

**Audit of USAID/Bosnia-Herzegovina's  
Budget Support Program for the Republika Srpska**

**Audit Report No. B-168-99-002-P  
January 22, 1999**

**Regional Inspector General  
Budapest, Hungary**

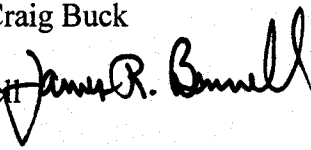


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Report No. B-168-99-002-P  
January 22, 1999

## MEMORANDUM

TO: USAID/Bosnia-Herzegovina, Craig Buck

FROM: RIG/Budapest, James R. Bonnell 

SUBJECT: Audit of USAID/Bosnia-Herzegovina's Budget Support Program for the Republika Srpska

This is our final report on the subject audit. In preparing the report, we considered your comments on the draft and included them in Appendix II. The audit found that, for the items tested, both the Office of the High Representative and USAID/Bosnia-Herzegovina ensured that the intended recipients of USAID's Budget Support Program actually received their entitlement.

This report does not contain any recommendations; therefore, no action on the report is required by USAID/Bosnia-Herzegovina. We appreciate the cooperation and assistance provided to the auditors on this assignment.

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### Background

In January 1998, the Republika Srpska (Srpska) elected a new government headed by Prime Minister Milorad Dodik. This government immediately took a number of important steps to implement the Dayton accords and demonstrate a moderate, pro-Dayton attitude. As a result, the High Representative for Bosnia-Herzegovina appealed to donor countries to provide \$15 million in immediate, up-front fiscal support for that government. The High Representative considered this support critical for consolidating Srpska's new government and for realizing the potential the new political situation had to offer.

In March 1998, the United States Government decided to support the new government of Srpska by providing \$5 million to help pay the salaries of certain eligible public sector employees such as teachers and hospital workers. Ineligible employees included those in the Ministry of Interior (specifically the Srpska police force), Ministry of Defense, and Ministry of Justice. Moreover, the

funds could not to be used to pay income taxes or social security contributions, such as pensions and health care, and in no case could they be used to pay the salaries of any employees indicted by the International War Crimes Tribunal. Other donors contributing budget support included the European Union, the Netherlands, Sweden, the United Kingdom, and Canada. The grant authorizing the USAID contribution charged the Office of the High Representative (OHR) with the responsibility for disbursing the money and overseeing the program.

In April 1998, USAID/Bosnia-Herzegovina transferred \$5 million to OHR which planned to disburse these funds in a series of three tranches to the Banjalucka Banka in Srpska—the bank designated to process the funds. The Banjalucka Banka was required to set up a separate account for each Srpska Ministry or Department eligible to receive support. Prior to disbursing each tranche, the Srpska Ministry of Finance was to justify to OHR the Srpska request for funds by submitting appropriate salary information from the eligible Ministries and Departments. OHR was to review these documents and, if acceptable, authorize payment. Once the bank received the money and distributed it to the appropriate accounts, the bank could allow the Ministries and Departments to make withdrawals and pay their employees. Under the terms of the grant, OHR had to complete all disbursements by June 30, 1998, and was expected to audit each disbursement. USAID/Bosnia-Herzegovina retained authority to undertake additional audits if considered necessary.

In April 1998, the USAID/Bosnia-Herzegovina Mission Director requested RIG/Budapest to review USAID's Budget Support Program for the Republika Srpska.<sup>1</sup>

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## **Audit Objective**

The objective of this audit was to determine if USAID/Bosnia-Herzegovina and the Office of the High Representative ensured that the intended recipients of USAID's Budget Support Program actually received their entitlement.

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## **Audit Findings**

### **Did USAID/Bosnia-Herzegovina and the Office of the High Representative ensure that the intended recipients of USAID's Budget Support Program actually received their entitlement?**

For the items tested, both the Office of the High Representative (OHR) and USAID/Bosnia-Herzegovina ensured that the intended recipients of USAID's Budget Support Program actually

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<sup>1</sup> On June 25, 1998, we issued an interim report (No. B-168-98-002-S) on the preliminary results of our review on this program.

received their entitlement. Our conclusion is based on the following elements: (1) review of the OHR audit work and determination that we could rely on their work; (2) a joint assessment with OHR staff of one of the three disbursement tranches; (3) interviews of selected public sector recipients in Srpska; and (4) review of the OHR final report which summarized its audit findings, problems identified, and the final financial position of the program. Details relating to these elements are described below.

### **OHR Audit Plan and Implementation**

To provide oversight of the budget support funds provided by the United States Government and other donors, the OHR established an internal audit team composed of two chartered accountants who directed the audit coverage and supervised various assistants who carried out much of the testing. In addition, independent observer teams from the European Community Monitoring Mission also assisted OHR in gathering data in Srpska.

The OHR audit plan was approved by USAID/Bosnia-Herzegovina in April 1998, prior to disbursement of the first tranche. The plan consisted of pre- and post-disbursement phases. During the pre-disbursement phase, the auditors intended to determine if:

- the salary request lists from Srpska were accurate and properly documented;
- no indicted war criminals were included on these salary lists; and
- the bank processing these funds had established a separate account for each ministry.

During the post-disbursement phase, the auditors intended to determine if:

- the net salary total for each ministry had been deposited to the correct bank account;
- disbursements from these accounts were evidenced by an authorized request from the responsible ministry's cashier; and
- withdrawals from these accounts agreed to the total funds requested.

The audit plan also required that a judgmental sample of employees be selected to verify that the employee actually received the correct salary.

We reviewed the OHR audit work papers for two of the three disbursements and satisfied ourselves that the auditors properly executed the audit plan. For example, we found that OHR auditors ensured that a complete list of names and pertinent salary information had been obtained from all Ministries and Departments authorized to receive budgetary support from USAID/Bosnia-Herzegovina. OHR auditors then reviewed the list of names to ensure that no indicted war criminals were included on them. In addition, OHR auditors ensured that separate bank accounts had been established for USAID/Bosnia-Herzegovina funds and that only Srpska Ministries which qualified under the terms of the grant were approved for budgetary support.

### **Joint Review of Second Tranche Disbursements**

In early June 1998, a joint OHR-RIG/Budapest team tested the second tranche payment at the Banjalucka Banka in Srpska. During these tests, the team:

- traced the flow of funds from the correspondent bank in Frankfurt, Germany to the Banjalucka Banka, and then to each Ministry's special account number for this program; and
- verified evidence of either (1) the receipt of these funds by a given Ministry's cashier or (2) the transfer of these funds to regional banks located closer to the offices designated to receive budget support.

As a result of this assessment, the team concluded that the process and documentation supporting the transfer of funds from the correspondent bank to the designated cashiers or regional banks were acceptable for this tranche.

### **Interviews with Public Sector Recipients**

Also in June 1998, the joint OHR-RIG/Budapest team interviewed 109 public sector employees of the Srpska to test whether the designated Budget Support Program recipients actually received their entitlement for March and April, 1998 (the months covered by tranches 1 and 2). We found that all 109 individuals either received their salary for March and April or, in the case of a few April payments, were confident they would soon get the money. Consequently, we concluded that individuals received their correct salaries from tranches 1 and 2.

In October 1998, RIG/Budapest analyzed the results of OHR auditors' interviews of an additional 615 public sector employees to test whether the designated recipients actually received their entitlement for March through June 1998 (the months covered by all three tranches). Recipient testing covered most parts of Srpska and employees from most of the government agencies that had received funds. We found that the auditor interviews supported that the intended recipients had received their appropriate salary payment.

One minor problem was noted by OHR auditors when one agency paid salaries for the month of May in Yugoslavian Dinars instead of the agreed upon Konvertible Mark (the new currency in Bosnia). This exception was due to a delay in receipt of the new Konvertible Mark. The agency has since paid the salaries for a subsequent month in Konvertible Marks.

### **Review of OHR final report**

OHR issued a final report dated October 17, 1998 which summarized its audit findings, problems identified, and the final financial position of the program. The report provided an audit opinion on the pre- and post-disbursement phases of the program stating:

- From a pre-disbursement standpoint, payroll information was sufficient to allow OHR auditors to check on the reasonableness of salaries on an individual and on an institutional level. A complete check of names was made by the auditors in order to ensure that no payments were made to individuals accused of war crimes.
- Post-disbursement testing was satisfactorily completed by OHR auditors and no material errors were found. The auditors noted that the financial records provided by Srpska and the banks involved in funds distribution presented a fair and true view of the transactions in this program. Individual beneficiaries interviewed throughout Srpska confirmed that appropriate payments had been made. In all cases tested, no material errors or omissions were found.

The report concluded that the program had been completed in accordance with the provisions of the exchange of letters between the High Representative and USAID.

### **Conclusion**

Based on our review and testing of OHR's audit work and its final report, we believe that, for the items tested, both USAID/Bosnia-Herzegovina and OHR ensured that the intended recipients of USAID's Budget Support Program actually received their entitlement.

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### **Management Comments and Our Evaluation**

USAID/Bosnia-Herzegovina officials agreed with the content of the report and their comments are included as Appendix II to this report. In its response, USAID/Bosnia-Herzegovina noted the importance of the budget support program in meeting political objectives in Bosnia and stated that the comprehensive and timely IG review of USAID's participation in the program provided assurances that USAID funds were used as intended.

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<p style="text-align: center;"><b>Scope and Methodology</b></p>
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## Scope

The Office of the Regional Inspector General/Budapest conducted an audit of USAID/Bosnia-Herzegovina's Budget Support Program for the Republika Srpska (Srpska) in accordance with generally accepted government auditing standards. We conducted the audit from May 12 to October 23, 1998, at the USAID/Bosnia-Herzegovina and the Office of the High Representative (OHR) offices in Sarajevo. We also interviewed program recipients in eight different localities scattered across Srpska.

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## Methodology

Audit methodology included file reviews, interviews, field visits and data analysis. We reviewed the Grant Agreement Between the High Representative for Bosnia-Herzegovina and the United States of America for the Budget Support Program to determine program objectives and restrictions, and OHR's audit plan to determine the extent of our testing. We also relied extensively on the work of the OHR auditors to answer our audit objective.

Regarding our reliance on the OHR auditors, we satisfied ourselves as to the completeness of their work and their competence and objectivity by focusing on four main tasks: (1) reviewing the OHR audit plan and implementation; (2) a joint review with OHR of the accounting for the second tranche payment; (3) a joint assessment with OHR of whether Srpska public sector employees actually received their salaries; and (4) review of the OHR final report.

With respect to the first task, we reviewed the OHR audit plan and workpapers to determine if the plan was adequate and properly implemented and if the workpapers were a fair presentation of the work performed. We reviewed OHR's audit work on the first and third tranches. In addition to our joint interviews mentioned below, we analyzed the results of OHR auditors' interviews of an additional 615 public sector employees to test whether the designated recipients actually received their entitlement for March through June 1998 (the months covered by all three tranches).

With respect to the second task, a joint review in June 1998, an OHR-RIG/Budapest team examined the second tranche payment at the Srpska bank responsible for processing these payments to trace the flow of funds and examined documentation for either the receipt or transfer of program funds.

With respect to the third task, a joint assessment in June 1998, an OHR-RIG/Budapest team judgmentally selected and interviewed 109 public sector employees in Srpska to test whether the designated recipients of USAID's Budget Support Program actually received their entitlement for March and April, 1998 (the months covered by tranches 1 and 2). The employees we selected to interview in our judgmental sample were concentrated in the more "hard core" areas, such as the former stronghold of the Bosnian Serbs in Pale and its environs. In addition, we included employees from some of the more out-of-the-way areas, such as Foca and Visegrad.

With respect to the final task, a review of the OHR final report, we examined the report to determine the conclusions of the OHR auditors.





*United States Agency for International Development*  
Sarajevo, Bosnia-Herzegovina

MEMORANDUM

Date: December 21, 1998

To: James R. Bonnell, RIG/A/Budapest

From: Erna Kerst, Acting Director /s/

Subject: Draft Audit Report of USAID/Bosnia-Herzegovina's Budget Support Program for the Republic Srpska

We have reviewed the subject draft audit report and note that no problems were uncovered with implementation of the program. We were extremely pleased with the work of the RIG audit team in this activity and fully appreciate the RIG's willingness and responsiveness to review this program in a very short time frame. The IG coverage of this program also helped gain Congressional approval for USAID's participation in the overall program.

Implementation of the Dayton Peace Accords is the paramount goal of USG involvement in Bosnia. USAID participation in this one-time budget support program was an important step in meeting our political objective of helping support moderates who want to work with the International Community, particularly with implementing the Accords. The USG assistance provided under this program strengthened Prime Minister Dodik and the policies of moderation he implemented upon the installation of his government in the Republika Srpska (RS). These funds were used to assist the Republika Srpska Government meet short-term revenue shortfalls. One of the main reasons for the shortfalls was that economic recovery had failed to materialize in the RS due to the absence of donor funds due to the refusal of the previous Government to cooperate in the implementation of the Dayton Peace Accords. This program helped the Dodik Government by giving it critical time needed to strengthen its cash position and keep essential RS Government services operational.

The comprehensive and timely RIG review of our participation in this program provided assurances that our funds were used as intended to help meet this critical goal.