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**Audit of USAID/Guatemala's Controls  
Over the Guatemalan Government's  
Counterpart Contributions**

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**Audit Report No. 1-520-94-002  
January 31, 1994**





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January 31, 1994

MEMORANDUM

TO: USAID/Guatemala Acting Director, Lawrence Klassen  
FROM: RIG/A/San Jose, *Coisese N. Gothard* Coinage N. Gothard  
SUBJECT: Audit of USAID/Guatemala's Controls Over the Guatemalan Government's Counterpart Contributions

Enclosed are five copies of the subject report. Our audit work and written representations made by USAID/Guatemala confirmed that controls over the Guatemalan Government's counterpart contributions were adequate in many areas. For example, the Mission successfully followed A.I.D. policies and procedures by issuing a Mission Order requiring that counterpart contribution reporting be included in project agreements and establishing monitoring responsibilities for counterpart contributions.

USAID/Guatemala's controls, however, could be strengthened in several ways including (1) greater supervision over project officers to ensure counterpart contribution reports are received as required, (2) Project Assistance Completion Reports compare planned counterpart contribution to actual contributions and are prepared more timely, (3) Project Implementation Reviews are better documented and discuss all counterpart problems, and (4) project officers test the reliability of counterpart contribution reports before certifying the reports.

We made three recommendations to improve controls over the Guatemalan Government's cost sharing contributions. Your comments to these recommendations and the draft report were fully considered in finalizing this report. Based on these comments, all recommendations are closed upon report issuance. Your comments to the draft report are summarized after each finding and are presented in their entirety in Appendix II.

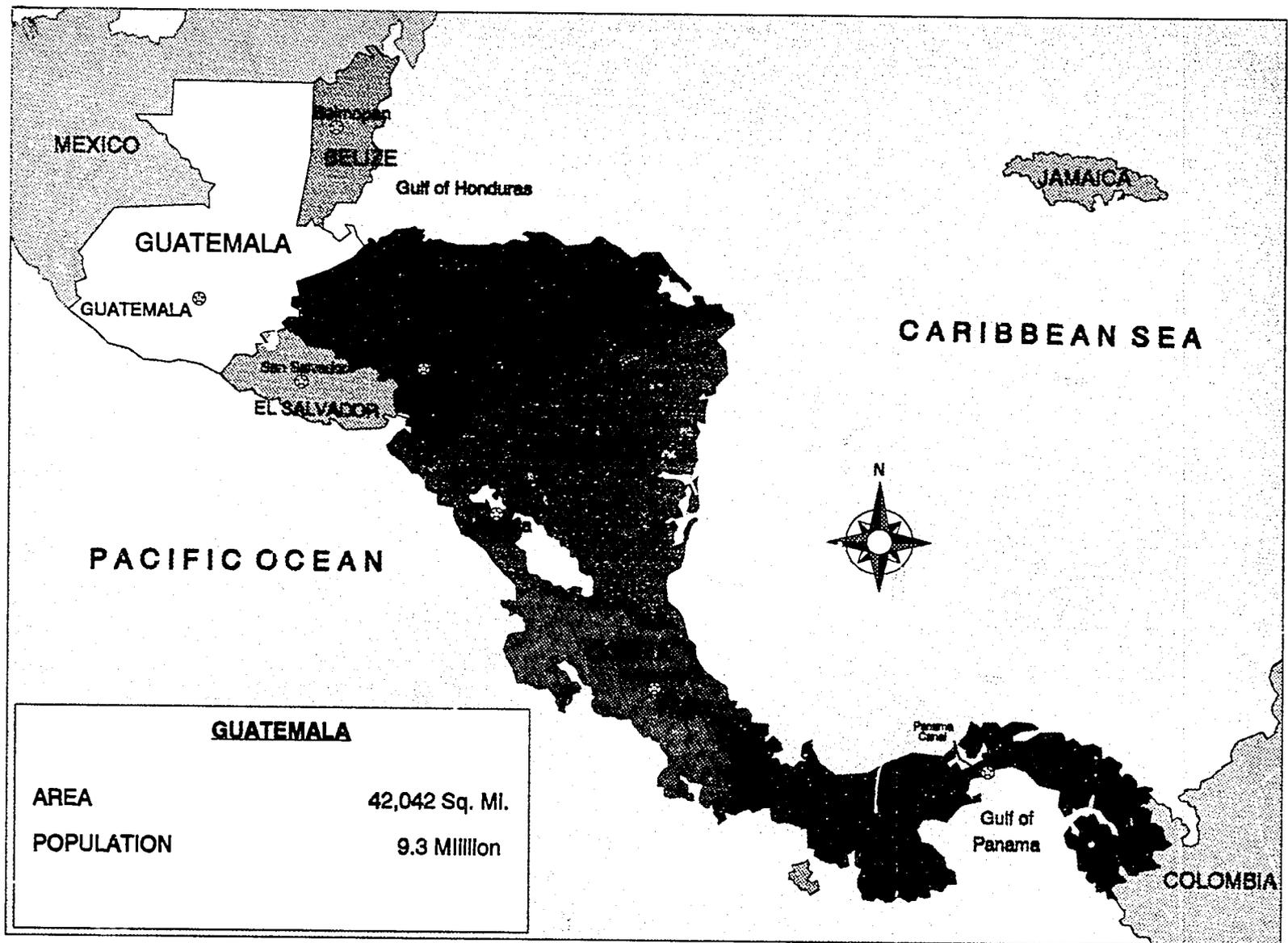
I appreciate the cooperation and courtesies extended to my staff during the audit.

*u*

**Regional Inspector General for Audit  
San Jose, Costa Rica**

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## EXECUTIVE SUMMARY

To ensure that foreign governments have a vested interest in the success of A.I.D.-financed activities, Congress enacted Section 110 of the Foreign Assistance Act of 1961 to require assurances that these governments will generally finance at least 25 percent of each A.I.D.-financed activity. Audits made between 1982 and 1987, however, disclosed significant problems with A.I.D.'s willingness or ability to hold foreign governments accountable for their financial commitments. Since 1987, A.I.D. has established additional procedures to correct these problems, the most recent procedures being established in 1991. To comply with these procedures, USAID/Guatemala was responsible for ensuring that the Guatemalan Government provided agreed-upon contributions to 13 projects. As of March 31, 1993, A.I.D. had authorized \$221 million for these 13 projects, and the Guatemalan Government had agreed to provide \$190 million (see pages 1 and 2).

The Office of the Regional Inspector General for Audit/San Jose audited USAID/Guatemala's controls over the Guatemalan Government's contributions to determine whether the Mission followed A.I.D.'s new 1991 procedures for: (1) ensuring that systems were in place to obtain and record information on host government contributions, (2) establishing binding requirements for the host government to report at least annually on its contributions, (3) reviewing the adequacy of the host government contributions and testing the reliability of the reports on these contributions, and (4) computing, documenting, and supporting the value of the host government contributions. The audit was made from April 26, 1993 to July 30, 1993 in accordance with generally accepted government auditing standards (see page 2 and Appendix I).

USAID/Guatemala attempted to follow the new A.I.D. procedures for strengthening controls over host government contributions by establishing Mission procedures for implementing those controls. However, these procedures were not yet fully implemented and improvements are needed in the following areas:

- USAID/Guatemala has not required the Guatemalan Government to report on its contributions to 1 of the 13 active projects and has not enforced the reporting requirements which have been established for another 7 projects. As a result, the Mission has not yet established the intended level of accountability (see page 7).

- USAID/Guatemala Project Implementation Reviews for the 13 projects did not identify all problems related to counterpart contributions and the reviews were not documented well enough to show that problems identified during the audit had been discussed. As a result, the accuracy of reported counterpart contributions is questionable and the extent of Mission review is unknown (see page 10).
- USAID/Guatemala did not certify the reasonableness of any reports on the Guatemalan Government's contributions to the 13 projects. Also, the Mission did not perform tests on the reliability of reported contributions to the 13 projects. As a result, unreliable data were used to report to A.I.D. management on the level of contributions made by the Guatemalan Government (see page 13).
- Although USAID/Guatemala defined the basis for valuing the Guatemalan Government's contributions in agreements, the Mission used incorrect exchange rates when valuing the reported local currency contributions for 9 of 13 projects. In addition, A.I.D. policy and procedures for valuing counterpart contributions are not completely clear and, therefore, the valuation of the required contributions may not have been proper (see page 19).

This report contains three recommendations to: better enforce reporting requirements for host government contributions (see page 7), document the adequacy of host government contributions during Project Implementation Reviews (see page 10), and establish additional controls to ensure the reliability of reports on these contributions (see page 13).

In commenting on a draft of this report, USAID/Guatemala acknowledged that further progress was needed to implement controls over host country contributions.

*Office of the Inspector General*

Office of the Inspector General  
January 31, 1994

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# INTRODUCTION

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## Background

Similar to the principals of cost sharing and matching contributions in Federal domestic aid programs, contributions by foreign governments are usually required to ensure that these governments have a vested interest in the success of A.I.D.-financed activities. To ensure this vested interest, Section 110 of the Foreign Assistance Act of 1961 provides that:

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

While this section of the Act applies only to bilateral, government-to-government activities funded with development assistance appropriations and the Development Fund for Africa (Section 496d), A.I.D. has administratively extended this requirement to activities funded with the Economic Support Fund.

Audits made by the Office of the Inspector General and the General Accounting Office have found recurrent problems with host country contributions. One example of these problems is A.I.D. missions did not attach importance to proper accounting for host government contributions. In a 1987 memorandum to the Assistant Administrator of the Office of Program and Policy Coordination, the Inspector General also noted that, in 146 project audits, covering the years 1982 to 1987, the recommendation for managers to require host governments to provide and account for their contributions was made 59 times. However, project design, implementation, monitoring, and reporting problems persisted. The Inspector General further pointed out that the problems were worldwide in A.I.D.'s programs, affecting all bureaus, and that the Agency needed to issue additional guidance in several areas.

Since 1987, A.I.D. has responded to these problems with additional policies and procedures to, among other things, (1) require the preparation of pro forma host country contribution budgets early in the project design

process, and (2) provide specific details about the application, definition, and calculations of host country contributions. Also, in 1991, A.I.D. established additional procedures (Department of State cable Number 138349, dated April 27, 1991) requiring Missions to:

- *ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the official records/files of the Mission;*
- *include in agreements or Project Implementation Letters, a requirement for the host government to report at least annually on their contribution;*
- *review the adequacy of host government contributions during project implementation reviews and test the reliability of the reports by Mission site visit reviews and evaluations; and*
- *adhere to A.I.D. Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used for calculating host government contributions.*

USAID/Guatemala had 13 active projects which required host country contributions as of March 31, 1993. A.I.D. authorized \$221 million for these 13 projects, and the Guatemalan Government agreed to provide \$190 million, or 46 percent of the total project costs of \$411 million. A.I.D. obligations and expenditures as of March 31, 1993 for the 13 projects were \$171 million and \$105 million, respectively. The amount of Guatemalan Government contributions was reported as \$157 million; however, this amount has not been verified.

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## **Audit Objectives**

The Office of the Regional Inspector General for Audit/San Jose audited USAID/Guatemala's controls over the Guatemalan Government's counterpart contributions to answer the following audit objectives:

- Did USAID/Guatemala follow A.I.D.'s 1991 cable guidance to ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the official records/files of the Mission?
- Did USAID/Guatemala follow A.I.D.'s 1991 cable guidance to include in agreements or Project Implementation Letters a requirement for the host government to report at least annually on its contribution?

- Did USAID/Guatemala follow A.I.D.'s 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews and (2) test the reliability of the reports by Mission site visit reviews and evaluations?
- Did USAID/Guatemala follow A.I.D.'s 1991 cable guidance to adhere to A.I.D. Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used in calculating host government contributions?

In answering these audit objectives, we tested whether USAID/Guatemala followed applicable internal controls and complied with certain legal requirements. We also included steps to detect abuse or illegal acts which could affect the audit objectives. As part of our audit, we requested USAID/Guatemala's management to provide (upon receipt of the formal draft audit report) written representations which we consider essential to answering the audit objectives and assessing internal controls and compliance.

For problem areas, we did additional work to:

- identify the cause and effect of the problem, and
- make recommendations to correct the problem and the cause.

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

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## REPORT OF AUDIT FINDINGS

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### **Did USAID/Guatemala Follow A.I.D.'s 1991 Cable Guidance to Ensure That Systems Are in Place to Obtain Information on Host Government Contributions and That Such Information is Recorded in the Official Records/Files of the Mission?**

USAID/Guatemala generally followed A.I.D.'s 1991 cable guidance to ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the official records/files of the Mission, except that new system was not fully implemented.

In August 1992, the Mission established procedures which assigned various Mission offices and individuals responsibilities for carrying out specific tasks to obtain and record information on the Guatemalan Government's contributions to the projects. Among other things, these Mission procedures required that:

- Project Officers include in Project Implementation Letters a requirement for the Guatemalan Government to report quarterly on its contributions to A.I.D. projects and the reports be received by the Mission no later than 30 days after the end of each calendar quarter,
- Project Officers after obtaining the Guatemalan Government's reports on contributions, sign the reports indicating the reasonableness of the information reported and test the reliability of counterpart performance by periodic site visits, informal reviews, and evaluation,
- Project Officers coordinate annual project audits used by the Mission to monitor compliance of recipient counterpart requirements,
- The Program Direction and Support Office ensure that the Mission's program is in compliance with Section 110 of the Foreign Assistance Act of 1961, as amended, and ensure that official project files contain contribution reports certified by the project officer, and

- Project Officers use quarterly counterpart reports in the preparation of Project Assistance Completion Reports.

Mission personnel, however, had not yet fully implemented these procedures. Project Officers did not establish reporting requirements for 1 of the 13 active projects and did not enforce the reporting requirements which were established for another 7 projects (see page 6 for a discussion of this problem). Project Assistance Completion Reports were not timely prepared and did not compare planned versus actual counterpart contribution (see page 8 for a discussion of this problem). Although the Mission stated it had reviewed the adequacy of contributions during project implementation reviews, the reviews were not adequately documented and did not identify all counterpart contribution problems (see page 10 for a discussion of this problem). Reported counterpart contributions were not tested for its reliability nor were the reports certified for reasonableness (see page 14 for a discussion of this problem). Also for 9 of the 13 projects, Project Officers did not adhere to established Mission procedures for computing the value of in-kind contributions and the rate of exchange used in calculating the Guatemalan Government's contributions (see page 18 for a discussion of this problem).

Since these problems areas are discussed in other sections of this report, separate recommendations are not being repeated here.

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### **Did USAID/Guatemala Follow A.I.D.'s 1991 Cable Guidance to Include in Agreements or Project Implementation Letters a Requirement for the Host Government to Report at Least Annually on its Contribution?**

USAID/Guatemala followed A.I.D.'s 1991 cable guidance to include in agreements or Project Implementation Letters a requirement for the Guatemalan Government to report at least annually on its contributions except for one project.

For 12 of 13 active projects which required host country contributions, the Mission established, in Project Implementation Letters (PILS) or agreement amendments, requirements for the Guatemalan Government to report quarterly on its contributions to the projects and provided sample reporting formats. However, the Mission did not establish reporting requirements for one project and did not enforce the reporting requirements that were established for another seven projects. Also, Project Assistance Completion Reports were not prepared as required comparing planned versus actual contributions.

## The Guatemalan Government Did Not Always Report Its Contributions

Contrary to A.I.D. procedures, USAID/Guatemala did not require the Guatemalan Government to report on its contributions to 1 of the 13 active projects and, for another 7 active projects, did not enforce the reporting requirements which were established. Although the Mission designed new procedures to establish and enforce the reporting requirements, priority was not given to ensuring prompt implementation of all these procedures. As a result, the Mission did not have an accurate accounting on how much of the required \$120 million in counterpart contribution for the 8 projects had been contributed by the Government of Guatemala as of March 31, 1993.

Recommendation No. 1: We recommend that USAID/Guatemala enforce the reporting requirements for host government contributions to the eight projects for which the Guatemalan Government did not provide reports or for less than up-to-date reports on its contributions as required.

One of the new A.I.D. procedures established in 1991 was intended to strengthen host country accountability for its financial commitments by ensuring that the host country reports the status of its contributions for every A.I.D.-financed activity which required contributions. According to the 1991 cable:

*Missions should include in agreements or PILS a requirement for host governments to report annually (more frequently if appropriate) on their contribution (cash and in-kind) to the AID financed program/project/activity. (USAIDS may design their own report format.) Where such requirements do not exist, an ideal time for adding this language would be when the project is amended to provide incremental funding, or when issuing the annual budget PIL if such procedures are utilized.*

In accordance with this A.I.D. procedure, USAID/Guatemala established new procedures in August 1992 which required Project Officers to include in Project Implementation Letters a requirement for the Guatemalan Government to report quarterly on its contributions. The Mission procedures stressed that reasonable attempts be made to introduce the requirements over the six month period following the issuance of the August 1992 procedures. Moreover, this requirement was to be established for all new and on-going projects and Project Officers were to use the quarterly counterpart reports to prepare a summary of the recipient's counterpart contributions as part of the Project Assistance Completion Report at project close-out.

USAID/Guatemalan personnel did not fully implement these new A.I.D. and Mission procedures when they decided not to require counterpart reporting for one project that was scheduled to end in fiscal year 1993. Also, counterpart reporting requirements were not enforced for an additional seven projects. Specifically, Mission procedures, as delineated in the August 1992 Mission Order, state that:

*Quarterly counterpart contribution reports should be received by the Mission no later than 30 days after the end of each calendar quarter...*

For 7 of the 12 active projects for which the Government of Guatemala was required to report on counterpart contributions, the Government did not provide the reports as required. For example, the Guatemalan Government did not provide any reports for one project, provided the required reports late for four projects, and had not yet provided at the end of our audit field work in July 1993 the required reports for the period ending March 31, 1993 for two projects. These problems occurred because USAID/Guatemala officials were not giving priority to enforcing the reporting requirements which had been established for the seven projects.

Since the issuance of the 1991 cable requiring closer monitoring of counterpart contributions, the Mission had four projects that had been completed since December 1991. According to A.I.D. Handbook 3, Chapter 14, as part of the closeout process for projects, project officers are required to prepare Project Assistance Completion Reports. These reports are to be completed within six months after the Project Assistance Completion Date and are to include a summary of counterpart contribution comparing planned versus actual contributions.

Required Project Assistance Completion Reports were prepared for only 2 of the 4 completed projects. For the two projects in which no completion reports had been prepared, they had Project Assistance Completion Dates of 19 months and 11 months, respectively, prior to the completion of our audit field work in July 1993. Neither project had counterpart reports available that could be used in the preparation of the required counterpart summaries. The project officer for one project stated that the implementing agency did not have the capability of producing counterpart reports, thus when the completion report is finally prepared it will not be possible to compare planned versus actual counterpart, as required by Handbook 3, to determine how much of the approximately \$1.3 million counterpart was actually provided.

In conclusion, USAID/Guatemala needs to increase its supervisory oversight of Project Officers to ensure that the well-designed Mission procedures for requiring and obtaining reports on the Guatemalan Government's contributions are fully implemented. The reports need to be

more timely, prepared in the format suggested and cover the required reporting period. Also, project assistance completion reports need to be prepared more timely and compare planned versus actual host government contributions.

### Management Comments and Our Evaluation

USAID/Guatemala commented that it may not prove feasible for the Government of Guatemala to submit counterpart contribution reports on a quarterly basis or for the reports to be submitted within 30 days of the end of a reporting period. USAID/Guatemala noted that USAID guidance only requires annual reports -- not quarterly -- but that they would like to continue to try to insist on the Government submitting quarterly reports. For the 13 Government of Guatemala recipients, USAID/Guatemala reported and provided an analysis that showed that each recipient provided a report on their contribution at least through June 30, 1993 (as of December 13, 1993).

Based on USAID/Guatemala's comments, Recommendation No. 1 is closed upon issuance of this report.

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**Did USAID/Guatemala follow A.I.D.'s 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews and (2) test the reliability of the reports by Mission site visit reviews and evaluations?**

USAID/Guatemala did not fully follow A.I.D.'s 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews or (2) test the reliability of the reports by Mission site visit reviews and evaluations.

The Mission, in November 1992, decided to place more emphasis on project-level oversight including counterpart contributions and created Sectoral Implementation Committees (Sacs) which meet monthly and, among other things, discuss the status of counterpart contributions and the adequacy of reporting. Based on the positive performance of the SIC process, the Mission planned to issue a Mission Order to institutionalize the mechanism. In May 1993, the Mission prepared its first Fiscal Year 1993 Semi-Annual Report (SAR) Wrap-up meeting report. This report discussed the need to notify the Government of Guatemala of counterpart contribution reporting requirements for some projects, reiterated the calculation of counterpart contributions at the exchange rate prevailing at the date of the agreement, and the development of standard language to be

used in certification of reports. We believe the Mission's actions are positive steps to better monitor counterpart contributions.

As discussed below, USAID/Guatemala needs to better review the adequacy of the Guatemalan Government's contributions during Project Implementation Reviews and test for the reliability of counterpart contribution reporting.

### The Adequacy of Guatemalan Government Contributions Was Not Properly Reviewed

Although USAID/Guatemala stated it reviewed the adequacy of counterpart contributions during Project Implementation Reviews as required by the 1991 Cable, these reviews did not identify all contribution problems, such as, incomplete, untimely, or no counterpart contribution reporting and the reviews were not well documented. This situation happened because of the Mission's failure to adequately review and document all problems relating to counterpart contributions. As a result, the accuracy of counterpart contributions reported could be questionable.

Recommendation No. 2: We recommend that USAID/Guatemala during Project Implementation Reviews base reviews of counterpart contributions on counterpart reports as of the current reporting period, report all deficiencies related to counterpart contributions, including untimely and inadequate reporting, and fully document the discussions on counterpart contributions.

A.I.D.'s 1991 Cable Guidance requires Missions to review the adequacy of host country contributions during Project Implementation Reviews (PIRs) to ensure that project objectives are met. USAID/Guatemala stated it reviewed the adequacy of counterpart contributions during PIRs. In preparation for discussions during semi-annual project implementation reviews, USAID/Guatemala prepared agendas which included counterpart contributions as a generic problem for each project. Mission officials said that problems on counterpart contributions are discussed and reported on an exception basis. That is, if counterpart contribution was not mentioned in the Semi-Annual Reports (SARs), it was because counterpart was not considered a problem. In the March 31, 1993 SAR, only three projects reported counterpart problems. For one project the Government of Guatemala did not meet its 1992 commitment and did not budget its contribution for 1993. For the second project there was a problem in the payment of Government salaries which were to be part of the Government of Guatemala's contribution. For the third project the Government of Guatemala lacked funds to procure project commodities that were to be part of the counterpart contributions.

Our audit identified that the PIRs did not discuss all counterpart contribution problems nor were the reviews adequately documented to show that the problems we identified had been discussed. Our review of the documentation pertaining to the Mission's reviews found that the problems that we had identified, such as, late or no reporting, reporting on less than current periods, or reporting based on estimates were not discussed. The following examples illustrate the types of problems we found:

- Reports on counterpart contributions from the implementing entities were either not received or were late. For example, the Maya Biosphere and Highlands Water and Sanitation Projects did not provide counterpart contribution reports covering March 31, 1993 until July 1993, two and a half months after the April 30 deadline. Moreover, no counterpart contribution reports were submitted for the Basic Education Strengthening Project although quarterly counterpart contribution reporting had been required since September 24, 1992.
- Variances between counterpart contributions were reported in SARs and in reports received from implementing entities. For example, the Highlands Agricultural Development Project reported in the March 31, 1993 SAR actual counterpart contributions of \$42,770,000 while available counterpart contribution reports showed only \$42,396,000.
- Estimated or planned counterpart contributions were reported as actual. For example, the project officer for the Democratic Institutions Project estimated counterpart contributions for the months January through March 1993 based on a monthly average of previous contributions because he had not received contribution reports through March 1993. The project officer for the Immunization and Child Survival Project reported counterpart contributions in the March 31, 1993 SAR based on planned contributions listed in the Project Agreement and not on actual reported counterpart contributions.
- Contributions were calculated with improper exchange rates. For example, quarterly reporting on counterpart contributions was supposed to use the exchange rate available on the date the Project Agreement was signed; however, both the Fiscal Administration and the Democratic Institutions projects did not follow this practice. The project officer for the Fiscal Administration project was using an exchange rate of 5.05 Quetzal (local currency) equaling \$1 when the exchange rate at the signing of the Agreement was 2.70 Quetzal equaling \$1. The exchange rate being used by the Democratic Institutions project was also 5.05 Quetzal equaling \$1, however the exchange rate at the signing of that Agreement was 5.87 Quetzal equaling \$1. In total 9 of 13 projects were

using exchange rates other than that established at the signing of the Agreement; some higher and some lower.

Although Mission officials said that problems with the Guatemalan Government's contributions were reviewed and discussed during Project Implementation Reviews, little documentation existed to show that the above mentioned problems had been reviewed or how these problems would be addressed.

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...the untimely submission of counterpart contribution reports by the Government of Guatemala is a major problem area...

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Since the determination of the adequacy of counterpart contributions is dependent on adequate accounting and reporting of counterpart contributions, we consider the untimely submission of counterpart contribution reports by the Government of Guatemala as a major problem area. Accordingly, we would expect that when required counterpart contribution reports were not received by project officers that this problem be documented in the issues section of the SARs as Mission procedures suggest. As previously noted, the Mission's March 31, 1993 SAR only discussed three projects with counterpart problems, none of which mentioned a lack of reporting as a problem. We identified three projects where the project agreements had been amended in September 1992 requiring quarterly counterpart reports, however, contrary to this requirement, none of these reports were available for the preparation of the Mission's March 31, 1993 SAR. This lack of reporting should have been mentioned in the issues section of the SAR for each project and its absence is an indication of the Mission's failure to adequately review and document problems related to counterpart contributions.

It is clear that the Mission has taken steps to better monitor, report, and review counterpart contributions as seen by the issuance of its August 20, 1992 Mission Order, the institution of Sectoral Implementation Committees and the overall increase in available counterpart data. Nevertheless, project implementation reviews were not adequately documented and did not in all cases report deficiencies associated with counterpart contributions. As a result, the accuracy of counterpart contributions could be questionable.

## Reports on Guatemalan Government Contributions Were Unreliable

Contrary to A.I.D. procedures, USAID/Guatemala did not certify the reasonableness of any report on Guatemalan Government contributions. Also, Project Officials did not perform tests on the reliability of the reports for the 13 bilateral projects. This was due to insufficient management oversight and lack of procedures for testing the reliability of reported counterpart contributions. As a result Project Officers were not aware of the requirements and not clear as to the degree of testing to be performed.

Recommendation No. 3: We recommend that USAID/Guatemala establish procedures for ensuring that Project Officers certify the reasonableness of reports on the Guatemalan Government's contributions only after the test for reliability of reported counterpart has been conducted and documented.

To ensure that host country contributions reported data are reliable, A.I.D. procedures require Project Officers to review and certify the reasonableness of the reports and that the reliability of reports be tested during site visits and evaluations. The 1991 cable said:

*The adequacy of the HG contribution should be reviewed during Project Implementation Reviews (PIRS) and the reliability of the reports tested by Mission site visit reviews and evaluations. If HG centralized systems are not maintained, as a minimum, the Project Officer/Manager should obtain the HG 'cost sharing' report and, after signing the report indicating the report's reasonableness in relation to project activity, staffing progress, etc., file the report in the official Mission project/program files.*

Consistent with these requirements USAID/Guatemala established guidelines and procedures in August 1992 to be followed in accounting for, controlling and monitoring counterpart contributions. These procedures require Project Officers: (1) to monitor grantee's performance and to certify the reasonableness of reports on counterpart contributions, (2) test the reliability of counterpart performance by periodic site visits, informal reviews and evaluations, and (3) to escalate to the attention of senior management when he/she becomes aware that contributions are not being made as agreed, with recommendations for appropriate action. The Program Direction and Support Office's (PDSO) backstop officer is responsible for reviewing the official project files to see that they contain contribution reports certified by the Project Officer, together with related progress reports and correspondence.

Although the report of Government of Guatemala contributions contains a certification by a Government of Guatemala official that such information on the report is correct and that detailed supporting documentation is on file, USAID Project Officers are also expected to sign the report indicating the reports reasonableness in relation to project activity, staffing, progress, etc. and file the report in the Mission's official files. In May 1993, the Mission developed standard language for this certification which reads:

*Based on my knowledge of project documentation, site visits, and general implementation oversight, the data in this report are, in my opinion and to the best of my knowledge, reasonable. My certification is based on the understanding that the Recipient Contracted Audit will verify the accuracy of the counterpart contribution information contained in this report on an annual basis, and will review the systems and detailed documentation supporting the data. At this time I am not aware of any reasons why this information should not be considered reasonable.*

Contrary to these procedures, USAID/Guatemala did not certify the reasonableness of any report on Guatemalan Government contributions, and did not verify the reliability of the reports. These issues are discussed below.

Certification of Contribution Reports - Project Officers did not certify the reasonableness of any of the reports on the Guatemalan Government's contributions to the 13 A.I.D. bilateral projects. At the audit cut-off date (March 31, 1993) we did not find any certified counterpart report filed in the official files in PDSO. According to project officers this was not done because either they were not aware of this requirement, did not receive counterpart reports from the implementing entities or had concerns about the implications of certifying a report. As of July 27, 1993, there were still only 6 certified counterpart reports filed in the official files in PDSO. PDSO backstop officers were not ensuring that project officers complied with this requirement since in one case the backstop officer filed the report without noticing the report was not certified.

Verification of Contribution Reports - USAID/Guatemala did not test the reliability of counterpart performance by periodic site visits, informal reviews and evaluations as required by its guidelines. The Mission did not establish procedures for site visit reviews of counterpart, the Controller's Financial Analysis and Review (FAR) Section although analyzed implementing entities, did not include counterpart contributions in its scope of work and only 4 of the 13 bilateral projects have been evaluated. Three of the evaluated projects identified counterpart contributions as a problem.

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...the reliability of counterpart contributions was not tested...

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Project Officers said that the reliability of counterpart contributions was not tested because they were not clear as to the degree of testing to be performed and because the Mission decided to rely on the annual audit of projects. Of the 13 projects reviewed, audits were in progress for 2 projects, planned for 7 projects, and not planned for the other 4 projects. We believe Project Officers should not wait one year or more for the completion of an audit to determine the reasonableness of the counterpart contribution provided by the Government of Guatemala.

Site visits with the exclusive purpose to verify reported data should be done by Project Officers. The intent of the 1991 cable and Mission Order requiring verification of reported data, was that after a report containing this data was received, Project Officers should specifically visit the implementing entity for the purpose of verifying the reasonableness of the reported figures. Since counterpart reports are required quarterly from the implementing entities it could reasonably be expected that project officers on a spot-check basis, verify the reasonableness of the data received. This verification should be done each quarter on selected reported budget line items by visiting the implementing entities and reviewing their supporting documentation. The degree of testing should be based on previous analysis of the administrative and accounting capabilities of the implementing entity as well as experience in reporting data to USAID/Guatemala.

During our audit field work, we visited three implementing entities with the purpose of reviewing the supporting documentation for the counterpart contributions reported. We found the following:

- The government implementing entity of the Rural Electrification III Project No. 520-0353 reported the counterpart contribution by year on a lump-sum figure and not detailed line items as noted in the original grant agreement. However, the entity did maintain accounting records broken down by detailed line items, but was not required to report by line item to USAID/Guatemala. From the reports received, the Project Officer did not know what specific contribution the entity was reporting on and he did not verify the detailed line items being maintained by the entity. The project officer said that he used his general knowledge of the project activities as verification of the accuracy of the reported information.

Because the Project Officer told us that the government counterpart contribution for this project was mainly for salaries and poles, we decided to determine how much of the contribution was for the purchase of poles. He said that because he knows how many poles are required in each kilometer of power lines and how many kilometers of power lines have been connected, he is certain that the Government of Guatemala is meeting its contribution for this project. But he did not test any counterpart contribution figure. Since specific information on poles purchased was not in the counterpart contribution report, we obtained the figure from the implementing entity. We found that no poles were purchased during January-March 1993 and decided to verify the purchases of poles during 1992. The entity maintained detailed records of these purchases and we were able to review original Purchase/Pay Orders prepared by the entity. As a result of this review we concluded that the implementing entity recorded and reported accurately the purchases of poles during 1992. However, without such a review the project officer could not have been sure the counterpart contribution figure was correct. Counterpart contribution charged to the project for other line items such as salaries, travel, tires, fuel, and parts expenses could have been also easily verified.

- Under the Democratic Institutions Project No. 520-0398, we visited the Office of Human Rights to verify reported counterpart contributions. The counterpart report received by USAID/Guatemala on April 5, 1993 covered the period September 1991 to December 1992. This was the first counterpart contribution report prepared by the institution. We did not attempt to verify any of the reported line items because the institution did not maintain accounting records that showed how the reported figures were derived. In addition, the official who prepared the counterpart report no longer worked at the institution and there was no audit trail as to how the report was prepared. From some notes attached to a copy of the report, we learned that the amounts reported as counterpart contributions were calculated as percentages of the total expenses incurred by the institution. Different percentages were applied to different counterpart line items. For example, 22 percent of the institution's total salaries were claimed as counterpart contribution to this project and 49 percent of the total materials and supplies purchased were similarly charged as contributions. The Mission told us that they had never agreed to the use of percentages to calculate contributions and they were not aware that the contribution report that they had received had been calculated in this manner. Although we found the reported figures to be unverifiable, we were told the report was going to be certified as reasonable based on the Project Manager's general implementation oversight and filed in the Mission's official files.

- Under the Highlands Water and Sanitation Project No. 520-0399, USAID/Guatemala received the quarterly counterpart contribution report on July 12, 1993 for the period up to March 1993. According to current Mission procedures this report should have been received no later than 30 days after the end of each calendar quarter or by April 30, 1993. The reported counterpart contribution line items were titled construction of water systems and latrines and health education. The implementing entity maintained more detailed records of various categories that were consolidated into the above two line items. Our review of the entity's accounting system for the reported contributions found that the reported amounts were acceptable with only minor differences identified. However, the counterpart contribution reported to USAID/Guatemala should be in the detail currently being maintained by the entity and not in consolidated categories, this would allow the Project Officer to more easily identify what reported contributions includes and to more easily verify the accuracy of the data reported.

In summary, the reports on Guatemalan Government contributions should not have been certified if project officers did not test and verify the reliability of reported counterpart contributions. The certified reports filed in the Mission's official files should be supported by project officer site visit reports which indicate exactly what the project officer did to verify the reported contributions. However, the Mission must first ensure that it has received counterpart contribution reports that cover the current reporting period, are in sufficient detail and are complete. Although the Mission had six certified counterpart contribution reports filed in the Mission's official files, the project officers did not specifically test and verify the reasonableness of the reported data through site visits. All the reports certified were done on a general knowledge of the project activities and not the review of individual line items. Although project officers claimed that they had made frequent visits to the project implementing entity, it was not a practice to specifically review counterpart contributions nor to document the results of these site visits. The Mission did not establish procedures for site visits that would require site visit reports.

In light of the problems noted above, there is clearly a need for the Mission to establish site visit procedures spelling out the type of review and documentation necessary for adequate counterpart contribution verification. Mission management should increase its supervision over the implementation of the procedures to ensure project officers fulfill their required duties.

#### Management Comments and Our Evaluation

USAID/Guatemala concurred with Recommendations Nos. 2 and 3. Concerning Recommendation No. 2, USAID/Guatemala has modified its

Semi-Annual Review process to specifically address the adequacy of counterpart contribution reports. A Counterpart Contributions Report Status Sheet which identifies reporting issues is now included as part of the Issues Paper for each Semi-Annual Report Review. Concerning Recommendation No. 3, USAID/Guatemala officials believe that the only feasible manner of verifying counterpart contribution reports for strict accountability purposes is through the Recipient Contracted Audit Program and that project officer certifications of the reasonableness of counterpart contributions are based on their knowledge of project implementation activities. USAID/Guatemala officials believe that these actions are complementary and provide the safeguards necessary to adequately test the reliability of counterpart contribution reports.

Based on USAID/Guatemala's comments, Recommendations Nos. 2 and 3 are closed upon issuance of this report.

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### **Did USAID/Guatemala Follow A.I.D.'s 1991 Cable Guidance to Adhere to A.I.D. Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 for Computing the Value of In-Kind Contributions and Rate of Exchange To Be Used in Calculating Host Government Contributions?**

USAID/Guatemala properly followed A.I.D.'s 1991 cable guidance to adhere to A.I.D. Handbook 3, Chapter 2, Appendix 2G. However, USAID/Guatemala did not follow Handbook 1, Part VII, Section 2.41 for computing the value of in-kind contributions and the rate of exchange to be used in calculating host government contributions.

USAID/Guatemala followed Handbook 3, Chapter 2, Appendix 2G for the three project agreements signed after issuance of the 1991 procedures by:

- Calculating the level of Guatemalan Government contributions based upon the total cost of the projects,
- Identifying the project operating and/or capital costs to be provided by the Guatemalan Government, and
- Excluding contributions by other donors in the calculation of Guatemalan Government contributions as a percentage of total project costs.

USAID/Guatemala, however, did not consistently use appropriate exchange rates to calculate the value of the Guatemalan Government's contributions.

## Agency Instructions for Valuing Host Government Contributions Are Not Clear

Contrary to established procedures, USAID/Guatemala did not consistently use the proper exchange rates when valuing the reported local currency contributions for 9 of 13 projects. This occurred because the Mission did not ensure that project officers use proper rates and A.I.D. policy and procedures in this area are not very clear. As a result, the Mission's valuation of the contributions in its records and reports may not have been proper.

In an attempt to clarify, reaffirm, and extend A.I.D. exchange rate policy, in 1987, the A.I.D. issued Department of State cable number 1860822 (subsequently incorporated into A.I.D. Handbook 1 as Part VII). This cable defined the Agency's new policy governing the appropriate exchange rate at which A.I.D.—among other things—accounts for host government contributions to projects. Basically, the policy requires that the host country's real resource local currency contribution be converted into dollars calculated at the highest exchange rate current at the time of the project agreement in order to determine the percentage contribution and the dollar equivalent. This basis of calculation ensures that the agreed-upon level of contributions (percentage and dollar equivalent) is not affected by fluctuations in exchange rates. Accordingly, Section 2.41 of this policy requires that:

*The value of the real resource contribution provided by a host country for a project or program generally should be obtained by first pricing the host country's real resource contribution in local currency. This figure then is converted into dollars at the HR [highest rate per U.S. dollar not unlawful that is available to anyone in a recipient country (sec.2.22)] current at the time of the project agreement so that A.I.D. and host country contributions can be expressed in one common monetary unit and so that the real resource contribution by the host country can be expressed in percentage and dollar-equivalent terms. Thus, at the signing of an assistance agreement, the host country's real resource contribution is to be expressed both in terms of absolute dollars and a percentage of the total project based on the domestic and foreign prices and the exchange rate existing at that date. This forms the basis for determining host country's absolute real resource contribution and percentage share of the total project throughout its life, and insulates the host country's contribution from the effect of any exchange rate fluctuations which may occur.*

In addition, Section 2.42 states:

*... In no case, unless authorized by waiver ..., is the host country contribution, after recalculation of the entire project budget at the new exchange rate, to be an amount less than 25 percent of total project costs. Automatic downward adjustment in host country/recipient percentage contribution due to devaluation, inflation, and similar financial or economic events is not acceptable.*

The additional 1991 A.I.D. procedures, governing host country contributions, reminded Missions of these policy requirements:

*Missions should follow guidelines in referenced Handbook [3] and Handbook 1, Part VII, 2.41 for computing value of in-kind contributions and rate of exchange to be used in calculating the HG contributions.*

In August 1992, in accordance with the above A.I.D. policies and procedures, USAID/Guatemala issued a Mission Order which included the exact language requirement of Section 2.41 requiring Mission staff to comply with Handbooks 1 and 3. The Mission Order said:

*The value of the real resource contribution provided by a host country/NGO for a project or program generally should be obtained by first pricing the contribution in local currency. This figure is then converted into U.S. dollars at the highest rate per U.S. dollar not unlawful that is available to anyone in the recipient country on the date that the agreement was signed. This forms the basis for determining the host country/NGO's absolute real resource contribution and percentage share of the total project throughout its life, and insulates the contribution from the effect of any exchange rate fluctuations which may occur.*

Accordingly, USAID/Guatemala incorporated the following wording in project agreements:

*...Funds contributed to the project in local currency will be translated into U.S. Dollars at the highest rate per U.S. Dollar not unlawful that is available to anyone in the recipient country, on the date that the Grant Agreement was signed (date of agreement given here)...*

The Mission thus expected that the local currency counterpart contribution reports received by project officers would be converted to dollars using the exchange rates at the date the individual project agreements were signed without regard for any devaluation that may have occurred. In the case of Guatemala the rate of exchange has gone from 1 Quetzal per \$1 in 1984 to 5.5 Quetzal per \$1 in 1993. Using the Mission's interpretation of the policy the Government of Guatemala could meet or exceed the originally planned

contribution and still fall below the required 25 percent of total project costs in dollar terms.

For example, the final project evaluation for the Rural Primary Education Improvement Project conducted in June 1993 found that the Government of Guatemala exceeded its planned contribution of almost Quetzal 25 million by contributing Quetzal 42 million (rate of exchange used by USAID/Guatemala at the signing of the agreement was Q1 equals \$1). However, the evaluation noted that critical teaching positions went unfilled for at least two years. Near the end of the project 355 of the planned 900 bilingual teachers had not been assigned to project schools. The evaluation concluded that due to higher salaries because of the devaluation (Q 2.7 equaled \$1 in 1988) and increased numbers of teachers the final amount of counterpart needed would have been much more than the Quetzal 42 million for the Government of Guatemala to meet its obligations. Conversely, if the originally planned \$25 million contribution had been adjusted upward as the local currency devalued i.e. Q 2.7 times \$25 million equals \$67.5 million, it would be easy to see that the \$42 million contributed by the Government of Guatemala was far less than what was agreed to. It appears the Government of Guatemala implemented this project exceptionally well when in fact its performance was much less than expected.

The 1991 Cable guidance and USAID/Guatemala's Mission Order noted that when agreements called for contributions in excess of 25 percent, the Mission must ensure that the agreed total host government contribution is provided so that project and program objectives are met. The Government of Guatemala in the above example was to provide approximately 67 percent or \$25 million of the original \$36.9 million total project costs. Having provided Q 42 million and using the exchange rate of Q1 equals \$1 it appears the Government of Guatemala has contributed 114 percent of total project costs. When using a more current exchange rate of Q2.7 equals \$1 the Q 42 million contributed would have a dollar value of approximately \$15.6 million or only 42 percent of total project costs. This coincides with the more than 300 bilingual teachers that were not provided as planned and more accurately reflects what the Government of Guatemala actually contributed which is about 25 percent or almost \$10 million less than expected. Using more current exchange rates rather than the historical exchange rate at the signing of the agreement to value host country contributions will ensure that contributions made are accurately reflected against the established minimum of 25 percent of total project costs.

Although the Mission had stated that the Government of Guatemala contribution would be calculated by using the exchange rate at the signing

of the agreement we found that this was not being done for 9 of 13 projects. For one recently amended project, the project officer told us that the exchange rate in effect at the signing of the amendment was going to be used instead of the original agreement because it more accurately reflected what was happening with the project. Regardless, the Mission is not consistently calculating contributions and needs to address the situation.

A closer look at the provisions of Handbook 1, Part VII shows that it is somewhat ambiguous and, depending on the intent of the guidance, Section 2.41 could be interpreted in one of two ways: either the exchange rate stated in the project agreement should be used throughout the life of the project or, the dollar value of the real resource contribution should be obtained no matter what happens to the exchange rate. The later interpretation coincides with Section 2.22 which requires the accounting for contributions to be made at the highest rate per U.S. dollar. Because the intent of the Agency guidance is unclear, we are not making a recommendation to the Mission at this time but will address this issue to the attention of A.I.D./Washington, if necessary.

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## SCOPE AND METHODOLOGY

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### Scope

We audited USAID/Guatemala's controls over the Guatemalan Government's counterpart contributions in accordance with generally accepted government auditing standards. The audit was made from April 26, 1993 through July 30, 1993. We did field work at the Guatemala City offices of USAID/Guatemala and at three Guatemalan implementing entity offices in Guatemala. Our audit was confined to test and answer the Mission's implementation of four control requirements identified in A.I.D.'s 1991 cable (Number 138349) on host country cost sharing contributions.

USAID/Guatemala had 13 active bilateral Handbook 3 projects as of March 31, 1993. The Mission also had four expired projects which ended December 1991 or later. Therefore, the audit universe for reviewing host country counterpart contributions included 13 projects, with A.I.D.'s Life of Project funding totalling \$221 million. As of March 31, 1993, the obligations and expenditures for the 13 projects were \$171 million and \$105 million respectively.

According to the Mission's report on Host Country Contributions as of March 31, 1993, the Guatemalan Government's contributions for the 13 projects totalled \$157 million, however this amount has not been verified.

In addition to the methodology described in the following section for each audit objective, we have requested a letter from USAID/Guatemala's management (upon receipt of the formal draft report) providing written representations which we consider essential for answering our audit objectives and for assessing internal controls and compliance.

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### Methodology

The methodology for each audit objective is described below.

### Audit Objective One

The first objective was to determine whether USAID/Guatemala followed A.I.D.'s 1991 cable guidance to ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the official records/files of the Mission. To accomplish this objective, we evaluated the Mission's controls with respect to the policies and procedures set forth in A.I.D.'s 1991 cable guidance.

We interviewed USAID/Guatemala Office Directors and Division Chiefs, the Controller, and Project Officers to establish their perspectives on (1) their roles and responsibilities for establishing and maintaining the systems for obtaining and recording the information, (2) who is responsible for ensuring compliance with the applicable standard defined in the cable, and (3) whether the Mission is fully complying with this standard. We obtained a copy of the Mission Order and any other existing documentation to further identify the system in place and to verify the validity of the testimonial evidence obtained from Mission personnel. Also, we incorporated the results of objectives two, three and four to determine whether the Mission fully implemented the procedures established through the Mission Order.

### Audit Objective Two

The second objective was to determine whether USAID/Guatemala followed A.I.D.'s 1991 cable guidance to include in agreements or Project Implementation Letters, a requirement for the host government to report at least annually on its contribution. To accomplish this objective, we evaluated the Mission's controls with respect to the policies and procedures set forth in A.I.D.'s 1991 cable guidance.

We obtained from the project files, a copy of all Project Agreements and Project Implementation Letters for all 13 projects, and other correspondence identifying host country contribution reporting requirements. We reviewed these agreements and Project Implementation Letters to determine the inclusion of the reporting requirements. For the three projects lacking any reporting requirement, we followed up with the respective Project Officers and financial analysts to verify that reporting requirements had, in fact, not been established and obtained reasons for this. We verified that the Mission enforced the established reporting requirements by obtaining copies of all host country contribution reports on file. We also verified that Project Assistance Completion Reports included a summary statement on contributions made by the host country and other donors which includes comparison of planned versus actual contributions.

### Audit Objective Three

The third objective was to determine whether USAID/Guatemala followed A.I.D.'s 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews and (2) test the reliability of the reports by Mission site visit reviews and evaluations. To accomplish this objective, we evaluated the Mission's controls with respect to the policies and procedures set forth in A.I.D.'s 1991 cable guidance.

We obtained copies of all the projects' host country contribution reports and then (1) determined if reports contained certifications by Project Officers verifying the reliability of reported information as required, and (2) traced the reported host country contributions to the Mission's semiannual status reports.

We judgementally selected three projects and visited the respective implementing entities to verify that these agencies have documented/auditable evidence in support of the amounts disclosed in the contribution reports provided to A.I.D. For these three projects we ascertained the validity of reported contributions. This was done through discussions with Project Officers and reviews of supporting documentation on file at the Mission and at the implementing agency offices.

The host country contributions reports for all projects were obtained and analyzed to determine if reports were submitted on time and if the reports were in the format as specified in the respective Project Implementation Letter or official correspondence.

To determine if reported contributions were verified during field trips or during visits to the Ministerial Offices of the Guatemalan Government, we held discussions with Project Officers. We also reviewed the field trip reports where these were prepared. Three Project Evaluations were reviewed to determine if the reports addressed the reliability of the Guatemalan Government's reports on host country contributions. We also held discussions with financial analysts from the Controller's office to determine their level of counterpart review.

Finally, we obtained and reviewed Project Implementation Review reports, USAID/'s semiannual reports prepared since April 1991, and Sector Implementation Committee reports to determine if the reports contain evidence that the Mission had reviewed the adequacy of the Guatemalan

Government's contribution and had determined that this contribution was adequate or not.

Audit Objective Four

The fourth objective was to determine whether USAID/Guatemala followed A.I.D.'s 1991 cable guidance to adhere to A.I.D. Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used in calculating host government contributions. To accomplish this objective, we evaluated the Mission's controls with respect to the policies and procedures set forth in A.I.D.'s 1991 cable guidance and Handbooks 1 and 3.

We obtained and examined all three Project Agreements issued since April, 1991 and evaluated the execution of those agreements against Handbook 1, Part VII and Handbook 3, Appendix 2G criteria. We interviewed Project Officers to determine the exchange rates used for calculating contributions for the 13 projects.

We also verified that Project Assistance Completion Reports included a summary statement on contributions made by the host country and other donors which includes comparison of planned versus actual contributions.

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7/1

DATE: December 13, 1993

TO: Coinage Gothard, RIG/A/San Jose

FROM:   
Lars Klassen, Acting Director USAID/Guatemala

SUBJECT: **Draft Audit Report of Controls over Government of Guatemala  
Counterpart Contributions**

Below is the Mission's response to the subject report, which includes three recommendations.

**RECOMMENDATION NO. 1**

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We recommend that USAID/Guatemala enforce the reporting requirements for host government contributions to the eight projects for which the Guatemalan Government did not provide reports or for less than up-to-date reports on its contributions as required.

**MISSION COMMENTS:**

Page 6 of the draft audit report cites the status of the 13 active projects which the RIG team analyzed as part of their fieldwork. Since we don't have access to the RIG workpapers to update the individual status of each of these projects and in order to present the status of the Mission's counterpart reporting system as it now exists, the following comments are based on the 20 Handbook 3 agreements with GOG agencies that were active as of 30 September 1993. (See Attachment No. 1.) With one exception, all grantees have been informed of the quarterly counterpart reporting requirements included in USAID's 27 April 1991 Guidance Cable. Since SEGEPLAN was a signatory to the Development Training and Support Project (520-0384) Agreement, but all funding was subsequently committed to non-governmental organizations, special provisions were made in this case. (See Attachment No. 2.) Under the other 19 active agreements, 2 grantees (the San Carlos University under 520-0407, and the Office of the Human Rights Ombudsman under 520-0412) have not been advised of the report format since Agreements were just signed in late FY 1993, but each will be advised as part of the Basic PIL which will be sent once initial Conditions Precedent are met. Of the remaining 17 agreements, 3 (with the Congress under 520-0398, the Ministries of Labor/Economy under 520-0403, and the Court under 520-0407) have yet to require counterpart reports because project implementation has not yet begun. Furthermore the PD&S-funded Limited Scope Grant Agreement with the Public Ministry will record counterpart contributions as part of its close-out procedures since the activity was only designed to last one year. Therefore, 13 GOG Grantees have been required to provide counterpart reports, of which 11 submitted their last report as of 30 June 1993, and 2 submitted theirs as of 30 September 1993.

It may not prove feasible for the GOG to submit reports on a quarterly basis as required by Mission Order No. 13.4. (Agency guidance only requires annual reports.) However, the Mission would like to continue to try to insist on GOG compliance with this stricter requirement because we believe that the development of such a capacity within GOG

agencies is consistent with our overall institutional strengthening objectives. It may also prove infeasible for the GOG to submit reports within 30 days of the end of a period, but again we are not prepared at this time to relax this standard. Since this is a relatively new requirement (the Mission began to systematically apply the new guidance in FY 1993), we anticipate that GOG compliance will improve. To help track compliance and identify details of the Mission's policy that might have to be modified in the future, a Counterpart Contributions Report Status Sheet (Attachment No. 1 is the current report) will be included with the Issues Paper of each Semi-Annual Report (SAR) Review, and overdue reports will be tracked by Sectoral Implementation Committees.

[Note: The Draft Report states that the Mission did not require the GOG to report its counterpart contribution for 1 active project (Rural Primary Education/520-0282). The report had not been required because project activities, except for a final delivery of textbooks and an audit, had terminated by 30 September 1992. Though the PACD was extended, it had been expected that the above-mentioned activities would be completed shortly after the original PACD. After several extensions, the Project officially terminated on 15 August 1993. No reports were received in the interim, but final counterpart contribution data will be researched and cited in the PACR.]

## **ACTION**

Based on the above, the Mission requests that Recommendation No. 1 be closed prior to issuance of the final Audit Report since adequate steps have been taken to ensure that USAID/Guatemala reporting requirements are met. While adjustments to this system may be required at a later date (for example, not requiring that quarterly reports be submitted one month after the close of a period), the Mission can assert that the less strict USAID requirements are being generally enforced, and that Mission oversight will ensure that every effort will be made by the GOG to comply with the stricter USAID/Guatemala requirements. A determination will be made at the end of FY 1994 as to whether Mission Order 13.4 should be modified.

## **RECOMMENDATION NO. 2**

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We recommend that USAID/Guatemala during Project Implementation Reviews base reviews of counterpart contributions on counterpart reports as of the current reporting period, report all deficiencies related to counterpart contributions, including untimely and inadequate reporting, and fully document the discussions on counterpart contributions.

## **MISSION COMMENTS**

At least since FY 1991, Issues Papers for the Mission's SAR Reviews have included counterpart status as a generic topic for discussion. Beginning with the mid-FY 1993 SAR Reviews (when the Mission first began to systematically review the implementation of the new counterpart requirements established in the August 1992 Mission Order), the generic

issue was modified to specifically address the adequacy of reports. In addition, a Counterpart Report Status Sheet (see Attachment 3, last semester's Issues Paper) is now included as part of the Issues Paper, and details are discussed with each project manager. While this worksheet must be revised to better reflect the status of Handbook 13 grantees and incorporate regional projects, it serves to incorporate counterpart reporting issues into the SAR Review and Sectoral Implementation Committee processes. As reflected in the SAR Wrap-up Meeting Agenda and Mission Director's Assessments from the last two SAR Periods (see Attachments 4, 5, 6 and 7) and correspondence with the Ministry of Finance (submitted to the RIG with our comments to the Discussion Draft of this Audit Report), the timeliness and adequacy of counterpart resources (from an impact if not an accounting perspective) have been subjects of Mission management review and follow-up at both global and project-specific levels. We have also made efforts to ensure that SARs reflect actual reported counterpart calculated at the correct exchange rate (as established in grant agreements). (See Attachment 8.) We still must continue to insist on the application of these standards, since we are changing long-standing practices. Though application may not be 100%, systems are now in place to assist project managers to apply established standards. (N.B. The Mission does not consider the SAR to be an accounting/auditable document. Every effort is made to ensure that data is current, but SARs are not, nor can they be, subjected to the rigor of an audit. However, the data reflected in SARs is ultimately verified or contradicted by audits and evaluations.)

## **ACTION**

Based on the above, the Mission requests that Recommendation No. 2 be closed prior to the issuance of the final Audit Report since, in the Mission's opinion, current SAR procedures adequately incorporate counterpart issues into the review and follow-up (Sectoral Implementation Committee) processes.

## **RECOMMENDATION NO. 3**

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We recommend that USAID/Guatemala establish procedures for ensuring that Project Officers certify the reasonableness of reports on the Guatemalan Government's contributions only after the test for reliability of reported counterpart has been conducted and documented.

## **MISSION COMMENTS**

The certification cited on p. 13 of the Draft Audit Report has been included in all the counterpart reports that are now on file at the Mission. While the language was developed in May 1993, application required review of the reports, their return to project managers as needed, and some insistence at Sectoral Implementation Committee Meetings. Current Mission procedures require all reports to be sent first to the assigned PDSO backstop to review format and certification (thus avoiding the tedious requirement for a periodic file review). Notwithstanding this procedure and as a further safeguard, one member of the PDSO staff is tasked with reviewing counterpart reporting requirements (including the

certification) during the SAR Review process. Relating to this Recommendation, the Mission believes that the only feasible manner of verifying counterpart reports for strict accountability purposes is through the Recipient Contracted Audit Program (RCAP). While project managers can attest to reasonableness based on field trips, in general they could not incorporate a representative audit sample into these already too infrequent and overburdened site visits. Certainly, very random spot checks might surface specific problems, and they will continue to be carried out. However, such checks could never realistically be expected to give clear indications of the accuracy of detailed financial data. On the other hand, the investment that USAID makes in the RCAP should be expected to result in regular, periodic, reliable and complete verification of counterpart reports. While these audits will only provide annual information (and may sometimes be delayed), the Mission believes that current requirements for project managers to certify reasonableness from an implementation perspective, while the RCAP verifies accuracy from an accounting perspective, provide complementary, feasible and cost/staff-effective safeguards. Therefore, such an effort is included in the RCAP scope of work, and will be the final basis of the Mission's verification of counterpart contribution reports.

#### ACTION

Based on the above, the Mission requests that Recommendation No. 3 be closed prior to the issuance of the final Audit Report since, in the Mission's opinion, the current requirement for project managers to certify the reasonableness of counterpart contribution reports and reliance on annual Recipient Contracted Audits for detailed analysis of the contributions adequately test the reliability of the reports.

Drafted: TDelaney, PDSO  
Alzaguirre, PDSO

Clearance: LWarfield, PDSO  
JRM RZelaya, CONT  
BArellano, DDIR

~~TRD 12/7/93~~  
~~fn VZP 12/7/93~~  
~~CBN 12/8/93~~  
~~DZ 12/8/93~~  
~~BA 12/10/93~~

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# PROJECT COUNTERPART CONTRIBUTIONS REPORTING STATUS

REPORTS RECEIVED AS OF 11/30/93 (GOG SHADED)

Appendix  
Page 6

PROJ. No/PACD	PROJECT TITLE	IMPLEMENTING AGENCY	REPORT FORMAT	DATE OF LAST REPORT	COMMENTS
274/09-30-93	Highland Agric. Develop.	MINAG	Standard	08-30-93	Component completed
274.2/12-31-93	Highland Agric. Dev. (Int. Mark. and Export Promotion)	GEXPRONT	Standard	06-30-93	
286-08-31-94	Cooperative Strengthening	FENACOAC	Standard	09-30-93	
304/12-18-93	Altiplano Higher Education	URL	Other	03-31-93	
332/03-19-95	Farm-to-Market Ac. Road	DGC	Other	08-30-93	
339/09-30-94	Immun. and CRT Child Surv.	MOH	Standard	08-30-93	
341/12-31-93	Private Enterprise Dev.	MOE CAEM AGG GEXPRONT	Standard Standard Standard Standard	08-30-93 09-30-93 09-30-93 06-30-93	
343/08-30-94	Pilot Comm. Land Market II	PF	Other	09-30-93	
353.10/09-25-95	Rural Electrification III	INDE	Standard	06-30-93	
353.20/05-30-95	Productive Uses of Elect.	ACTION	Other		
357/08-31-93	Family Health Serv. Proj.	MOH-RHU APROFAM IPROFASA	Standard Standard Standard	08-30-93 06-30-93 06-30-93	
371/12-31-93	Fiscal Administration	MOF	Standard	08-30-93	
374/12-31-97	Basic Education Streng.	ME	Standard	08-30-93	
381/07-21-97	Small Farmer Coffe	MINIFIN ANACAFE	Other Other	08-30-93 03-31-93	
384/01-30-95	Develop. Train. and Sup.	SEGEPLAN Del Valle Un.	N/A N/A	N/A	Report not required
393/04-15-96	Guatemala Peace Scholarship		---		US Contractor
395/08-30-96	Maya Biosphere Project	CONAP NGOs CARE TNC WWF	Standard Other Other Other	08-30-93	
398/09-30-97	Democratic Institutions	OHR CONGRESO DIG	Standard Standard Standard	08-30-93 N/A 08-31-93	No disbursement
399/12-31-96	Highlands Water & San.	MOH	Standard	06-30-93	
000.40/09-30-93	Public Ministry Strengt.	PM/LSGA	N/A	N/A	Completed report in PACR
403/08-31-98	Trade & Labor	M/Ec M/Lab	Agr/PIL Agr/PIL		New project
404/12-31-97	Community Nat. Res. Mag.	CARE	Pending		New project
407/12-31-97	Judicial Sect. Ref.	Court USAC	Agr/PIL Pending		New project
412/12-31-97	Street Children Support	OHRO CASA AL. PAMI	Pending Pending Pending		New project

Date of follow-up December 03-93

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LEG	1
GC	1
AA/OPS	1
AA/FA	1
FA/FM	1
POL/CDIE/DI	1
FA/MC	2
FA/FM/FPS	2
IG	1
AIG/A	1
AIG/I&S	1
IG/LC	1
D/AIG/A	1
IG/A/PPO	2
IG/A/SR	12
IG/A/PSA	1
IG/A/FA	1
RIG/A/Eur/W	1
RIG/A/Bonn	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
IG/I/JFO	1

1/1