation report and tracing its recommendations to semi-annual reports. This evaluation report for project No. 511-0578 contained 24 recommendations; however, the Project Evaluation Summary Form only listed four as requiring action. The results of this test are summarized below.

- Recommendation No. 1 - The date for completing the action was April 1990. The September 1990 semi-annual report made no reference to the recommendation. The project officer told us he discussed the recommendations with the grantee in April, but there was no written evidence of what transpired.
- Recommendation No. 2 - The date for completing the action was July 1990. The September 1990 semi-annual report made no reference to the recommendation. The project officer did provide documents which showed that appropriate actions were taken. Nonetheless, excluding the recommendation from the semi-annual report does not inform managers that the issue was resolved or document their review.
- Recommendation No. 3 - The date for completing the action was July 1990. The September 1990 semi-annual report made no reference to the recommendation. The project officer told us he discussed the recommendation with the grantee in April 1990. However, there was no written evidence of this meeting.
- Recommendation No. 4 - The date for completing the action was August 1990. The September 1990 semi-annual report made no reference to the recommendation. The project officer told us he discussed the issue with the grantee but could produce no written evidence.

As a result of not fully implementing its internal controls for following up on evaluation recommendations, USAID/Bolivia does not have the required

assurances that appropriate and timely actions are being taken. This could lessen the effectiveness of about \$1 million which will be spent on evaluations in the near future. Additionally, the purpose for doing evaluations--improving the effectiveness of projects valued at \$192.4 million--might not be realized.

In conclusion, the formal follow-up system has not been implemented and the alternative process may not be effective. An evaluation officer can play a key role in promptly and correctly resolving recommendations because he is independent and can provide objectivity into the resolution process. We believe that USAID/Bolivia should place emphasis on fully implementing the recommendation follow-up system.

Management Comments and Our Evaluation

Management agreed with this finding and reported several measures taken to satisfy the recommendation. The new monitoring and evaluating specialist is to follow-up on evaluation recommendations and additional guidance is being provided in the revised Mission Order. The Mission also will develop a computerized tracking system to track the status of recommendations. The semi-annual review is to directly address the status of incorporating recommendations into evaluated projects.

We agree with the reported action and Recommendation 2.1 is closed upon report issuance. USAID/Bolivia also reported this weakness in its 1991 internal control assessment. Recommendation 2.2 is also closed at report issuance.

Did USAID/Bolivia follow A.I.D. Handbook 3 to ensure that host country contributions were met in accordance with Section 110 (A) of the Foreign Assistance Act?

USAID/Bolivia did comply with Section 110(A) of the Foreign Assistance Act and A.I.D. regulations to ensure that host country contributions were met. They required quarterly reporting from Government of Bolivia implementing entities on contributions made to A.I.D. projects. However, their procedures were not documented and could be improved in several important areas.

Contributions from the Government of Bolivia are a vital input required for the successful implementation of USAID/Bolivia's bilateral projects. As discussed in the following section, the Mission did not have written procedures for monitoring, receiving or verifying the level of host government contributions.

A System Is Needed To Ensure That Host Country Contributions Are Made

Section 110(A) of the Foreign Assistance Act of 1961 requires the Government of Bolivia to provide at least 25 percent of the cost of the entire program, project or activity. The Mission did not have adequate systems of internal controls to ensure that the Government of Bolivia made these contributions. This occurred because USAID/Bolivia had not issued a mission order establishing policy and procedures for monitoring host country contributions. Consequently there were insufficient assurances that counterpart contributions were being made.

Recommendation No. 3: We recommend that USAID/Bolivia:

- 3.1 establish a formal system for monitoring host country contributions by preparing a mission order which: (a) fixes responsibility for monitoring contributions, (b) establishes procedures for receiving and recording data on contributions from the Government of Bolivia, and (c) ensures that periodic verification of information is performed; and**
- 3.2 report this weakness in its 1991 internal control assessment.**

To ensure that recipients of foreign assistance have a vested interest in the success of A.I.D.-financed projects, Congress requires them to provide at least 25 percent of the cost of the entire project. Section 110(A) of the FAA stipulates that:

No assistance shall be furnished by the United States Government to a country under sections 103 through 106 of this Act until the country provides assurances to the President, and the President is satisfied, that such country shall provide at least 25 per centum of the costs of the entire program, project or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an in-kind basis.

A.I.D. implements this section of the FAA in Handbook 3, Appendix 2G. Also, Handbook 19 requires the mission controller to review and assure the adequacy of the host country's accounting and reporting system as they relate to host country contributions. Handbook 3, Chapter 11 stipulates that project officers should ensure that the host country provides its contributions on a timely basis. These criteria were recently strengthened by a world-wide cable which requires A.I.D. missions to establish standards

for providing auditable evidence relating to reporting and documenting counterpart contributions.

Our audit found that USAID/Bolivia did not have adequate systems of internal controls to monitor host country contributions. Their procedures required quarterly reporting from Bolivian implementing agencies on contributions made to the Mission's projects. However, reported amounts were not analyzed to see if the 25 percent requirement was met; no evidence existed that reported contributions were independently verified; and no information was available to determine how in-kind contributions were computed.

We attribute this condition to the Mission not documenting or disseminating its internal control policy and procedures regarding host country contributions. There was no written guidance specifying who was responsible for monitoring contributions; what constitutes acceptable contributions; how exchange rate fluctuations should be handled; or when and who should verify reported amounts.

USAID/Bolivia does not have sufficient assurances that counterpart contributions were being made.

As a result of not documenting its internal controls over host country contributions, USAID/Bolivia does not have adequate assurance that its program complies with A.I.D. requirements. Contributions from the Government of Bolivia are very high (they are to contribute \$169 million for only 22 of the Mission's 43 active projects) and play a vital part in reaching project objectives. Should there be a delay or a failure to make these contributions, project implementation could be seriously curtailed.

Also, the Mission could be incorrectly counting private sector contributions as a part of the Government of Bolivia requirement. Our analysis of the project paper budgets for eight projects disclosed that the Government of Bolivia's contribution was less than 25 percent and the shortfall apparently was to be made by private sector organizations. For these eight projects, Government of Bolivia contributions (excluding private sector contributions) range from 1.2 percent to 18.5 percent of total project cost. Seven of the eight projects involve the private sector. We are not aware of any guidelines which waive the 25 percent requirement for these projects. The remaining project involves participant training.

In conclusion, the successful day-to-day operations of development assistance projects are highly dependent on contributions from the host government. Consequently, we believe USAID/Bolivia should improve its internal controls in this area. These improvements should incorporate the

recent guidelines issued by A.I.D./Washington regarding counterpart contributions.

Management Comments and Our Evaluation

Management basically agreed with this finding and recommendation. They provided us a copy of a draft Mission Order which will satisfy the intent of all parts of our recommendation. Recommendation No. 3.1 is closed at report issuance.

With regards to Recommendation 3.2, USAID/Bolivia did not report this weakness in their 1991 internal control assessment as we recommended because it was not covered in the checklist for this year. Since the 1991 internal control assessment was recently submitted to A.I.D./Washington we will consider this part of the recommendation closed at report issuance. However, we consider this finding to be a serious weakness and feel the Mission should evaluate the area closely when the next internal control assessment is prepared.

With regards to counting contributions from the private sector, USAID/Bolivia disagreed that they cannot or should not be counted as part of the host country's contribution. Their response contained several reasons why private sector contributions were included as a part of the Government of Bolivia required contributions. They acknowledged that the legislative material on this issue contained some ambiguities and suggested that the legal question involved be referred to the General Counsel for resolution. See Appendix II for a complete text of the Mission's comments on this issue.

RIG/A/T agrees that the legal issue involved should be resolved by the General Counsel. However, we feel this should be done through another mechanism other than this report. Our draft report did not make any recommendation concerning these private sector contributions.

Did USAID/Bolivia account for project commodities and ensure that they were effectively used in accordance with Public Law 97-255 and A.I.D. Handbooks 3 and 15?

USAID/Bolivia did not adequately account for project commodities and ensure that they were effectively used in accordance with Public Law 97-255 and A.I.D. guidance. The Mission relied on project officer site visits and host country/contractor reports to ensure that project commodities were properly accounted for and effectively used. However, both methods did not always adequately address project commodity accountability and

utilization issues. Additionally, the Mission did not maintain a current description, approved by the Mission Controller, of the host country's commodity arrival and disposition system. As discussed below, the Mission needed to document comprehensive guidelines for monitoring project commodities.

Procedures To Control Project Commodities Are Needed

USAID/Bolivia did not follow A.I.D. policy and procedures to ensure that the host country's commodity arrival and disposition system was documented/approved by the Mission Controller and that project site visits included analysis of commodity accountability and utilization. The Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255) requires USAID/Bolivia to provide reasonable assurances that assets are adequately safeguarded against waste, loss, unauthorized use or misappropriation. A.I.D.'s internal controls to provide these assurances are defined in Handbooks 3 and 15. This occurred because internal policies and procedures regarding accountability for commodities were not documented and disseminated in a mission order. Consequently, USAID/Bolivia did not have adequate assurance that \$6 million of project commodities were properly safeguarded.

Recommendation No. 4: We recommend that USAID/Bolivia:

- 4.1 prepare a mission order that requires: (a) the maintenance of a current description of the host country's commodity arrival and disposition system, (b) the Mission Controller to approve this system, and (c) project officers to review commodity accountability and utilization during site visits; and**
- 4.2 report this weakness in its 1991 internal control assessment under Section III, technique k.**

USAID/Bolivia needs to improve its systems of internal controls for the accountability and utilization of project commodities. Mission reports show the value of commodities for their bilateral projects is about \$6 million.

There was no mission order delineating the policies and procedures for ensuring that commodities were properly accounted for and effectively utilized. A mission order would help strengthen controls for critical functions such as the maintenance of a host country commodity arrival and disposition system and independent reviews of project commodities. These areas are discussed further below.

Handbook 15, Chapter 10(E) titled Description of Procedures requires missions to maintain a current description, approved by the mission controller, of the borrower/grantee's commodity arrival and disposition system(s), the mission's evaluation of the system(s), and the monitoring procedures established by the mission. However, USAID/Bolivia did not comply with this policy and accordingly does not have the required assurance that the host country's systems of internal controls are adequate.

Additionally, USAID/Bolivia did not always perform independent reviews of project commodities for accountability and utilization issues. A.I.D. Handbook 3, Chapter 11 requires the project officer to ensure that the host country has established an adequate accounting system for commodities. This system should account for the arrival, receipt, storage, and utilization of the commodities. Furthermore, the Project Officers' Guidebook requires project officers to independently verify that project commodities are used for the intended purposes. To verify proper accountability and utilization, the project officer should perform end-use inspections during site visits. These visits should be documented as soon as possible after the visit ends and be placed in the project monitoring files.

Our selective testing on 24 of the 43 active projects, and our recent audit of the Chapare Regional Project showed that USAID/Bolivia's procedures did not provide the assurances that commodities were properly safeguarded. Based on this judgmental sample, we concluded that the \$6 million of commodities are not adequately safeguarded against fraud, waste, and abuse. The following examples summarize our results:

Chapare Regional Project

Our recent audit² disclosed that the host country implementing agency did not control and account for project commodities valued at about \$5.4 million. A major contributing factor was that Mission project management did not periodically verify the implementing organizations accounting system for project commodities. In this case, the Mission designed an inventory control manual for project commodities which was issued to all Government of Bolivia implementing organizations. Training seminars were also conducted and tours of USAID/Bolivia warehouses were made. However, the audit disclosed that several implementing organizations were not using the manual and consequently inventory controls were insufficient. Examples of insufficient commodity controls detected by the audit were:

- An implementing organization transferred office furniture, equipment, and a computer valued at \$8,000 to the USAID-

² Audit Report No. 1-511-91-013, dated August 29, 1991.

/Cochabamba regional office without posting these transfers to inventory records.

- At another implementing entity, drums of oil were stored in an unsecured area outside the warehouse; a transfer of eight tires was not posted to the records until 45 days later; and receiving reports were not prepared.
- One organization received the inventory control manual and was using it. However, the warehouse was accessible to unauthorized personnel, some tires received 40 days previously were not yet posted to the records, and reports were not prepared on physical inventories.
- Two plows, valued at \$4,223 received more than three years ago had never been used or assembled. There were no tractors large enough to use the plows; consequently, they were stored outside and were rusting.

Other Projects

Based on interviews with project officers, we concluded that site visits did not include a specific objective of checking for accountability and utilization of commodities. In most cases, project officers told us they relied on host country institutions to establish the necessary accounting records. However, in the majority of cases we did not find any documentation which showed that project officers verified their adequacy. The following examples are representative of conditions we found for the 24 projects sampled:

- **Project No. 511-0571** - According to Mission reports, commodities total about \$266,581 for this project. Although the host country implementing agency did provide the project officer with commodity-related reports, there was no evidence that he independently verified them through site visits. The project officer assured us that site visits were made but they were not documented.
- **Project No. 511-0609** - Mission records indicate that \$95,714 of commodities were procured for this project. Site visits did not address commodity accountability or utilization issues. Also, the visits were not documented in accordance with A.I.D. regulations.

In conclusion, USAID/Bolivia's system to control project commodities did not ensure that (1) key internal control requirements and responsibilities were codified in a mission order, (2) the host government's commodity control system was documented and approved, and (3) project officer site visits were focused on ensuring the accountability and utilization of

commodities. USAID/Bolivia should establish, through a mission order, a formal system which will ensure that commodities are adequately safeguarded and used for authorized purposes.

Management Comments and Our Evaluation

In response to our recommendation, USAID/Bolivia prepared a draft Mission Order which established responsibilities and procedures for commodity control and end-use monitoring. However, this Order gives scant information concerning the Mission's plans to maintain and approve a current description of the Government of Bolivia's commodity arrival and disposition system. Consequently Recommendation No. 4.1 is unresolved until we receive further information concerning this area.

USAID/Bolivia reported this weakness in its 1991 internal control assessment. Recommendation No. 4.2 is closed at report issuance.

Did USAID/Bolivia ensure that participants trained overseas received required medical certifications and worked on project activities for a certain period of time in accordance with A.I.D. Handbook 10 and A.I.D. Office of International Training Participant Training Notice 87-14?

USAID/Bolivia followed A.I.D. procedures and Office of International Training Participant Training Notice 87-14 to ensure that participants trained overseas received required medical certifications but did not ensure that they worked in positions where their training could be effectively utilized for the agreed-upon-period.

The Mission's procedures for ensuring that participants received required medical certifications were documented in an April 12, 1991 memorandum. These procedures required the trainee to undergo a medical examination by a doctor under contract with the Mission. After an examination, the doctor prepared the required medical certification form. This certification was to be on file at the Mission prior to finalizing travel arrangements. We randomly selected 42 of 103 trainees to test these procedures and found that all of them had medical certifications on file prior to departure. Consequently, we concluded the Mission complied with the medical certification requirements outlined in Handbook 10, Chapter 13.

USAID/Bolivia is implementing three participant training projects which will send more than 1,400 participants for overseas training at a cost of approximately \$18.3 million. Our test showed that 5 of the 16 participants

sampled did not return to work in fields where their training could be utilized. As discussed below, the Mission did not have procedures to ensure that these participants worked in fields related to their training for the time period specified in their training agreements.

**Follow-up On Trained
Participants Is Needed**

A.I.D. policy and USAID/Bolivia training agreements require participants to return to Bolivia and work in a field related to their training for a specified time period. We found that USAID/Bolivia did not have adequate assurances that these requirements were being met. This occurred because the Mission did not have effective systems in place to follow up on returned participants. As a result, five of the sixteen participants included in our sample, who were trained at a cost of \$158,696, did not return to work in fields where their training could be utilized. This condition could lessen the effectiveness of \$18.3 million the Mission plans to spend on these training projects.

Recommendation No. 5: We recommend that USAID/Bolivia:

- 5.1 establish and implement follow-up procedures to help ensure that returned participants work in areas where their training is utilized and for the agreed upon time period;**
- 5.2 take appropriate action against the Government of Bolivia or the participants for those instances where the individuals did not use their training in accordance with their training agreements;**
- 5.3 determine the employment status of all returned participants; and**
- 5.4 report this weakness in its 1991 internal control assessment under Section III, technique c.**

A.I.D. Handbook 10, Chapter 33, states that upon completion of their training program, participants are obligated to return to their home country to apply their skills in development-related activities for which the training was authorized. This Chapter requires A.I.D. missions to be able to identify participants who did not return home and take all feasible steps to ensure they work in positions which will utilize their training. Chapter 34 of Handbook 10 requires missions to provide general follow-up activities on returned participants.

One control employed by USAID/Bolivia to ensure compliance with these requirements is training agreements entered into between itself and the participants. These agreements require participants to work in positions related to their training after they return. They also require the participant to remain in this position for a period equal to twice the length of the training.

We found that the Mission did not have adequate assurances that the above requirements were being met. They were maintaining an automated directory of participants to identify returnees. However, they did not establish formal guidelines or procedures for applying the directory to determine whether participants were using their training after they returned to Bolivia.

Using the Mission's directory, we reviewed 16 returned participants that were supposedly working within the La Paz region. The total universe of returned participants country-wide was 71. Out of this universe, 16 participants were to be working in the La Paz region. We determined that 5 of the 16 participants (or 31 percent) were not working in fields that would ensure that their training, costing \$168,696, was utilized. The conditions we found for 3 of the 5 participants are summarized below:

- The first participant received a scholarship to attend a 12-month course at Harvard University at a cost of \$15,000 to A.I.D. He completed his training and returned to Bolivia in June 1990. However, our follow-up in May 1991 revealed he had returned to the United States. We were not able to determine if he had ever worked in Bolivia in a job related to his training.**
- The second participant received a scholarship to attend a 39-month course at Boston University at a cost of \$58,700 to A.I.D. She returned to Bolivia on schedule in September 1990. However, in May 1991 her previous employer told us they did not know her whereabouts. The Mission also had no record of where she was, consequently, we could not determine her employment status.**
- The third participant received a scholarship to attend a 16-month course at Purdue University at a cost of \$45,000 to A.I.D. He finished this course and returned to Bolivia in December 1990. However, our May 1991 follow-up disclosed that he had left Bolivia to work in Mexico.**

As a result of not establishing a follow-up program at least \$168,696 spent for five participants was not effectively utilized. Our audit did not quantify the extent of this problem. However, in our opinion it could lessen the effectiveness of the \$18.3 million USAID/Bolivia plans to spend for three

participant training projects. Also, the Mission does not know if there is a pattern of unsatisfactory employment after training is completed and hence can not make adjustments to their program, if required.

In conclusion, without a follow-up program, USAID/Bolivia does not know if participants are working in positions which utilize their training and that they are remaining in these positions for the required period. To ensure the effectiveness of their program, the Mission should establish and implement follow-up procedures to ensure participants use their training as required by the agreements and review the status of participants not included in our audit sample. Also, USAID/Bolivia should take appropriate action to recover A.I.D. funds in the five instances we identified where training was not effectively utilized in accordance with agreements as well as in those instances identified by subsequent Mission review.

Management Comments and Our Evaluation

The Mission concurred with Recommendation 5.1. They provided us a copy of a check-off list which will be used to record information to begin follow-up action and a sample letter which will be used in the follow-up process. Recommendation No. 5.1 is closed at report issuance.

With regards to Recommendation No. 5.2, USAID/Bolivia informed us that two of the participants, who we identified as not utilizing their training as agreed, were working with the private sector in Bolivia. For the third participant, they stated our information was either incorrect or outdated. Recommendation No. 5.2 is unresolved until we receive evidence which clearly establishes the employment status of the five participants identified in our audit as not utilizing their training as agreed.

For Recommendation No. 5.3, USAID/Bolivia reported that they had begun to identify the whereabouts of all returned participants and their employment status. Recommendation No. 5.3 is resolved and can be closed when we receive information concerning the results of this follow-up effort.

The Mission reported their internal controls to be satisfactory for participant follow-up in their 1991 internal control assessment (Recommendation 5.4). We agree that their internal control will be satisfactory when the measures taken in response to Recommendation No. 5.1 are implemented. Therefore Recommendation 5.4 is closed at report issuance.

Did USAID/Bolivia ensure that project assistance completion reports were prepared and recommendations for follow-up were appropriately implemented in accordance with A.I.D. Handbook 3, Chapter 14?

USAID/Bolivia did not ensure that Project Assistance Completion Reports were prepared and recommendations for follow-up were appropriately implemented. These reports were not being prepared because USAID-/Bolivia did not have a mission order which (1) explained the policy and uses of these reports and (2) established procedures to ensure they were completed. However, at the start of our audit the Mission issued a memorandum instructing project officers to begin preparing these reports.

Project Assistance Completion Reports Were Not Prepared

A.I.D. Handbook 3, Appendix 14A requires that Project Assistance Completion Reports be prepared within six months after the Project Assistance Completion Date. USAID/Bolivia had not prepared these Completion Reports for the last two years. This occurred because the Mission did not have written guidance to inform project officers of this requirement, the need for these reports, and procedures ensuring that reports were prepared. As a result, the multitude of purposes served by this report will not be realized and an opportunity to plan post-project monitoring requirements for goods and services not-yet-placed in service for 20 projects will be lost.

Recommendation No. 6: We recommend that USAID/Bolivia:

- 6.1 prepare a mission order emphasizing A.I.D.'s policy for doing Project Assistance Completion Reports and establishing procedures to ensure they are prepared; and**
- 6.2 report this weakness in its 1991 internal control assessment under Section III, technique s.**

The Project Assistance Completion Date (PACD) is defined as the date that parties to the project agreement estimate that all A.I.D.-financed project assistance will be complete. Even though A.I.D.-financed inputs normally are delivered by this date, the Project Officer's responsibilities to support and monitor project activities continues. This continued oversight is generally planned through the Project Assistance Completion Report.

A.I.D. Handbook 3, Chapter 14 requires that Completion Reports be prepared within six months after the PACD. An important element of the

Completion Report is its recommendations for continuing A.I.D. support and monitoring actions. If not already scheduled, the report should also outline any arrangements for and the expected timing of a final project evaluation. It should also address the following important aspects:

- **Where the project is at that point, including the status of completion of various project elements (e.g., procurement, construction, technical assistance, training),**
- **A summary of contributions made by the host government, donors and participants (i.e., planned versus actual inputs),**
- **A brief review of project accomplishments in light of: conditions at the outset (initially planned outputs), the expectations of project design and changes in the project environment and/or design during implementation (including a comparison of revised outputs and actual outputs),**
- **If possible at that point, an assessment of the extent to which the project has resolved or is resolving the original problem (i.e., progress towards achievement of the initial or, if appropriate, the revised purpose),**
- **Recommendations for final adjustments in project design, the appropriateness of remaining conditions and covenants and host country requirements,**
- **Definition of continuing and/or post-project A.I.D. monitoring responsibilities, including the timing and resources involved,**
- **A review of data collection results and evaluations remaining to be undertaken, and**
- **A summary of lessons learned from the project that might be relevant to programming, design, and implementation of other activities.**

Project Assistance Completion Reports had not been prepared during the past two years. According to the Mission's Program Financial Operation Status Reports, ten projects had gone six months beyond the PACD and should have had a Project Assistance Completion Report prepared. Another ten projects would fall into this category during 1991.

Mission personnel told us the reports were not prepared because they were not aware of the requirement. Another reason cited was that the Completion Report had limited use and a final project evaluation would accomplish the same purpose. In our opinion, a major contributing cause

was the lack of a mission order which explains the policy and uses of these reports and establishes the procedures to ensure they are completed.

As a result of not preparing Completion Reports, the management of USAID/Bolivia is not assured that the planning for continued support and monitoring of its projects after the PACD has been accomplished and is appropriate. There could also be a substantial amount of goods purchased under the 20 projects which are not placed in service as of the PACD and could require continued monitoring. The report also serves as a back-up system to check whether critical monitoring tasks were done during the life of the project (e.g., host government contributions were made, performance data was collected to measure progress against baseline data, evaluations were performed, etc.).

In conclusion, Project Assistance Completion Reports provide the mechanism for ensuring the timely and continued oversight of A.I.D. resources after the project's completion date has expired. Final evaluation reports generally do not satisfy all the purposes of this report. Additionally, it could be performed well after the time frame needed to plan A.I.D.'s continued monitoring requirements.

Management Comments and Our Evaluation

USAID/Bolivia concurred with this finding and provided us a copy of a draft Mission Order on Project Close Out Reports (Project Assistance Completion Reports). Our review of this Order indicates that it will satisfy the intent of our recommendation when finalized. Recommendation No. 6.1 is closed at report issuance.

The Mission reported this control technique as unsatisfactory in their 1991 internal control assessment. Recommendation 6.2 is closed at report issuance.

Did USAID/Bolivia ensure that A.I.D. funded procurement instruments were closed out in accordance with Contract Information Bulletin No. 90-12?

We determined that USAID/Bolivia established an adequate system to ensure that A.I.D. funded procurement instruments were correctly closed out. USAID/Bolivia fixed responsibility for contract close-out with a

personal service contractor. An informal automated system was established for contract close-outs which encompassed the following five pro forma documents:

- Contract completion statement for fixed price and personal service contracts,
- Letter for cost reimbursement contracts,
- Letter for fixed price contracts,
- Letter for grants and cooperative agreements, and
- Close-out completion statement for grants and cooperative agreements.

These documents covered all types of procurement instruments used by USAID/Bolivia and collected all necessary information to perform close-outs.

Information contained in these five documents was used to prepare four automated reports which showed the status of various elements/events in the procurement cycle. Thus current information was available showing when close-out should occur or what action still needed to be taken before this could be accomplished. In conclusion, the system of information gathering and the tracking system reports complied with the requirements of Contract Information Bulletin No. 90-12.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of USAID/Bolivia's internal controls for the audit objectives.

Scope of Our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we:

- **assess the applicable internal controls when necessary to satisfy the audit objectives, and**
- **report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.**

We limited our assessment of internal controls to those controls applicable to the audit objectives and not to provide assurance on the auditee's overall internal control structure.

For the purposes of this report, we classified significant internal control policies and procedures applicable to each audit objective by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they had been placed in operation--and we assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each audit objective.

General Background on Internal Controls

The management of A.I.D., including USAID/Bolivia, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Managers' Financial Integrity Act (FMFIA) in September 1982. The FMFIA, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued

"Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the FMFIA, the Office of Management and Budget has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government". According to these guidelines, management is required to assess the expected benefits versus the related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable-but not absolute-assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

In doing our audit, we found certain problems that we consider reportable under standards established by the Comptroller General of the United States. Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which we become aware of and which, in our judgment, could adversely affect USAID/Bolivia's ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.

Conclusions for the Audit Objectives

Audit Objective One

The first audit objective concerns the use of quantitative indicators to measure project achievements. In planning and performing this objective we considered Section 621A (b) of the Foreign Assistance Act, Office of Management and Budget Circular A-123, applicable internal control policies and procedures cited in A.I.D. Handbook 3, and local Mission Order No. 3-6.

We noted one reportable condition relating to the Mission's policy and procedures regarding quantitative indicators:

- **USAID/Bolivia did not fully document its procedures regarding quantitative indicators.**

The Mission had reported this material weakness (Section VIII, technique e) in the 1989 but not in the 1990 internal control assessment. The Mission took corrective actions during the 1990 period. However, a large part of the corrective action involved the hiring of a Mission Evaluation Officer, who subsequently resigned during our audit. Consequently, the Mission should again report this weakness in its 1991 internal control assessment.

As part of our assessment, we reviewed USAID/Bolivia's internal controls relating to the inclusion of an information component (quantitative indicators) in order to generate the types of data needed for sound monitoring and evaluation. Our assessment showed that USAID/Bolivia's controls were not properly designed and/or implemented; therefore, we could not rely on them in designing our audit approach. However, we conducted more extensive testing to achieve our objective of determining whether USAID/Bolivia established and monitored quantitative indicators. These alternative procedures consisted of interviewing various project officers, reviewing project designs and relevant baseline studies, and evaluating the Mission's policies and procedures regarding the establishment of quantitative indicators.

Audit Objective Two

The second audit objective relates to the tracking of project evaluation recommendations for prompt resolution. In planning and performing this objective we considered the applicable internal control policies and procedures cited in the A.I.D. Evaluation Handbook and local Mission Order No. 3-6.

We noted one reportable condition relating to project evaluation recommendations:

- **USAID/Bolivia did not establish a tracking system to ensure that evaluation recommendations were promptly resolved.**

The Mission had reported this material weakness (Section VIII, technique i) in the 1989 but not in the 1990 internal control assessment. The Mission took corrective actions during the 1990 period. However, a large part of the corrective action involved the hiring of a Mission Evaluation Officer, who subsequently resigned during our audit. Consequently, the Mission should again report this weakness in its 1991 internal control assessment.

As part of our assessment, we reviewed USAID/Bolivia's internal controls relating to the establishment of a system to track the scheduling of completed evaluations, trace respective evaluation findings and follow up

on the recommendations. Our assessment showed that USAID/Bolivia's controls were not properly implemented; therefore, we could not rely on them in designing our audit approach. However, we conducted more extensive testing to achieve our objective of determining whether USAID/Bolivia ensured that project evaluation recommendations were appropriately resolved and implemented. These alternative procedures consisted of randomly selecting and reviewing a project evaluation report and tracing the specified recommendations to determine whether they were acted upon as required.

Audit Objective Three

This objective relates to counterpart contributions for A.I.D. projects. In planning and performing this objective, we considered Section 110(A) of the Foreign Assistance Act, Office of Management and Budget Circular A-123, and the applicable internal control policies and procedures cited in A.I.D. Handbook 3 and A.I.D. cable No. 138349 dated April 29, 1991.

We noted one reportable condition relating to host country contributions:

- USAID/Bolivia did not document its policy and procedures for monitoring host country contributions.

The Mission had not reported this material weakness in its 1989 and 1990 internal control assessments. It should be noted that the internal control assessments do not have a specific internal control technique for this area. Nonetheless, the Mission should report this material weakness in its 1991 internal control assessment.

We reviewed USAID/Bolivia's internal controls relating to the requirement that the host country contribute at least 25 percent of project costs. Our assessment showed that USAID/Bolivia's controls were not properly designed and/or implemented; therefore, we could not rely on them in designing our audit approach. However, we conducted more extensive testing to achieve our objective of determining whether USAID/Bolivia ensured that the Bolivian Government contributed at least 25 percent of project costs. These alternative procedures consisted of reviewing current procedures being used to monitor counterpart contributions, interviewing operating personnel on these procedures, and comparing counterpart contributions to the 25 percent required amounts.

Audit Objective Four

This objective relates to the accountability and utilization of project commodities. In planning and performing this objective, we considered the FMFIA, Office of Management and Budget Circular A-123, and the

applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 15.

We noted two reportable conditions relating to project commodities:

- USAID/Bolivia did not document its policy and procedures for monitoring project commodities, and
- USAID/Bolivia did not independently verify commodities during project site visits.

The Mission had not reported this material weakness (Section VIII, technique n) during the 1989 and 1990 internal control assessments. Our audit confirms the fact that the Mission should report this material weakness in its 1991 internal control assessment.

We reviewed USAID/Bolivia's internal controls relating to the monitorship by its project officers on the receipt and use of project commodities funded by A.I.D. Our assessment showed that USAID/Bolivia's controls were not properly designed and/or implemented; therefore, we could not rely on them in designing our audit approach. However, we conducted more extensive testing to achieve our objective of determining whether USAID/Bolivia accounted for project commodities and ensured that they were effectively used in accordance with Public Law 97-255 and A.I.D. Handbook 15, Chapter 10 requirements. These alternative procedures consisted of interviewing project officers on their procedures for accounting for and determining the utilization of project commodities.

Audit Objective Five

This objective relates to the requirement for monitoring returned participants to ensure that they work in fields where their training is effectively utilized. In planning and performing this objective, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 10.

We noted one reportable condition relating to the requirement for follow-up procedures:

- USAID/Bolivia failed to establish an adequate follow-up system for ensuring that returned participants worked in areas that effectively utilized the training they received.

The Mission had reported this material weakness (Section VIII, technique s) during the 1989 but not in the 1990 internal control assessment. The Mission took corrective actions during the 1990 period by implementing an

automated tracking system. However, the system needed to be augmented by manual follow-ups of returned participants. Consequently, the Mission should again report this weakness in its 1991 internal control assessment.

We reviewed USAID/Bolivia's internal controls relating to the maintenance of an effective Participant Training Tracking System. Our assessment showed that the Mission's controls were logically designed and consistently applied except for ensuring that follow-ups were done for returned participants after completion of training.

However, we conducted more extensive testing to achieve our objective of determining whether USAID/Bolivia ensured that participants worked on project activities for a certain period of time in related work activities that would maximize the training received. These alternative procedures consisted of telephoning the institutions where the participants were to be working and ascertaining their job status.

Audit Objective Six

This objective relates to the requirement for preparing project assistance completion reports. In planning and performing this objective, we considered Office of Management and Budget Circular A-123 and the applicable internal control policies and procedures cited in A.I.D. Handbook 3.

We noted two reportable conditions relating to the requirement for follow-up procedures:

- USAID/Bolivia did not document its policy and procedures for preparing project assistance completion reports, and
- USAID/Bolivia did not prepare project assistance completion reports.

The Mission had not reported this material weakness (Section VIII, technique u) during the 1989 and 1990 internal control assessments. Our audit confirms the fact that the Mission should report this material weakness in its 1991 internal control assessment.

We reviewed USAID/Bolivia's internal controls relating to preparing project assistance completion reports as required by A.I.D. Handbook 3, Appendix 14A. Our assessment showed that USAID/Bolivia's controls were not properly designed and/or implemented; therefore, we could not rely on them in designing our audit approach. However, we conducted more extensive testing to achieve our objective of determining whether USAID/Bolivia ensured that project assistance completions reports were prepared and recommendations for follow-up were appropriately

implemented in accordance with A.I.D. Handbook 3 requirements. These alternative procedures consisted of identifying those projects that had been completed since 1989 and also those planned for completion during Fiscal Year 1991.

Audit Objective Seven

This objective relates to the close-out of A.I.D. funded procurement instruments. In planning and performing this objective, we considered the applicable internal control policies and procedures cited in Contract Information Bulletin No. 90-12.

We noted no reportable conditions in this area. We concluded that the internal controls to ensure procurement instruments were closed out were reliable.

Material Weaknesses

A material weakness is a reportable condition in which the design or operation of the specified internal control elements does not reduce to a relatively low level the risk that errors or irregularities--in amounts that would be material in relation to the financial reports on project funds being audited--may occur and may not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable conditions described under audit objectives one through six are material weaknesses.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Bolivia's compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we:

- **assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives), and**
- **report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.**

As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of USAID/Bolivia's compliance with certain provisions of Section 621 A(B) and 110 A of the Foreign Assistance Act and Public Law 97-255. However, our objective was not to provide an opinion on overall compliance with such provisions.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws and implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls.

Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior. Compliance with applicable laws, regulations, and contractual obligations is the overall responsibility of USAID/Bolivia.

Conclusions on Compliance

The results of our tests of compliance indicate that, with respect to the items tested, USAID/Bolivia and the Government of Bolivia complied in all significant respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that USAID/Bolivia and the Government of Bolivia had not complied, in all significant respects, with those provisions.

SCOPE AND METHODOLOGY

Scope

We audited selected systems of internal controls at USAID/Bolivia in accordance with generally accepted government auditing standards. We conducted the audit from April 1 to June 7, 1991, and did our field work at the office of USAID/Bolivia in La Paz. The audit entailed interviewing USAID/Bolivia officials, reviewing Mission files and records; and reviewing those policies and procedures necessary to determine whether:

- Quantitative indicators to measure project achievements were established and monitored,
- Project evaluation report recommendations were appropriately resolved and implemented,
- Host country contribution requirements were being met,
- Project commodities were properly accounted for and effectively utilized,
- Participants trained overseas received the required medical certifications and worked on project activities for a certain period of time,
- Project Assistance Completion Reports were prepared and recommendations for follow-up were appropriately implemented, and
- A.I.D. funded procurement instruments were closed out correctly.

During the period of our audit USAID/Bolivia's portfolio was valued at \$192.4 million. Obligation and expenditures at this same time were \$147.1 and \$101.3 million. We did not specifically audit these amounts rather our audit focused on selected systems for controlling project activities.

Methodology

The audit was made in accordance with generally accepted government audit standards. The methodology for each audit objective follows.

Audit Objective One

To accomplish the first audit objective, we obtained and reviewed A.I.D. Handbook 3, Appendix 3K; Chapter 12; Mission Order No. 3-6; and Mission Semi-Annual Reports to determine the Mission's procedures and implementation of quantitative indicators. We interviewed USAID/Bolivia officials to determine and compare their procedures for using quantitative indicators to the prescribed regulatory procedures. Subsequently, we judgmentally selected four of 26 projects: (i) No. 511-0594 Community and Child Health, (ii) No. 511-0598 Strengthening Financial Markets, (iii) No. 511-0589 Private Agricultural Organization, and (iv) No. 511-0609 Justice Sector to assess the implementation of quantitative indicators. Projects were selected based upon their high dollar value and length of implementation period. We tried to select one project from each of the major divisions in the Mission.

For the selected projects we reviewed the related project papers, project implementation documents, logical frameworks, and project budgets to determine if quantifiable indicators were being used in accordance with prescribed procedures.

Audit Objective Two

To accomplish the second audit objective, we obtained and reviewed local Mission Order No. 3-6 and the A.I.D. Evaluation Handbook to determine written procedures regarding project evaluation recommendations. We then interviewed operating personnel from the Office of Development Planning and Evaluation to determine the procedures used regarding project evaluation recommendations. We judgmentally selected one project evaluation report (from a universe of 17 reports done as of September 30, 1990) titled "Serving Two Masters: A Rocky Road", dated March 19-31, 1990, and reviewed the 24 recommendations listed in the report to determine if the recommendations were promptly resolved. We interviewed Mission officials to ascertain how project evaluation recommendations were implemented. We also reviewed Mission Semi-Annual Reports to determine whether actions taken on evaluation recommendations were discussed.

Audit Objective Three

To accomplish the third objective we interviewed personnel from the Mission's Financial Analysis Review Section to determine their procedures regarding host country contributions. We also reviewed reports prepared by the two host country institutions responsible for monitoring host country contributions to determine the extent of host country contributions. We judgmentally selected 22 projects from a universe of 43 projects to determine if required contributions were made. We then compared the reported counterpart contributions to the amount shown per the respective project papers to determine if the required 25 percent counterpart contributions were being made.

Audit Objective Four

To accomplish the fourth objective, we judgmentally selected more than 50 percent of a universe of 43 active projects and determined the extent of project commodity acquisition from the Mission's automated report entitled "Mission Contract Tracking System", dated April 15, 1991. Subsequently, we interviewed respective project officers and technical contractors, when assigned, on their procedures for ensuring project accountability and utilization. We then traced a judgmental sample of commodities to determine if accountable records existed for recording the location of the project commodities, verify if project officers had supporting documentation to ascertain the effective use of the project commodities, and determine if host government institutions had the necessary records to account for the commodities.

Audit Objective Five

To accomplish the fifth objective, we reviewed the Mission's Participant Training Management System. We judgmentally selected 16 of a universe of 31 participants for follow-up to determine if they were assigned to work where they effectively used their training. All 16 reviewed were selected on the basis that they were supposedly working in La Paz, Bolivia.

Audit Objective Six

To accomplish the sixth objective, we reviewed the Mission's Semi-Annual Report for the period ending March 31, 1989. We subsequently selected ten projects that were scheduled for completion by December 30, 1990, from a universe of 38 active projects. We then interviewed the respective project officers to determine if Project Assistance Completion Reports were prepared for the ten projects.

Audit Objective Seven

To accomplish the seventh objective we obtained and reviewed the Contract Information Bulletin No. 90-12 dated June 8, 1990. We then interviewed the personal services contractor assigned the responsibility for doing contract close-outs. We also obtained and reviewed the Mission's automated report entitled Contract Tracking System and the Mission Orders on contract close-out procedures. Using the Contract Information Bulletin No. 90-12 we ascertained A.I.D./Washington policy and procedures for doing contract close-outs. We then compared the requirements of the Contract Information Bulletin to the Mission's contract close-out procedures currently employed by the assigned personal services contractor.

memorandum

In reply please
refer to MC-91/924

DATE: October 29, 1991

REPLY TO
ATTN OF:

Garber A. Davidson, Acting Director, USAID/Bolivia

SUBJECT:

Audit of Selected Mission Systems at USAID/Bolivia - Draft Report

TO: Reginald Howard, RIG/A/T

This impressive seventy page report is the first using the "new" systems audit approach. I would observe that many of the report's findings are problems which A.I.D. world-wide has tried over time to solve. For example, problems with the control of participant training, project commodities and host country contributions are well known issues documented in numerous IG audit reports. I would hope that the IG might soon combine its knowledge of A.I.D. overseas operations and develop model solutions which could be applied by the RIG's client countries. We believe this approach would be mutually beneficial to both the Agency and the IG in correcting management deficiencies.

We are pleased to see that most of these six recommendations call for the modification or issuance of mission orders. Notwithstanding the Mission's countless paperwork obligations, we have developed or are in the process of writing most of the recommended mission orders. In fact, USAID/Bolivia is currently in the process of updating all mission orders. The importance of mission orders is clear. For example, after reviewing the recently received 1991 Internal Control Assessment, I noted that standard operating procedures (i.e. mission orders) are included in more than twenty control techniques. At the same time, we realize that Mission Orders are only the first step in solving often complex project implementation problems.

The Mission has reviewed the subject draft report and described below are actions taken or in process to strengthen internal controls related to each of the report's six recommendations. In the coming weeks I will ensure that the Mission fully implements these six recommendations.

Recommendation No. 1: We recommend that USAID/Bolivia:

- 1.1 amend its Mission Order on Evaluation System to include guidance for (a) considering data management requirements at the Project Identification Document stage, (b) project design teams when planning monitoring and evaluation components of projects including developing budgets to make these components viable; (c) informing host governments and contractors of their roles and responsibilities for gathering data on performance indicators and incorporating them into annual work plans and periodic progress reports; (d) requiring project officers to periodically assess the relevance of quantitative indicators as conditions change and more realistic targets become apparent; and
- 1.2 report this weakness in its 1991 internal control assessment under Section VIII, technique e.

The recommended Mission Order is being revised and provides for: (a) data management requirements to be considered at the PID stage, when feasible (1/); (b) supporting budgets for M&E activities to be identified at the project design stage; (c) host country and contractor involvement in tracking and reporting of project impact on indicators (2/); and (d) on-going qualitative and quantitative review of impact indicators by project officers. (3/)

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- 1/ In most cases, the PID stage of project design is too early to identify indicators and data management requirements. However, this information will be included at the Project Paper (PP) stage in the Information Plan and revised/refined during the first stage after project authorization.
 - 2/ The current approach to project design and implementation employed by the Mission calls for host country and contractor involvement in refining appropriate impact indicators, and developing a supporting monitoring and reporting system.
 - 3/ Project managers currently revise quantitative indicators through on-going qualitative assessment throughout the implementation process. However, this information must be updated in reporting documents on a regular basis.

In addition to the recommendations highlighted by the audit team, the Mission has taken a number of major steps in recent months to strengthen the capacity to effectively monitor and evaluate all Mission portfolio projects.

1. Hiring of a Monitoring and Evaluation (M&E) Specialist

In mid-September, the M&E Specialist joined the Program Development Office with the objective of working with Project Design and Implementation (PD&I) officers and project design teams to insure that project impact indicators and supporting monitoring budgets are developed at the initial stages of project design; and to work with project managers to better report on indicators and modify indicators as needed. The M&E Specialist is meeting with all project managers, including the sample projects identified in the Audit report, to identify appropriate indicators and insure that a supporting system for monitoring is in place. Similarly, the M&E Specialist is working with project managers and host country counterparts to identify evaluation needs and the content of Scopes of Work. In addition, this person will provide a "historical memory" within the Mission on the evaluation agenda, including "lessons learned", which will assist with coordinating resources and provide insight into future planning.

2. Hiring of a Management Information Systems (MIS) Specialist

In mid-September, the MIS Specialist joined the Program Development Office with the objective of designing and managing an information system on the Mission's alternative development portfolio. Quarterly reports will be generated from project monitoring systems and forwarded to AID/W to inform on progress and impact of the 14 projects that contribute to the alternative development mandate.

The hiring of the MIS Specialist is a follow-up to MIS design activities carried out in July of this year. A MIS design team worked with Mission management to identify which projects of the Mission portfolio contribute to clearly defined alternative development objectives. The team then worked with project managers to define or revise logical frameworks and define which indicators would be tracked. (See Attachment 1 - Objective Trees.)

In USAID/Cochabamba, the management base for the Chapare Project, a more specific MIS system has been designed that

specifies the information needs from all implementing organizations in order to measure project progress and impact. This centralized and computerized system will be managed by the USAID/Cochabamba staff and feed information into the USAID/La Paz system, which in turn will be sent to AID/W. This approach allows each level of AID to receive the kind of information needed to make management decisions. The system will be in operation by December 1991 and will be the basis for monitoring and evaluation throughout the new CORDEP project (\$120,000,000).

3. Revision of Mission Order 3-6: Evaluation System

One of the initial responsibilities of the M&E Specialist is to assess the shortfalls in the existing M&E procedures in the Mission (4/), and revise the Mission Order to reflect more effective and clearly defined procedures for integrating M&E responsibilities into design and implementation activities. Initial research is concluding and the Mission Order is in draft form (see annex 1). This draft is currently being discussed with all involved to ensure its feasibility. The revised Mission Order includes greater provision for ensuring that quantitative indicators are established and monitored in accordance with Section 621A (b) of the Foreign Assistance Act, as well as the qualitative review of USAID/Bolivia portfolio projects.

Please close recommendation 1.1 upon issuance of the final report.

For all .2 recommendations, that is 1.2 through 6.2, we will report these weaknesses in the Mission's 1991 Internal Control Assessment if the recommended corrective actions have not been taken. In November we will submit a copy of our completed 1991 Internal Control Assessment and request closure of these recommendations. Please change the references to agree with the appropriate sections of the 1991 Internal Control Assessment.

4/ A few of the needed revisions are addressed in the audit team's recommendations. In addition, initial research shows that greater responsibility needs to be clearly designated to respective AID personnel throughout the M&E process. It is also evident that qualitative assessments of project progress and impact take place by project managers and need to be directly reflected in the reporting process, specifically in terms of refining impact indicators.

Recommendation no. 2: We recommend that USAID/Bolivia:

- 2.1 comply with the A.I.D. Evaluation Handbook by fully implementing its mission order for establishing a follow-up system for project evaluation recommendations; and
- 2.2 report this weakness in its 1991 internal control assessment under Section VIII, technique i.

The hiring of a M&E Specialist to follow-up on evaluation recommendations with project officers, and the new internal guidance in the revised Mission Order (draft) are only two of the ways that the Mission has already embarked on addressing the issue of evaluation follow-up. The Mission is taking additional measures to ensure that recommendations are incorporated into project implementation in a timely manner.

1. Development of a computerized tracking system

One of the responsibilities of the M&E Specialist is to design a system to track the status of timely incorporation of evaluation recommendations into project activities. This involves working closely with project managers, and at times directly with host country counterparts. The M&E Specialist is currently in the process of designing a system using the Lotus "Agenda" software, which will also enable tracking additional information on program impact.

2. Semi-Annual Review (SAR) reporting of evaluation status

The SAR process will directly address the status of incorporating recommendations accepted by the Mission into evaluated projects. The current SAR project presentations (October 1991) include the involvement of the M&E Specialist, who addresses these issues and establishes timelines with project managers for any outstanding recommendations that need to be incorporated into the project. The next SAR (April 1992) will require project managers to report on the status of evaluation recommendations being addressed within the reporting document.

Please close recommendation 2.1 upon issuance of the final report.

Recommendation No. 3: We recommend that USAID/Bolivia:

- 3.1 establish a formal system for monitoring host country contributions by preparing a mission order which: (a) fixes responsibility for monitoring contributions; (b) establishes procedures for receiving and recording data on contributions from the Government of Bolivia; (c) ensures that periodic verification of information is performed; and
- 3.2 report this weakness in its 1991 internal control assessment.

The Controller's Office has assigned responsibility for obtaining, recording, reviewing, verifying and reporting on host country contributions to its Financial Analysis and Review (FARS) staff. The attached draft mission order (see annex 2) outlines a formal system for monitoring host country contributions.

Please close recommendation 3.1 upon issuance of the final report.

Although USAID/Bolivia agrees that we should strengthen our system for monitoring host country contributions, we disagree with the RIG's statements that private sector contributions cannot or should not be counted as part of the host country's contribution. USAID/B has several projects with the private sector, managed by our Trade and Investment Office, for which the initial obligation was by Project Grant Agreement (PGA) to the Government of Bolivia, but almost all project funds are spent through AID-direct contracts with technical assistance contractors for TA to private Bolivian institutions (TA to chambers of commerce, banks, etc.), or through AID-direct HB 13 grants to Bolivian private organizations (NGOs). Hence, for these projects, the PGA is an umbrella obligating mechanism, and almost all of the funds are actually spent through and for the benefit of Bolivian private organizations.

After reviewing the literature on this subject available to us at Post (HB 3, APP 2G, 91 State 138349, various GC opinions, and the text of FAA Section 110), we think that the legal question of whether private sector contributions may be counted as part of the host country contribution under FAA Section 110, and its legislative history, should be referred to GC for early resolution, in consultation with IG/LC. We think that although these materials contain some ambiguities on this point, the text of the statute, the bits of the legislative history available to us, and GC opinions, generally support the proposition that private sector contributions may be counted. At least one GC opinion, Bloom to McCloskey, dated

January 6, 1976, squarely supports this proposition. Our reasons for including private sector contributions (when they directly contribute to the project and are measurable) are as follows:

1. The text of FAA Section 110 (formerly 110(a) uses the word "country" four times, and does not use the word "government".
2. The text of Section 110 also permits "in kind" contributions as well as cash, implying a broad-minded, rather than narrow-minded approach to the question.
3. The legislative history partially quoted in various GC opinions, the Conference Report on the FAA of 1973 (H. Rept. No. 93-664, 93rd Cong., 1st Sess., Nov. 27, 1973, and Senate Report No. 93-377, 93rd Cong., 1st Sess., August 2, 1973) both use the word "country" instead of "government," e.g. the Senate report stated, according to a GC opinion dated February 20, 1974 (Cardiner to Birnbaum), "To insure that the recipient country has a vested interest in the success of an AID financed project or activity the Committee adopted a provision to require that the country receiving assistance under section 103-107 provide at least 25% of the costs of the entire project or program...".

Later the same GC opinion reports that Senator Chiles, at a hearing before the Senate Foreign Relations Committee, said, "If we focus hard on health, education, nutrition, small farm agriculture and population aimed at bettering the lives of the low-income earners we will have given some more people content to our foreign assistance... This way Congress can look at the programs that we financed to see how concrete the goals are, whether there is matching of funds, ..." From these portions of the legislative history, it appears to us that Congress, in enacting Section 110, was concerned that the country as a whole, including its people as private citizens, receive the benefits of U.S. foreign aid, and therefore the country as a whole, including its private citizens, should demonstrate its and their commitment to economic development projects and programs by making a significant contribution to the projects and programs. Nowhere in the legislative history we have found (admittedly incomplete) is there a statement or implication that the host country contribution must come exclusively from its government.

4. GC Opinion No. 7 on FAA 110(a) dated January 6, 1976 (Bloom to McCloskey) is squarely on point, holding that the contribution

of private Pakistani millers to the Atta Fortification Project should be counted. This opinion stated, on page 2, "This contribution by a private group of citizens clearly demonstrates an interest in the project by the country, indeed by a segment of the country that will be instrumental in the success of carrying out the project. It underscores the fact that this is not a government imposed project but has the willing consent of Pakistani citizens. As such the vested interest in the project by the country, by its government and citizens, is enhanced."

5. Handbook 3, App 2G uses the term "host country contribution" in most paragraphs, and does not exclude private sector contributions.
6. 91 State 138349, apparently from FM channels, mixes the two terms indiscriminately, and is not dispositive on the legal issue.
7. Logically we think it would be poor development policy to exclude contributions from the private parties the assistance is designed to benefit, at the same time placing more demands on the host governments, which may thereby be turned from support to opposition of assistance to the private sector, one of AID's myriad current goals.

For these reasons, private sector contributions are included in the attached draft mission order on this subject.

Recommendation No. 4: We recommend that USAID/Bolivia:

- 4.1 prepare a Mission Order that requires: (a) the maintenance of a current description of the host country's commodity arrival and disposition system; (b) the Mission Controller to approve this system; (c) project officers to review commodity accountability and utilization during site visits; and
- 4.2 report this weakness in its 1991 internal control assessment under Section VIII, technique n.

In response to this recommendation and the recent Chapare audit (audit report no. 1-511-91-013) the Controller's Office has prepared the attached draft mission order (see annex 3). In addition for the Chapare Regional Development and the follow-on CORDEP Project we are in the process of finalizing a scope of work for a PIO/T to contract

a management systems consultant to strengthen the host country implementing agency's administrative control systems including inventory (commodities) control.

Please close recommendation 4.1 upon issuance of the final report.

Recommendation No. 5: We recommend that USAID/Bolivia:

- 5.1 establish and implement follow-up procedures to ensure that returned participants work in areas where their training is effectively utilized and for the agreed upon time period;
- 5.2 take appropriate action against the Government of Bolivia or the participants for those instances where the individuals did not use their training in accordance with their agreements and
- 5.3 report this weakness in its 1991 internal control assessment under Section VIII, techniques.

Beginning in FY 90, the Training Division established new requirements that participants enter into legally binding contractual relationships with the Mission in order to ensure that the Mission, with the assistance of the GOB (Office of the Bolivian Controller General), has the power to require the participant to utilize his/her training in areas targeted as priorities in the development of the country, whether this be in the public or private sectors. Attached as annex 4 is a blank copy of the contract signed as of FY/1990 by all participants before departure.

Currently, the Mission has begun the process of identifying the whereabouts of all its returned participants and to determine their area of employment and whether the training program has had any impact on their careers. Attached is the check-off list to process documentation of participants, and a sample letter used in the follow-up process.

Regarding the wording of recommendation 5.1, we feel that it should be adjusted to read as follows:

5.1 "Establish and implement follow-up procedures to help ensure that returned participants work in areas where their training is effectively utilized and for the agreed upon time period".

The above adjustment is proposed because we can only facilitate compliance with contract terms but cannot practically force returned participants to remain in their previous jobs. There are no systems

in place that allow us forcible action against participants.

We will make all efforts to enforce the terms of the contracts with the assistance of the office of the Controller General of Bolivia.

5.2 "Take appropriate action against the government of Bolivia or the participants for those instances where the individuals did not use their training in accordance with their training agreements".

USAID/Bolivia acts according to established Handbook 10 policy and procedures when participants do not comply with their commitments to return to Bolivia or do not utilize their training as agreed.

For example, in coordination with the U.S. based contractor and OIT, we handled a case of a non-returnee by notifying the participant involved of his/her commitment to return to Bolivia, and informing him/her that USAID/Bolivia would take all necessary actions, such as submitting a Bill for Collection to recuperate the funds utilized in training, and force return to Bolivia through immigration. We were successful in bringing the participant back to Bolivia.

The Mission has evidence that another non-returnee (trained at Harvard) is now back in Bolivia. The participant, trained in Public Administration is currently working in the private sector. We have no other non-returnee cases.

A participant trained at Boston University is currently working in the private sector and fully utilizing his/her training.

Statements in the report on other participants are incorrect or outdated. All participants are working in their fields of training.

These problems are being reported in the Internal Control Assessment Report. Mission will act on a case by case basis as they arise.

Please close recommendation 5.1 and 5.2 upon issuance of the final report.

Recommendation No. 6: We recommend USAID/Bolivia:

- 6.1 prepare a Mission Order emphasizing A.I.D.'s policy for doing Project Assistance Completion Reports and establishing procedures to ensure they are prepared, and
- 6.2 report this weakness in its 1991 internal control assessment under Section VIII, technique u.

The Project Development and Implementation Office prepared the attached draft mission order (annex 5). In addition the attached memo dated April 2, 1991 demonstrates Mission efforts to close-out terminated projects.

Please close recommendation 6.1 upon issuance of the final report.

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