

Regional Inspector General for Audit
Bonn

**Audit of the Regional Mission for Europe's
Environmental Sector Grant to the
Czech and Slovak Republics**

Report No. 8-184-93-07
September 14, 1993



INSPECTOR
GENERAL

AGENCY FOR INTERNATIONAL DEVELOPMENT



CZECH REPUBLIC
SLOVAK REPUBLIC

EUROPE



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

September 14, 1993

MEMORANDUM

TO: RME/A-DIR, Robert Nachtrieb

FROM: *for* RIG/A/Bonn, *James R. Bennett*
John P. Competello

SUBJECT: Audit of the Regional Mission for Europe's Environmental Sector Grant to the Czech and Slovak Republics Under Project No. 180-0043 (Audit Report No. 8-184-93-07)

This is our report on the subject audit. We considered your comments on the draft report and included them as Appendix II. Based on your comments, the recommendation contained in this report is considered resolved. We also acknowledge receipt of the representation letters that were provided and which we found to meet our needs. These letters are also in Appendix II.

In addition to the matters discussed in this report, the Assistant Inspector General for Audit has requested the General Counsel to review A.I.D.'s policy on sector grants (such as the one included in this audit) which allows "reimbursement" to a participating government for transactions either unrelated to the grant or occurring prior to the grant itself. The question we have asked General Counsel is whether A.I.D.'s current policy sufficiently follows congressional intent in establishing separate accounts as a means to track the actual dollars involved in the grant to their end use.

Please respond to this report within 30 days, indicating any actions planned or taken to implement the recommendation. I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

On September 3, 1991, the Bureau for Europe and Near East, presently the Bureau for Europe, approved the Environmental Sector Grant (Sector Grant) to the Czech and Slovak Federal Republic. Under the terms of the Sector Grant, A.I.D. transferred \$15 million to the Czech and Slovak Federal Republic Government (CSFR Government) through its agent, the Obchodni Bank, in exchange for

environmental policy reforms designed to reduce environmental pollution in the two republics. These policy reforms were conditions of the World Bank's Structural Adjustment Loan with the CSFR Government, and A.I.D.'s Sector Grant was designed as parallel support for these reforms. In addition to the policy reforms, the dollar element of the grant was intended to provide critically needed foreign exchange to help offset the short-run foreign exchange gap expected from the reforms.

As an extension of the policy reforms, the equivalent of \$15 million in generated local currency was to be used as an endowment to the Environmental Funds being operated at the Republic level. The money (divided on a 2:1 basis between the Czech Republic and the Slovak Republic) was intended to cover immediate operating costs of the Environmental Funds until the increased pollution fees and fines expected from the policy reforms could be collected.

The Sector Grant was signed on September 18, 1991 and the last tranche of the \$15 million was released on September 30, 1992. Both the Bureau for Europe and the Regional Mission for Europe (RME) designed and negotiated the Sector Grant, while the AID/Representative (AID/Rep) to the Czech Republic was responsible for monitoring and implementing the Agreement. The AID/Rep to the Slovak Republic was responsible for monitoring the Slovakia State Environmental Fund after the split of the two republics on January 1, 1993.

Audit Objectives

Based on the RIG/A/Bonn revised Fiscal Year 1993 Audit Plan, we audited the Sector Grant program to answer the following audit objectives:

1. Did the Regional Mission for Europe support environmental protection policy reforms in accordance with the objectives and terms of the Sector Grant to the Czech and Slovak Republics?
2. Did the Regional Mission for Europe and the AID/Representative appropriately release dollar funds and sufficiently monitor to ensure that the host governments deposited, programmed, and used local currency in accordance with the terms of the Sector Grant to the Czech and Slovak Republics and in accordance with A.I.D. policies and procedures?

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

Audit Findings

Did the Regional Mission for Europe support environmental protection policy reforms in accordance with the objectives and terms of the Sector Grant to the Czech and Slovak Republics?

The Regional Mission for Europe ensured that the CSFR Government provided environmental protection policy reforms in accordance with the objectives and terms of the Sector Grant agreement prior to releasing and disbursing over \$15 million in Sector Grant funds to support the environmental sector. On November 20, 1991, A.I.D. representatives met with Czech and Slovak representatives of the Federal Committee for the Environment to discuss the environmental Sector Grant and the conditions precedent. The discussion centered on the need to provide evidence that all environmental policy reform conditions required for the grantee's Structural Adjustment Loan with the International Bank for Reconstruction and Development (IBRD) had been met.

In accordance with the grant agreement, the conditions precedent for the Sector Grant could be met through the World Bank confirming that all policy reform criteria required for the grantee's Structural Adjustment Loan with the IBRD had been met. These policy reforms included enactment of environmental laws at both the Federal and Republic levels.

On December 6, 1991, the Minister-Chairman of the Federal Committee for the Environment submitted a letter to A.I.D. stating that the conditions precedent had been met and requested disbursement of the grant money to the dollar separate account. The appropriate documents accompanied the Minister's letter verifying that the conditions precedent had been met. Based on this information and confirmation by a World Bank team that the conditions precedent were met, we concluded that there was adequate evidence to disburse the dollar funds as provided in the Sector Grant agreement.

Did the Regional Mission for Europe and the AID/Representative appropriately release dollar funds and sufficiently monitor to ensure that the host governments deposited, programmed, and used local currency in accordance with the terms of the Sector Grant to the Czech and Slovak Republics and in accordance with A.I.D. policies and procedures?

The Regional Mission for Europe and the accountable AID/Representative followed A.I.D. policies and procedures and the terms of the grant agreement in appropriately releasing the dollar funds. However, an intended quick release of the dollars was not accomplished as it took over one year from the date of the agreement, including the six-month period from the date of the deposit of the dollars into the separate account until the final release was completed. This delay occurred because of the need to identify eligible trade receipts showing procurement of goods of U.S. source and origin. Also, once the dollar release took place, weaknesses occurred in the monitoring of the CSFR Government's deposit and end use of the local currency.

The \$15 million was appropriately released from the special account. After receiving confirmation from the Czech and Slovak Federal Republic and the World Bank that the conditions precedent concerning the passage of environmental laws and other procedural requirements of the Sector Grant had been met, the AID/Representative cabled A.I.D.'s Office of Financial Management requesting the transfer of the dollars into the Dollar Separate Account in New York. This transfer was made on March 12, 1992. Dollar releases from the separate account occurred only after the required trade receipts were verified, and the AID/Representative, in coordination with RME, properly issued Project Implementation Letters to the Minister-Chairman of the Federal Committee for the Environment. Consequently, the Project Implementation Letter allowing the release of the final tranche of dollar funds from the Dollar Separate Account was issued on September 17, 1992.

**Goal of Quick Release
of Cash Was Not Attained**

The intended quick release of \$15 million for balance of trade support was not accomplished as it took over one year to complete from the date of the agreement, including over six months from the date of the transfer of dollars by the U.S. Treasury. Since neither the grant's financial assessment, design, nor negotiations identified specific trade actions linked to the agreement, field personnel spent months locating "eligible" trade receipts. During this time the U.S. Treasury incurred interest expense while the separate account earned interest income for the grant.

A.I.D. Handbook 1, Part IV, states that A.I.D. prefers that cash transfer dollars be used to finance imports (in this grant, U.S. source and origin imports) either directly or on a reimbursable basis. A goal of the grant agreement was to provide a quick disbursing source of dollars in order to supply the CSFR Government immediate balance of payments support and promote environmental sector policy reform.

The grant agreement, however, was signed over 12 months before the dollars were actually released, and therefore the goal of a quick release of dollar funds was not obtained. In addition, the U.S. Treasury, based on A.I.D.'s request, transferred the dollar funds to the separate account six months prior to their release, incurring additional interest costs.

The Sector Grant negotiations began on March 1, 1991, and ended with the signing of the grant agreement on September 18, 1991. On December 6, 1991, a significant timing benchmark was satisfied when the AID/Representative agreed that all conditions precedent were met. This should have allowed for a quick disbursement and release of the \$15 million dollar grant. However, U.S. source and origin trade invoices or other similar documentation required by the grant, were not available from the CSFR Government to allow the release of the dollar funds.

The source and origin invoices were not available because the grant negotiations did not *specifically identify* trade transactions. Instead, the negotiations accepted in good faith that enough ongoing trade transactions existed for which invoices could be easily obtained to meet the agreement's U.S. source and origin trade requirements. Although the procedures used by the Bureau were in accordance with A.I.D. policy, a quick release of the dollar funds was not obtained, and the actual use of the released dollars is unknown.

Similarly, in an earlier audit of the Hungarian Energy Sector Grant,¹ we found a planned quick release of dollars did not occur because U.S. source and origin trade documentation had not been presented in a timely manner. We recommended that the Bureau assess timing actions and consult with host governments to establish timing benchmarks in existing bilateral agreements where the timing of actions is a critical factor to the success of the agreement. This recommendation is currently resolved and will be closed when the Bureau completes promised action.

Although the negotiators had relied on ongoing U.S. source and origin trade to provide the necessary trade receipts, the Obchodni Bank and other sources did not provide the required receipts to effect the release of all the dollar funds until September 17, 1992. However, since the conditions precedent had been met, the \$15 million grant was disbursed to the separate account on March 12, 1992. This action of putting the dollar funds into a separate account prior to their actual use appears to conflict with a September 1992 report from the Senate Committee on Appropriations. In discussing A.I.D. cash transfers this report stated:

The Committee is concerned about how AID is using the cash transfer mechanism to carry out policy-based assistance to governments executing economic reform programs. The use of this procedure on occasion has resulted in the obligation of cash transfer funds to recipient governments far in advance of their actual end use. This practice sometimes results in the deposit of cash transfer funds into an interest-bearing account with the netted interest accruing to the recipient country, instead of the U.S. Treasury. The result is that the recipient nation earns interest on U.S. economic assistance which the Treasury had to borrow in order to make the obligation. In addition, the recipient nation receives more assistance than Congress actually appropriates. AID defends this practice as a longstanding and accepted tool of development. The Committee intends to examine this practice in its hearings on the fiscal 1994 foreign assistance request.

¹Our audit of the *Bureau for Europe's Energy Sector Grant to Hungary*, Report No. 8-185-93-01.

The United States General Accounting Office (GAO) provided additional insight to A.I.D.'s policy and management of cash sector assistance in its report titled "Cost Reductions Possible From Improved Cash Transfer Management." (GAO Report GAO/NSIAD-93-58). GAO concluded that "AID does not apply to cash transfer and non-project sector assistance programs the cash management principle it applies to other bilateral assistance programs – that funds be retained in the U.S. Treasury as long as possible to minimize federal borrowing costs."

In response to this GAO report, the Agency issued guidance in March 1993 in *Bulletin No. 7 -Cash Management*, at Section IX. B. "Cash Transfer and Non-Project Assistance," providing two lower cost options by which the Agency can deliver cash and sector assistance. Since the Bureau for Europe is required to follow this new Agency-wide guidance in implementing future cash transfer or sector grant assistance, we are not making a recommendation on the federal cash management principle concerning the release of the dollar funds.

We continue to believe, however, that the primary reason for the delay in releasing the dollars was that neither the grant negotiations nor the grant agreement identified *specific* U.S. source and origin trade transactions for the release of the dollars. The Obchodni Bank could not provide the necessary trade receipts when the conditions precedent were met in December 1991. Therefore, the random search for trade receipts with a U.S. source and origin delayed the release of the dollars until September 1992.

Management Comments and Our Evaluation

In commenting on a draft of this report, the Bureau for Europe disagreed with us that a quick release of funds could have occurred if U.S. source and origin trade transactions had been identified prior to an obligation of A.I.D. funds. The Bureau stated that it followed A.I.D. policy by disbursing the dollars from the U.S. Treasury once the conditions precedent were met by the CSFR. While a "quick release" from the account was desired, the Bureau states it was up to the CSFR Government to produce the required U.S. import documentation to obtain the release. Since the Bureau followed A.I.D. policy in obligating the dollars based on the CSFR Government meeting the conditions precedent, the Bureau asserted it disbursed the funds in a timely manner which provided an asset to the CSFR Government to alleviate its balance-of-payment situation.

We believe the Bureau's comments overlook advantages of identifying future trade transactions during the negotiation process. These advantages include not only a quick disbursement of funds, but also a simplification in the time consuming process of locating existing "eligible" receipts. We were told by A.I.D. personnel in the field that they spent months trying to find "eligible" trade receipts. Also, the identification

of trade transactions to be financed by the Sector Grant would have more clearly exhibited its uses and benefits. Therefore, although we are not making a recommendation directed at identifying specific trade transactions in future sector grants where this may be an issue, we are suggesting that the Bureau consider this approach as a means to reduce the tremendous amount of time that was spent in identifying past transactions to satisfy the requirements of the current grant.

**Local Currency Monitoring
Needs Improvement**

Although the grant agreement provided for project monitoring in general terms, the AID/Rep's role in monitoring the currency conversion and use of local currency was not specifically described by the RME. Therefore, it was unclear as to how the AID/Rep was to monitor the currency exchange process, or how the local currency expenditures of the Environmental Funds would be reported. Consequently, (1) the Obchodni Bank used different benchmarks for exchange rates and (2) the CSFR Government did not understand its reporting requirements.

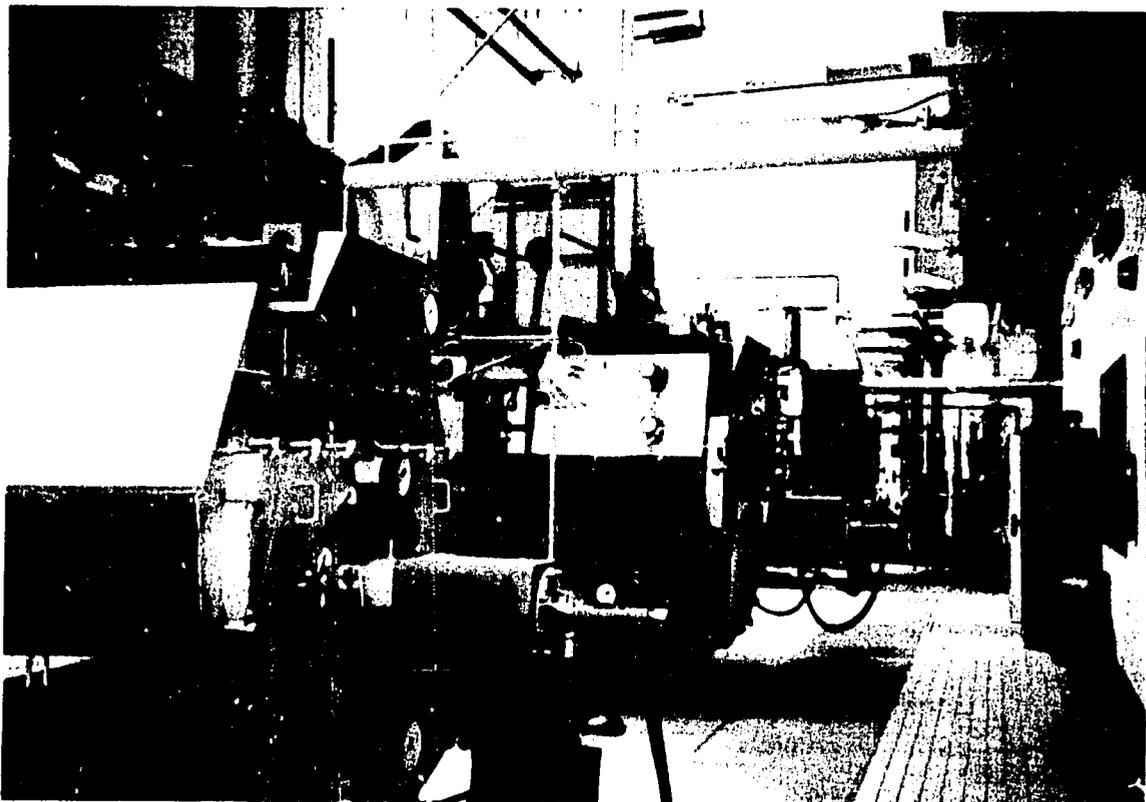
RECOMMENDATION NO. 1: We recommend that the Regional Mission for Europe issue guidance on (a) monitoring responsibilities for future and existing sector grants which properly defines the role of the AID/Reps according to the specific type of sector grant being implemented and (b) closing out local currency monitoring of the Czech and Slovak Sector Grant as appropriate.

Although RME designed and negotiated the grant agreement, the AID/Rep was delegated project officer responsibilities. These responsibilities included, among others, monitoring all grant accounts and end use expenditures of local currency. The AID/Rep tracked the dollar grant to the Obchodni Bank, but without additional guidance, ended the monitoring process before the dollars were converted to local currency and before the local currency was expended. Our conclusion was based on the fact that the AID/Rep was not aware of the conversion rates used in the four currency conversion transactions, and the AID/Rep files had no documentation on this aspect of the dollar transfer process. Furthermore, we found no documentation of any site visits to monitor the implementation of any of the projects financed by the Environmental Fund in the Czech Republic. The AID/Rep was relying on the receipt of the Fund's annual report and a partial listing of projects from the Ministry of Environment to monitor local currency expenditures. Therefore, at the time of our review, additional procedures for monitoring the end use expenditure of the local currency needed to be developed and implemented.

The grant design and agreement provided that the exchange rate for local currency would be at the "highest legal rate," but was silent as to how the exchange transactions would be monitored. Since various currency exchange rates exist within



**A.I.D.-Supported State Environmental Fund
Project Converts Coal Plant to Cleaner Gas Unit**



a country, including different buy and sell rates, the term "highest legal rate" needed to be defined for the currency exchange process to be properly monitored. Under this grant, the Obchodni Bank exchanged dollars from the grant at two different benchmark exchange rates. On two occasions, the "sell" or higher rate which the CSFR Government received when it sold dollars was used. On the other two exchanges – including the largest transaction – the "buy" or lower rate at which the CSFR Government buys dollars was used. Our computations show that had the higher rate been used for each transaction the additional amount would have been \$258,247.

At the time that these transactions took place, the term "highest legal rate" had not been defined. Therefore, the AID/Rep was unable to ascertain which rate should have been used for each transaction. Subsequently, the Bureau for Europe in its response to our draft report stated that it had accepted the Obchodni Bank's position that the U.S. Government was only entitled to the lower rates. Therefore, in the Bureau's view the U.S. Government received more than it should have on two occasions when the Obchodni Bank provided the dollar exchange at the higher rate.

Regarding the CSFR Government's use of the Sector Grant funds, neither the grant agreement nor subsequent guidance defined the monitoring and reporting to be done for the end use of the local currency deposited into the Environmental Funds. For example, the Czech Republic's Environmental Fund was reporting on specific project expenditures rather than on the status of the overall Environmental Fund, and the Slovak Republic's Environmental Fund was identifying the use of Sector Grant local currency funds to purchase environmental monitoring equipment. Thus, at the time of our audit fieldwork, it appeared that additional guidance on these matters was needed.

Management Comments and Our Evaluation

In commenting on a draft of this report, the Bureau for Europe stated that the AID/Rep properly monitored the local currency conversion process and local currency use through discussions with the State Environmental Fund, and from a summary report issued by the Ministry of the Environment. Contrary to the Bureau statements, our audit showed no evidence that the currency exchange process was monitored by the AID/Rep, the Bureau, nor RME. Also, our discussions, with the Environmental Fund manager in the Czech Republic indicated that he had little understanding of the AID/Rep role in monitoring fund activities.

In regard to the draft report recommendation that the Bureau issue general guidance on field monitoring procedures for local currency under sector grants, the Bureau stated that the Agency already had such guidance. This guidance made clear that requirements depend on the type of local currency program being implemented. The Bureau agreed that monitoring responsibilities should be spelled out for future and

existing sector grants. Also, for the particular grant being audited the Bureau believed that instructions regarding closing out the local currency monitoring was more appropriate.

We believe the Bureau position relative to the need for additional overall general guidance has merit and thus we have modified our draft audit recommendation accordingly. The Bureau's agreement to issue specific guidance as needed for all current and future sector grants and to issue instructions to close out monitoring of the current grant is an appropriate action. Therefore, we are resolving the revised report recommendation and will close it upon completion of Bureau action.

SCOPE AND METHODOLOGY

We audited the Regional Mission for Europe, and the AID/Representatives for the Czech Republic and the Slovak Republic in accordance with generally accepted government auditing standards. We conducted the audit from March 9, 1993 through June 4, 1993, and covered the entire \$15 million disbursed by A.I.D. under the Sector Grant. We conducted our field work in the offices of the Regional Mission for Europe in Washington; the AID/Representative in Prague, Czech Republic; and the AID/Representative in Bratislava, Slovakia. Our field observation included site visits to eleven environmental project sites in the Czech Republic and one environmental project in Slovakia.

We reviewed A.I.D. project documentation to determine whether: (1) environmental protection policy reforms were supported; (2) dollar funds were properly released; and (3) host government deposits, programming, and uses of local currency were monitored. We interviewed officials of A.I.D., the Government of the Czech Republic, and the Government of Slovakia to obtain their views on the policy reforms. We also interviewed officials of A.I.D., the Government of the Czech Republic, the Government of Slovakia, and the Obchodni Bank on the transfer of the dollars and the deposit, programming, and use of the local currency. To verify work done, we discussed financial support provided by the State Environmental Funds with project managers at ten different field sites.

In reviewing the background information of this Sector Grant and the related issues, we reviewed the workpapers and audit report from our audit of the *Bureau for Europe's Energy Sector Grant to Hungary* (Report No. 8-185-93-01) and the GAO's November 1992 report on *Cost Reductions Possible From Improved Cash Transfer Management* (GAO/NSIAD-93-58).

Since the objectives of this audit dealt only with one grant, we did not believe that this was sufficient testing to comment on the Mission's internal controls as a whole. Therefore, we did not prepare a separate Report on Internal Controls. Similarly, our audit work testing for compliance dealt only with whether the Mission complied with the terms of the Sector Grant Agreement. Because of this limited scope, we are not issuing a separate Report on Compliance.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

AUG 23 1993

MEMORANDUM

TO: RIG/A/EUR/W, James Bonnell

FROM: EUR/A-DAA, Frank Almaguer *FA*

SUBJECT: Draft Report on the Audit of the Regional Mission for Europe's Environmental Sector Grant to the Czech and Slovak Republics Under Project No. 180-0043

We received subject draft report and have comments on the dollar fund findings and the local currency monitoring recommendation.

Dollar Fund Release

In this draft report, RIG continues to criticize CSFR for the delay in releasing the dollars from the separate account, attributing the delay to deficient design and agreement negotiations. According to the report, trade invoices should have been available and verified as eligible prior to obligation of the funds so that release from the separate account could have occurred immediately after disbursement.

As we have previously pointed out, the dollar disbursement was predicated on achievement by the CSFR of certain reforms which were the only conditions precedent to the disbursement to the dollar separate account. Those reforms were accomplished as required, which triggered the completion of disbursement. While a "quick release" from the account would also be desirable, it was up to the CSFR government to obtain the required U.S. import documentation to obtain release of the dollars from the separate account. A.I.D. had been informed that such documentation would be made available forthwith, and, in view of existing trade patterns, we had no reason to doubt that information. Additionally, A.I.D. took actions to expedite the dollar release by establishing reasonable documentation requirements in compliance with Agency policy, communicating these requirements to the CSFR, and assisting the CSFR to obtain the documentation. A.I.D. cannot be

held responsible for all counterpart actions. Moreover, it is very important to recognize that while the dollars were in the separate account they were an asset of the CSFR and alleviated its balance-of-payment situation accordingly.

What the report really is getting at is not the problem of separate account release but of any disbursement of U.S. funds in this type of assistance until the moment when actual expenditure or use by the host government requires it. The point being made is not so much the diminishment of benefit to the host country (as noted above it owns the funds in the separate account and is drawing interest on them) but the loss of interest to the U.S. Treasury after disbursement. This is the thrust of the Senate Committee Report and the GAO report issued in November 1992 on "Cost Reductions Possible From Improved Cash Transfer Management," which are excerpted in your draft.

The impression one gets when reading RIG's report is that RME caused the U.S. Government to incur additional interest cost through some failure on the part of RME. In fact, however, RME followed exactly A.I.D. policy and guidance in existence at the time of the agreement. As noted in USAID Financial Management Bulletin No. 7, Part II, "Cash Management," IX.B, A.I.D. until March 1993 "interpreted cash management guidance (for cash transfers and non-project sector assistance) to mean that the 'need' for funds occurs when the recipient governments adopt the agreed upon policy reforms rather than when the recipient government has 'actual immediate funding requirements.'" We do not feel it is appropriate for RIG to comment on A.I.D. policy on cash transfers in this report as this was a factor outside RME's control. If RIG does not agree and leaves such discussion in the report, we once again request that it be made absolutely clear that RME followed A.I.D. policy and procedures and was not the cause of any increased interest cost to the U.S. Government.

Local Currency Monitoring

We do not agree that it was unclear as to who was to monitor the currency exchange process (page 6). As RIG states on page 7, "the AID/Rep was delegated project officer responsibilities." We also do not agree with your statement on page 7 that the AID/Rep "ended the monitoring process before the dollars were converted to local currency and before the local currency was expended." The AID/Rep continuously tracked the dollar and local currency movements; this monitoring is documented in their files. Regarding the local currency monitoring, the AID/Rep visited the State Environment Fund on numerous occasions to discuss disbursements and agreed with the Fund that the Fund's annual report would be the document verifying expenditures. The AID/Rep has documentation from their discussions with the Environment Fund and from a summary report issued by the Ministry of the Environment.

We also take exception to your inclusion of Table 1 on "Conversion Rates Used on Dollar Releases" and your statement on page 6 that

the use of different exchange rates "may have reduced deposits to the Environmental Funds." It has been made very clear by the Obchodni Bank that in fact they gave us a more favorable rate twice in error. This fact is not mentioned in your report and the strong impression is given that RME caused a loss of funds through the use of an erroneous exchange rate.

The second to the last paragraph in the report also lends itself to the interpretation that RME did something wrong in supporting the State Environmental Funds. The listing in this paragraph of what the auditors were told during their field work about the funds is not tied in to any conclusion or previous discussion. We therefore request that this paragraph be deleted. If RIG does not agree to this, we request that the purpose of this paragraph be clarified and also that it be made clear that no criticism is being made of the use of the State Environmental Funds in this sector grant. If RIG is in fact criticizing RME for this, we request the opportunity to be able to respond to this; this would be the first time during this lengthy audit process that this issue would have been raised.

Regarding your recommendation, we do not feel that a recommendation to issue additional general guidance on field monitoring procedures for sector grants will serve any purpose. A.I.D. already has Agency guidance on such monitoring which makes it clear that the type and degree of monitoring depends on the type of local currency program. We agree that monitoring responsibilities should be spelled out for future and existing sector grants. For the Czech and Slovak grant being audited, we are in the process of issuing a PIL to state exactly what final steps must be taken to bring the local currency monitoring to a close. A recommendation to this effect would be much more relevant and useful.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

June 4, 1993

Mr. Toby L. Jarman
Regional Inspector General Audit Europe
Washington, D.C. 20523-1604

Dear Mr. Jarman:

This representation letter is issued in connection with your audit of the Bureau for Europe's Environmental Sector Grant to the Czech and Slovak Republics (AID Grant No. 180-T-602). Your audit was conducted from March 9, 1993, to June 4, 1993. As of June 4, 1993, and to the best of my knowledge and belief, I confirm the following representations made to you during your audit.

1. Where your audit relates to accounting for, monitoring, evaluating, and reporting on the Czech and Slovak Environmental Sector Grant Agreement, the Regional Mission for Europe (EUR/RME) office shares responsibilities with the A.I.D. Representative, as set out in Mission Order 103 and 92 State 388241, for:
 - the internal control system,
 - compliance with applicable A.I.D. policies and procedures, as modified for EUR Bureau and EUR/RME, and U.S. laws and regulations, and
 - the fairness and accuracy of the management information.
2. I have asked the most knowledgeable, responsible members of my staff to make available to you all records in our possession for the purposes of this audit. Based on the representations made by those individuals, of which I am aware, and my own personal knowledge, I believe that those records are accurate and complete, and that they constitute a fair representation as to the status of the Environmental Sector Grant.

3. To the best of my knowledge and belief, EUR/RME has disclosed any:
 - known irregularity involving management or employees who have roles in the internal control structure,
 - known irregularity involving any other organizations that could affect the subject audit of the Czech and Slovak Environmental Sector Grant Agreement, and
 - known communication from any other organizations concerning non-compliance with or deficiencies related to the subject audit of the Czech and Slovak Environmental Sector Grant.
4. To the best of my knowledge and belief, the EUR/RME is not aware of any material instance where significant financial or management information has not been properly or accurately recorded and reported to responsible management in EUR/RME.
5. To the best of my knowledge and belief as a layman, and not as a lawyer, EUR/RME has not withheld information about material non-compliance with A.I.D. policies and procedures or violations of U.S. laws and regulations.
6. To the best of my knowledge and belief, EUR/RME is not aware of any Government of the Republic of Czech or the Republic of Slovakia instances of non-compliance with the aspects of the Grant Agreement, that could materially affect the Czech and Slovak Environmental Sector Grant, other than those contained in the Record of Audit Findings.
7. Following our review of your Report of Audit Findings and further consultation with my staff, I know of no other facts as of the date of this letter which, to the best of my knowledge and belief, would materially alter the conclusions reached in that document.

We request that this representation letter be included as a part of the official management comments on the draft report and that it be published herewith as an annex to the report.

Sincerely,



Robert W. Nachtrieb
Acting Mission Director
Regional Mission for Europe



U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE AID REPRESENTATIVE TO CZECHOSLOVAKIA

June 4, 1993

Mr. Toby L. Jarman
Regional Inspector General Audit Europe
Washington, D.C. 20523-1604

Dear Mr. Jarman:

This representation letter is issued in connection with your audit of the Bureau for Europe's Environmental Sector Grant to the Czech and Slovak Republics (AID Grant No. 180-T-602). Your audit was conducted from March 9, 1993, to June 4, 1993. As of June 4, 1993, and to the best of my knowledge and belief, I confirm the following representations made to you during your audit.

1. Where your audit relates to accounting for, monitoring, evaluating, and reporting on the Czech and Slovak Environmental Sector Grant Agreement, the Office of the A.I.D. Representative shares responsibilities with the Regional Mission for Europe (EUR/RME), as set out in Mission Order 103 and 92 State 388241, for:
 - the internal control system,
 - compliance with applicable A.I.D. policies and procedures, as modified for EUR Bureau and EUR/RME, and U.S. laws and regulations, and
 - the fairness and accuracy of the management information.
2. I have asked the most knowledgeable, responsible members of my staff to make available to you all records in our possession for the purposes of this audit. Based on the representations made by those individuals, of which I am aware, and my own personal knowledge, I believe that those records are accurate and complete, and that they constitute a fair representation as to the status of the Environmental Sector Grant.
3. To the best of my knowledge and belief, the Office of the A.I.D. Representative has disclosed any:
 - known irregularity involving management or employees who have roles in the internal control structure,
 - known irregularity involving any other organizations that could affect the subject audit of the Czech and Slovak Environmental Sector Grant Agreement, and

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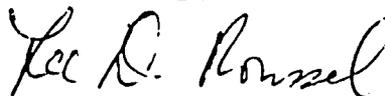
Address from the United States:
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American Embassy, Prague
Unit 25402
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- 2 -

- known communication from any other organizations concerning non-compliance with or deficiencies related to the subject audit of the Czech and Slovak Environmental Sector Grant.
- 4. To the best of my knowledge and belief, the Office of the A.I.D. Representative is not aware of any material instance where significant financial or management information has not been properly or accurately recorded and reported to responsible management in the Office of the A.I.D. Representative.
- 5. To the best of my knowledge and belief as a layman, and not as a lawyer, the Office of the A.I.D. Representative has not withheld information about material non-compliance with A.I.D. policies and procedures or violations of U.S. laws and regulations.
- 6. To the best of my knowledge and belief, the Office of the A.I.D. Representative is not aware of any Government of the Republic of Czech or the Republic of Slovakia instances of non-compliance with the aspects of the Grant Agreement, that could materially affect the Czech and Slovak Environmental Sector Grant, other than those contained in the Record of Audit Findings.
- 7. Following our review of your Report of Audit Findings and further consultation with my staff, I know of no other facts as of the date of this letter which, to the best of my knowledge and belief, would materially alter the conclusions reached in that document.

We request that this representation letter be included as a part of the official management comments on the draft report and that it be published herewith as an annex to the report.

Sincerely,



Lee D. Roussel
A.I.D. Representative
Prague, Czech Republic

Clear: _____ MGianni, RME/FMS
 _____ DLuten, GC/EUR

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

June 4, 1993

Mr. Toby L. Jarman
Regional Inspector General Audit Europe
Washington, D.C. 20523-1604

Dear Mr. Jarman:

This representation letter is issued in connection with your audit of the Regional Mission for Europe's Environmental Sector Grant to the Slovak Republic (AID Grant No. 180-T-602). Your audit entrance conference was held in Washington, D. C. on March 9, 1993, and your field work was conducted from April 19 through May 14, 1993. However, as you know, the Slovak Republic's funds were transferred from the State Bank of Czechoslovakia directly to the Slovak Republic's State Environmental Fund. Up to this point the AID Representative in the Czech Republic had full responsibility for monitoring the Grant. As of June 4, 1993, to the best of my knowledge and belief, I confirm the following representations made to you during your audit.

1. I have asked the most knowledgeable, responsible members of my staff to make available to you all records in our possession for the purposes of this audit.
2. To the best of my knowledge and belief, the Office of the A.I.D. Representative has disclosed any:
 - known irregularity involving any other organizations that could affect the subject of the audit of the Slovak Environmental Fund, and
 - known communication from any other organizations concerning non-compliance with or deficiencies related to the subject audit of the Czech Republic and Slovak Republic Environmental Sector Grant.
3. The Office of the A.I.D. Representative is not aware of any instances by the Slovak Republic government of non-compliance with any aspects of the the Grant Agreement that could materially affect the Czech Republic and the Slovak Republic Environmental Sector Grant.
4. Following our review of your draft report and further consultation with my staff, I know of no other facts as of the date of this letter which, to the best of my knowledge and

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belief would materially alter the conclusions reached in that document.

I request that this representation letter be included as a part of the official management comments on the draft report and that it be published herewith as an annex to the report.

Cordially yours,



Patricia J. Lerner
A.I.D. Representative
Bratislava, Slovakia

APPENDIX III

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EUR/RME/DIR	1
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AA/OPS	1
AA/FA	1
POL/CDIE/DI, Acquisitions	1
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FA/MCS	2
FA/FM/FPS	2
IG	1
AIG/A	1
IG/A/PPO	3
IG/LC	1
AIG/RM	12
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