United States General Accounting Office

GAO

Report to the Administrator, Agency for International Development

April 1989

FOREIGN ASSISTANCE

Administration of Funds for the International Fund for Ireland

GAO/NSIAD-89-53

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-231247

April 3, 1989

The Honorable Alan Woods
Administrator, Agency for
International Development

Dear Mr. Woods:

We reviewed the Agency for International Development's (AID) role in monitoring the activities and administration of contributions to the International Fund for Ireland. The Fund was established to promote economic and social reconstruction and development in Northern Ireland and Ireland by stimulating private investment and enterprise, supplementing public programs, and encouraging voluntary efforts. For fiscal years 1986 through 1988, the United States pledged, the Congress appropriated, and AID disbursed $120 million to the Fund. The Congress has appropriated up to $35 million but not less than $10 million for the U.S. contribution to the Fund in fiscal year 1989. The United States' position was that its contribution be used principally to stimulate economic growth and prosperity in the private sector, with emphasis on practical prospects producing visible and measurable results such as stimulating new investment and creating jobs.

The Anglo-Irish Agreement Support Act places responsibility on the President of the United States, through an annual certification and reporting process, to ensure that U.S. money contributed to the Fund is ultimately used for the act's intended purposes. Through this process, the Congress is to be kept informed on how U.S. contributions influence economic conditions, such as new investment and job creation, and how the Fund's activities affect social conditions, such as nondiscrimination, reconciliation, and respect for human rights. As the President's representative, AID has reported to the Congress on three occasions. Although AID has reported to some degree on how the Fund has economically affected individual projects, it has not been able to measure the Fund's impact on social conditions.

AID reports that the Fund is capable of collecting economic data to assess Fund achievements. However, the data are not accumulated according to economic change indicators nor are the data analyzed. AID encourages the Fund's Board of Directors to have relevant economic data collected in an appropriate format, and is confident that AID's capability to report on the Fund's achievements, in economic terms, will improve over time.

However, AID officials are uncertain whether meaningful criteria can ever be developed to measure social changes resulting from Fund activities because of (1) the lack of employer data on religious affiliation of employees to track nondiscrimination, (2) the relative small dollar value of the Fund compared to the problems facing Northern Ireland, (3) difficulties in separating the Fund's impact from other inputs such as Britain's $3-billion annual economic assistance contribution to Northern Ireland, and (4) a belief that social change is likely to occur slowly over the long term and may not be measurable in the short term. Although unsuccessful to date, AID plans to continue efforts to develop meaningful criteria for measuring social change.

During our review, we identified a need for AID to manage the timing of disbursements to the Fund and to work with the U.S. representative to the Fund to expand the scope of the Fund's annual financial audit.

Before making disbursements, we believe AID needs to assess whether the money is needed for immediate use by the Fund. We found that a large percentage of the money disbursed by AID remained uncommitted for specific projects.

The United States does not have the right to audit the Fund's activities. However, an agreement between the Government of Ireland, the Government of the United Kingdom of Great Britain and Northern Ireland, and the Government of the United States of America provides that AID will receive audited financial reports on the Fund's operations and other related information. In 1987, the Funds' independent accountants reported that the financial statements fairly presented the financial position of the International Fund. However, the report did not address whether the Fund's activities complied with donor's wishes or intentions stated in various agreements.

AID should encourage the Fund's Board of Directors to prepare a report on information necessary for the Board to demonstrate the Fund's compliance with its intended purpose and with donor wishes. This report should be contracted with the Board's independent auditors or other external consultants.

Recommendations

We recommend that the Administrator of AID

- request the Board to further develop its capability to collect, sort, analyze, and report economic indicators of the Fund's achievements;

- exercise greater fiscal control over money disbursed to the Fund by evaluating the timing of U.S. contributions to the Fund so the money is transferred only when needed to minimize interest on the public debt; and
- request the Board of Directors to report specifically on the basis of a performance audit on how the program is being managed to comply with its intended purpose and donor wishes.

Agency Comments

AID stated that it is already taking action to implement our first and third recommendations (see app. IV).

AID did not agree with our second recommendation that it exercise greater fiscal control over money disbursed to the Fund by timing such disbursements to a demonstrated need. AID expressed concern that the Congress did not intend for funds to be restricted in this manner, and that such action would be construed as a lack of U.S. government confidence in the Fund. Our review of the legislation and its history did not reveal anything that leads us to believe that the Congress intended for AID to disburse money to the Fund without regard to need. We continue to believe that Treasury policy, in this regard, apply to AID and its activities with the Fund, and we believe that AID should consult with Treasury and the Fund's Board of Directors to determine how this can be accomplished while minimizing the negative perceptions of such an action.

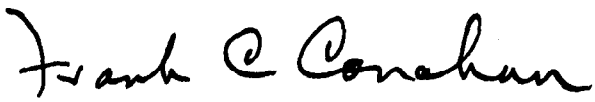
As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report.

Appendixes I and II provide more detailed information on the results of our review. Our objectives, scope, and methodology are in appendix III.

We are sending copies of this report to the chairmen of concerned congressional committees, and will make copies available to others upon request.

This review was performed under the direction of Nancy R. Kingsbury, Director, Foreign Economic Assistance Issues. Other major contributors are listed in appendix V.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

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Abbreviations

AID	Agency for International Development
EEC	European Economic Community

The International Fund for Ireland

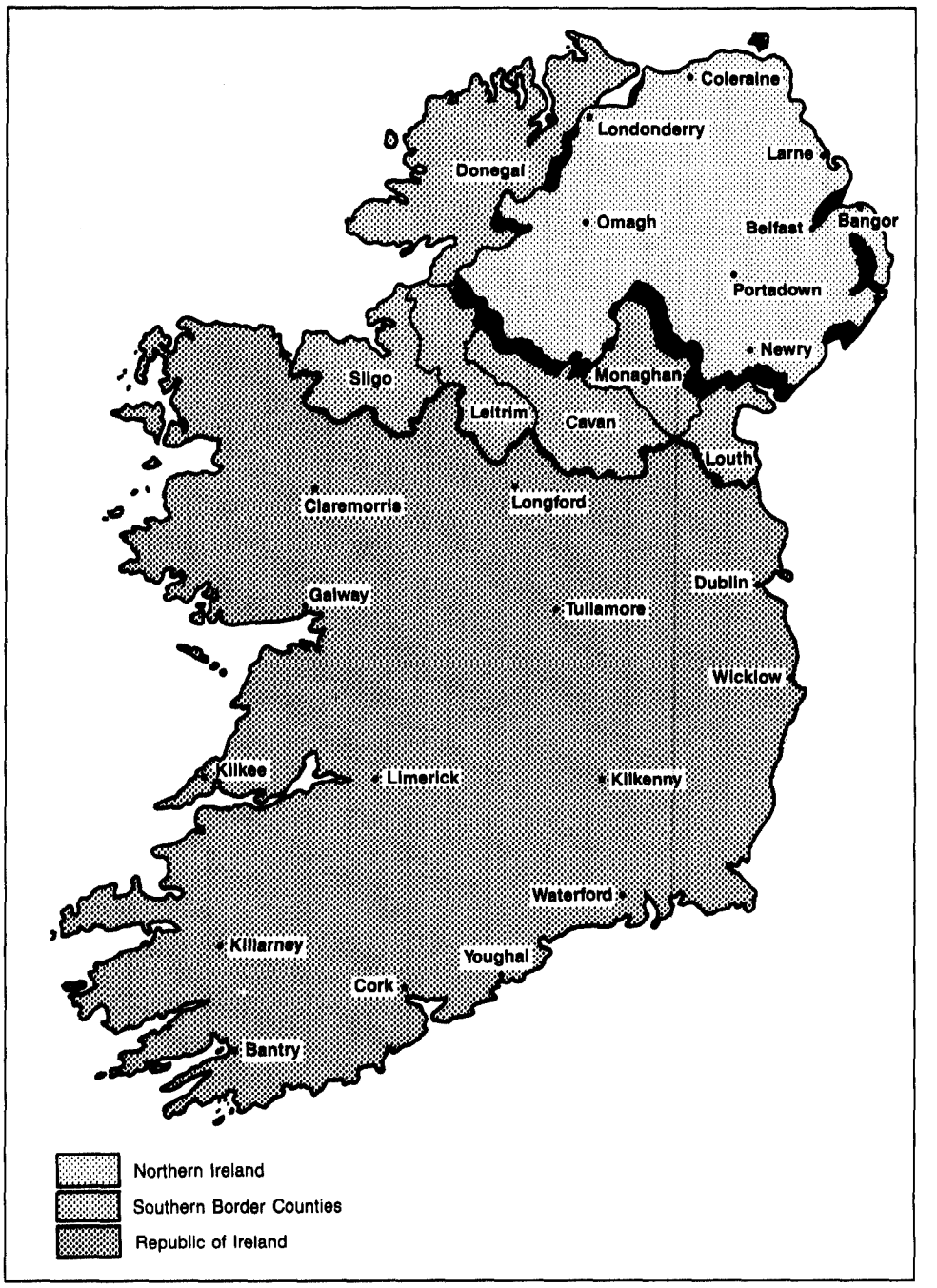
In November 1985, Britain and Ireland signed the Anglo-Irish Agreement as a step toward improving the political, economic, and social conditions existing in Northern Ireland. The agreement, aimed at promoting peace and stability in Northern Ireland and improving cooperation in combating terrorism, received international support as a major step toward reconciliation.

Article 10 of the agreement authorized the creation of an international fund to improve economic and social conditions. The International Fund for Ireland stems from the following provision in the agreement.

"The two Governments shall cooperate to promote the economic and social development of those areas of both parts of Ireland which had suffered most severely from the consequences of the instability of recent years, and shall consider the possibility of securing international support for this work."

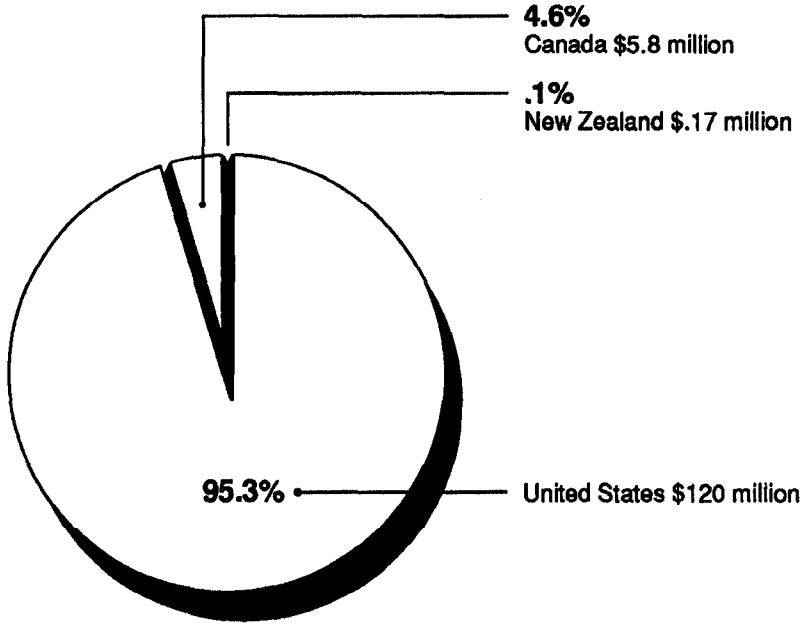
The International Fund was officially established in December 1986 to promote, in Northern Ireland and the southern bordering counties of Ireland (see fig. I.1), economic and social development and reconciliation by stimulating private investment and enterprise, supplementing public programs, and encouraging voluntary efforts.

Figure I.1: Map of Ireland, Northern Ireland, and the Southern Border Counties



The United States, Canada, and New Zealand have pledged $126 million to the Fund as of July 1988 (see fig. I.2).

Figure I.2: Pledges to the Fund as of July 1988 (In $US)



Notes: The European Economic Community is considering a $54-million pledge to the Fund to be disbursed in three annual $18-million payments.

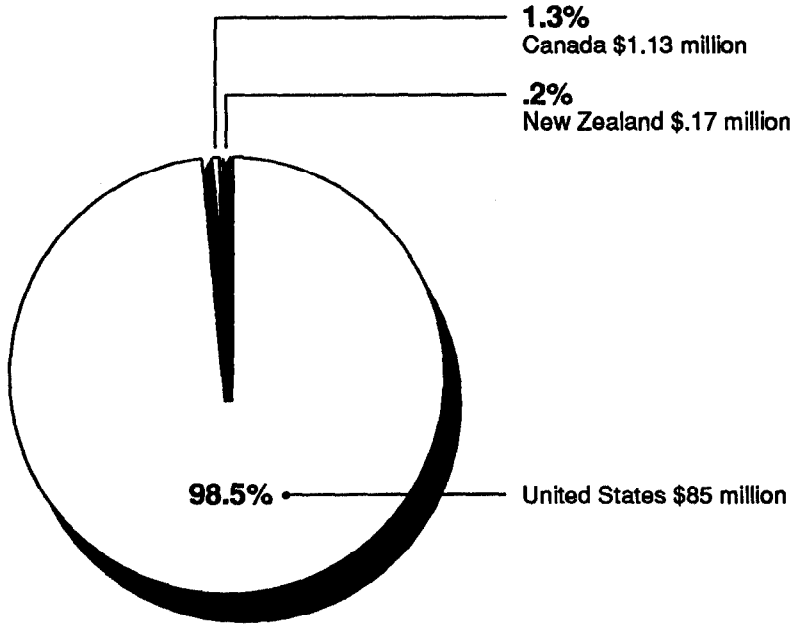
Canadian pledges have been converted to present value in U.S. dollars.

Actual contributions to the International Fund total $86.3 million, as of July 1988. As shown in figure I.3, the United States has contributed $85 million of the total amount.

The Congress enacted the Anglo-Irish Agreement Support Act of 1986 (P.L. 99-415, Sept. 19, 1986), authorizing U.S. contributions to the Fund from AID's Economic Support Fund; $50 million in fiscal year 1986 and $35 million for each of the fiscal years 1987 and 1988. Fiscal year 1988 completed AID's 3-year commitment to the International Fund and, according to an AID official, because of Economic Support Fund budget cuts and competing demands elsewhere, the administration did not request fiscal year 1989 funding.

Nevertheless, as evidence of the United States' continued support of the Anglo-Irish Agreement Support Act, the Congress, for fiscal year 1989, appropriated up to $35 million but not less than $10 million for contributions to the International Fund (P. L. 100-461, Oct. 1, 1988). While the

Figure I.3: Contributions to the Fund as of July 1988 (In $US)



Notes: The $86.3 million represents money disbursed to the Fund. The actual Fund balance, money available for projects, is greater due to interest earned.

In August 1988, the U.S. certified and disbursed an additional $35 million to the Fund; in December 1988, Canada contributed $.5 million (in Canadian dollars).

administration has not yet decided on the amount to be contributed, it is expected to be closer to $10 million.

Continued U.S. contributions will be determined on a year-to-year basis. Canada will contribute up to $10 million (Canadian dollars) over a period of 10 years, and the European Economic Community (EEC), based upon its planned pledge of $54 million, will contribute $18 million annually for 3 years.

Fund Management

The International Fund is governed by a seven-member Board of Directors. While independent of the British and Irish governments, Board membership is chosen by these governments. It consists of a chairman and six members, appointed jointly by the United Kingdom and Irish governments. The Board is advised by a committee of senior representatives of the two governments on all matters. In making disbursements, the Board is required to ensure such disbursements are consistent with

the social and economic policies of the two governments. Each donor is represented by a nonvoting observer to the Fund's Board of Directors.

The Board is supported by a secretariat and program sector teams. The secretariat controls the Fund's day-to-day operations and is headed by two joint directors-general—one in Dublin and one in Belfast. Program sector teams conduct most of the Fund's business in six program areas: Business Enterprise, Tourism, Urban Development, Agriculture and Fisheries, Science and Technology, and Wider Horizons. The teams, supervised by two designated Board members, bring together relevant expertise from government departments and public agencies in the government of Ireland and Northern Ireland, and are headed by joint chairmen—one from Northern Ireland and one from Ireland. They evaluate project proposals, recommend project approval to the secretariat or the Board, approve projects when they do not exceed a certain value, supervise the implementation of projects, and monitor progress as required by the agreement that established the Fund.

The Board of Directors is primarily concerned with the Fund's policies and procedures, but approves projects in certain cases. Specifically, the Board approves projects that generally exceed 400,000 British Pound Sterling (about $700,000 in U.S. dollars),[1] projects that require policy determinations, controversial projects, or projects that have been disapproved and appeals have been made.

While the Board is independent of the contributing governments, when committing to individual projects, it tries to respect the wishes of the donors. For example, Canada requested that its contribution be used for youth training and exchanges and for business cooperation. The United States specified that its contribution be used principally for the stimulation of economic growth and prosperity in the private sector, with emphasis on practical projects producing visible and measurable results such as stimulating new investment and creating jobs. New Zealand, on the other hand, decided that its contribution should go into the common pool of funds.

Oversight of the Fund

The Anglo-Irish Agreement Support Act places responsibility on the President of the United States to ensure that U.S. money contributed to

[1]Using October 27, 1988, exchange rates, one British Pound Sterling was equivalent to $.5716 in U.S. dollars; therefore, 400,000 Pounds Sterling equated to $699,790 in U.S. dollars.

the International Fund is ultimately used for the act's intended purposes. The act requires the President each fiscal year, to (1) certify to the Congress about the composition of the Board and disbursements from the International Fund before additional U.S. money is provided, (2) submit a report to the Congress on whether the intended economic and social goals are being achieved, and (3) ensure that the United States is represented on the Board of Directors.

AID is primarily responsible for administering the Economic Support Fund (22 U.S.C. 2346), which is the source of contributions to the International Fund. AID has carried out its key role for ensuring proper accountability and control over U.S. contributions, and has performed the necessary tasks to support the presidential certification and reporting process.

AID's key role is also evidenced in the agreement entered into between the Government of Ireland, the Government of the United Kingdom of Great Britain and Northern Ireland, and the United States of America on September 26, 1986. This agreement identifies AID as the U.S. representative and contains detailed requirements for the purpose of ensuring that money contributed by the United States is properly spent and accounted for. The agreement also requires that the Fund's financial records be maintained in accordance with generally accepted accounting practices, and that programs be subject to an independent audit by an outside accountant. Under this agreement, AID is provided with annual audited financial reports on the Fund's operations, as well as related information concerning questions arising from the audit report.

AID does not control the activities of the Fund. However, it influences, monitors, evaluates, and reports on Fund activities. AID works with the Department of State and the U.S. observer on the Fund's Board of Directors, members of the Board, as well as Irish and British officials involved in the day-to-day management of the Fund program.

Personnel at the embassies in Britain and Ireland and at the U.S. Consulate General in Belfast also assist AID in its oversight responsibilities of the Fund's activities. Specifically, embassy and consulate officials meet with Board members to discuss U.S. priorities and the purpose of making the U.S. contributions. These officials also provide guidance to the nonvoting U.S. observer on the Board of Directors.

Although AID did not request voting privileges for the U.S. observer, he does attend Board meetings, has access to all documents necessary to

monitor Fund activities, participates in Board discussions, and according to AID officials, influences Board decisions on investment criteria and procedures.

Ways to Strengthen AID's Oversight of the International Fund for Ireland

AID has carried out the key role of informing the Congress whether U.S. contributions to the Fund are properly accounted for and used for the purposes authorized by legislation that are consistent with the Fund's stated economic and social goals. AID's activities include monitoring Fund activities and decisions, preparing the President's annual certification and report to the Congress, and advising Fund managers when appropriate. To accomplish these objectives, AID depends on the opinions and observations of the Department of State officials in London, Dublin, and Belfast, the U.S. observer on the Board of Directors, the annual financial audit by the Fund's independent Chartered Accountants, and its direct contact with the Board of Directors and other managers.

We found that while AID has only limited capabilities to measure the economic impact of Fund activities, it is even more difficult for it to measure social changes. We believe that AID can improve its management and oversight activities by (1) encouraging the Board of Directors to accumulate, analyze, and report on economic change indicators, (2) better timing its disbursements to the Fund, and (3) seeking an expansion of the Fund's reporting to include a specific report, based on a performance audit, of its compliance with its intended purpose and donor wishes.

Determining Whether the Fund Is Achieving Its Intended Goals

The President is required annually to certify and report on whether the International Fund, together with U.S. contributions, are achieving its stated economic and social goals. To date, AID has submitted two certifications and one annual report to the Congress. Because adequate measurement criteria have not been developed, and the fact that until recently the Fund had not committed to a sufficient number of projects allowing for an evaluation of social change, AID has been unable to assess and report on whether the Fund has helped to produce the desired social changes.

Certification

Before AID can disburse money to the International Fund, the President must certify to the Congress that he is satisfied that (1) the Board of Directors is broadly representative of the interests and the communities in Ireland and Northern Ireland and (2) disbursements from the Fund will be made in accordance with the principle of equality of opportunity and nondiscrimination in employment, without regard to religious affiliation, and will address the needs of both communities in Northern Ireland.

The first certification was issued in March 1987 and covered both the 1986 and 1987 U.S. contributions totaling $85 million. It described the Board's composition and discussed the Fund's procedures and investment criteria for ensuring that disbursements would be distributed in accordance with the principle of equality of opportunity and nondiscrimination.

The second certification was issued in August 1988. AID had more information available for this certification because the Fund had evaluated over 1,500 investment proposals and committed over $30 million to approved projects. Since the project implementation was in its early stages, AID's evaluation focused on the procedures that the Fund had established to achieve the expected social changes.

The certification described the membership of the Board and estimated the number of jobs created through Fund activities. It also described the investment leverage attained and the Fund's investment policies regarding nondiscrimination and equal opportunity. In preparing the second certification, AID officials personally visited funded projects and talked with officials from Britain, Ireland, and the Fund's Board of Directors, the Department of State, and Northern Ireland businessmen.

AID officials told us that, for future certifications, AID will attempt to identify ways to measure changes in the social structure as a result of Fund activities. However, AID has yet to decide on appropriate criteria and methodology to address social change.

The Annual Report

In each fiscal year that AID disburses money to the International Fund, the President must report to the Congress on the degree to which (1) the Fund has contributed to reconciliation between the communities in Northern Ireland, (2) the contribution is meeting U.S. objectives to encourage new investment, job creation, and economic reconstruction, and (3) the Fund has increased respect for the human rights and fundamental freedoms of all people in Northern Ireland.

The October 27, 1987, annual status report was similar to the first certification. This report was based largely on documents provided by the Board and not independent evaluations by AID. Also, it did not address the points required by the legislation, since the report covered an operating period where very little of the United States' $85-million contribution was invested in projects.

As a result of their May 1988 trip to Ireland and because more projects have been approved, AID officials told us that they have included more information in their 1988 report. They stated that the report does not comment more definitively on social changes than the latest certification because the report contains much of the same information used to prepare the certification.

Obstacles to Measuring Change

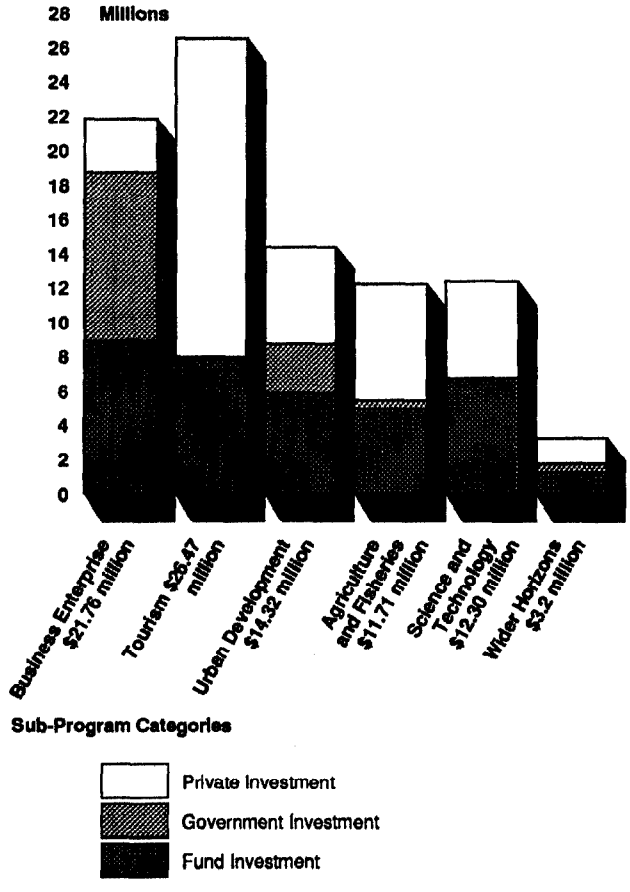
AID officials agree that decisions must be made on measurement criteria to evaluate social change, but to date, they have not been able to do so. The following are several factors that contribute to this:

- AID officials are not confident that measures of social change, such as nondiscrimination, reconciliation, and respect for human rights, can be precisely developed. Measuring social change is extremely difficult and even if possible, attributing these changes to the Fund is problematic.
- The U.S. investment is relatively small compared to Northern Ireland's enormous social and economic problems. AID officials and Board members doubt whether U.S. money can make more than a modest contribution toward reconciliation, even though they all agree that, on a project-by-project basis, an impact will be noticeable.
- It will be difficult to identify separately the effect of the $120-million U.S. contribution from the effect of other inputs, such as Britain's $3-billion annual economic assistance contribution to Northern Ireland.
- Social change is likely to occur slowly over the long term and may not even be measurable in the short term.

AID's decisions on measurement criteria are difficult because data are not readily available on the religious affiliation of those receiving assistance, the religious composition of project areas, and the religious breakdown of those hired under the assistance provided. British law currently does not allow the Fund to request or maintain information on the religious affiliation of applicants and prevents employers from obtaining religious affiliation information from employees. However, Britain is considering a change in the law, which will strengthen its policy toward religious equality of opportunity in employment by requiring annual reporting by all public sector employers and private firms employing more than 10 employees on the religious makeup of their personnel. This proposed change offers the potential to provide information that could be used to establish reliable baseline employment data to measure compliance with nondiscrimination principles in the future.

AID officials believe it is more productive to concentrate on economic-based measures that illustrate the direction of social change rather than the degree of change, such as the economic accomplishments of the Fund as demonstrated by economic leverage generated, increases in private sector investment, and the number of jobs generated. Information shown in figure II.1 provides estimates of the economic leverage generated by the Fund in relation to private and government investment and clearly demonstrates that Fund commitments to projects may produce significant results in terms of encouraging investment from other sources.

Figure II.1: Economic Leverage Generated by Fund Commitments (In $US)



Economic measures are easier because they can be quantified and could be available at the project level. According to AID, data collection capabilities are now in place but economic measurement data is not readily

sorted according to decided-upon, economic change indicators. For example, AID would like to have data about the financial and economic status of applicants. While the economic status of applicants is not part of the selection criteria, information contained in applications could be used to identify recipients of assistance.

Disbursements to the Fund Should Match Investment Need

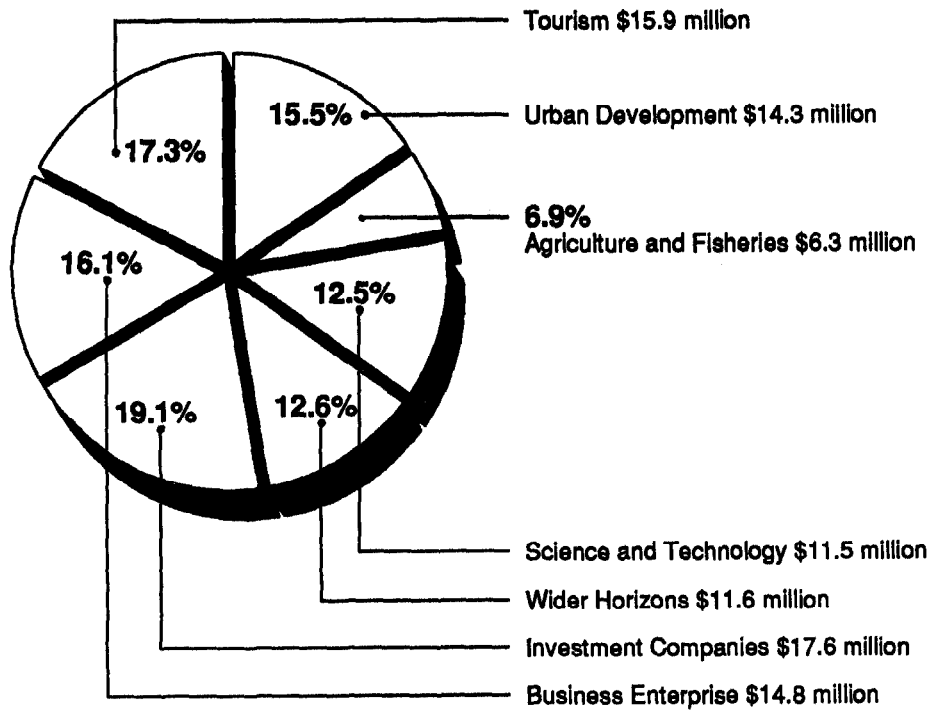
Before AID disburses money to the International Fund, it prepares the President's certification to the Congress, which states that (1) the Fund's Board of Directors broadly represent the interests of both communities in Northern Ireland and (2) disbursements will address the needs of both communities and will be based on equality and nondiscrimination. Based on this certification, AID disburses the money from the Economic Support Fund to the International Fund. The certification does not address the need for money, only that these two conditions are met.

Although the Anglo-Irish Agreement Support Act does not require AID to consider whether money is needed before making disbursements, the U.S. Treasury Financial Manual, section 8065.20, states that, it is U.S. policy to retain money awaiting transfer to international programs until actually required, to minimize interest cost on the public debt. We believe that the Treasury policy applies to AID contributions to the Fund.

At the time of our review, the International Fund had not committed a significant portion of available funds to individual projects, nor had the projects it was committed to received significant funding. However, money in the Fund had been allocated to broad program categories for future commitment and distribution. Allocations had been made, for example, for future commitments, such as revolving business development money as part of the Business Enterprise program, building new hotels and improving others as part of the Tourism program, and purchasing a fishery research vessel as part of the Agriculture and Fisheries program. Still, a large proportion of available money remained uncommitted to specific projects within these broad program areas.

As early as May 1988, the Fund had received about 2,462 project applications—769 were approved, 1,010 were disapproved, and 683 were still under consideration. However, as shown in figures II.3 and II.4, respectively, over 67 percent of the available money remained uncommitted and over 95 percent had not been disbursed as late as July 1988. AID officials attribute the slow rate of commitment to "start-up" considerations and the need, because of the sensitivities involved, to carefully

Figure II.2: Allocation of Funds Among Sub-Program Categories, as of July 1988
(In $US)



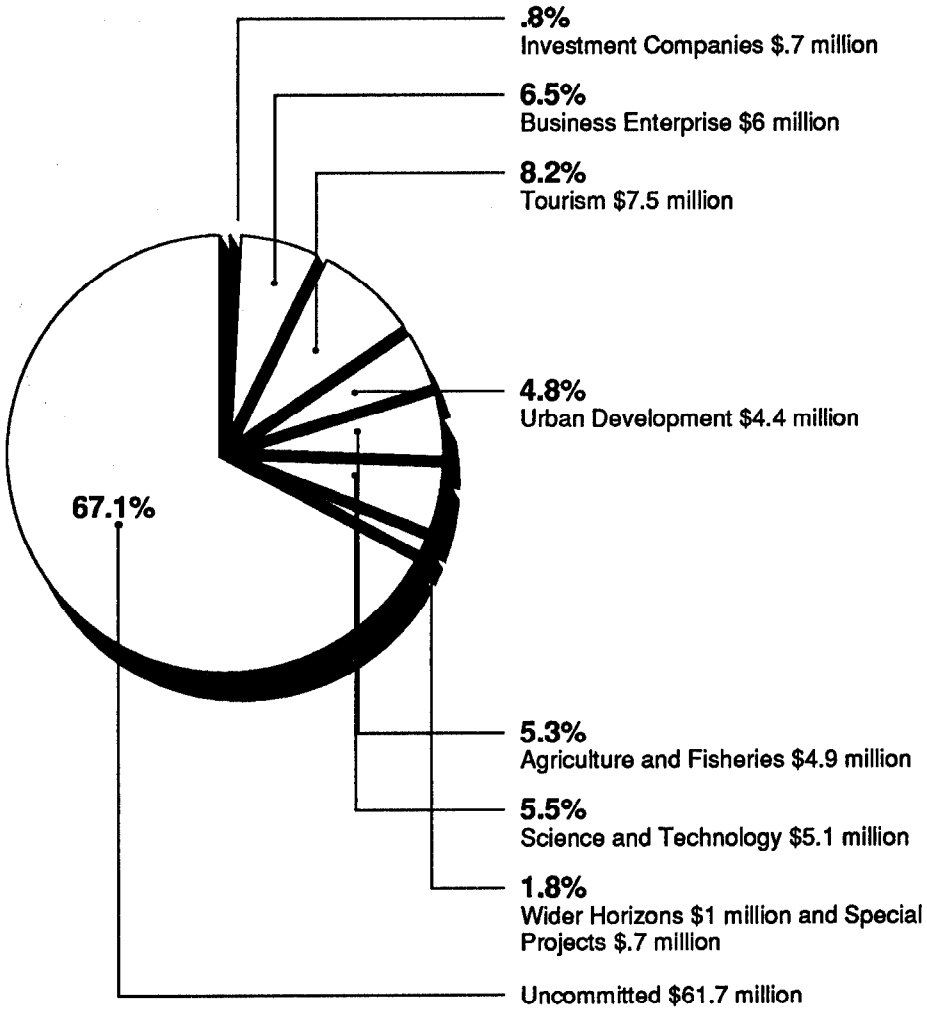
Note: Although the total disbursed to the Fund as of July 1988 was $86.3 million, interest earned on funds increased the amount available for projects to about $92 million.

evaluate proposals. Nevertheless, the Fund had about $88 million of the $92 million on hand for distribution at the time AID was preparing to disburse the fiscal year 1988 $35-million to the Fund.

Figure II.5 shows the significant differences among allocations, commitments, and distributions existing in July 1988 that caused us to question whether the U.S. fiscal year 1988 $35-million contribution was required immediately. It was not clear whether the Fund could effectively invest its money by the end of the year and, therefore, the need for disbursing the $35 million for fiscal year 1988 was questionable.

The Board, the U.S. observer, and AID all contended that the United States' $35 million was needed immediately. They stated that, the commitment pace was increasing and that the available money would be fully subscribed to in the near future. AID officials told us that their decision to disburse the fiscal year 1988 $35 million was based on verbal assurances from the Board of Directors and the U.S. observer that it was

Figure II.3: Fund Commitments to Individual Projects Relative to Funds Available—By Sub-Program Categories, as of July 1988 (In $US)

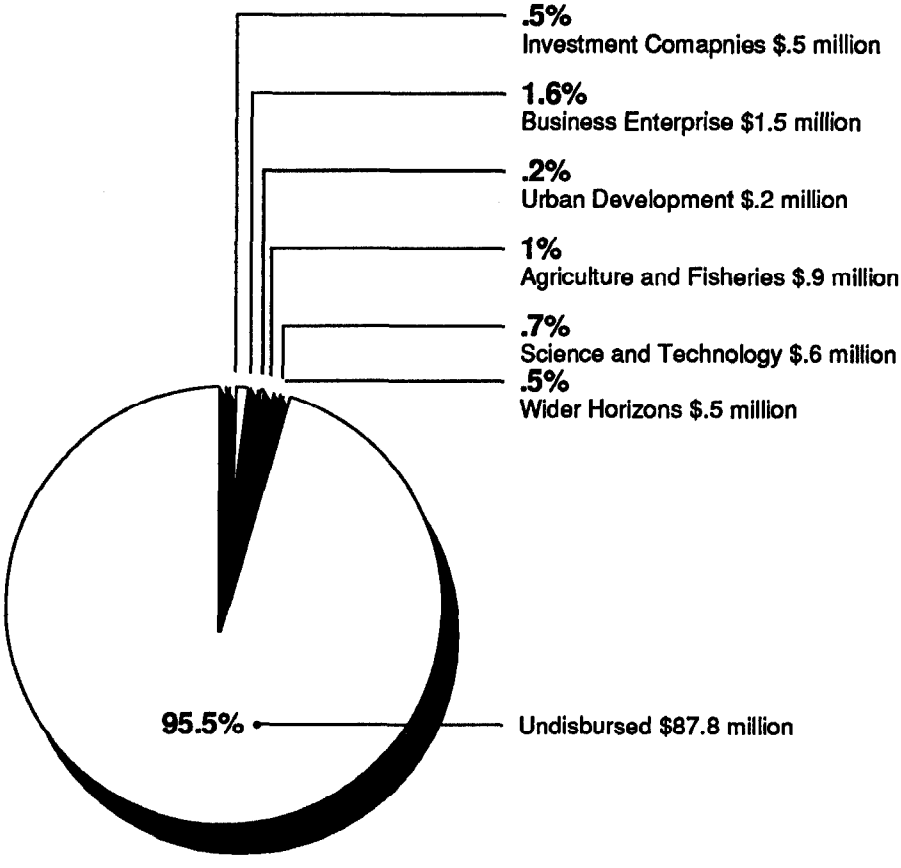


Notes: While $92 million was available for commital to projects, only $30.3 million or 33 percent had been committed.

Although $.7 million from the Investment Company account had been committed to specific projects, the entire $17.6 million allocation has been made to this account's management group and not available to the Fund for alternative use.

needed. AID was influenced by the Board's concern that any delay in the certification and disbursement of money would indicate that the United States has problems with the Fund or its Board and that, since Board rules prevent considering projects if the money is not on hand to support them, this would interfere with the Fund's momentum. In addition,

Figure II.4: Fund Disbursements Relative to Funds Available—By Sub-Program Categories, as of July 1988 (In $US)

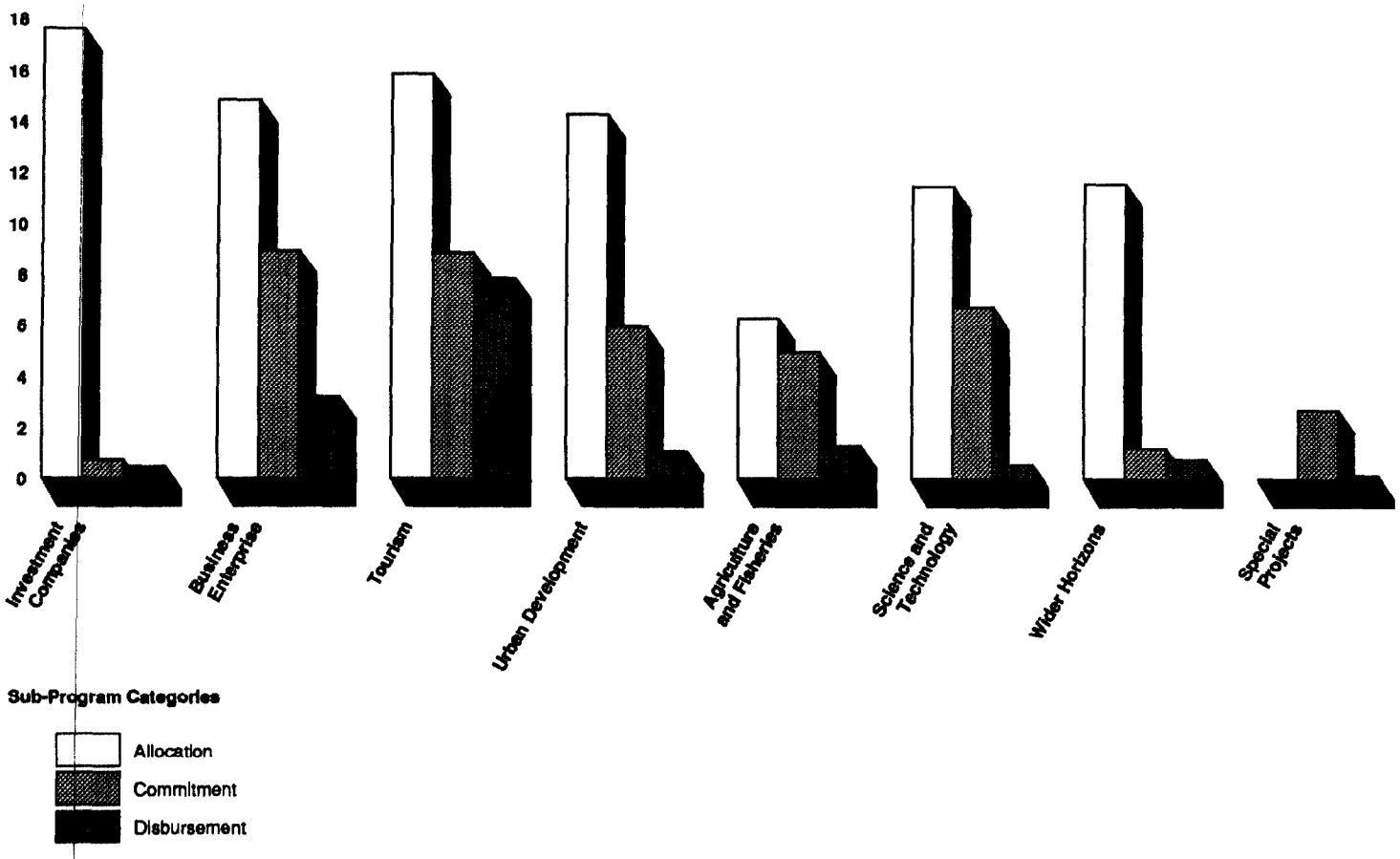


Board members contend that any delay in disbursement could involve currency fluctuations that would reduce the amount of money available to the Fund.

We asked the Fund officials to project commitments and disbursements through the end of fiscal year 1988 and calendar year 1988 to demonstrate the immediate need for the fiscal year 1988 $35 million. The information provided indicated that the majority of the $85 million in U.S. contributions would be committed by January 1989. However, no information was available on which projects would be approved, or on the amount that would be disbursed.

AID should control the timing of U.S. contributions to the Fund and consider establishing an escrow account that would be available to the Fund for drawdowns. The interest earned on the money while in the escrow

Figure II.5: Composite Allocations, Commitments, and Disbursements, as of July 1988 (In $US)



Note: The Investment Company cluster above reflects disbursements and commitments by the companies themselves. The $17.6 million allocated to this program category is not available to the Fund for alternative use.

account would revert to the U.S. Treasury. This method was previously used by AID to obligate and hold money for the Fund until it was formally established and, under this approach, AID would not prematurely distribute money to the Fund and the Board of Directors would have assurance that the money would be available to meet their needs. With the expected fiscal year 1989 $10-million contribution to the Fund, and in consideration of the expected EEC $18-million annual contribution, which will boost the Fund's cash reserves even further, this becomes more important.

Scope of External Evaluations Should Be Expanded

The agreement entered into on September 26, 1986, contains detailed requirements for the purpose of ensuring that money contributed by the United States is properly spent and accounted for. This agreement requires that the Fund's financial records be maintained in accordance with generally accepted accounting practices and that the programs of the Fund will be subject to an independent audit by the Fund's outside accountant. Under this agreement, AID is provided with annual financial audit reports on the Fund's operations, as well as access to its financial records.

The Fund's first financial report covered its first 9 months of operations and essentially provided information on the Board's allocation of money to the program areas, commitments to projects, and disbursements made as of September 30, 1987.

Since this last audit report, the Fund's activities increased substantially and the Board delegated most project review, approval, and monitoring functions to its advisory committees and program teams. AID and the U.S. observer agreed with the Board that the audit should ensure, among other things, that money was reaching the areas in both parts of Ireland that have suffered most severely from the consequences of the instability of recent years, as specified in the November 1985 Anglo-Irish Agreement.

In response to this concern, the Fund's independent accountants proposed expanding the scope of the next audit to include an evaluation of the Fund's payment procedures by tracing all checks drawn on its accounts and compliance with approved investment procedures by sampling and reviewing project files.

We reviewed the scope of work proposed by the independent accountants and believe these procedures address the concerns raised by AID and the U.S. observer. However, these procedures do not include performance audit features normally applied to audits of U.S. government programs. While the Fund is not subject to U.S. audit standards, complying with such standards to the maximum degree possible will provide (1) AID and the U.S. observer greater assurances that improprieties do not exist and (2) more credibility to the program.

We believe the Board should report specifically, on the basis of a performance audit, on how the Fund is being managed to comply with its intended purpose and with donor wishes. One option available to the Board is to contract with its independent auditors to include, as part of

its audit, an assessment of whether managers have established policies and procedures to ensure that the Fund's objectives are fully met. Although we recognize the current problems in measuring economic and social changes resulting from Fund operation, to the extent possible, the evaluation could include

- assessing whether the program objectives are proper, suitable, or relevant (based on what the donors wishes are and the Fund's charter);
- determining if the Fund is meeting its objectives (recognizing the difficulty in measuring economic and social changes);
- identifying factors that inhibit the Fund's capability to reach stated goals and objectives (these may be avoidable or unavoidable);
- determining if and how the Fund's programs duplicate, complicate, or overlap other related programs; and
- assessing the adequacy of the Fund managers' system for measuring and reporting effectiveness of operations.

The program report could be included as part of the financial audit report, or a separate report issued by the Board. AID should include the results of the performance audit in its annual report to the President.

Conclusions

The Congress appropriated $120 million for the International Fund for Ireland to address the depressed economic and social conditions in those areas in both parts of Ireland that have suffered most severely from the consequences of the instability of recent years as a step toward resolving various differences. As of August 1988, AID has disbursed the entire $120 million to the Fund.

The President is required to report to the Congress on how the Fund, together with U.S. contributions, are achieving the stated economic and social goals. AID acts as the President's representative for monitoring, influencing, and reporting on the activities of the Fund, with the assistance of (1) the Department of the State officials overseas, (2) the U.S. observer to the Board of Directors, (3) annual financial audits, and (4) direct involvement with all levels of Fund management. AID has played the key role in assuring the Congress that U.S. contributions are properly accounted for and used for purposes intended by the act.

AID has reported to Congress on three occasions. However, AID is unable to determine how U.S. contributions and the activities of the Fund contribute to the stated goals. AID's ability to do so has been influenced by (1) limited project commitments and disbursements necessary to effect

accomplishments, (2) inherent problems in measuring the degree of social change, and (3) the absence of adequate criteria to measure social change. AID is developing ways to make such measurements.

AID also needs to manage the timing of disbursements to the Fund and to work with the U.S. observer to expand the scope of the Fund's reporting requirements. In controlling the timing of contributions to the Fund, AID should exercise greater control over money disbursed to the Fund so that U.S. money is transferred only when needed to minimize interest on the public debt. The interest earned on the funds while in the escrow account would revert to the U.S. Treasury.

The United States does not have the right to audit Fund activities. However, an agreement between the Government of Ireland, the Government of the United Kingdom of Great Britain and Northern Ireland, and the Government of the United States of America provides that AID will receive financial audit reports on Fund operations and other related information. In 1987, the Fund's independent accountants reported that the financial statements fairly presented the financial position of the Fund. However, the report did not address whether Fund activities complied with donor's wishes or intentions stated in various agreements. We believe the Fund's Board of Directors should be requested to report on the Fund's progress in accomplishing its intended objectives.

Recommendations

To strengthen U.S. oversight of the International Fund for Ireland, we recommend that the Administrator for AID

- request the Board to develop further its system to collect, sort, analyze, and report economic indicators of Fund achievements;
- exercise greater fiscal control over money disbursed to the Fund so that U.S. money is transferred only when needed to minimize interest on the public debt; and
- request the Board of Directors to expand the scope of the Fund's reporting to include performance-related audit items, such as whether the program is being managed in compliance with intended agreements and donor wishes.

Agency Comments and Our Evaluation

In its comments on a draft of this report, AID stated that it and the Board are already taking actions to implement our recommendation that they further develop capabilities to measure Fund accomplishments. Similarly, AID agreed in principle with our recommendation that the Board

expand the scope of the Fund's reporting to include a performance audit, but offered an alternative approach. AID advised us that the Board is willing to consider a contract with external consultants to carry out an independent assessment of performance to include the Fund's compliance with its intended purpose, donor wishes, and sound management. We believe the alternative suggested by AID and the Board would accomplish the intent of our recommendation, and we, therefore, have modified our original recommendation.

AID did not concur with our recommendation that it exercise greater fiscal control over disbursements to the Fund by timing the disbursements so money is transferred only when needed to minimize interest on the public debt. AID believed that the Congress did not intend to restrict funds in this manner and also disagreed with our statement that it did not consider whether the money is needed by the Fund before disbursing it. Furthermore, AID expressed concern that any action to restrict disbursement of appropriated funds to the Fund could be construed as a lack of confidence in the Fund by the U.S. government.

Our review of the legislation and its history did not reveal anything that leads us to believe that the Congress intended for AID to disburse money to the Fund before it is needed. We continue to believe that Treasury policy in this regard apply to AID and its activities with the Fund. We believe that AID should consult with Treasury to determine how this can be accomplished without conveying a lack of U.S. confidence in the Fund. As previously discussed, one approach might be to establish an escrow account that would be available for drawdowns.

AID provided technical clarifications and corrections, which we incorporated in the report as appropriate.

Objectives, Scope, and Methodology

We reviewed AID's involvement in monitoring, influencing, and reporting on the activities of the Fund. We did not review projects or records maintained by the Fund to determine whether it is achieving its intended goals because under existing agreements, U.S. agencies do not have audit rights. Nevertheless, we did meet with certain Board members and senior administrators in the offices of AID, British and Irish Embassy and government officials, the U.S. observer, and the Board of Directors. The Board was concerned that an on-site review of the Fund, to include full access to decisionmakers at all levels and records, would imply U.S. political interference with the money, indicate a loss of U.S. faith in the Fund or its Board, or send a signal that there were problems with the Fund.

Our work was conducted at AID in Washington, D.C.; the U.S. Embassy to the United Kingdom in London; U.S. Embassy to the Republic of Ireland in Dublin; and the U.S. Consulate General to Northern Ireland in Belfast. In Washington, D.C., we held discussions with AID officials; the U.S. observer to the Fund's Board of Directors; and the Chairman; and members of the Board of Directors, and senior staff of the Fund.

We reviewed AID's records and files related to the Fund. We also held discussions with the U.S. Embassy's Political Officer for Northern Ireland and the U.S. observer in London, the Consul General to Northern Ireland in Belfast, and the U.S. Ambassador to Ireland and other Embassy officials in Dublin, and reviewed records and files related to the International Fund.

Our review was performed from April to July 1988 in accordance with generally accepted government auditing standards.

Comments From the Agency for International Development

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT
ADMINISTRATOR

30 DEC

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

We have reviewed the proposed draft report entitled Foreign Assistance: Administration of Funds for the International Fund for Ireland. On behalf of the Administrator, we appreciate this opportunity to respond and will address each of the three recommendations in order.

1. "We recommend that the Administrator of A.I.D. increase efforts to have the Board of Directors collect, sort, analyze and report economic indicators of the Fund's achievements."

Although legally established at the end of 1986, the first U.S. contribution to the Fund was not made until March 1987. The first year was spent developing the institutional and policy framework within which to operate. Policies and procedures were formulated which reflect Congressional interests -- equality of opportunity, nondiscrimination on political or religious grounds, and job creation. With those in place, the Board's efforts were focussed upon implementing a comprehensive project review process and initiating IFI financed activities. Project implementation of the first activities had been underway for only about 9 months at the time the audit was undertaken.

It was incumbent upon the Board to focus its initial efforts on ensuring adherence to the guidelines set out for them and getting initial projects approved. With critics on both sides, they needed to ensure that project approval was not being stalled, but that projects were being approved wisely. As of September 30, the Board has reviewed more than 2,400 proposals and approved 858 in only 21 months of operation. This is a most laudable accomplishment by anyone's standards.

Steps have already been taken on the next stage -- developing indicators of performance. The Board has instructed each program team to collect data on the projects approved in their sector. Every four months the program teams submit aggregated data such as applications received, approved, under review, and

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rejected. More recently they have begun collecting data on anticipated job creation. These data sheets provide a quick overview of program commitments, disbursements, and amounts leveraged on approved projects.

The Board of Directors is aware that automation of this system is essential to the efficient management of the Fund's resources. To this end, they have instructed the Secretariats to jointly develop a management information computer program that will facilitate dissemination of current information.

At the same time we are identifying the types of information which would assist us in preparing the necessary certifications and yearly congressional reports, which we will discuss with the Fund. We felt it was incumbent upon us to carefully determine our needs before discussing this matter with the Board. We anticipate a project and investment sector information base which would facilitate monitoring and periodic analysis of the IFI portfolio -- examining project implementation status, content of the portfolio, direct economic effects, etc.

The Board is already collecting initial project data, and plans to computerize their data collection system. A.I.D. is developing further indicators to share with the Board. Accordingly, we believe we are already undertaking recommendation 1 of the report.

2. "We recommend that the Administrator of A.I.D. exercise greater fiscal control over money disbursed to the Fund by evaluating the timing of U.S. contributions to the Fund so money is transferred only when needed to minimize interest on the public debt."

Although we appreciate the GAO concern to minimize interest on the public debt, we do not believe it is the intent of Congress to restrict funds to the IFI in this way. The funds are described in the Congressional Report as a U.S. contribution to the IFI, not as disbursements for specific activities as they occur. As was pointed out in the report, Congress associated the release of funds with a Presidential Certification which would assure that the political aspirations of the Fund are being met before a contribution to the capital of the Fund is made by the USG.

These funds have been allocated by Congress to promote reconciliation. IFI board members are involved in an extremely difficult endeavor and are sometimes questioned and criticized by groups who do not believe in the Anglo-Irish Accord, which the funds were allocated to support. Using a payment method of holding back on the capital contribution which Congress has

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mandated should be released could be misconstrued as the U.S. government questioning the Fund's capabilities and credibility to undertake the program entrusted to them after the President has positively certified to this effect.

We do, of course, agree that there is a degree of fiduciary responsibility which must be carried out and it is for this reason that A.I.D. consulted with the Board of Directors and the U.S. Observer prior to the release of the $35 million. Furthermore, A.I.D. requested the Fund to report when it would fully commit its funds in each of the program sectors. Thus the statement on page 25 which says "A.I.D. officials do not consider whether money is needed before making disbursements" is incorrect and we request this comment not be included in the report.

In summary, we believe that the Congressional intent on the nature and timing of the U.S. contribution must be kept in mind. Any implementation action which could undermine the Board's reputation should be avoided. Changing procedures at this point, especially with an action which questions judgment concerning fiduciary responsibility, could be misunderstood as a lack of faith in the Fund. We believe the present procedures already exercise the type of fiduciary control required for this type of program and request that the recommendation be removed.

3. "We recommend that the Administrator of A.I.D. encourage the Board of Directors to expand the scope of the Fund's audit to include performance related audit items such as whether the program is being managed in compliance with intended agreements and donor wishes."

It is the Board's responsibility to respond to questions regarding the overall management of the Fund, the achievement of its objectives and matters such as compliance with the wishes of the donors. The Board has contracted Coopers and Lybrand to give an independent report on the financial management of the Fund, to certify that the financial position is correctly presented, and to report to the Board on any deficiencies which should be corrected in the internal controls of the Fund. The "economy and efficiency" and "program results" aspects of the expanded scope audits are distinct from the financial audit of the Funds accounts and are not, therefore, included in the present scope of work.

The Irish Auditing Standards and Guidelines of the Institute of Chartered Accountants require Coopers and Lybrand to consider the internal accounting controls of the Fund and to report any weaknesses in a formal letter to the Board. The formal audit

report of the accounts would not refer to internal controls, other than in the circumstances that the deficiencies were so significant as to cast doubt upon the reported figures. Within the audit report, internal control matters were considered. Guidelines for "control" review were issued to the administering agencies who have integrated them with their own internal auditing procedures. Thus the "financial and compliance" requirements of the audit are in accordance with Irish Auditing Standards.

In order to respond to program evaluation concerns, A.I.D. understands that the Board is willing to consider a contract with external consultants to carry out an independent assessment of performance which would provide the information necessary to enable the Board to demonstrate the Fund's compliance with its intended purpose, with donor's wishes and sound management. The findings of such a study would be shared with A.I.D. We agree with this approach, believing that the information needed requires skills and program experience which are distinct from those required for a financial audit. It would, therefore, be the wrong approach to expand the current scope of the financial audit to include the evaluative work required.

Thus, although not agreeing with the method suggested within the report, we believe that we are acting in accord with the spirit of the recommendation, i.e. to ensure that program performance is monitored and reported. The Board is taking steps to ensure that the Fund's performance will be evaluated, not only to ascertain lessons learned, but to enable them to allocate further resources to endeavors which permit the most deprived areas to benefit from the resources available.

There are also a number of minor changes which we believe would more precisely depict the situation as well as a few factual errors in the report. We have enclosed a copy of the original report with these changes.

Sincerely,

Carol C. Adelman
Assistant Administrator
Bureau for Asia and Near East

Enclosure:
Audit Report

The following are GAO's comments on other points made by AID in its letter dated January 3, 1989.

GAO Comments

1. We deleted this statement from our report.

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