

Regional Inspector General for Audit
San José, Costa Rica

Audit of USAID/Nicaragua's
Assistance Program, Funded by
Public Law 101-302 and
Fiscal Year 1991 Appropriations,
April 1 to September 30, 1992

Audit Report No. 1-524-94-01-N
February 24, 1994



Financial information contained in
this report may be privileged. The
restrictions of 18 USC 1905 should be
considered before any information is
released to the public.



AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
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February 24, 1994

MEMORANDUM

TO: D/USAID/Nicaragua, Janet C. Ballantyne

FROM: RIG/A/San José, *Coinage N. Gothard*
Coinage N. Gothard

SUBJECT: Audit of USAID/Nicaragua's Assistance Program, Funded by Public Law 101-302 and Fiscal Year 1991 Appropriations, April 1 to September 30, 1992

This report presents the results of a financial audit of USAID/Nicaragua's Assistance Program (Program) for the period April 1 through September 30, 1992. The audit firm of Price Waterhouse prepared the report which is dated January 19, 1994.

The Program began with \$300 million authorized under Public Law 101-302 which provided economic support funds for assisting Nicaragua in its economic recovery. An additional \$218 million from Fiscal Year 1991 appropriations was provided through economic support funds, development assistance funds, and food aid. Through September 30, 1992, USAID/Nicaragua had developed three cash transfer programs, 14 development projects, and two food aid programs with the above funding. The audit included expenditures of \$71.2 million.

For purposes of the audit, USAID/Nicaragua's Assistance Program (Program) was defined to include only project and program activities managed by USAID/Nicaragua and financed under Public Law 101-302 (The Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act) and Fiscal Year 1991 appropriations. As such, the audit excluded those assistance activities to Nicaragua funded by earlier appropriations as well as the Mission's continuing assistance activities funded from Fiscal Year 1992 and later appropriations. Additionally, the scope of the audit was further restricted to cover only those activities for which USAID/Nicaragua has retained accounting responsibilities and for which the applicable implementing entities conducted their financial and/or administrative operations within Nicaragua. Pages 12 and 13 of the Price Waterhouse

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report show the expenditures audited for each project and program within the audit's scope.

The objectives of the audit were to determine whether: (1) the implementing entities' consolidated fund accountability statement presents fairly, in all material respects, the local financial activities under the Program during the audit period, (2) the entities' internal control structures were adequate to manage Program operations, (3) the entities had complied, in all material respects, with the terms of their individual project and program agreements and applicable laws and regulations, and (4) the deficiencies noted in prior audits of the Program had been corrected. The scope of the audit included an examination of the implementing entities' activities and transactions, executed within Nicaragua, to the extent considered necessary to issue a report thereon for the period under audit.

The auditors found that the consolidated fund accountability statement presents fairly, in all material respects, the local execution of the Program for the audit period. Their examination did disclose \$6.4 million of import transactions (ineligible and not fully documented) which had been financed under the Program's cash transfer programs. However, USAID/Nicaragua effected recovery of these amounts before the audit was finalized, so the matter was simply disclosed as a footnote to the consolidated fund accountability statement.

No material internal control weaknesses were reported. Price Waterhouse did report that it had discussed internal control weaknesses with the management of the entities and that, except for one nonmaterial weakness included in the final report, all such weaknesses had been corrected prior to issuance. The auditors further reported that, with respect to the items tested, their tests of compliance with agreement terms and laws and regulations applicable to the Program showed compliance by the implementing entities. The auditors' follow-up tests of previous financial audit recommendations disclosed that corrective action has been taken in all cases.

Price Waterhouse discussed the draft report with the various implementing entities and USAID/Nicaragua officials during a series of exit conferences. Changes were made when appropriate, and the entities' representatives expressed general agreement with this final report.

Since the Price Waterhouse report does not disclose any unresolved issues requiring Mission action, RIG/A/San Jose is not making any recommendation. This final report is being transmitted to you solely for your information.

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

**Audit of USAID/Nicaragua's
Assistance Program, Funded by
Public Law 101-302 and
Fiscal Year 1991 Appropriations,
April 1 to September 30, 1992**

**Audit Report No. 1-524-94-01-N
February 24, 1994**

FINANCIAL AUDIT OF THE NICARAGUA ASSISTANCE PROGRAM
FUNDED BY PUBLIC LAW 101-302 AND FISCAL YEAR 1991
APPROPRIATIONS AS OF SEPTEMBER 30, 1992

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FINANCIAL AUDIT OF THE NICARAGUA ASSISTANCE PROGRAM
FUNDED BY PUBLIC LAW 101-302 AND FISCAL YEAR 1991
APPROPRIATIONS AS OF SEPTEMBER 30, 1992

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Price Waterhouse



January 19, 1994

Mr. Coinage N. Gothard
Regional Inspector General
for Audit
RIG/A/SJ
San Jose, Costa Rica

Dear Mr. Gothard:

FINANCIAL AUDIT OF THE NICARAGUA ASSISTANCE PROGRAM
FUNDED BY PUBLIC LAW 101-302 AND FISCAL YEAR 1991
APPROPRIATIONS AS OF SEPTEMBER 30, 1992

This report presents the results of our financial audit of the Nicaragua Assistance Program funded by Public Law 101-302 and Fiscal Year 1991 appropriations, which in accordance with the Scope of Work for our engagement was limited to those programs or projects for which USAID/Nicaragua is the official accounting station. Our audit covered the period from April 1, to September 30, 1992.

I. BACKGROUND

On May 25, 1990, the President of the United States signed Public Law 101-302, the Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act, which provided US\$300 million in Economic Support Funds (ESF) to support the Nicaraguan economic recovery. For Fiscal Year 1991 an additional US\$218 million of assistance was provided through Economic Support Funds, Development Assistance and Food Aid (both Food for Progress and Public Law 480, Title II).

The components of the assistance provided under the 1990 Dire Emergency Supplemental Appropriations Act and the FY 1991 appropriations, and therefore covered by our financial audit, are summarized as follows:

A. Cash Transfer Assistance

The principal Nicaraguan Government (GON) entity involved in implementing cash transfer assistance is the Central Bank of Nicaragua. However, starting in Fiscal Year 1992 private banks have also participated in the implementation of this assistance.

Fiscal Year 1990

1. Economic Stabilization and Recovery Program (USAID/Nicaragua Project No. 524-0300)

This program for US\$60 million was responsive to the GON's urgent call for help to address the unsatisfied needs of the country's productive sector. The assistance was to increase the GON's foreign exchange reserves to meet the demands for essential commodity imports for both the public and private sectors. This program was fully disbursed during prior audit periods.

2. Economic Stabilization and Recovery Program (USAID/Nicaragua Project No. 524-0311)

This cash transfer program for US\$118 million was designed to provide the Nicaraguan economy with access to fuel, raw materials, spare parts and other goods during a transition period. US\$50 million of the overall amount was earmarked for the repayment of obligations to multilateral development institutions.

Fiscal Year 1991

1. Economic Stabilization and Recovery Program (USAID/Nicaragua Project No. 524-0319)

This cash transfer program for a total of US\$162.5 million provided assistance to the Government of Nicaragua in its efforts to stabilize the economy and enact structural reforms in the areas of financial markets, privatization and trade liberalization. US\$25.0 million of these funds were earmarked for

debt repayment to multilateral development institutions. The remainder was used to finance private and public sector imports, including petroleum and its derivatives. As a condition precedent, the Central Bank was required to deposit the equivalent amount in local currency into a separate account. The local currency was to be used only for mutually agreed-upon activities.

B. Development Projects

To assist the new government and to support Nicaragua in its efforts toward a national reconciliation and economic recovery, the U.S. Government was to finance the following development projects and subprojects.

Fiscal Year 1991

1. Economic Growth and Development Project (USAID/Nicaragua Project No. 524-0301) consisting of the following subprojects:
 - a) Technical Assistance and Training Subproject (524-0301.01), implemented by INCAE in an effort to provide technical assistance to the GON and training to both the public and the private sectors.
 - b) Employment Generation Subproject (524-0301.03), implemented by INIFOM/FISE with the objective of utilizing a portion of Nicaragua's unemployed workforce to repair basic urban infrastructure.
 - c) Public Sector Support Subproject (524-0301.04), implemented by Government of Nicaragua's Ministries and Offices. This subproject was designed to provide office equipment, including computers, typewriters, desks, etc. and vehicles for a number of Government Ministries and Offices.
 - d) Medicines Subproject (524-0301.05), implemented by the Ministry of Health (MINSA) to procure medicines and distribute such medicines to government health facilities throughout Nicaragua.

- e) Community Hospitals Subproject (524-0301.22), designed to provide support to four community hospitals in Nicaragua to improve the quality of care by funding supplies and medicines, an interchange program of medical specialists from both within and outside Nicaragua, and certain training. Project HOPE, the implementing entity, agreed to make a counterpart contribution of medicines worth at least US\$ 3.5 million.
 - f) Textbooks Subproject (524-0301.23), implemented by the Regional Technical Aid Center II (RTAC II) with the objective of increasing the availability and use of U.S. technical books and materials in Spanish to primary, secondary and university students and development professionals in Central America.
2. USAID/Nicaragua Project No. 524-0308, granted to the American Institute for Free Labor Development (AIFLD) for funding a program in support of the Confederation of Labor Unity (CUS) and other independent democratic unions in their efforts to play leadership roles in Nicaragua's organized labor movement.
 3. USAID/Nicaragua Project No. 524-0309, to fund the costs of purchasing and shipping a new transmitter, communications tower, and studio equipment to enable Radio Corporación to resume its country-wide operations providing a forum for free discussion and the advancement of democratic ideas. Delphi International, a nonprofit, nonpartisan organization devoted to international communication and cooperation, agreed to serve as the National Endowment for Democracy's U.S. grantee for this grant.
 4. Non-Formal Vocational Education Project (USAID/Nicaragua Project No. 524-0310), implemented by the Salesian Society in its efforts to provide vocational training through six schools located in Managua, Granada, and Masatepe.
 5. Natural Resources Management Project (USAID/Nicaragua Project No. 524-0314), implemented by IRENA. The purpose of this project is to improve the management

of renewable natural resources, protect biological diversity in selected sites, and support sound and environmentally safe pest management practices.

6. Private Agricultural Services Project (USAID/Nicaragua Project No. 524-0315), which was designed to strengthen private agricultural organizations in order to improve agricultural productivity. The project's two implementing agencies are the Nicaraguan Association of Non-Traditional Export Producers (APENN) and the Nicaraguan Union of Agricultural Producers (UPANIC).
7. Strengthening Democratic Institutions Project (USAID/-Nicaragua Project No. 524-0316), to strengthen democratic institutions and the values and attitudes that nurture them.
8. Private Sector Support Project (USAID/Nicaragua Project No. 524-0317), to improve Nicaragua's environment for investment and international trade. The project supports the Private Enterprise Higher Council (COSEP) and Nicaragua's Ministry of Economy and Development (MEDE) in developing programs of trade and investment promotion. It also supports the National Public Sector Corporation (CORNAP) in the process of the divestiture of state-held enterprises; the new Superintendency of Banks in establishing its operations; and the new private sector banks in providing services essential to economic development.
9. Development Training Project (USAID/Nicaragua Project No. 524-0318), which combines the Nicaragua component of the Caribbean and Latin American Scholarship Program II (CLASP II) and a traditional development training component. The purpose of this project is to provide skilled human resources critical to democratic transition and economic recovery in Nicaragua.

Fiscal Year 1991

1. Family Planning Project (USAID/Nicaragua Project No. 524-0312), implemented by PROFAMILIA, the Nicaraguan affiliate of the International Planned Parenthood Federation. The purpose of this project is to expand

PROFAMILIA's community-based distribution of contraceptives, its gynecological services, and its information and education services.

2. PVO Co-Financing Project (USAID/Nicaragua Project No. 524-0313), implemented by numerous private voluntary organizations (PVOs) with the purpose of assisting Nicaragua in restoring social services in the areas of health, family planning, employment, microenterprise, and protection against environmental degradation.
3. Expanded Program of Immunizations Project (USAID/Nicaragua Project No. 524-0321), by which the USAID effort in immunizations is coordinated with three other donors: The Pan American Health Organization, Rotary International and UNICEF.

The purpose of this project is to increase vaccination coverage of children less than one year old in all municipalities of Nicaragua and strengthen the national epidemiological research and surveillance systems.

4. Atlantic Coast Electrification Project (USAID/Nicaragua Project No. 524-0324), which is being implemented by the Nicaraguan Energy Institute (INE). This project's purpose is to provide sufficient, stable and sustainable electric power to meet current and future demand over the next three years in Bluefields and Puerto Cabezas.
5. Caribbean Conservation Project (USAID/Nicaragua Project No. 598-0780), which is being implemented by the Caribbean Conservation Corporation, a Florida-based private organization. The purpose of this project is the creation of a Miskito Cays marine reserve and a protected coastal area.

C. Repatriation of Nicaraguan Resistance and Refugees
(USAID/Nicaragua Project No. 524-0307)

The Department of State provided funds under this project to the Organization of American States, the United Nations Observer Group for Central America, and the International Commission for Support and Verification to finance repatriation and relocation activities including food, shelter, agricultural and other self-help and training programs.

II. OBJECTIVES

The general objective of our work was to perform a financial audit of all initiated Assistance Program activities for which USAID/Nicaragua is the official accounting station, with emphasis on the management and control of cash transfers for balance of payments and budget support.

In accordance with the terms of our engagement, our audit work was limited to the activities for all initiated programs and projects which can be reviewed through records available in Nicaragua. Our current audit covered the period from April 1 to September 30, 1992.

The specific objectives of our current financial audit were to determine whether:

1. The consolidated fund accountability statement presents fairly the financial activities of the Assistance Program for the period from April 1 to September 30, 1992, and costs reported as incurred during the period are allowable, allocable and reasonable in accordance with the terms of individual project and program agreements and with applicable laws and regulations;
2. The internal control structures of the implementing entities are adequate to manage the Assistance Program's operations;
3. The implementing entities have complied with the terms of their individual project and program agreements and with applicable laws and regulations which may affect the Assistance Program's goals and incurred costs; and
4. The implementing entities have corrected the deficiencies noted in prior audit reports on the Assistance Program.

III. SCOPE OF WORK

Our financial audit was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's Government Auditing Standards. In performing our work we were alert to situations or transactions that could be indicative of fraud, abuse, or illegal expenditures and acts.

To meet stated objectives, our audit work included: 1) examining, on a test basis (except for commodity imports under USAID/Nicaragua Projects Nos. 524-0311 and 524-0319 which were reviewed 100%), evidence supporting the amounts and disclosures in the consolidated fund accountability statement; 2) assessing the accounting principles and practices used and significant estimates made by management; 3) evaluating the overall fund accountability statement presentation; 4) evaluating program/-project implementation actions and accomplishments to determine if costs incurred are allowable, allocable, and reasonable under the individual agreement terms; 5) reviewing direct and indirect costs reimbursed by USAID/-Nicaragua, quantifying questionable costs, if any; 6) reviewing, for each implementing entity, the control environment, the accounting system, and the internal accounting control procedures; 7) determining compliance with agreement terms, PILs, and applicable laws and regulations; and 8) complying, to the extent considered necessary, with the specific auditing procedures included in the statement of work for our current examination. The local execution under the Assistance Program for the period covered by our audit, from April 1, to September 30, 1992, amounted to US\$71,241,442.

We did not audit the assistance for the Repatriation of Nicaraguan Resistance and Refugees, the USAID Mission expenses, the Food Aid Programs, or other activities for which audit work would have to be performed outside of Nicaragua.

IV. RESULTS OF AUDIT

A. Consolidated Fund Accountability Statement

As further explained in Note 11 to the consolidated fund accountability statement, our audit tests disclosed questionable imports (questioned and not fully documented) in the amount of US\$6,432,951, of which US\$ 6,196,885 were redeposited by the Central Bank prior to the issuance of this final report. The balance of US\$ 236,066, representing transactions for which not all supporting documentation was complete by the commercial banks at the time of our audit, were subsequently declared ineligible by USAID/Nicaragua and applied against a US\$257,264 in duplicate redeposits and redeposits made by BCN in excess of actual ineligible import transactions values.

B. Internal Control Structure

Our evaluation of the internal control structures of the Central Bank of Nicaragua, the commercial banks, and other entities participating in the Assistance Program audited by us, disclosed the following reportable condition:

APENN -

The procedures included in APENN's accounting procedures manual were not consistently followed.

C. Compliance With Agreement Terms and Applicable Laws and Regulations

The results of our tests indicate that, with respect to the items tested, the Program implementing entities complied, in all material respects, with laws, regulations, contracts and grants applicable to the Nicaragua Assistance Program. With respect to items not tested, nothing came to our attention that caused us to believe that the Program implementing entities had not complied, in all material respects, with those provisions.

D. Follow up on Recommendations of Prior Audits

Our review and evaluation of recommendations submitted as a result of financial audits of the Assistance Program to Nicaragua for periods up to March 31, 1992 confirm that corrective actions have been taken on all previous recommendations officially made.

V. MANAGEMENT COMMENTS

Comments to our draft report were received from the auditees and from USAID/Nicaragua, and additional discussions were held during a series of exit conferences held on June 17 and 18, 1993. Changes were made, when appropriate, and the auditees' representatives expressed general agreement with the report findings and recommendations as presented in this final audit report.

Price Waterhouse



FINANCIAL AUDIT OF THE NICARAGUA ASSISTANCE
PROGRAM FUNDED BY PUBLIC LAW 101-302
AND FISCAL YEAR 1991 APPROPRIATIONS

CONSOLIDATED FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM APRIL 1 TO SEPTEMBER 30, 1992

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated fund accountability statement (cash basis) for the local execution by the Government of Nicaragua (GON) and other Program Implementing entities, as indicated therein, of the Nicaragua Assistance Program funded by Public Law 101-302 and Fiscal Year 1991 appropriations, for the period April 1, to September 30, 1992. This statement is the responsibility of the Government of Nicaragua (GON), the Central Bank of Nicaragua (BCN), and the other Program implementing entities. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the program's fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the consolidated fund accountability statement referred to above was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.



In our opinion, the consolidated fund accountability statement examined by us presents fairly, in all material respects, the local execution (cash receipts and locally incurred disbursements) of the Assistance Program funded by Public Law 101-302 and Fiscal Year 1991 appropriations for the period from April 1 to September 30, 1992, in accordance with the basis of accounting described in Note 2.

This report is intended solely for the use of the Government of Nicaragua, the Central Bank of Nicaragua, other participating implementing units' management, and the United States Agency for International Development. This restriction, however, is not intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General for Audit (RIG/A/T), is a matter of public record.

Price Waterhouse

December 28, 1992, except
for Notes 9 and 11 which
are as of January 10 and
March 31, 1993, respectively.

NICARAGUA ASSISTANCE PROGRAM FUNDED BY PUBLIC LAW 101-302
AND FISCAL YEAR 1991 APPROPRIATIONS AS OF SEPTEMBER 30, 1992

FUND ACCOUNTABILITY STATEMENT
(expressed in US\$ Dollars)
U N A U D I T E D

<u>Title</u>	<u>Grant No.</u>	<u>Budgeted Amount</u>	<u>Obligated Amount</u>	<u>Disbursements Accumulated as of Septem- ber 30, 1992</u>	<u>USAID Direct Disbursement ac- cumulated as of Septemb.30,1992</u>	<u>Local execution April 1 to September 30, 1992 USAID Direct Disbursement in the audi- ted period</u>	<u>Local execu- tion in the audited period</u>
<u>FISCAL YEAR 1991</u>							
<u>I. Cash Transfers</u>							
Economic Recovery Program III	524-0319	162,500,000	162,500,000	162,500,000			55,776,086
<u>II. Development Projects</u>							
Technical Assistance and training subproject	524-0301.01	110,000					
Family Planning Project (PROFAMILIA)	524-0312	1,000,000	1,000,000	392,389			325,599
PVO Co-Financing Project	524-0313	4,281,472	4,281,472	397,599	109,408	49,863	288,192
Private Sector Support Project	524-0317	300,000	300,000	27,621	27,621	27,621	
Expanded Program of Immunizations Project	524-0321	1,219,000	1,219,000	1,016,030	390,130	390,130	
Atlantic Coast Electrification (NRECA)	524-0324	5,000,000	5,000,000	223,106	223,106	223,106	
Caribbean Conservation (CCC)	598-0780	150,000	150,000	13,173	13,173	13,173	
<u>Subtotal Development Projects</u>		<u>12,060,472</u>	<u>11,950,472</u>	<u>2,069,918</u>	<u>763,438</u>	<u>703,893</u>	<u>613,791</u>
<u>III. Repatriation of Nicaraguan Resistance and Refugees</u>	524-0307	<u>11,600,000</u>					
<u>IV. Food Aid Programs</u>							
Food for Progress (GON)		28,800,000					
Food for Peace (CARE)		2,181,000					
Food for Peace (ADRA)		443,000					
<u>Subtotal Food Aid</u>		<u>31,424,000</u>					
<u>V. USAID Mission Expenses</u>							
Project Development and Support		100,000	95,641	83,861	83,861	83,861	
Operating expenses		131,876	131,876	131,876			
<u>Subtotal Mission Expenses</u>		<u>231,876</u>	<u>227,517</u>	<u>215,737</u>	<u>83,861</u>	<u>83,861</u>	
<u>Total FY-91 ESP, DA, and Food Aid</u>		<u>217,816,348</u>	<u>174,677,989</u>	<u>164,785,655</u>	<u>847,299</u>	<u>787,754</u>	<u>56,389,877</u>

The accompanying 11 Notes are
an integral part of this financial statement

NICARAGUA ASSISTANCE PROGRAM FUNDED BY PUBLIC LAW 101-302
AND FISCAL YEAR 1991 APPROPRIATIONS AS OF SEPTEMBER 30, 1992

FUND ACCOUNTABILITY STATEMENT
(expressed in US\$ Dollars)
U N A U D I T E D

Local execution April 1
to September 30, 1992
USAID Direct
Disbursement
in the audi-
ted period
Local execu-
tion in the
audited
period

<u>Title</u> FISCAL YEAR 1990	<u>Grant No.</u>	<u>Budgeted Amount</u>	<u>Obligated Amount</u>	<u>Disbursements Accumulated as of Septem- ber 30, 1992</u>	<u>USAID Direct Disbursement ac- cumulated as of Sept. 30, 1992</u>		
I. Cash Transfers							
Economic Recovery Program I	524-0300	60,000,000	60,000,000	60,000,000			
Economic Recovery Program II	524-0311	118,000,000	118,000,000	118,000,000			
<u>Subtotal Cash Transfers</u>		<u>178,000,000</u>	<u>178,000,000</u>	<u>178,000,000</u>			<u>6,845,007</u>
II. Development Projects							
Technical Assistance and training subproject (INCAR)	524-0301.01	3,190,000	3,190,000	3,178,130	3,178,130		883,864
Employment Generation subproject (INIFOM-FISE)	524-0301.03	20,900,000	20,900,000	17,828,813	1,674,369	490,999	6,340,027
Public Sector Support subproject (Government Ministries and Offices)	524-0301.04	7,780,000	7,780,000	4,707,101	4,707,101	1,578,423	
Medicines subproject (PASA-MINSA)	524-0301.05	1,500,000					
Community Hospitals subproject	524-0301.22	2,500,000					
Textbooks subproject	524-0301.23	12,200,000					
American Institute for Free Labor Development (AIFLD)	524-0308	700,000	700,000	700,000	700,000		
National Endowment for Democracy Project (NED)	524-0309	235,000	235,000	223,837	223,837	31,026	
Non Formal Vocational Education Project (Salesians Mission)	524-0310	1,700,000	1,700,000	1,298,334	1,298,334	98,347	
Natural Resources Management Project (IRENA)	524-0314	8,000,000	8,000,000	63,088	63,088	63,088	
Private Agricultural Services Project	524-0315	1,500,000	1,500,000	665,685	454,097	454,097	531,249
Strengthening Democratic Institutions Project	524-0316	3,000,000	3,000,000	1,121,292	1,120,102	969,622	
Private Sector Support Project	524-0317	1,000,000	1,000,000	593,353	369,983	342,362	250,991
Development Training Project	524-0318	2,000,000	2,000,000	109,939	109,839	56,984	
<u>Subtotal Development Projects</u>		<u>66,205,000</u>	<u>50,005,000</u>	<u>30,489,572</u>	<u>13,898,880</u>	<u>4,084,948</u>	<u>8,006,131</u>
III. Repatriation of Nicaraguan Resistance and Refugees							
	524-0307	45,000,000					
IV. USAID Mission Expenses							
Project Development and Support		4,065,000	3,943,558	3,224,922	31,093	31,093	427
Operating expenses		6,730,000	5,032,000	4,947,853			
<u>Subtotal Mission Expenses</u>		<u>10,795,000</u>	<u>8,975,558</u>	<u>8,172,775</u>	<u>31,093</u>	<u>31,093</u>	<u>427</u>
<u>Total FY-90 Dire Supplemental</u>		<u>300,000,000</u>	<u>236,980,558</u>	<u>216,662,347</u>	<u>13,929,973</u>	<u>4,116,041</u>	<u>14,851,565</u>

The accompanying 11 Notes are
an integral part of this financial statement

FINANCIAL AUDIT OF THE NICARAGUA ASSISTANCE
PROGRAM FUNDED BY PUBLIC LAW 101-302
AND FISCAL YEAR 1991 APPROPRIATIONS

NOTES TO THE CONSOLIDATED FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM APRIL 1 TO SEPTEMBER 30, 1992

NOTE 1 - BACKGROUND:

On May 25, 1990, the President of the United States signed Public Law 101-302, the Fiscal Year 1990 Dire Emergency Supplemental Appropriations Act which provided US\$300 million in Economic Support Funds (ESF) to support the Nicaraguan economic recovery. For Fiscal Year 1991 an additional US\$218 million of assistance was provided through Economic Support Funds, Development Assistance and Food Aid (both Food for Progress and Public Law 480, Title II).

A major portion of the Economic Support Funds for each year was used to provide cash transfer assistance to support a rational economic program to stabilize and reactivate the Nicaraguan economy. The remaining Economic Support Fund, the Development Assistance Fund and, in one case, local currency proceeds from the sale of Public Law 480, Title II food commodities, were used for development projects supporting the new government's economic recovery and social programs.

NOTE 2 - BASIS OF ACCOUNTING:

The consolidated fund accountability statement reflects the local execution of those projects under the Assistance Program for which USAID/Nicaragua is the official accounting station, and has been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, funding provided is recognized when received and expenditures are recognized when paid, not when the obligations are incurred.

NOTE 3 - RATE OF EXCHANGE AND EXCHANGE RESTRICTIONS:

According to the Exchange Control Law of September 9, 1978, all foreign currency acquired must be reported to the Central Bank of Nicaragua and all remittances must have the approval of this bank. On May 3, 1990 the Central Bank of Nicaragua (BCN) established a new monetary unit (Cordoba Oro) at par with the U.S. Dollar. On March 3, 1991, a new parity of the monetary unit (Cordoba Oro) was established at C\$5.00 per US\$1.00.

The BCN has allowed the operation of a free market for currency exchange, provided transactions are handled by authorized agents (foreign currency bureaus). The rate of exchange in this market has varied 5% to 10% above the official rate.

NOTE 4 - LOCAL CURRENCY GENERATION:

On May 15, 1991, the Central Bank of Nicaragua (BCN) and USAID/-Nicaragua signed a Memorandum of Understanding which states that local currency generated according to Agreement No. 524-0319 may be used for the following:

- Budget support to the Central Government of Nicaragua,
- Offsetting exchange losses of BCN, and
- Repaying debt of the Government to the BCN.

The situation of the local currency (LC) generation (Cordobas Oro) as of September 30, 1992, was as follows:

LC available at March 31, 1992	C\$ 57,001,566
LC generated during the period from April 1, to September 30, 1992	3,672,614
Less - LC used for allowable purposes	<u>(58,130,568)</u>
LC available at September 30, 1992	<u>C\$ 2,543,612</u>

NOTE 5 - DISBURSEMENTS ACCUMULATED
AS OF SEPTEMBER 30, 1992:

The disbursements accumulated as of September 30, 1992 represent both expenditures and advances.

NOTE 6 - FOOD AID PROGRAMS:

The amounts shown for Food for Progress are based on the Fiscal Year 1991 agreement, not on the delivered value. Food for Peace (Public Law 480, Title II) amounts were based on bill of lading information for commodities shipped or delivered in Fiscal Year 1991. USAID/Nicaragua is not the official accounting station for either of these programs. Therefore, obligation and disbursement information is not shown in the Fund Accountability Statement.

NOTE 7 - REPATRIATION OF NICARAGUAN RESISTANCE AND REFUGEES

Budgeted funds under USAID/Nicaragua Project No. 524-0307 for programs to repatriate the Nicaraguan Resistance and refugees are shown for information purposes. USAID/Washington is the official accounting station for these funds. Therefore, the funds were not included within the scope of our audit and obligation and disbursement information is not included in the Fund Accountability Statement.

NOTE 8 - DISBURSEMENTS NOT REPORTED
BY USAID/NICARAGUA:

As of September 30, 1992, the Medicines, Community Hospitals and Textbooks Subprojects, and the Fiscal Year 1991 funding increment for the Technical Assistance and Training Subproject, USAID/Nicaragua Subproject Nos. 524-0301.05, 524-0301.22, 524-0301.23 and 524-0301.01 respectively, had accumulated obligations and disbursements in US dollars as follows:

<u>Subproject</u>	<u>Obligations</u>	<u>Disbursements</u>
Medicines	1,500,000	none
Community Hospitals	2,500,000	2,473,400
Textbooks	12,200,000	12,200,000
Tech. Asst. & Training	110,000	110,000

USAID/Washington is the official accounting station for these funds. Therefore, these amounts are not included in the Fund Accountability Statement.

NOTE 9 - SUBSEQUENT DEVALUATION OF THE CORDOBA:

On January 10, 1993, the monetary authorities of Nicaragua approved a 20% devaluation of the Cordoba which now stands at the exchange rate of C\$6.00 to US\$1.00.

NOTE 10 - FISCAL YEAR 1992 FUNDS AUDITED

The Economic Stabilization and Recovery Program III, (USAID/Nicaragua Project No. 524-0319) started in Fiscal Year 1991 receiving US\$ 162,500,000. In Fiscal Year 1992 the program was amended to add US\$ 25,000,000 from Fiscal Year 1992 appropriations. As the funds from these two Fiscal Years were commingled in a separate account established for this cash transfer program, the scope of our audit with regard to this program was expanded to include these Fiscal Year 1992 funds.

The audited information reflected in the Fund Accountability Statement for USAID/Nicaragua Project No. 524-0319 therefore includes the aforementioned Fiscal Year 1992 funds.

NOTE 11 - SUBSEQUENT REDEPOSIT OF QUESTIONED IMPORTS:

The auditors' examination of transactions handled by the Central Bank had disclosed questionable imports (questioned and not fully documented) amounting to US\$6,432,951, of which US\$6,039,899 belonged to the Fiscal Year 1991- Economic Stabilization and Recovery Program (USAID/Nicaragua Project No. 524-0319), and US\$393,052 were from the Fiscal Year 1990 Program (USAID/Nicaragua Project No. 524-0311). The amount of US\$6,196,885 of these questioned imports was redeposited by the Central Bank of Nicaragua subsequent to the auditors' examination, and the matter had been resolved by the end of March, 1993.

The balance of US\$236,066, representing transactions for which not all supporting documentation was complete by the commercial bank at the time of our audit, were subsequently declared ineligible by USAID/Nicaragua and applied against a US\$257,264 in duplicate redeposits and redeposits made by BCN in excess of actual ineligible import transactions values.

Price Waterhouse



FINANCIAL AUDIT OF THE NICARAGUA ASSISTANCE
PROGRAM FUNDED BY PUBLIC LAW 101-302
AND FISCAL YEAR 1991 APPROPRIATIONS

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated fund accountability statement of the Assistance Program funded by Public Law 101-302 and Fiscal Year 1991 appropriations, and managed by the Government of Nicaragua (GON), the Central Bank of Nicaragua (BCN) and other implementing units for the period from April 1, to September 30, 1992, and have issued our report thereon dated December 28, 1992.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the consolidated fund accountability statement of the Assistance Program managed by the GON, BCN and the other participating implementing institutions for the six months ended September 30, 1992, we considered their internal control structures in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated fund accountability statement, and not to provide assurance on their internal control structures.

The GON, the management of the BCN and that of the other implementing institutions are responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide

management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: a) accounting and budgetary control systems; b) procurement of goods, commodities and services; c) fixed assets and inventories management; d) cash management; and e) payroll procedures.

For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structures and their operation, that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of an internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the consolidated fund accountability statement. The reportable conditions noted were discussed with management in the normal course of our examination and were corrected prior to the issuance of this report, except for the condition described as finding No. 1 in the following pages of this section of our report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



Our consideration of the internal control structures would not necessarily disclose all matters in the internal control structures that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses, as defined above. However, we believe the reportable condition referred to above is not a material weaknesses.

This report is intended solely for the use of the Government of Nicaragua, the Central Bank of Nicaragua, other participating implementing units' management, and the United States Agency for International Development. This restriction, however, is not intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General for Audit (RIG/A/T), is a matter of public record.

Price Waterhouse

December 28, 1992

FINANCIAL AUDIT OF THE NICARAGUA ASSISTANCE
PROGRAM FUNDED BY PUBLIC LAW 101-302
AND FISCAL YEAR 1991 APPROPRIATIONS

INTERNAL CONTROL STRUCTURE

FINDING

NICARAGUAN ASSOCIATION OF PRODUCERS AND EXPORTERS OF NON
TRADITIONAL PRODUCTS (APENN)
(Private Agricultural Services Project, No. 524-0315)

1. The Procedures Included In APENN's Accounting Procedures Manual Were Not Consistently Followed.

Condition:

APENN did not consistently apply the procedures included in its accounting procedures manual to record USAID/Nicaragua advance payments and produce financial reports as called for by the manual.

Criteria:

The accounting procedures manual summarizes the most significant accounting policies and procedures specifically designed for APENN and approved by its top authorities. Compliance thereon is required for uniform application of accounting principles, consistent accounting treatment to similar transactions, and financial statements meaningful to management.

Cause:

APENN's former accountant elected not to use the accounting policies and procedures approved by management and included in the entity's accounting manual.

Effect:

Possible errors in the classification of accounting transactions and in the presentation of financial data in financial reports.

Recommendation:

APENN's management should remind all concerned that the accounting transactions, without exception, should be captured, coded, registered, summarized, and included in financial reports according to the requirements in the accounting procedures manual.

Management Comment:

Subsequent to the date of our audit, but prior to the issuance of this report in final form, management has indicated that the procedures established in its manual are already observed by all concerned.

Price Waterhouse



FINANCIAL AUDIT OF THE NICARAGUA ASSISTANCE
PROGRAM FUNDED BY PUBLIC LAW 101-302
AND FISCAL YEAR 1991 APPROPRIATIONS

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated fund accountability statement of the Assistance Program funded by Public Law 101-302 and Fiscal Year 1991 appropriations and managed by the Government of Nicaragua (GON), the Central Bank of Nicaragua (BCN), and the other participating implementing units for the six months ended September 30, 1992, and have issued our report thereon dated December 28, 1992.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated fund accountability statement is free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the GON, the BCN, and the other participating implementing units is the responsibility of their management. As part of obtaining reasonable assurance about whether the consolidated fund accountability statement for the Assistance Program is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Program implementing entities complied, in all material respects, with the provisions referred to in the



preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Program implementing entities had not complied, in all material respects, with those provisions.

This report is intended solely for the use of the Government of Nicaragua, the Central Bank of Nicaragua, other participating implementing units' management, and the United States Agency for International Development. This restriction, however, is not intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General for Audit (RIG/A/T), is a matter of public record.

Price Waterhouse

December 28, 1992

Price Waterhouse



FINANCIAL AUDIT OF THE NICARAGUA ASSISTANCE
PROGRAM FUNDED BY PUBLIC LAW 101-302
AND FISCAL YEAR 1991 APPROPRIATIONS

FOLLOW UP TO PRIOR AUDIT RECOMMENDATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated fund accountability statement of the Assistance Program to Nicaragua funded by Public Law 101-302 and Fiscal Year 1991 appropriations, and managed by the Government of Nicaragua (GON), the Central Bank of Nicaragua (BCN), and other implementing units for the period from April 1 to September 30, 1992, and have issued our report thereon dated December 28, 1992.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

As part of our audit we performed follow up procedures to determine whether corrective action had been taken on all previously submitted recommendations which could have a material effect on our audit's planning and execution.

The results of our follow up tests in connection with the audit reports relative to the Nicaragua Assistance Program for periods up to March 31, 1992, indicate that corrective action has been taken on all previous recommendations officially made which are now considered closed.



This report is intended solely for the use of the Government of Nicaragua, the implementing units participating in the Assistance Program, and the United States Agency for International Development. This restriction, however, is not intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General for Audit (RIG/A/T), is a matter of public record.

Quice Waterhouse

December 28, 1992

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