

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

**Audit of Selected Mission Systems
at A.I.D./Mexico**

**Audit Report No. 1-523-92-008
July 24, 1992**



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July 24, 1992

MEMORANDUM

TO: A.I.D./Mexico Representative, Gerard R. Bowers

FROM: RIG/A/T, *Sam Mundy*

SUBJECT: Audit of Selected Mission Systems at A.I.D./Mexico

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of selected mission systems at A.I.D./Mexico. This 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 eleven recommendations; all recommendations are resolved. 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.

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

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EXECUTIVE SUMMARY

Background

The Federal Managers' Financial Integrity Act of 1982 requires A.I.D./Mexico to establish internal controls over its program so that reasonable assurances exist that obligations and costs are proper, funds and assets are safeguarded, and revenue and expenditures are properly accounted. Office of Management and Budget Circular A-123 requires A.I.D./Mexico to develop and maintain documented systems of internal controls. These controls represent the policies and procedures to be used by A.I.D./Mexico to insure that its program portfolio is effectively and efficiently managed in accordance with applicable laws and regulations.

This audit focused on key internal controls systems most relevant to A.I.D./Mexico's program and which were in place from January 1, 1991 to January 31, 1992. As of January 31, 1992, A.I.D./Mexico's portfolio was valued at approximately \$10 million.

Audit Objectives

We audited selected systems of internal control at A.I.D./Mexico in accordance with generally accepted government auditing standards. (See Scope and Methodology, Appendix I.) Our field work was conducted from January 10 to January 31, 1992 and was designed to answer the following questions:

1. Did A.I.D./Mexico establish and implement policies and procedures to ensure that grantees performed audits as required by A.I.D. Handbook 13 Appendix 4D? (See page 3.)
2. Did A.I.D./Mexico establish and implement procedures to ensure that grant recipients made cost-sharing contributions in accordance with A.I.D Handbook 13? (See page 5.)
3. Did A.I.D./Mexico establish and implement procedures to ensure that advances of funds to nonprofit organizations did not exceed immediate cash needs and were liquidated in accordance with Treasury Regulations, A.I.D. Handbook 19, Chapter 1.B, and the Controllers Guidebook, Chapter 16? (See page 8.)

4. Did A.I.D./Mexico have a system in accordance with A.I.D. Handbook 10 and Office of International Training Notice 87-14 to: (a) plan long-term participant training, (b) select long-term participants, (c) ensure that predeparture preparation provided for English language testing and medical examinations, and (d) ensure that participants return to Mexico and utilize their training? (See page 13.)
5. Did A.I.D./Mexico establish and implement policies and procedures to ensure that: (a) quantitative indicators were developed and implemented in accordance with Section 621 A(b) of the FAA, (b) periodic progress reports from nonprofit organizations were prepared in accordance with Handbook 3, grant agreements, and Section 1N of Handbook 13, and (c) site visits were performed in accordance with Handbook 3? (See page 20.)

Summary of Audit

The audit found that A.I.D./Mexico did not establish and implement written policies and procedures systems in accordance with A.I.D. regulations for ensuring that: (1) audits of funds granted to nonprofit organizations were performed, (2) grantees made cost-sharing contributions, (3) funds advanced to grantees were limited to immediate cash needs and were properly liquidated, (4) the participant training plan, when developed and approved, would be adequately implemented, candidates were properly processed, and follow-up was performed to verify the utilization of training, and (5) grants were monitored through the use of quantitative indicators, progress reporting, and site visits. As a result, A.I.D./Mexico does not have as much assurance as possible that its program valued at \$10 million was properly safeguarded against waste, fraud, and abuse.

A.I.D./Mexico operating personnel were not always aware of A.I.D. requirements to establish written policies and procedures necessary to effectively carry out all of their assigned tasks. A.I.D./Mexico did not warrant it necessary to establish written policies and procedures to the degree required by OMB CIRCULAR A-123 because A.I.D./Mexico believed that:

1. its operating personnel were required to read and implement A.I.D.'s pertinent policies and procedures as stated in A.I.D. Handbooks,
2. it was not necessary to duplicate A.I.D. Handbook policy and procedural guidance, and
3. that implementation of its programs was being done in accordance with those A.I.D. policies and procedures.

Audit Findings

Policies and Procedures for Audits Need To Be Documented and More Comprehensive

In May 1991, A.I.D. regulations were revised to require non-U.S. non-governmental grantees receiving A.I.D. funds to have an annual audit performed of these funds in accordance with generally accepted government auditing standards. A.I.D./Mexico did not have a system to monitor the audit requirements which existed prior to the May 1991 revision. Substantial progress was made to establish and implement the new requirements. For example, they identified the universe of grantees for which audits are required and most grant agreements were amended to fund these audits. However, procedures were still not documented and did not provide necessary guidance in several areas. Without fully establishing procedures to monitor compliance with audit requirements there are insufficient assurances that grants valued at approximately \$10 million were adequately safeguarded against waste, fraud, and abuse. (See page 3.)

Internal Controls Need To Be Established For Cost-Sharing Contributions

Written policies and procedures were not developed to ensure that: (a) cost-sharing provisions were incorporated into grant agreements, (b) grantees reported their contributions to A.I.D./Mexico, and (c) project officers verified nonprofit organizations' contributions to the projects. Consequently, none of the 13 grant agreements sampled contained cost-sharing provisions and there was no basis for establishing whether A.I.D./Mexico complied with cost-sharing requirements. Also, for the 13 grants reviewed there were no: (1) waivers on file when nonprofit organizations made no cost-sharing contributions, (2) guidelines concerning whether contributions should be in cash or in-kind, and (3) grantee requirements to report and document contributions. The agreements in our sample were valued at \$2.1 million. If A.I.D./Mexico had obtained a 25 per cent cost-sharing contributions for these grants nonprofit organizations would have contributed \$518,000 toward the purpose of the grants. If all nonprofit organizations which received grants from A.I.D./Mexico provided a minimum of 25 percent of the cost of the program it would substantially increase the development impact of A.I.D.'s efforts in Mexico. (See page 6.)

Procedures Need To Be Established To Limit Advances to Immediate Needs and Liquidate Advances in Accordance with A.I.D. Regulations

Procedures were not established to limit grantees' cash advances to immediate cash needs and liquidate them in accordance with regulations. Consequently, advances were generally made for a 90-day period without the required written justification. Accounting records showed that there were approximately 100 delinquent advances at the time of our

audit valued at \$946,658¹. In June 1992, A.I.D./Mexico informed us that they had reduced the number of delinquent advances more than 30 days past the settlement date to 85 which were valued at \$296,702. As a result of the excessive advance period and the large number of long-outstanding advances the U.S. Treasury incurred avoidable interest costs. A second advance was often made to a grantee before the initial advance was cleared. Also, Bills for Collection were not routinely or systematically used to force settlement of a long outstanding advance. Since A.I.D./Mexico is located in the same building as the Regional Administrative and Management Center (the organization which prepares Treasury checks) a request for an advance can be processed and a check delivered to the grantee within 10 days. Consequently, a 30 day advance period would have been appropriate. A.I.D./Mexico established guidelines in December 1991 to reduce the number of long outstanding advances. These guidelines required advances to be settled within 30 days of the advance period and an additional advance would not be approved when the grantee had a long outstanding advance. (See page 8.)

Guidelines for the Country Training Plan Need To Be Developed

A.I.D./Mexico developed strategic objectives and priority development areas in July 1991. At the time our audit was performed, the Country Training Plan for long-term participants was general because it was prepared to support the broad "target of opportunity" concept which was prescribed for advancing developing countries. A.I.D./Mexico recognized the need for change and was developing a new plan to link training to the priority development areas. Steps were also taken to help ensure that any new participants selected would support priority development areas while the new plan was being developed. However, A.I.D./Mexico needed to develop written procedures to help ensure that the plan, when finalized, would provide the greatest support for priority development areas and would be consistently followed by operating personnel. (See page 14.)

A Committee Needs To Be Established for Selecting Participants

A.I.D. policy is that a committee be formed to review and choose participant trainees so that the selection process will be free from bias. A.I.D./Mexico did not establish such a selection committee because the A.I.D. Representative believed his office was too small to incorporate this technique and that current procedures resulted in unbiased selection. However, under the current procedures final approval authority was vested solely in the A.I.D. Representative. We believe added assurance that selection is unbiased would be provided if a committee were formed of host government, U.S. Government, and private sector officials in Mexico. (See page 16.)

¹ See footnote 2 on page 10 of this report.

A System Needs To Be Established To Follow Up On Trained Participants

A.I.D./Mexico did not establish written policies and procedures to ensure that participants returned to Mexico and worked in a field related to their training for a specified time period. A.I.D./Mexico personnel were unaware of this requirement as well as the requirement to perform follow-ups of returned participants over a three year period. As a result, A.I.D./Mexico does not know if the \$217,350 already expended for long term training was being effectively utilized. A.I.D./Mexico still has the opportunity to improve controls in this area before the funds obligated for long-term training are fully expended. (See page 19.)

Monitoring of Grants Could Be Improved By Developing Quantitative Indicators, Improving Grantee Progress Reports, and Documenting Site Visits

Guidelines were not established to: (1) incorporate quantitative indicators into grant agreements, (2) instruct grantees on periodic progress reporting, and (3) explain the policy for site visits and the need to document results. Our sample of 12 grants disclosed that the establishment of verifiable indicators, targets or timeframes could be improved. Some grant agreements reviewed did a poor job in this area; whereas other agreements were satisfactory. This condition lessens A.I.D./Mexico's capability to measure whether the purpose of the grant was being achieved or whether the grant's activities began or ended as planned. We did note however that although not required by LAC Bureau guidelines, some of the annual implementation reports prepared for A.I.D. managers reported progress against an indicator or timeframes; whereas others did not.

The periodic progress reports prepared by nonprofit organizations in our sample needed improvement in the reporting of progress achieved against established objectives. Also, we found that the majority of reports were not submitted on schedule.

Project officers were not documenting the results of site visits for the projects selected in our sample. We were shown examples of trips reports for other projects but they were not done in a comprehensive or systematic manner. Because of these conditions, management does not have as much assurance as possible that implementation problems, affecting a portfolio valued at \$10 million, are being identified, documented, and resolved.

A.I.D./Mexico underwent a strategic planning exercise in July 1991 to focus and consolidate their portfolio on three strategic objectives. Plans are to develop quantifiable indicators for each of the strategic objectives (these indicators are still being formulated). Future grants awarded by A.I.D./Mexico are planned to link to one of these three strategic objectives and have quantifiable indicators. This action will improve A.I.D./Mexico's capability to monitor its portfolio. (See page 21.)

Summary of Recommendations

We made 11 recommendations to improve the internal controls for the areas audited. All recommendations entailed the need to establish written policies for each area reviewed and to develop appropriate procedures for implementing and monitoring them. The internal control weaknesses described in this report had not been reported by A.I.D./Mexico in their 1991 Internal Control Assessment. Consequently, we recommended that they be reported in the 1992 Assessment if they are not fully resolved by the time it is prepared.

Management Comments and Our Evaluation

A draft of this report was provided to A.I.D. Mexico. Management agreed with all findings and recommendations in the report. A complete text of A.I.D./Mexico's comments is presented in Appendix II. The reports on Internal Control and Compliance are on page 29 and page 37, respectively.

Office of the Inspector General

Office of the Inspector General
July 24, 1992

INTRODUCTION

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires A.I.D./Mexico to have internal accounting and administrative controls over its program. 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. The Office of Management and Budget issued guidelines (Circular A-123) which require the head of each agency to develop and maintain documented systems of internal controls and evaluate their systems of internal accounting and administrative control.

As of January 31, 1992 A.I.D./Mexico had a portfolio valued at approximately \$10 million. This portfolio consists of 60 grants to nonprofit organizations and a large participant training program.

A.I.D./Mexico is responsible for establishing various systems of internal control to manage its portfolio in accordance with the FMFIA. Our audit focused on several of the major systems which were most relevant to the portfolio. We selected these systems because of their importance to reaching program objectives and because prior Office of Inspector General audits frequently disclosed problems with these systems.

Audit Objectives

The Office of the Regional Inspector General for Audit/Tegucigalpa audited A.I.D./Mexico's systems of internal controls for selected functions to answer the following audit objectives:

1. Did A.I.D./Mexico establish and implement policies and procedures to ensure that grantees performed audits as required by A.I.D. Handbook 13, Appendix 4D?
2. Did A.I.D./Mexico establish and implement procedures to ensure that grant recipients made cost-sharing contributions in accordance with A.I.D. Handbook 13?
3. Did A.I.D./Mexico establish and implement procedures to ensure that advances of funds to nonprofit organizations did not exceed immediate cash needs and were

liquidated in accordance with Treasury Regulations, A.I.D. Handbook 19, Chapter 1.B, and the Controllers Guidebook, Chapter 16?

4. Did A.I.D./Mexico have a system in accordance with A.I.D. Handbook 10 and Office of International Training Notice 87-14 to: (a) plan long-term participant training, (b) select long-term participants, (c) ensure that pre-departure preparation provided for English language testing and medical examinations, and (d) ensure that participants return to Mexico and utilize their training?
5. Did A.I.D./Mexico establish and implement policies and procedures to ensure that: (a) quantitative indicators were developed and implemented in accordance with Section 621 A(b) of the FAA, (b) periodic progress reports from nonprofit organizations were prepared in accordance with Handbook 3, grant agreements, and Section 1N of Handbook 13, and (c) site visits were performed in accordance with Handbook 3?

In answering these audit objectives, we tested whether A.I.D./Mexico 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, A.I.D./Mexico 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 A.I.D./Mexico was not following a procedure or not complying, in any significant manner, with a binding requirement,
- identify the cause and effect of the problem noted, and
- make recommendations to correct problem areas.

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

REPORT OF AUDIT FINDINGS

Did A.I.D./Mexico establish and implement policies and procedures to ensure that grantees performed audits as required by A.I.D. Handbook 13, Appendix 4D?

A.I.D./Mexico has made substantial progress in establishing and implementing policies and procedures to ensure that grantees performed audits in accordance with A.I.D. Handbook 13 requirements. Internal controls, however, were not documented and additional policies and procedures need to be established in several areas.

A.I.D./Mexico has identified its universe of grantees for which audits are required and 15 audits have been scheduled. Copies of the standard audit provisions were sent to all its grantees. Furthermore, most grant agreements were amended to fund these audits.

In order to more fully comply with the new Handbook 13 requirements, policies and procedures need to be established in several additional areas. Also, the policies and procedures for auditing need to be documented in writing.

Policies and Procedures for Audits Need To Be Documented and More Comprehensive

A.I.D. Handbook 13 (Grants) was revised in May 1991 to require that audits be performed annually and that audit reports be prepared in accordance with government auditing standards. A.I.D./Mexico did not have a system to monitor the audit requirements which existed prior to the May 1991 revision and had not fully implemented the new requirements. This occurred because their policies and procedures for ensuring that grantees comply with audit requirements were incomplete in two aspects: policies and procedures were not documented and staffing assigned to this function was insufficient to handle the workload. Consequently, the program was not in full compliance with A.I.D. regulations and approximately \$10 million of A.I.D. funds applied to grants could be better safeguarded against waste, fraud and abuse.

Recommendation No. 1: We recommend that A.I.D./Mexico:

- 1.1 establish written policies and procedures for ensuring that grantees comply with audit requirements which include guidance on: (a) maintenance of the audit universe and schedule of audits, (b) procedures to ensure audit reports are received, (c) modifications of standard scopes of work for grantee audits as appropriate, (d) the**

approval of grantee audit contracts and auditors, (e) attending entrance conferences as appropriate, (f) the review of draft reports as appropriate, (g) follow-up with grantees to obtain final reports for transmittal to RIG/A/T, (h) follow-up on audit recommendations, and (i) budgeting of funds for audit in grant agreements;

- 1.2 ensure sufficient and adequately trained personnel are available to implement the policies and procedures; and**
- 1.3 report this weakness in its next internal control assessment if it is not fully resolved.**

A.I.D. programs are frequently implemented in an environment where the potential for waste, fraud, and abuse is high. Independent audits are one of the most valuable controls management has to ensure that funds are spent in accordance with A.I.D. requirements and grant agreements. They can be particularly important for a portfolio with a large number of grants because A.I.D. oversight of grants could be less than for bilateral projects.

Office of Management and Budget (OMB) Circulars A-110 and A-133 specify the audit requirements for grants to U.S. nonprofit organizations. A.I.D. Handbook 13 (Grants) Chapter 1 (Introduction) recognizes that these OMB Circulars are legally applicable only to U.S. organizations. However, A.I.D. policy has administratively extended these audit requirements to cover non-U.S. non-governmental recipient organizations, to the extent practical.

In May 1991 the "Accounting, Audit, and Records" provision in A.I.D. Handbook 13, Appendix D was changed to require non-U.S. non-governmental grantees to select an independent auditor in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the A.I.D. Inspector General. The audit is to be an annual financial audit performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. The purpose of these audits is to ascertain the effectiveness of the financial management systems and internal procedures that have been established to meet the terms and conditions of the grant agreements.

Our audit found that A.I.D./Mexico has taken positive steps to implement the new audit provisions. For example, they determined their audit universe, alerted grantees of the requirement to do independent audits, and hosted a seminar conducted by RIG/A/T staff and attended by recipients, representatives of audit firms, and the Controller General as well as A.I.D./Mexico operational staff. Also, grant agreements were amended to include funds to cover the cost of audit. However, they still need to establish a system to monitor the audit requirements as none existed prior to the May 1991 amendment.

To further improve their system, A.I.D./Mexico should fully establish and document their policies and procedures for implementing the new audit provisions to:

- budget funds for audit in grant agreements,
- maintain the audit universe and schedule of audits,
- complete and modify standard scopes of work for audits as appropriate,
- approve audit contracts and auditors,
- attend entrance conferences as appropriate,
- review draft reports as appropriate,
- monitor the receipt of final audit reports, and
- follow-up on audit recommendations.

A contributing cause is a shortage of staff assigned to handle the program. The single person responsible for this program already has a heavy workload. The added requirements associated with this program will require additional staffing due to the unusually large number of grants A.I.D./Mexico currently has in its portfolio.

A.I.D./Mexico by fully establishing and implementing internal controls to monitor grantee compliance with audit requirements will be in a position to know the extent grantees have used funds in accordance with A.I.D. requirements and grant agreements. In Fiscal Year 1991 grant funds amounted to approximately \$10 million.

In conclusion, the Federal Managers Financial Integrity Act requires that A.I.D. resources be adequately safeguarded against fraud, waste, and abuse. When properly used by management, audits are excellent tools to assist in identifying inefficient or misuse of A.I.D. resources. Consequently, internal controls should be established to ensure that audits are performed in accordance with requirements.

Management Comments And Our Evaluation

Management concurred with all parts of the recommendation. Recommendation No. 1 is resolved.

Did A.I.D./Mexico establish and implement procedures to ensure that grant recipients made cost-sharing contributions in accordance with A.I.D. Handbook 13?

Although A.I.D./Mexico informally encouraged recipients to share in grant implementation costs, formal procedures to ensure that grant recipients made cost-sharing contributions were not established nor implemented.

There were no written policies or procedures for: (1) incorporating cost-sharing provisions in grant agreements, (2) reporting contributions by nonprofit organizations, or (3) verifying that contributions were made. Our sample of 13 grant agreements disclosed that none of them contained cost-sharing agreements with the grantees.

Internal Controls Need To Be Established for Cost-Sharing Contributions

Agency guidelines specify that missions should require a 25 per cent cost-sharing contribution from nonprofit organizations unless there is strong justification for doing otherwise. A.I.D./Mexico needs to establish internal controls to ensure that: (a) cost-sharing provisions are incorporated into agreements, (b) grantees report their level of contributions, and (c) contributions are verified by project officers. Policies and procedures for cost-sharing contributions were never established because the A.I.D. Representative assumed that his verbal instructions were adequate. None of the 13 grant agreements we sampled contained cost-sharing provisions and there was no basis for knowing whether the A.I.D./Mexico program was in compliance with cost-sharing requirements.

Recommendation No. 2: We recommend that A.I.D./Mexico:

- 2.1 establish a system for requesting and monitoring cost-sharing contributions from grantees by preparing written guidelines which, as a minimum: (a) explains the policy for seeking these contributions, (b) provides guidelines for incorporating this policy into grant agreements, (c) fixes responsibility for monitoring contributions, (d) establishes procedures for receiving and recording data on contributions from grantees, (e) explains the documentation grantees must maintain in order to support their contributions, (f) prescribes the policy for when waivers are appropriate and the requirement to document this action in writing, (g) provides guidance on cash versus in-kind contributions and how to value in-kind contributions, and (h) explains how exchange rate fluctuations should be handled; and**
- 2.2 report this weakness in its next internal control assessment if it is not fully resolved.**

To ensure that recipients of foreign assistance have a vested interest in the success of A.I.D.-financed projects, Section 110(a) of the Foreign Assistance Act requires host governments to provide at least 25 percent of the cost of an entire project. Although not mandated by this legislation, A.I.D. Handbook 13 (Grants), Chapter 4B (Specific Support Grants) requires that 25 per cent of the cost of the program come from non-U.S. Government sources. The requirement for a 25 per cent contribution may be waived by the appropriate Bureau or Mission.

An A.I.D./Washington world-wide cable dated October 23, 1987 (SECSTATE 331065) later clarified these provisions. It stated that a 25 per cent non-A.I.D. contribution is required for mission-funded PVO activities supported through grants and cooperative agreements. This guidance further stated that the required non-A.I.D. contribution may be waived or reduced by the entity authorizing the activity--in most cases, the mission. However, Missions are expected to require the full 25 percent non-A.I.D. contribution unless there is strong justification for doing otherwise. Criteria was given the missions

for determining whether to waive or reduce the 25 per cent contribution. This cable guidance also strongly encouraged that part of the 25 per cent contribution be in cash.

Our audit found that A.I.D./Mexico had a informal policy that they obtain as much as possible from nonprofit organizations in the way of cost-sharing contributions. We were informed by the A.I.D./Mexico Representative that this policy resulted in contributions. However, written guidelines were needed which explained the policy for seeking cost-sharing contributions; the minimum amount which would be acceptable; or the need to incorporate the amount negotiated with nonprofit organizations into the grant agreements. Formal internal controls were also needed for reporting and documenting contributions, monitoring and verifying contributions, establishing when waivers might be appropriate and the need to document this action, establishing policy on cash versus in-kind contributions, and handling exchange rate fluctuations.

Policies and procedures for cost-sharing contributions have never been established for the A.I.D./Representative Office in Mexico because the A.I.D. Representative assumed that his verbal instructions were adequate.

The 13 grant agreements we sampled (universe of grants was 60) did not contain cost-sharing provisions. Despite the absence of formal agreement provisions it was possible that some monitoring of contributions had occurred. We therefore expanded our review to grant files and discussions with project officials. The following conditions existed for all 13 grants:

- There was no guidance concerning whether cost-sharing contributions should be in cash or in-kind.
- Grantee reporting requirements for contributions were not established in the grant agreements or in other documents.
- Record keeping requirements for grantees necessary to document their contributions were not explained.
- Project officers did not have records of any grantee contributions that may have been made.
- Annual implementation reports did not discuss grantee contributions.

Also, waivers were not provided for the nonprofit organizations that made no cost-sharing contributions, and for the most part, project officer site visits did not verify the level of grantee contributions.

In summary, because policies and internal controls were not established and project officers did not monitor contributions that were made there is no way of knowing to what extent cost-sharing contributions met A.I.D. requirements. Cost-sharing contributions should be a major part of the A.I.D. program in Mexico since the entire portfolio involves grants to non-profit organizations. The 13 grants included in our sample were

valued at \$2.1 million. If A.I.D./Mexico had obtained a 25 per cent costs-sharing contribution for these grants nonprofit organizations would have contributed \$518,000 toward the purpose of the grants. If all grantees are required to provide a minimum of 25 per cent of the cost of the program it could substantially increase the development impact of A.I.D.'s efforts in Mexico.

Management Comments And Our Evaluation

Management concurred with both parts of the recommendation. Recommendation No. 2 is resolved.

Did A.I.D./Mexico establish and implement procedures to ensure that advances of funds to nonprofit organizations did not exceed immediate cash needs and were liquidated in accordance with Treasury Regulations, A.I.D. Handbook 19, Chapter 1.B, and the Controllers Guidebook, Chapter 16?

A.I.D./Mexico needs to establish and implement procedures to ensure that advances of funds to nonprofit organizations do not exceed immediate cash needs and are liquidated in accordance with Agency guidelines.

Advances were generally made for a 90 day period and there was no written justification for why this was done. Also, nonprofit organizations were not submitting documentation in accordance with regulations to liquidate advances and A.I.D./Mexico needed a system to follow-up and ensure this was done.

Procedures Need To Be Established To Limit Advances To Immediate Cash Needs

A.I.D. policy requires that advances of funds to nonprofit organizations should not exceed 30 days and if circumstances warrant a longer period it must be justified in writing by senior management. However, A.I.D./Mexico had not established policies and procedures restricting advances to a 30 days need basis. On December 30, 1991, A.I.D./Mexico did establish limited guidance on management of advances, but this would not achieve the desired level of control. Prior to this guidance advances were generally made for a 90 day period with no written justification. These cash management practices could require the U.S. Government to unnecessarily borrow funds to cover outstanding obligations.

Recommendation No. 3: We recommend that A.I.D./Mexico:

- 3.1 establish a system for monitoring cash advances to nonprofit organizations which: (a) explains the policy for making advances of**

cash versus funding grantees on a cost reimbursement basis, (b) establishes the normal time period for which advances should be made, (c) specifies when, if at all, 90-day advances should be approved and if so the need to justify this in writing, (d) provides guidance for the cash flow requirements grantee should submit to justify the advance requested and the procedures to be employed by A.I.D./Mexico to review and approve these requests, and (e) establishes requirements for the periodic review of grantee advance needs and subsequent adjustments, if warranted; and

3.2 report this weakness in its next internal control assessment if it is not fully resolved.

A.I.D. policies recognize that nonprofit organizations have limited working capital and consequently generally require an advance of funds. Treasury Regulations and A.I.D. policy require the Agency to follow prudent cash management practices. Consequently, when a mission provides an advance to a nonprofit organization it should be restricted to immediate cash needs.

A.I.D. Handbook 1B (Procurement Policies) Chapter 15 (Methods of Payment to Suppliers, Contractors and Grantees) specifies that when cash advances are made to a nonprofit organization by Treasury check they should not be provided for a period which exceeds 30 days. When circumstances warrant a period longer than 30 days, either the assistant administrator of the bureau or the mission director must justify in writing that implementation will be seriously interrupted or impeded by the 30-day rule. Advance payments are to be based upon an analysis of the cash required under the grant, taking into consideration the reimbursement cycle.

A.I.D./Mexico needs to establish more comprehensive internal controls that would limit cash advances to immediate needs. On December 30, 1991, A.I.D./Mexico established limited guidelines concerning liquidation of cash advances which stated that A.I.D. policy is that advances should be settled within 30 days and a subsequent advance could not be made until the initial one was liquidated. However, further guidance is needed in areas such as: seeking cost reimbursement arrangements; providing advances for a 30-day period; justifying, in writing, the need for 90-day advances; submitting and reviewing cash flow needs; reviewing periodically grantee advance needs; and making adjustments, if warranted.

As a result of not effectively communicating timely and sufficiently comprehensive A.I.D. policies and procedures to its operating personnel, A.I.D./Mexico had been making advances to grantees for a 90-day period. We did not determine the number of advances in this category but were told that at least 60 per cent of the advances were for 90-days. Furthermore, there was no written justification for making advances for this length of time. The A.I.D. Representative informed us that this practice had ceased by the time the audit was carried out.

A.I.D./Mexico is located in the same building as the Regional Administrative and Management Center (the organization which prepares Treasury checks). Consequently, when a grantee requests an advance A.I.D./Mexico should be able to issue an initial advance or process a second advance rapidly. The A.I.D./Mexico accountant estimated that, under routine circumstances, it would require 10 working days from the time a grantee requests an advance until they are able to deliver the check. This processing time could be reduced to 2 days in an emergency situation. This should greatly reduce or even eliminate the need of an advance beyond 30 days.

A.I.D./Mexico should establish policies and procedures to ensure that cash advances comply with Treasury and A.I.D. regulations in order to avoid unnecessary interest cost to the U.S. Government.

Management Comments And Our Evaluation

Management concurred with both parts of the recommendation. Recommendation No. 3 is resolved.

Procedures Need To Be Established To Liquidate Advances in Accordance with A.I.D. Regulations

Treasury Regulations and A.I.D. implementing handbooks provide guidelines for the prompt liquidation of advances to nonprofit organizations. A.I.D. Handbook 19, Appendix 1A, prescribes the policy and systems for establishing administrative control over A.I.D. funds. Nonetheless, A.I.D./Mexico did not warrant it necessary until December 30, 1991, to establish and disseminate guidelines for monitoring unliquidated advances. This occurred because of the general assumption that policies and procedures as set forth in A.I.D. Handbooks would be implemented by operating personnel. As a result, at the time of our audit, USAID/Guatemala records reflected there were nearly 100 advances valued at \$946,658 that were between 30 and 360 days beyond the required settlement date.² (This amount had been reduced to 85 advances valued at \$296,702 which were 30 days past the settlement date as of June 2, 1992.)

Recommendation No. 4: We recommend that A.I.D./Mexico:

- 4.1 strengthen the internal controls outlined in the December 30, 1991 memorandum by: (a) defining the roles and responsibilities of the accounting section and project coordinators in the liquidation process, (b) taking steps to ensure that MACS reports on outstanding advances are routinely received, analyzed and distributed to project**

² These statistics are from a summary report of outstanding advances prepared by USAID/Guatemala (the A.I.D./Mexico accounting station). We did not verify the accuracy of this report. We were also told by A.I.D./Mexico that it contained errors. Nevertheless, we believe the report sufficiently demonstrates that advances are not liquidated in accordance with regulations.

coordinators, and (c) clarifying the policy for when Bills for Collection will be used to liquidate advances and how it will be implemented; and

4.2 report this weakness in its next internal control assessment if it is not fully resolved.

The Treasury Department has issued extensive guidance to help ensure prudent cash management practices in the Federal Government. Treasury Fiscal Requirements Manual, Volume 1, Part 6, Chapter 8000, prescribes the procedures to be observed by affected Government organizations to assure effective management of the Governments' cash when developing systems and procedures and conducting financial activities encompassing, among other things, cash advances. In turn, A.I.D. has issued policies and procedures to implement these guidelines in Handbook 19, Appendixes 1A and 1B.

A.I.D. Handbook 19, Appendix 1A, establishes policy with regard to administrative control over funds and prescribes a system for positive administrative control of funds. The handbook defines fund control as the management control over the use of fund authorizations to ensure that, among other things, funds are used only for authorized purposes, and that they are economically and efficiently used. Paragraph A5, [4-f] requires the A.I.D. Controller to have an accounting system that will ensure that obligations are liquidated in the period the goods are received or constructive receipt occurs.

A.I.D. Handbook 19, Appendix 1B summarizes the procedures for implementation of A.I.D.'s Cash Management Policy guidelines affecting all financial management functions and activities. Paragraph B3 (2) to this Appendix states that advances are to be limited to minimum amounts necessary for immediate disbursing needs. Advances under Treasury Check methods and for local cost financing under Letters of Credit may be assumed to be cash requirements for as much as 30 days from the date the recipient receives the advance until it is expended. As an exception to the rule, the period of advance under the Treasury check method may extend for as long as 90 days when the Bureau Assistant Administrator, USAID Director, or Office head has determined in writing that implementation will be seriously interrupted or impeded by applying the 30 day rule.

When A.I.D. funds a nonprofit organization on an advance of funds basis the Mandatory Standard Provisions (A.I.D. Handbook 13, Appendix 4D) incorporated in the grant agreement provides guidance concerning the timely liquidation of these advances. A.I.D./Mexico incorporated these Mandatory Standard Provisions into its grant agreements. These provisions required the grantees to submit, each quarter after the initial cash advance, reports on the status of the advance including a detailed report of disbursements. These reports provide the basic information necessary to liquidate the advance.

Since A.I.D./Mexico had not established controls to ensure that advances to grantees were liquidated in accordance with the provisions in the grant agreement a second advance was often made to a grantee before the initial advance was cleared. Also, Bills

for Collections were not routinely or systematically used to obtain settlement of long outstanding advances. The A.I.D./Mexico accountant charged with responsibility for settling advances, told us he could not effect settlement of advances without the assistance of project coordinators and that he did not always have this assistance.

A.I.D./Mexico did not, until December 30, 1991, warrant it necessary to establish and disseminate to all concerned employees written policies and procedures regarding the settlement of delinquent advances. This occurred as a result of the general assumption that A.I.D. policies and procedures as set forth in A.I.D. Handbooks would be implemented by operating personnel.

Since there were no formal internal controls over the liquidation of advances, nonprofit organizations were not submitting required reports to effect settlement. As of December 13, 1991, there were nearly 100 advances valued at \$946,658 which were delinquent. These advances ranged from 30 to 360 days past the required settlement date. In June 1992, A.I.D./Mexico informed us that they had reduced the number of delinquent advances more than 30 days past the settlement date to 85 which were valued at \$296,702.

The December 30, 1991 memorandum prepared by A.I.D./Mexico provided guidelines to reduce the number of long outstanding advances. It established requirements that:

- advances be settled within 30 days of the advance period,
- a list of all delinquent advances in excess of 90 days be given to the A.I.D. Representative and a decision would be made regarding seeking documentation or issuing a Bill for Collection, and
- additional advances or grants should not be approved while the grantee has a long outstanding advance.

The measures listed above should substantially reduce the number of delinquent advances. However, we believe that internal controls should be further strengthened by: assigning responsibility for follow-up, ensuring that reports on outstanding advances are routinely received, analyzed, and distributed to the cognizant project coordinator, and establishing a clear policy on when a Bill for Collection should be pursued.

Management Comments And Our Evaluation

Management concurred with both parts of the recommendation. Recommendation No. 4 is resolved.

Did A.I.D./Mexico have a system in accordance with A.I.D. Handbook 10 and Office of International Training Notice 87-14 to: (a) plan long-term participant training, (b) select long-term participants, (c) ensure that predeparture preparation provided for English language testing and medical examinations, and (d) ensure that participants return to Mexico and utilize their training?

A.I.D./Mexico established procedures to ensure that participants received required medical examinations and was in the process of establishing a training plan to link training to their priority development areas. However, they did not have adequate controls to ensure that: (1) participants were chosen by a selection committee, (2) English language tests were documented, and (3) returning participants returned to Mexico and sought positions where their training could be effectively utilized for an agreed-upon-period.

A.I.D./Mexico did implement procedures to ensure that participants received required medical examinations. Although A.I.D./Mexico did not have any written procedures to ensure medical examinations were performed, it did have alternative procedures that generally complied with the intent of A.I.D. policies and procedures. For example, we selected at random 26 of the 41 long term trainees to determine whether medical examinations were done and were properly documented. We determined that A.I.D./Mexico required all 26 trainees to undertake a medical examination by a licensed doctor and the results were on file at A.I.D./Mexico.

A.I.D./Mexico contracted for technical services to provide training support for an estimated 435 participants. Of this amount, it is anticipated that 75 will receive long-term training, 210 will be short-term trainees who will receive technical training lasting two months or less, and 150 participants are expected to attend seminars and other training usually averaging about 5 days. Our audit of the participant training program was limited to the long-term training portion and did not focus on short-term training (the largest part of the training program at A.I.D./Mexico).

A.I.D./Mexico developed strategic objectives and priority development areas in July 1991. At the time of our audit the Country Training Plan in effect was general because it was prepared under the broad "target of opportunity" concept for advancing developing countries. The A.I.D. Representative recognized this and was taking steps to develop a new plan which was linked to priority development areas. Measures were also taken to help ensure that any new participants selected before the new plan was approved would support the priority development areas. However, written procedures needed to be developed to help ensure that the plan, when finalized, would provide the greatest support for priority development areas and would be consistently followed by operating personnel.

A.I.D./Mexico could increase the level of assurances for unbiased selection of long-term training participants by establishing a selection committee. Instead, the final selection of participants was vested solely in the Office of the A.I.D. Representative. Also, the level of assurances that A.I.D./Mexico's training program was being effectively and efficiently operating could be increased by documenting English test scores and establishing a follow up system of training participants. None of the 15 files reviewed substantiated the English test scores, and A.I.D./Mexico had not established a follow-up system to ensure that participants effectively utilized their training.

Guidelines for the Country Training Plan Need To Be Developed

It is A.I.D. policy that participant training be based on an assessment of training needs conducted by the A.I.D. mission, host country, or both. This policy requires missions to prepare a Country Training Plan that provides information about training needs and resources in priority development areas and to present a five-year projection of training activities. In July 1991, A.I.D./Mexico developed strategic objectives and priority development areas for their program. However, at the time of our audit in January 1992, the Country Training Plan in effect at A.I.D./Mexico was general because it was prepared under the broad "targets of opportunity" concept and was not linked to the priority development areas developed in July 1991. The A.I.D. Representative recognized this and was taking steps to develop a new Country Training Plan which is linked to the priority development areas. A.I.D./Mexico had also taken steps to ensure that any new participants approved would support the priority development areas. However, there were no written policies and procedures that: (1) required the identification of training needs and their linkage to priority development areas and (2) ensured that the country training plan, when developed, would be consistently followed. This lessens the assurances that the Country Training Plan, when finalized, will lead to the selection of participants who will provide the greatest support for A.I.D./Mexico priority development areas and will be consistently followed by operating personnel.

Recommendation No. 5: We recommend that A.I.D./Mexico:

- 5.1 prepare written policies and procedures to ensure that training needs are specifically identified and linked to A.I.D./Mexico program goals. Specifically, these policies and procedures should ensure that: (a) training needs required to promote A.I.D./Mexico's program goals are identified, (b) these specific training needs are provided to the training contractor, (c) the country training plan is developed using these specific training needs, and (d) candidates are solicited countrywide; and**
- 5.2 report this weakness in its next internal control assessment if it is not fully resolved.**

A.I.D policy stipulates how training needs are to be identified. A.I.D. Handbook 10 (Participant Training), Supplement 3A, states that missions should develop a Country Training Plan which:

- provides information about training needs and resources in priority development areas and presents a five-year projection of training activities for a mission,
- stimulates mission staff to conceptualize training activities in an integrated, long-term perspective leading to better targeting, with the host country, of training activities which address training needs in priority development areas, and
- promotes more effective use of financial and human resources through economies of scale, better coordination of support activities, and more efficient management of trainees.

A July 15, 1991 meeting in A.I.D./Washington resulted in refocusing the A.I.D./Mexico program from a broad "targets of opportunity" approach to three major and two minor programs. The major programs are: (1) the North America Free Trade Agreement, (2) the Population Program, and (3) the Global Climate Change Program. The minor programs are AIDS and Narcotics Demand Reduction.

At the time of our audit in January 1992, the Country Training Plan in effect at A.I.D./Mexico did not reflect the new priority development areas developed in July 1991. This Country Training Plan was general in nature because it was developed to support the "targets of opportunity" approach which previously existed for A.I.D. Representative offices.

The A.I.D. Representative recognized that the Country Training Plan needed to be revised so that training would be linked to priority development areas. A.I.D./Mexico was working with LAC Bureau and the training contractor to develop a new plan. As of June 1992, progress had been made to develop a new plan. However, the specifics for training still needed to be developed. The A.I.D. Representative told us the new plan would be fully developed and approved by the end of Fiscal Year 1992.

A.I.D./Mexico made efforts to identify specific training needs in certain development areas through the issuance of Inter-agency Support Agreements. There efforts were:

- A \$250,000 Memorandum of Understanding was entered into with the U.S. Department of Commerce, Patent and Trade Office, to, among other things, provide technical assistance and training in the areas of organizational infrastructure, computerized tracking systems, patent and trademark examination, and implementation of the new Industrial Property Law.
- An agreement was made with the Environmental Protection Agency for \$147,000 to coordinate technical assistance and international professional exchanges concerning environmental laws and regulations. It is intended that these efforts

would support U.S.-Mexico negotiations toward a North America Free Trade Agreement.

- A \$101,261 agreement was entered into with Animal Protection Health and Sanitation to assess the curriculum, facility, and resources available in Mexico which provide animal and plant health training and technical support in direct support of the North American Free Trade Agreement.

The aforementioned identifies training needs in a specific technical area and will contribute to the overall progress of the North American Free Trade Agreement.

A.I.D./Mexico had also taken steps to ensure that any new participants approved before the plan was completed would support their priority development areas. On March 24, 1992 a letter was sent to the University of Texas at El Paso (UTEP) which provided some guidelines on A.I.D./Mexico's newly-emerging priorities to assist UTEP in their consideration of candidates for A.I.D. sponsorship. This letter also gave some examples of graduate study which would support their program.

A.I.D./Mexico had not developed any written policies and procedures that required the identification of training needs and their linkage to priority development areas. There was also no written guidance to ensure that operating personnel would consistently follow the Country Training Plan when it is fully developed and approved. Written guidelines for developing and implementing the Country Training Plan will provide added assurances that the participant training program provides greatest support for A.I.D./Mexico's priority development areas.

Our review of long-term training showed that seventy-three percent (or 30 of the 41 trainees) were from the border town of Juarez. Thus, it appeared that A.I.D./Mexico training program was providing training to one geographic area of Mexico instead of the whole country. This lessens the assurance that persons selected for training will provide the greatest support for A.I.D./Mexico priority development areas on a country-wide basis.

Management Comments And Our Evaluation

Management concurred with both parts of the recommendation. Recommendation No. 5 is resolved.

A Committee Needs To Be Established for Selecting Participants

A.I.D. policy states that selection committees are effective mechanisms to review and chose participant trainees. A.I.D./Mexico had not established such a selection committee. This occurred because A.I.D./Mexico did not believe that a selection committee was warranted since the A.I.D. Representative had final selection authority and thus satisfied the intent of a selection committee. The A.I.D. Representative further believed that the participation of Government of Mexico personnel in a selection

committee would possibly introduce those problems of bias which the selection committee mechanism was supposed to prevent. Consequently, A.I.D. Mexico did not establish a selection committee and therefore insufficient assurances exist that selection of long-term participants was the most appropriate and free from bias.

Recommendation No. 6: We recommend that A.I.D./Mexico evaluate the benefits of using a selection committee consisting of A.I.D./Mexico, host country, and private sector officials for reviewing and choosing long-term participants.

A.I.D. Handbook 10, Chapter 4 (4d-c), states that "selection committees are effective mechanisms for reviewing and choosing nominees. The committees are most effective when they include mission, host country and private sector officials. Missions should encourage host countries to assume the major role in the selection process."

A.I.D./Mexico did not establish a selection committee because they believed their procedures eliminated any bias. These procedures consisted of the training officer (a technical services contractor) screening potential trainees to ensure that applicants had submitted the appropriate documentation. Subsequently, the training officer would ask cognizant A.I.D./Mexico staff, who worked directly with specific training areas, for their concurrence regarding the selection. Finally, the A.I.D. Representative would approve the list of trainees to be accepted under the training program. The A.I.D. Representative told us that these procedures ensured that the trainee, who was ultimately selected, did fall within the parameters of the training needs of A.I.D./Mexico.

Since A.I.D./Mexico only has one U.S. direct hire, we queried the Director of the Office of International Training (OIT) in A.I.D./Washington to determine whether a selection committee should also be formed by A.I.D./Mexico. We were told that "host government officials, USIS personnel, and other former participants can be on a selection committee if there are insufficient A.I.D. personnel to the extent specified in the A.I.D. regulations."

We believe A.I.D./Mexico would have added assurance that its selection process is unbiased if a selection committee was formed. It could also help ensure geographic dispersion of participants throughout Mexico.

Management Comments And Our Evaluation

Management concurred with the recommendation. Recommendation No. 6 is resolved.

English Language Tests for Trainees Need To Be Documented

It is A.I.D. policy that all A.I.D. sponsored participants, no matter how funded or how their training is managed, are to be documented in accordance with the requirements of A.I.D. Handbook 10, its supplements, and the participant Training Notices, and are to be promptly reported to OIT. A.I.D./Mexico did not document the nature and extent of

English testing that was done for long-term participants. This occurred because A.I.D./Mexico did not establish and disseminate policy and procedures regarding guidelines for conducting English language tests and the need to document the test results in participant files. The reason for not establishing policies and procedures came about from A.I.D./Mexico's outlook that to reiterate A.I.D. policy and procedures was unwarranted because operating personnel were already aware of the task requirements. Because English test scores were not documented, we could not verify the authenticity of reported English test scores and A.I.D./Mexico had insufficient assurances that English tests were being properly conducted.

Recommendation No. 7: We recommend that A.I.D./Mexico:

- 7.1 prepare written policies and procedures requiring the training officer to maintain all English tests on file for all active participants; and**
- 7.2 report this weakness in its next internal control assessment if it is not fully resolved.**

A.I.D. Handbook 10, (Participant Training), Chapter 3 (A.I.D. Mission and Project Officer Responsibility for Participant Training), states that "it is A.I.D. policy that all A.I.D. sponsored participants, no matter how funded or how their training is managed, are to be documented in accordance with the requirements of A.I.D. Handbook 10, its supplements and the participant Training Notices, and are to be promptly reported to OIT." A.I.D. Handbook 10, Chapter 3 (3d-c), recognizes that record keeping of participants is essential and as such places that responsibility on the training officer.

Of the 15 participant files reviewed, 10 showed no evidence of any English tests being done. The files for the remaining five were annotated with an English test grade, but there was no supporting documentation.

We attribute the lack of documentation to the absence of written guidance describing the policies and procedures regarding English language testing for participant trainees and the need to document results in participants files. The policies and procedures were not established because A.I.D./Mexico believed it was unnecessary to reiterate A.I.D. policy and procedures because operating personnel were already aware of the requirement.

Since the inception of the long term training program, 117 students have been enrolled at the University of Texas at El Paso. The absence of documented tests and inadequate follow-ups on these students, as discussed in the subsequent finding, further reduces the level of assurance, that training funds were effectively utilized.

Management Comments And Our Evaluation

Management concurred with both parts of the recommendation. Recommendation No. 7 is resolved.

A System Needs To Be Established To Follow Up On Trained Participants

A.I.D. Office of International Training Participant Training Notice 87-14 and Handbook 10 require participants to return to their home country and work in a field related to their training for a specified time period. A.I.D./Mexico did not have internal controls to provide assurances that these requirements were being met. This occurred because A.I.D./Mexico did not establish and disseminate A.I.D. policy and procedures to operating personnel for a follow-up program. Consequently, operating personnel were not aware of the requirement to have a system in place to follow up on returned participants. As a result, training participants were not required to make contractual agreements with A.I.D./Mexico to effectively use their training in Mexico, and there are insufficient assurances that \$217,350 currently being spent on long term training will be effectively used.

Recommendation No. 8: We recommend that A.I.D./Mexico:

- 8.1 prepare written policies and procedures to ensure that: (a) long term trainees enter into training agreements which specify that they will return at the end of training and seek employment in positions related to their training for a period of not less than two years for each year of training and (b) follow-up procedures are implemented to ensure that returned participants work in areas in accordance with their training agreements;**
- 8.2 require participants currently attending long-term training to enter into training agreements as a condition of continuing training; and**
- 8.3 report this weakness in its next internal control assessment if it is not fully resolved.**

A.I.D. Handbook 10 (Participant Training), Chapter 33 (Nonreturnees), 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 35 (Follow-Up) of Handbook 10 requires missions to provide general follow-up activities on returned participants. This includes the maintenance and update of records for a minimum of three years for trainees who received training for three months or longer.

A.I.D. Participant Training Notice 87-14 and Handbook 10, Chapter 18, require missions to include in training agreements terms and conditions which bind the host country to ensure that participants return at the end of training and are employed in positions related to their training for an agreed-upon-period. The Notice stipulates that the minimum length of service is normally not less than two years for each year of training.

A.I.D./Mexico had not established nor disseminated to operating personnel follow-up procedures as stated per A.I.D. policy. Consequently, operating personnel were unaware of the requirements for participants to sign agreements requiring their return to Mexico following U.S. training, to seek employment in a position or field relevant to their training, and for doing follow-ups over a three year period.

Since there was no follow-up system established we could not readily determine whether long-term trainees were working in fields related to their training. We obtained telephone numbers of long-term participants from the contractor's office located in Arlington, Virginia. We attempted to contact 25 participants from a universe of 76 but were only successful in reaching 4 individuals. The major reason for not being able to reach more participants appeared to be invalid telephone numbers.

As a result of not establishing a follow-up program A.I.D./Mexico does not know if the \$217,350 already spent for long term training was being effectively utilized. Also, A.I.D./Mexico does not know the pattern of employment after training is completed and hence can not make any necessary adjustments to their program.

Without a follow-up program, A.I.D./Mexico 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, A.I.D./Mexico should require participants to use their training in specified areas of program development and implement follow-up procedures to ensure compliance. A.I.D./Mexico still has the opportunity to improve controls in this area before the funds obligated for long-term training are fully expended.

Management Comments And Our Evaluation

Management concurred with all parts of the recommendation. Recommendation No. 8 is resolved.

Did A.I.D./Mexico establish and implement policies and procedures to ensure that: (a) quantitative indicators were developed and implemented in accordance with Section 621 A(b) of the FAA, (b) periodic progress reports from nonprofit organizations were prepared in accordance with Handbook 3, grant agreements, and Section 1N of Handbook 13, and (c) site visits were performed in accordance with Handbook 3?

A.I.D./Mexico needs to establish policies and procedures to: (1) require quantitative indicators or targets be developed and incorporated into grant agreements, (2) require grantees to report progress against goals or targets, identify problem areas or planned future activities, and (3) explain the policy for site visits, frequency of visits, areas to be reviewed, and the need to document the results of visits.

Quantitative Indicators Need To Be Developed To Measure Progress of Grants

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 audit found that there was no formal system for incorporating quantitative indicators into grant agreements or to require grantees to report progress against them. This system should ensure that: (a) indicators or targets are developed and incorporated into grant agreements and (b) grantees report progress achieved against indicators or targets. The reason for not establishing written policies and procedures resulted from the general assumption that operating personnel would implement the A.I.D. policies and procedures on the basis of verbal instructions by A.I.D./Mexico management and A.I.D./Mexico's practice of incorporating project objectives within each grant agreement. Since this had not been done, several of the 12 grant agreements reviewed did not contain objectively verifiable indicators to measure whether the purpose of the grants were being achieved nor did some annual implementation reports show progress against an indicator, target, or timeframe.

Recommendation No. 9: We recommend that A.I.D./Mexico:

- 9.1 establish written policies and procedures for developing and incorporating quantifiable indicators into grant agreements. At a minimum, this should include guidance on areas such as: (a) ensuring that measuring progress toward achieving the purpose of the grant is possible, (b) establishing indicators or targets for specific events or activities, (c) developing starting and completion dates for activities, (d) adjusting indicators, if warranted, when conditions change as implementation progresses, (e) informing grantees of the need to report progress achieved against these indicators/targets/timeframes, and (f) reporting progress achieved against quantifiable indicators in the annual implementation reports;**
- 9.2 review its present portfolio to identify those high-dollar grants which have a substantial implementation period remaining and relate to the new strategic objectives. For those grants in this category, develop appropriate indicators which correspond to the new strategic objectives; and**
- 9.3 report this weakness in its next internal control assessment if it is not fully resolved.**

Performance data generated through objectively verifiable indicators is one of the principal tools Agency managers need to assess project progress, 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. A.I.D. Handbook 13 (Grants) states that the goals of the grant and the planning and implementation to reach those goals should be contained in the program description of the grant agreement. The Agency's role in administration is to measure and evaluate the grantee's program in achieving these goals.

A.I.D./Mexico underwent a strategic planning exercise in July 1991 to focus and consolidate their portfolio on three strategic objectives and plans to develop quantifiable indicators for each of the strategic objectives (these indicators are still being formulated). A.I.D./Mexico plans to link future grants to these three strategic objectives and develop quantifiable indicators.

However, at the time of our audit A.I.D./Mexico had not yet established policies and procedures for developing quantitative indicators and incorporating them into grant agreements. There were no instructions for developing targets for specific events/activities or timeframes for starting or ending activities. Also, there were no guidelines for informing nonprofit organizations of the need to report progress against indicators or for including this same information in A.I.D./Mexico annual implementation reports.

We attribute the absence of quantitative indicators to a lack of written guidance specifying A.I.D./Mexico policy for developing indicators and incorporating them into grant agreements; grantee progress reports; and A.I.D./Mexico's annual implementation reports. This occurred because of the general assumption that operating personnel would implement A.I.D. policies and procedures on the basis of verbal instructions by A.I.D. management and A.I.D./Mexico's practice of incorporating project objectives within each grant agreement. Also, in the past, targets of opportunity were encouraged and there

was no emphasis on quantitative indicators because no strategic objectives were established.

Our random sample of 12 grants disclosed that the establishment of verifiable indicators, targets or timeframes could be improved. Some grant agreements reviewed did a poor job of developing indicators, targets, or timeframes whereas other grant agreements were satisfactory in this area. Also, we reviewed the annual implementation reports for the 12 grants in our sample and found that some did report progress achieved against an indicator, target or timeframe whereas others did not.

In the past, A.I.D./Mexico grants were not linked to a strategic objective. Rather, grants were awarded in a wide spectrum of fields based on the "targets of opportunity" concept. Also, the A.I.D. Representative believes that many projects were for short-term or one time activities and might not lend themselves to quantitative measurement. The A.I.D. Representative told us that in the future any grants awarded by A.I.D./Mexico must tie directly into the three strategic objectives recently developed.

Also, it is not known whether the existing grants support the new strategic objectives established for A.I.D./Mexico. There could be numerous grants, involving substantial funds, which still have a lengthy implementation period remaining for which A.I.D./Mexico will not know the degree to which they are contributing to their new strategic objectives. We believe A.I.D./Mexico should review the existing portfolio and identify those high-dollar grants with substantial implementation time remaining and which relate to the new strategic objectives. These indicators should be revised where necessary to correspond to the new strategic objectives.

In summary, A.I.D./Mexico needs to establish internal controls to ensure that quantitative indicators are developed and incorporated into (1) grant agreements, (2) grantee progress reports, and (3) annual implementation reports. This will improve their capability to measure project progress, identify problems rapidly, and demonstrate the impact of their development efforts in Mexico.

Management Comments And Our Evaluation

Management concurred with all parts of the recommendation. Recommendation No. 9 is resolved.

Periodic Progress Reports from Grantees Should Be Improved

A.I.D. Handbook 13, Section 1N, requires grantees to submit performance reports which, among other things, compare actual accomplishments with established goals. A.I.D. Handbook 3, Chapter 3, Supplement A, requires A.I.D. grant and project officers to monitor grantee reports. A.I.D./Mexico needs to establish a system to monitor or oversee the grantees to ensure that the proper reports were submitted. A.I.D./Mexico

had not established nor disseminated written policies to its project officers on how to monitor or oversee these grantee reports. The reason for not establishing policies and procedures resulted from A.I.D./Mexico's position that to reiterate A.I.D. policy and procedures was unwarranted because operating personnel were already aware of the task requirements and that they were vigorously implementing such policies and procedures in the management of A.I.D. grants. However, since there were no written procedures many grantee reports did not report progress achieved against established objectives and the majority of reports were not submitted on schedule.

Recommendation No. 10: We recommend that A.I.D./Mexico:

- 10.1 establish policies and procedures for incorporating grantee reporting requirements into grant agreements. At a minimum, these guidelines should establish a requirement to: (a) report progress achieved against quantitative indicators, targets, or goals in the approved workplan, (b) discuss the reasons why goals or targets are not being met, (c) identify problems affecting implementation of the grant, and (d) discuss work to be undertaken during the next reporting period;**
- 10.2 develop policies and procedures for monitoring grantee compliance with reporting requirements; and**
- 10.3 report this weakness in its next internal control assessment if it is not fully resolved.**

When A.I.D. executes grants with nonprofit organizations, reliance is placed primarily on the recipient organization to carry out the program as approved by the mission. While a reasonable degree of oversight must be maintained by A.I.D. to ensure that the program is successfully implemented, the degree of monitoring is expected to be less under these grants than under a direct A.I.D. contract.

One of the principal methods mission have to provide this oversight is periodic grantee reports. A.I.D. Handbook 13 (Grants), Section 1N (Monitoring and Reporting Program Performance), sets forth the requirements for reporting program performance for grant recipients. This section stipulates:

"Recipients shall monitor the performance under grants and cooperative agreements and, where appropriate, ensure that time schedules are being met, projected work units by time periods are being accomplished, and other performance goals are being achieved. This review shall be made for each program, function, or activity of each grant or cooperative agreement as set forth in the award document.

Recipients shall submit a performance report (technical report) for each grant or cooperative agreement that briefly presents the following information for each program, function, or activity involved:

- a. A comparison of actual accomplishments with the goals established for the period, the findings of the investigator, or both. If the output of programs can be readily quantified, such quantitative data should be related to cost data for computation of unit costs.
- b. Reasons why established goals were not met.
- c. Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs."

A.I.D./Mexico had not prepared policies or instructions concerning nonprofit organizations progress reports under grants. There were no written guidelines concerning the policy for such reports, incorporating reporting requirements into grant agreements, the action to take when reports are not promptly submitted, or what project coordinators should expect to find in those reports.

This occurred because A.I.D./Mexico did not believe it was necessary to reiterate A.I.D. policies and procedures because operating personnel were already aware of the task requirements and were vigorously implementing such policies and procedures in the management of A.I.D. grants.

We reviewed the files for 11 grants to determine whether nonprofit organizations were submitting progress reports which complied with Agency requirements. This review disclosed that most reports provided information concerning activities during the reporting period, however, they could have done a better job of reporting progress against established goals or objectives. Eight of the 11 grantees reviewed had not submitted their reports on schedule, some were as late as 12 months.

The grant agreements we reviewed did have reporting requirements, however, they lacked specificity. For example, they only stated the grantee will submit quarterly narrative and financial reports which summarize activities carried out during the period. The more recent grant agreements written by A.I.D./Mexico, however, were more in compliance with Handbook 13 requirements.

In summary, A.I.D./Mexico needs to document policies and procedures to ensure that nonprofit organizations report progress in accordance with Agency guidelines. This will provide added assurance that projects are being implemented in accordance with grant agreements, that goals and targets are being met, and that problems are being surfaced and resolved.

Management Comments And Our Evaluation

Management concurred with all parts of the recommendation. Recommendation No. 10 is resolved.

Guidelines for Site Visits Need To Be Developed

A.I.D. Handbook 3 (Project Assistance) states that site visits are an essential monitoring tool and provides general guidelines for documenting the results of site inspections. Our sample of 11 grants disclosed that project officers were not documenting the results of site visits since there were no written policy and procedures providing for such documentation. However, we were shown examples of trip reports for other A.I.D./Mexico projects. Our examination of these reports indicated they were not being done in a comprehensive or systematic manner. The reason for not establishing policies and procedures resulted from the general assumption that operating personnel would implement the A.I.D. policies and procedures on the basis of verbal instructions from A.I.D./Mexico management and adherence to long-term standing practices of A.I.D./Mexico. Consequently, A.I.D./Mexico management does not have adequate assurance that implementation problems are being identified, documented, and brought to the attention of cognizant officials to be resolved.

Recommendation No. 11: We recommend that A.I.D./Mexico:

- 11.1 establish documented internal controls for making site visits which explain: (a) the policy for making site inspections, (b) suggested areas to be reviewed such as progress achieved against targets or indicators, matters reported in financial and technical reports pertaining to the grants, continued relevance of work plans, or grant requirements, (c) documenting requirements for site visits, and (d) distribution of site visit reports; and**
- 11.2 report this weakness in its next internal control assessment if it is not fully resolved.**

A.I.D. Handbook 3 (Project Assistance), Chapter 11 (Monitoring), and the Project Officers' Guidebook establishes the policies and procedures for site visits. The Guidebook states that among the more significant aspects of the oversight of a grant are periodic visits by the project officer to the site where work under the agreement is being performed. An appraisal of performance based on comparison of the written reports and site visit findings against implementation plans should provide a basis for isolating problems and identifying follow-up actions that need to be taken. These site visits form one of the fundamental bases for the project officers' administrative approval of the nonprofit organization's voucher.

The Handbook provides general guidelines for reporting the results of site inspection visits. A site inspection report is to be prepared and distributed as quickly as possible after the field trip, especially to personnel having action responsibility. The Handbook provides a sample of a format for a site inspection report and discusses several of the areas which can be reviewed during a visit.

A.I.D./Mexico needs to prepare guidelines regarding site visits. Policies and procedures were not documented to explain A.I.D./Mexico's policy for making site inspections, frequency of visits, suggested areas of focus for site visits, and the requirement to prepare and distribute copies of site visit reports. Project coordinators told us they were not aware of a specific policy for making site visits including guidance regarding what they should be looking for or how they should be documenting the results of these visits.

A.I.D./Mexico had never documented its policy for making site visits or its internal controls to ensure they were carried out. The A.I.D./Representative told us that site visits were being performed and documented. He also stated that personal services contractors working for A.I.D./Mexico have a contractual requirement to make site visits. However, neither he nor his predecessors had established formal policies and procedures. The general assumption was that operating personnel would implement the A.I.D. policies and procedures on the basis of verbal instructions from A.I.D./Mexico management and adhere to long-standing A.I.D./Mexico practices.

We reviewed the files for 11 grants to determine whether site visits were made, the frequency of visits, whether meaningful reports were prepared, and whether appropriate follow-up actions were taken on identified problems. This review disclosed that project coordinators were not documenting the results of their site visits. There was considerable evidence of project coordinator contact with grantees but this appeared to be routine handling of day-to-day matters associated with the grant. We were shown examples of trip reports for other A.I.D./Mexico projects. However, our examination of these reports indicated they were not being done in a comprehensive or systematic manner which would satisfy the requirements of Handbook 3.

A.I.D./Mexico management does not have adequate assurance that one of the most effective monitoring mechanism--site visits--is being adequately implemented. A systematic method of performing and documenting these visits would help ensure that implementation problems are identified, documented, and brought to the attention of management.

Management Comments And Our Evaluation

Management concurred with both parts of the recommendation. Recommendation No. 11 is resolved.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of A.I.D./Mexico'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. As such our assessment is not intended 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, determined whether they had been placed in operation and 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 A.I.D./Mexico, 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 performing our audit, we found certain problems that we consider reportable under the 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 A.I.D./Mexico'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 requirement for non-U.S. nongovernmental grantees receiving \$25,000 per year or more to have independent audits performed. In planning and performing this objective we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 13, Appendix 4D(1-d). We noted one reportable condition relating to the Mission's policy and procedures regarding independent audits:

- A.I.D./ Mexico did not establish and implement policies and procedures to ensure that grantees performed annual independent audits as required by A.I.D. Handbook 13, Appendix 4D (1-d).

A.I.D./Mexico had not reported this material weakness in the 1991 internal control assessment. Nonetheless, A.I.D./ Mexico took some corrective actions during 1991. A large part of the corrective action involved determining its universe of grantees and informing them of the new May 1991 audit provisions. A.I.D./Mexico still needs to

ensure audit compliance by establishing a tracking system to monitor audits and to document the policy and procedures for such a system. A.I.D./Mexico should report this weakness in its 1992 internal control assessment if it has not been fully resolved.

As part of our assessment, we reviewed A.I.D./Mexico's internal controls relating to ensuring that grantees conducted audits. Our assessment showed that A.I.D./Mexico had not established any controls. 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 A.I.D./Mexico ensured that audits were performed. These alternative procedures consisted of reviewing 14 grants to determine whether audits were performed. We concluded that only 3 of the 14 grants reviewed had provided audit reports to A.I.D./Mexico. There were no other assurances that the remaining 11 grantees had conducted audits as required by the grant provisions.

Audit Objective Two

The second audit objective relates to the requirement that grant recipients provide cost-sharing contributions as stated in the grant provisions. In planning and performing this objective we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 13, Chapter 4. We noted one reportable condition relating to A.I.D./Mexico's policy and procedures regarding cost-sharing contributions:

- A.I.D./ Mexico did not establish and implement policies and procedures to ensure that grantees provided the required cost-sharing contributions in accordance with A.I.D. Handbook 13, Chapter 4, requirements and State cable #331065 dated October 23, 1987.

A.I.D./Mexico should report this weakness in its 1992 internal control assessment if it has not been fully resolved. It should be noted that this weakness had not been reported by A.I.D. /Mexico in its 1991 internal control assessment.

As part of our assessment, we reviewed A.I.D./Mexico's internal controls relating to ensuring that grantees provided counterpart contributions. Our assessment showed that A.I.D./Mexico had not established any controls. 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 A.I.D./Mexico ensured that counterpart contributions were made. These alternative procedures consisted of reviewing 13 grants to determine whether counterpart requirements were being made. We could not determine whether cost-sharing contributions were being made because none of the grant agreements contained cost-sharing provisions and grantees were not reporting contributions.

Audit Objective Three

The third objective concerns making advances to nonprofit organizations for immediate cash needs and liquidating them in a timely manner. In planning and performing this objective we considered the applicable internal control policies and procedures cited in

A.I.D. Handbook 1B, and Handbook 19. We noted two reportable conditions relating to A.I.D./Mexico's policy and procedures for advances:

- A.I.D./Mexico did not establish and implement timely and sufficient policies and procedures to ensure that advances to grantees did not exceed immediate cash needs in accordance with A.I.D. Handbook 1B and Handbook 19.
- Procedures were not adequate to liquidate advances in accordance with A.I.D. regulations.

A.I.D./Mexico should report these weaknesses in its 1992 internal control assessment if they are not fully resolved by the time it is prepared. It should be noted that these weaknesses had not been reported by A.I.D./Mexico in its 1991 internal control assessment.

As part of our assessment, we reviewed A.I.D./Mexico's internal controls regarding advances to grantees. Our assessment showed that A.I.D./Mexico had not properly designed and/or implemented controls on this matter and 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 A.I.D./Mexico ensured that advances did not exceed immediate needs. These alternative procedures consisted of interviewing officials; reviewing grant files; and analyzing MACS reports to determine actual procedures for making and liquidating advances. We concluded that the policies and procedures were not conducive to limiting advances to immediate needs or liquidating them in accordance with A.I.D. regulations.

Audit Objective Four

This objective relates to participant training and consists of three parts. The first part concerns the planning and selection of participant trainees. In planning and performing the first part of this objective, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 10, Chapters 3 and 4. We noted one reportable condition relating to the planning and selection of participant trainees:

- A.I.D./Mexico did not have documented policies and procedures to plan and select participants for its training program.

A.I.D./Mexico should report this weakness in its 1992 internal control assessment if it is not fully resolved by the time it is prepared. It should be noted that this weakness had not been reported by A.I.D./Mexico in its 1991 internal control assessment.

We reviewed A.I.D./Mexico's internal controls relating to the requirement that the planning for participant training be based on an assessment of training needs linked to priority development areas in Mexico. We also reviewed the internal controls for selecting participant trainees to determine whether the selection was free from any bias. Our assessment showed that A.I.D./Mexico's controls, as they relate to planning, were not properly designed and/or implemented; therefore, we could not rely on them in

designing our audit approach. A.I.D./Mexico was in the process of developing a training plan which linked training to priority development areas. This plan was not developed at the time of our audit; therefore, we could not determine whether planning was adequate. However, we concluded that the policies and procedures for planning its training program did not provide guidance on identifying training needs in order to link them to priority development areas. We also interviewed officials to determine the selection procedures and concluded that the internal controls for selecting participants were not as strong as possible. Final approval authority was vested in one individual instead of a selection committee.

The second part concerns required English language tests and medical examinations. 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 this matter:

- A.I.D./ Mexico did not establish and implement policies and procedures to ensure that English language tests were documented and properly filed.

A.I.D./Mexico should report this weakness in its 1992 internal control assessment if it has not been fully resolved by the time it is prepared. It should be noted that this weakness had not been reported by A.I.D./Mexico in its 1991 internal control assessment.

We reviewed A.I.D./Mexico's internal controls relating to the requirement that English language tests and medical examinations be performed for all participant trainees. Our assessment showed that controls were properly designed and implemented for medical examinations. Our assessment also showed that controls were not properly designed and/or implemented for English language testing; 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 A.I.D./Mexico monitored English language testing and medical examinations. These alternative procedures consisted of reviewing 41 long-term trainees to determine whether A.I.D./Mexico had sufficient assurances that English language tests and medical examinations were performed. We concluded that A.I.D./Mexico's policies and procedures did not ensure that results of English language tests were documented in the files of participant trainees.

The third part concerns 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:

- A.I.D./Mexico did not establish an adequate follow-up system to ensure that returned participants worked in areas that effectively utilized their training.

A.I.D./Mexico should report this weakness in its 1992 internal control assessment if it has not been fully resolved by the time it is prepared. It should be noted that this

weakness had not been reported by A.I.D./Mexico in its 1991 internal control assessment.

We reviewed A.I.D./Mexico's internal controls relating to the requirement for establishing a follow-up system for returning participants. Our assessment showed that the controls were not properly designed and/or implemented; therefore, we could not rely on them in designing our audit approach. However, we attempted to conduct more extensive testing to achieve our objective of determining whether A.I.D./Mexico properly followed up on participants. These alternative procedures would normally consist of reviewing returned participant trainees to determine whether they were still in country and working in appropriate positions. However, these records were not on file at A.I.D./Mexico. We obtained telephone numbers for long-term participants from the contractors office in Arlington, Virginia and attempted to reach them by telephone. However, this effort was unsuccessful, primarily due to invalid phone numbers. We concluded that the policies and procedures did not provide adequate assurances that participant trainees effectively utilized their training after completion.

Audit Objective Five

This objective relates to the management of grants and consists of three parts. The first part relates to the requirement that quantitative indicators be developed and implemented. In planning and performing this objective we considered Section 621 A(b) of the Foreign Assistance Act and the applicable internal control policies and procedures cited in A.I.D. Handbook 3. We noted one reportable condition relating to the requirement for quantitative indicators:

- A.I.D./Mexico did not establish and implement policies and procedures to ensure that quantitative indicators were developed and implemented.

A.I.D./Mexico should report this weakness in its 1992 internal control assessment if it has not been fully resolved by the time it is prepared. It should be noted that this weakness had not been reported by A.I.D./Mexico in its 1991 internal control assessment.

We reviewed A.I.D./Mexico's internal controls relating to the requirement for establishing quantitative indicators. Our assessment showed that the controls were not properly designed and/or implemented; therefore, we could not rely on them in designing our audit approach. However, we attempted to conduct more extensive testing to achieve our objective of determining whether A.I.D./Mexico could properly monitor the progress of grant programs. These alternative procedures consisted of reviewing 12 randomly selected grants to determine whether objectively verifiable indicators were developed. We concluded that the policies and procedures did not provide adequate assurance that indicators were developed to measure whether the purpose of the grant was being achieved and reported in annual implementation reports.

The second part concerns the requirement that grantees prepare periodic progress reports on their programs. In planning and performing this objective, we considered the

applicable internal control policies and procedures cited in A.I.D. Handbook 3, and Section 1N of Handbook 13. We noted one reportable condition relating to the requirement for preparing progress reports:

- A.I.D./Mexico did not establish and implement policies to ensure that periodic progress reports were prepared.

A.I.D./Mexico should report this weakness in its 1992 internal control assessment if it has not been fully resolved by the time it is prepared. It should be noted that this weakness had not been reported by A.I.D./Mexico in its 1991 internal control assessment.

We reviewed A.I.D./Mexico's internal controls relating to the requirement for ensuring that periodic progress reports are prepared. Our assessment showed that the controls were not properly designed and/or implemented; therefore, we could not rely on them in designing our audit approach. However, we attempted to conduct more extensive testing to achieve our objective of determining whether A.I.D./Mexico could properly monitor the progress of grant programs. These alternative procedures consisted of reviewing 11 randomly selected grants to determine whether recipients were submitting reports as required. We concluded that A.I.D./Mexico's policies and procedures did not provide adequate assurances that grantees prepared the progress reports.

The third part concerns the requirement to conduct site visits at grantee locations. In planning and performing this objective, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 3. We noted one reportable condition relating to the requirement for making site visits:

- A.I.D./Mexico did not establish policies and procedures for making and documenting site visits.

A.I.D./Mexico should report this weakness in its 1992 internal control assessment unless it has been fully resolved by the time it is prepared. It should be noted that this weakness had not been reported by A.I.D./Mexico in its 1991 internal control assessment.

We reviewed A.I.D./Mexico's internal controls relating to the requirement for conducting site visits. Our assessment showed that their 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 A.I.D./Mexico could properly monitor the progress of grant programs. These alternative procedures consisted of reviewing 11 randomly selected grants to determine whether site visits were made. We concluded that A.I.D./Mexico's policies and procedures on this issue did not provide adequate assurances that site visits would be properly made and documented.

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 five are material weaknesses.

REPORT ON COMPLIANCE

This section summarizes our conclusions on A.I.D./Mexico'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 A.I.D./Mexico'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 A.I.D./Mexico's management.

Conclusions on Compliance

The results of our tests of compliance indicate that, with respect to the items tested, A.I.D./Mexico complied in all significant respects, with the provisions referred to in the scope of our compliance assessment section of this report. With respect to items not tested, nothing came to our attention that caused us to believe that A.I.D./Mexico had not complied, in all significant respects, with those provisions.

SCOPE AND METHODOLOGY

Scope

We audited selected systems of internal controls at A.I.D./Mexico in accordance with generally accepted government auditing standards. We conducted the audit from January 10 to January 31, 1992, and did our field work at the Office of the A.I.D./Representative in Mexico City. The audit covered systems and procedures in place from January 1, 1991 to January 31, 1992. The audit entailed interviewing A.I.D./Mexico officials, reviewing Mission files and records; and reviewing those policies and procedures necessary to determine whether A.I.D./Mexico established and implemented policies and procedures to ensure that:

- grantees performed annual independent audits as required by A.I.D. Handbook 13, Appendix 4D (1-d), requirements,
- grant recipients provided cost-sharing contributions in accordance with A.I.D. Handbook 13,
- advances of funds to non-profit organizations did not exceed immediate cash needs and were liquidated in accordance with Treasury Regulations, A.I.D. Handbook 19, Chapter 1.B, and the Controllers Guidebook, Chapter 16,
- the participant training program was properly planned, English language tests and required medical examinations were made and documented, and long-term participants returned to Mexico and utilized their training effectively in accordance with A.I.D. Handbook 10 and A.I.D. Office of International Training Participant Training Notice 87-14,
- that quantitative indicators were developed and implemented in accordance with Section 621 A of the FAA,
- periodic progress reports from private voluntary organizations were prepared in accordance with Handbook 3, grant agreements, and Section 1N of Handbook 13, and
- site visits were performed in accordance with Handbook 3.

During the period of our audit A.I.D./Mexico's portfolio was valued at approximately \$10 million. We did not specifically audit these amounts rather our audit focused on selected systems for controlling project activities.

A written representation letter was obtained from A.I.D./Mexico confirming that, to the best of its knowledge and belief, they had provided us with all essential information, that the information provided was accurate and complete, and that A.I.D./Mexico had followed A.I.D.'s policies and procedures except as noted in the report.

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 13, Appendix 4D, to determine the criteria for doing annual audits. We interviewed operating personnel to determine the policies and procedures used to ensure that grantees performed the required annual audits and compared them to the requirements of A.I.D. Handbook 13, Appendix 4D. We obtained A.I.D./Mexico's list of grantees as of September 11, 1991 to determine the universe of grantees. Subsequently, we randomly selected 14 grants from a universe of 60 to determine whether required audit provisions were included in the grant agreements. We checked the budgets for these 14 grants to see if funds were provided to fund the audits. We reviewed the files for these grants to determine whether A.I.D./Mexico received copies of the audit reports. For those audit reports on file, we reviewed them to determine whether the audits were performed in accordance with government auditing standards.

Audit Objective Two

To accomplish the second audit objective, we obtained and reviewed A.I.D. Handbook 13 and SECSTATE cable No. 331065, dated October 23, 1987, entitled PVO Field Support Guidance for Mission-Funded Grants and Cooperative Agreements. We interviewed operating personnel to determine A.I.D./Mexico policies and procedures regarding cost sharing provisions and compared them to the requirements of the previously stated criteria.

We judgmentally selected 13 grant agreements from a universe of 60 to determine whether cost sharing provisions were incorporated in the agreements. For this sample of grants, we reviewed the grant files and interviewed project officers to determine whether (a) grantees reported their contributions to A.I.D./Mexico, (b) project officers' provided instructions to grantees concerning cost-sharing requirements, record keeping to support contributions, and in-kind versus cash requirements, (c) project officers verified that cost-sharing contributions were made, and (d) A.I.D./Mexico knew what contributions had been made to projects by its grantees..

Audit Objective Three

To accomplish the third objective, we obtained and reviewed U.S. Treasury Policy No. TFM 6-8000, Chapter 8000; A.I.D. Handbook 19; and the Controllers Handbook. We also reviewed the grant provisions entitled Payment - Periodic Advance, and A.I.D./Mexico's December 30, 1991 policy memorandum on advances. We held

discussions with A.I.D./Mexico officials to determine their policies and procedures for negotiating and liquidating advances and compared them to the requirements in the previously mentioned criteria.

We obtained a MACS report on advances at A.I.D./Mexico which listed those which were past the required settlement date. We could not verify the accuracy of this report because the accounting station and related documentation were located in Guatemala. However, we discussed this report with A.I.D./Mexico officials and were told it contained inaccuracies but was sufficient to demonstrate that long-outstanding advances was a serious problem at A.I.D./Mexico.

Audit Objective Four

To accomplish the fourth objective, we obtained and reviewed A.I.D. Handbook 10 and A.I.D. Office of International Training Participant Training Notice 87-14 to determine the applicable criteria. We interviewed operating personnel to determine the policy and procedures used to ensure that A.I.D./Mexico complied with A.I.D. regulations and policies. We telephoned the Office of International Training in A.I.D./Washington to determine the policy for establishing a selection committee at a small entity such as A.I.D./Mexico. We obtained telephone numbers of long-term participants from the contractors office in Arlington, Virginia. We attempted to contact 25 of these participants from a universe of 76 to determine whether they had returned to Mexico and were working in a field related to their training. We then compared selected criteria to determine whether specific training needs were identified in the country training plan as required by A.I.D. policy. We reviewed policies and procedures for (a) selecting participants, (b) follow-up on returning participants, and (c) ensuring that English language tests and medical examinations were made and documented. We reviewed all 41 long-term trainees to determine compliance with the aforementioned areas.

Audit Objective Five

To accomplish the fifth objective, we obtained and reviewed Section 621A of the FAA, A.I.D. Handbooks 3 and 13, and the Project Officers' Guidebook to determine the policies and procedures for (1) establishing and implementing quantitative indicators, (2) grantee progress reporting, and (3) making site visits. We interviewed A.I.D./Mexico officials to determine their policies and procedures with respect to these three areas. We then compared A.I.D./Mexico internal controls to the above criteria to determine whether they were adequate.

We judgmentally selected 12 grants from a universe of 60 to assess compliance for the three areas in this objective. To make this assessment, we interviewed project officers, reviewed the grant agreements, grant files, grantee progress reports, and the annual implementation status reports.

MANAGEMENT COMMENTS

memorandum

DATE: June 10th, 1992

REPLY TO
ATTN OF: Gerard R. Bowers, A.I.D./M Representative SUBJECT: Revised Audit Report on Selected Mission Systems at
A.I.D./Mexico.

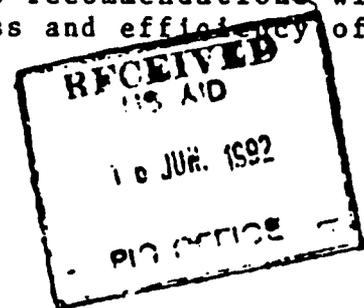
TO: Reginald Howard, RIG/A/T

Ref: Memo, Tom Golla, RIG/A/T, to G. Bowers, A.I.D./Mexico,
June 3, 1992.

I have reviewed the subject report and agree with the recommendations contained therein.

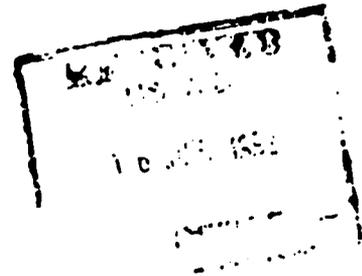
The follow-up visit by you and Tom Golla was very useful in developing a constructive draft audit report. As you know, I was particularly interested in ensuring that some of the earlier draft's generalizations --e.g., with regard to grant objectives, trip reports, management and liquidation of cash advances, and participant selection procedures-- be re-examined and presented in a more balanced manner. I believe that the draft report shown to me on June 3 addresses this concern, and I presume that the final report will incorporate the changes reflected in that revised draft.

I look forward to receipt of the final report, and am confident that our implementation of the report's recommendations will contribute to the improved effectiveness and efficiency of AID/Mexico.



c.c. Gary Byllesby, ROCAP/G

GRB/pps.



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