

PDAAT-512  
45319

AUDIT OF  
COOPERATIVA AGRICOLA  
INTEGRAL MAGDALENA, R.L.  
USAID/GUATEMALA PROJECT NO. 520-0238

AUDIT REPORT NO. 1-520-86-04-N  
MAY 30, 1986

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:  
RIG/T  
APO MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY  
TEGUCIGALPA — HONDURAS

TELEPHONES:  
32-0044 & 32-0092  
also 32-3120/9, EXT. 293 & 296

May 30, 1986

MEMORANDUM FOR: D/USAID/Guatemala, Charles E. Costello  
FROM : RIG/A/T, *Colin N. Gothard* N. Gothard Jr.  
SUBJECT : Audit Report No. 1-520-86-04-N, "Audit of Cooperativa Agricola Integral Magdalena, R.L."

This report presents the results of a non-Federal financial and compliance audit that your Mission requested of Cooperativa Agricola Integral Magdalena (Cooperative), R.L., a Guatemalan farm cooperative. The certified public accounting firm of Touche Ross & Co. in Guatemala prepared the report which is dated April 22, 1986.

The purpose of this audit was to determine if the financial statements of the Cooperative fairly present its financial position; to identify any material weaknesses in the Cooperative's system of internal controls; and to determine if the Cooperative complied with applicable laws, regulations, and agreements.

In the opinion of Touche Ross & Co., the financial statements do not fairly present the Cooperative's financial position. Their study and evaluation of the Cooperative's system of internal controls disclosed that it is not functional. As a result of their review, they believe that the Cooperative has not complied with all the applicable Guatemalan laws, regulations, and agreements. For items not tested, nothing came to their attention that caused them to believe that untested items were not in compliance with applicable laws and regulations.

The Touche Ross report contains 19 recommendations to improve the Cooperative's internal controls and seven recommendations to achieve compliance with applicable laws, regulations, and agreements. The project under which this Cooperative received funds is completed; however, we understand that the Cooperative may receive future technical assistance. We believe that the recommendations contained in this audit report will significantly improve the Cooperative's administrative and compliance weaknesses and that any future technical assistance to the Cooperative should include implementing the recommendations contained in this report. As a result, the following recommendation will be included in the OIG's audit recommendation follow-up system.

Recommendation No. 1

USAID/Guatemala include the recommendations in the Touche Ross audit report as a part of any future technical assistance to the Cooperative Agricola Integral Magdalena, R.L.

Please advise this office within thirty days of the actions planned or taken to implement this recommendation.

*Lara & González, CPA*  
Member Firm  
*Touche Ross International*

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

AUDIT REPORTS

DECEMBER 31, 1985

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

TABLE OF CONTENTS

	<u>Page</u>
Introduction	1
Examination of Financial Statements	
Auditor's Opinion	5
Basic Financial Statements	7
Notes to Financial Statements	11
Report on Internal Control System	
Auditor's Opinion	16
Observed Conditions	17
Report on the Compliance with Laws, Regulations and Agreements	
Auditor's Opinion	30
Observed Conditions	32

*Lara & González, CPA*  
Member Firm  
*Touche Ross International*

Mr. Coinage N. Gothard  
Regional Inspector General for Audit  
U. S. Agency for International Development  
Tegucigalpa, Honduras, C. A.

Dear Mr. Gothard:

This report presents the results of our audit of Cooperativa Agrícola Integral Magdalena, R. L.

Background

Cooperativa Agrícola Integral Magdalena, Limited Liability (R. L.), domiciled in the Department of Sacatepéquez, with its headquarters in Municipio of Magdalena Milpas Altas, Department of Sacatepéquez, was organized on April 28, 1981. On August 25, 1981 it obtained legal status as a Cooperative and the approval of its statutes and registration under No. 349 in the Folio 349 Book 1 of the National Institute of Cooperatives.

The Cooperative's principal activity is the sale of vegetables and other products that are peculiar in the region, such as snow peas, broccoli, cauliflower and brussels sprouts. According to its bylaws, the Cooperative is to help improve the economic and social well being of its associates and to develop activities that tend to improve their agricultural production, including industrialization, transportation, storage, sale and distribution of their products.

The Cooperative receives financial and technical assistance in accordance to loan agreement 520-T-030 between the Government of Guatemala and the Agency for International Development (USAID), to strengthen the Cooperative and business mechanisms for producing, packing, storing, processing and selling vegetables and fruits grown in the highlands and by means of:

1. Financial assistance from Banco Nacional de Desarrollo Agrícola (BANDESA) to at least three agricultural cooperatives of fresh vegetables grown in the highlands.
2. Financial assistance from BANDESA for one cooperative and other organized groups of apple producers.
3. Credit assistance from the banking system for processing

and commercialization of vegetables.

The funds to be financed by BANDESA are constituted by a modified trust agreement with the Government of Guatemala.

Objective and Scope of the Audit

The overall objective of the examination was to perform a financial and compliance audit of Cooperativa Agrícola Integral Magdalena, R. L. as a participant in the small farmer marketing project (USAID/Guatemala Project number 520-0238) for commercialization of vegetables and fruits.

The audit was performed in accordance with generally accepted auditing standards and with the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 revision) and accordingly included such tests to determine if the funds and/or commodities have been properly accounted for and used as directed by agreements or other applicable programs and as to the compliance with the laws of Guatemala.

The examination of the Cooperative included sufficient work to determine if the financial statements present fairly the financial position and the results of its financial operations in conformity with generally accepted accounting principles, and if the Cooperative has complied with laws, regulations and project agreement terms that may have an effect on the financial statements.

The review was performed in conjunction with the accounting technical assistance work previously carried out by our Firm for the Cooperative, so that the findings and recommendations are consistent with the system developed under such contract.

The scope of the work consisted of:

1. Examining the financial statement of the Cooperative as of December 31, 1985.
2. Performing a review and evaluation of the accounting system to determine if the system is consistent with Cooperative law and statutes and generally accepted accounting principles.
3. Performing a detailed review of the expenditures of funds maintained by the administrative staff from January 1, 1982 through December 31, 1985 to determine if the expenditures are accurate and adequately supported.
4. Reviewing the internal control system of the Cooperative with emphasis on cost transactions and purchases and handling of supplies and materials.

5. Reviewing warehouse functions.
6. Examining the sales system.

Results of the Audit

1. Financial Statements

A summary of the results of our examination indicates that due to limitations in the application of our audit procedures, because of inadequate accounting registers, a non-functional internal control system, and no minutes of the General Meeting and the Administrative Board; the financial statements of the Cooperative do not include the adjustments that might be necessary to present fairly its financial situation.

2. Internal Control

Our study and evaluation of the Cooperative's internal control system determined that it is not functional nor contributing to control objectives, basically due to a:

- A. Lack of an active participation of the Board of Directors for its operation.
- B. Lack of qualified personnel and training programs.
- C. Inadequate accounting records.
- D. Lack of knowledge of generally accepted accounting principles and fiscal regulations which affect the Cooperative.
- E. The manager was hired and is being financed by an external institution.

3. Compliance with Laws, Regulations and Applicable Agreements

As a result of our review we believe that the Cooperative has not complied with applicable laws, agreements and contracts including the value added tax, social security law, and bylaws of the Cooperative. This has caused a contingent liability for the omission of taxes, penalties and moratorium interest that affect the Cooperative and currently cannot be quantified.

The noncompliance with its statutes is related to the deficiencies in the internal control system, and it has originated an inefficient operation and lack of controls.

For those items not tested, nothing came to our attention

that caused us to believe that untested items are not in compliance with applicable laws and regulations.

*Touche Ross & Co.*

TOUCHE ROSS & CO.  
Certified Public Accountants

April 22, 1986  
Guatemala

EXAMINATION OF FINANCIAL STATEMENTS OF  
COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

AUDITOR'S OPINION

We have examined the balance sheet of Cooperativa Agrícola Integral Magdalena, R. L. as of December 31, 1985, and the related statements of income, retained earnings, and changes in financial position for the year then ended. Except as explained in the following paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Cooperativa Agrícola Integral Magdalena, R. L. for the year ended December 31, 1984, were not audited by us and, accordingly, we do not express an opinion on such financial statements, which are included in this report for comparison purposes.

The scope of our procedures was restricted due to the following reasons:

1. We did not observe the taking of the physical inventory of vegetables and agricultural supplies as of December 31, 1985 and 1984, since that date was prior to the time we were appointed as the auditors of the Cooperative. Due to the nature of the accounting records of the Cooperative we were unable to satisfy ourselves as to the inventory amount by means of other auditing procedures.
2. Due to important deficiencies in the records of the Cooperative for the previous year, it was not practical to extend our audit procedures to express an opinion on the result of its operations and the changes in the financial position for the year ended December 31, 1985 or about the consistency of the applied inventory pricing method commented in policy A-1.
3. The minutes of the Associates General Meetings and the Administrative Board were not submitted to us.

As mentioned in notes A-4 and I, vehicles, furniture and a portion of land value, received as a grant, whose amount has not been determined, have not been recorded.

*Lara & González, CPA*

*Member Firm*

*Touche Ross International*

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary and discussed in the preceding paragraphs, the balance sheet referred to above present fairly the financial position of Cooperativa Agrícola Integral Magdalena, R. L. as of December 31, 1985 in conformity with generally accepted accounting principles applied on a consistent basis.

Because of the matter discussed in the second paragraph, the scope of our work was limited and was not sufficient to enable us to express, and we do not express, an opinion on the statements of income and changes in financial position for the year ended December 31, 1985.

*Touche Ross & Co.*

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

BALANCE SHEETS

<u>A S S E T S</u>	<u>December 31,</u>	
	<u>1985</u>	<u>1984</u>
<b>Current Assets:</b>		
Cash	Q. 83,313	Q.29,255
Accounts Receivable:		
Trade	28,336	-
Associates	38,833	28,009
Other	<u>5,268</u>	<u>-</u>
Total Accounts Receivable	72,437	28,009
Inventories (Note C)	13,932	4,659
Advanced Expenses	<u>2,155</u>	<u>8,055</u>
Total Current Assets	171,837	69,978
Property and Equipment - (Note D)	<u>27,270</u>	<u>11,819</u>
	Q.199,107	Q.81,797
	=====	=====
 <b><u>LIABILITIES AND ASSOCIATES' EQUITY</u></b>		
<b>Current Liabilities:</b>		
Accounts Payable	5,371	588
Accrued Expenses	2,261	109
Advances from Customers	4,330	-
Comité de Reconstrucción Nacional (Note F)	20,714	20,258
Accounts Payable to Associates	<u>61,288</u>	<u>-</u>
Total Current Liabilities	93,964	20,955
Contingent Liabilities (Note G)		
<b>Associates' Equity:</b>		
Cooperative Capital (Note H)	4,625	4,364
Grants (Note I)	5,225	5,225
Reserves (Note J)	22,990	9,947
Retained Earnings	<u>72,303</u>	<u>41,306</u>
	<u>105,143</u>	<u>60,842</u>
	Q.199,107	Q.81,797
	=====	=====

See Notes to Financial Statements

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	<u>1985</u>	<u>1984</u>
Net Sales	Q.473,548	Q.325,186
Cost of Products Sold	<u>407,505</u>	<u>296,140</u>
	66,043	29,046
Operating Expenses:		
Selling and Administrative Expenses	<u>42,612</u>	<u>30,946</u>
Net Earnings (Losses)	23,431	(1,900)
Other Income and (Expenses)		
Interest Expenses	(665)	(108)
Other Income	<u>21,515</u>	<u>20,203</u>
	<u>20,850</u>	<u>20,095</u>
Net Earnings	Q. 44,281	Q. 18,195
	=====	=====

See Notes to Financial Statements

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

STATEMENTS OF ASSOCIATES' EQUITY

	<u>Cooperative Capital</u>	<u>Grants</u>	<u>Reserves</u>	<u>Retained Earnings</u>
Balance, December 31, 1984	Q. 4,364	Q. 5,225	Q. 9,947	Q.41,306
New Affiliations, Paid-in Capital	374			
Resigned Affilia- tions	(113)			
Period Net Earn- ings				44,281
Period Net Earn- ings Legal Reserves			13,284	(13,284)
Use of Legal Reserve			(241)	
	<u>Q. 4,625</u> =====	<u>Q. 5,225</u> =====	<u>Q.22,990</u> =====	<u>Q.72,303</u> =====

See Notes to Financial Statements

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1985

SOURCE OF FUNDS:

Operating Results

Net Earnings	Q.44,281
Plus: Items not requiring the use of working capital	
Depreciation	<u>5,340</u>

Total Source of Funds from Operation	49,621
--------------------------------------	--------

Paid-in Capital	<u>374</u>
-----------------	------------

	Q.49,995
	=====

APPLICATION OF FUNDS:

Acquisition of Property	Q.20,791
Use of Legal Reserves	241
Reimbursement for Resigned Affiliations	113
Increase in Working Capital	<u>28,850</u>

	Q.49,995
	=====

INCREASE (DECREASE) IN WORKING CAPITAL  
COMPONENTS:

Cash	Q.54,058
Accounts Receivable	44,428
Inventories	9,273
Advanced Expenses	(5,900)
Accounts Payable	(4,783)
Accrued Expenses	(2,152)
Advances from Customers	(4,330)
Comité de Reconstrucción Nacional	(456)
Accounts Payable to Associates	<u>(61,288).</u>

	Q.28,850
	=====

See Notes to Financial Statements

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

A. Summar of Significant Accounting Policies:

1. Inventories. Are valued at the lower of cost or market. Cost is determined under the fifo method.
2. Property and Equipment. Are valued at cost. The depreciation is computed on a straight line method, based upon the estimated useful lives of the assets. The cost of maintenance and repairs is charged to expenses when incurred. The improvements to increase the useful lives of assets are capitalized. The cost of the assets sold or disposed of and the accumulated depreciation are eliminated in the year when the sale or disposal occurred.
3. Provision for Severance Compensation. Compulsory compensation for one month of salary for each year of service is paid when an employee dies or is dismissed without justification. In case of death the severance payment will go to their beneficiaries. The policy of the Cooperative is to record this benefit when the payment occurs. As of December 31, 1985 this liability amounts to Q.400.
4. Grants. Non-supported grant and the technical assistance received as part of the grant originated from the loan agreement 520-T-030 between the Government of Guatemala and Agency for International Development is not recorded (Note I).

B. The Cooperative:

The Cooperative was organized as a Cooperative of first grade and limited liability, with no profit objectives and integrated by 140 associates. It was constituted in Magdalena Milpas Altas, Department of Sacatepéquez, and its bylaws were approved on August 25, 1981. Its main objectives are to obtain economic and social improvements for its associates and to develop activities that tend to improve their agricultural production. Its principal activity is the sale of vegetables and agricultural supplies.

C. Inventories:

	<u>December 31,</u>	
	<u>1985</u>	<u>1984 (1)</u>
Fertilizers	Q. 6,706	
Seeds		3,627

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

		<u>December 31,</u>	
		<u>1985</u>	<u>1984</u>
Agricultural Equipment	Q.	1,980	
Other		<u>1,619</u>	
	Q.	13,932	
		=====	

(1) As of December 31, 1984 non-itemization of this Balance exists.

D. Property and Equipment:

	<u>Depreciation</u>	<u>December 31,</u>	
		<u>1985</u>	<u>1984</u>
Furniture and Equipment	15%	Q. 2,575	Q. 2,091
Vehicles	25%	19,819	19,819
Implements	60%	160	-
Glassware	20%	<u>244</u>	<u>126</u>
Depreciable Property		22,798	22,036
Less: Accumulated Depreciation		(15,757)	(10,417)
Depreciable Property - Net		7,041	11,619
Land		18,375	200
Installations in Progress		<u>1,854</u>	<u>-</u>
		Q. 27,270	Q. 11,819
		=====	=====

E. Taxes:

The Cooperative enjoys exemption from income tax, stamp (documentary) taxes, sale taxes, legacies and donations of real estate designated for Cooperative operations and import duties on working machinery, vehicles, working tools and equipment. It remains under the audit auspice of the Government of Guatemala through the National Institute of Cooperatives (INACOP). In accordance with the Decree-law No. 97-84, the Cooperative is a contributor to the Value Added Tax.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

F. Account Payable to Committee for National Reconstruction:

In May 1983 the Committee for National Reconstruction delivered fertilizers as a loan to the associates. Such credit is collected through a deduction when the payment of the received agricultural products occurs, increasing a fund for the further payment of this liability.

G. Contingent Liabilities:

The Cooperative has not complied with the regulations of the Guatemalan Social Security Institute (IGSS). Its pending share of payments amounts to Q.2,300 without fines and interest.

H. Associates' Equity:

The capital of the Cooperative is variable, and it is made up with obligatory contributions with nominal value of Q.50 each, and which can be paid through one sole amortization when entering as an associate; or 25% when entering and the rest should be paid during a term of no longer than twelve months. These contributions do not earn interest.

Moreover the associates can subscribe additional contributions for specific purposes, agreed in General Associates' Meeting, which will earn interest that cannot be higher than the actual rate used by the banking system for savings deposits. No associate can own more than 5% of the Cooperative Capital.

I. Grants:

Switzerland Grant:

The following Grants amounting to Q.5,225 were obtained on August 25, 1982:

One vehicle	Q. 4,500
One scale	325
One check protecting machine	300
One electrical handsaw	<u>100</u>
	Q. 5,225
	=====

Additionally a payment for the purchase of land for the warehouse operation, two vehicles and furniture and equipment were received. Those asset are not registered because supporting documentation does not exist.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

Agency for International Development:

The loan agreement No. 520-T-030 signed on February 15, 1984 between the Government of Guatemala and USAID includes the financial assistance project for:

- a) Producing, packing, storing, processing, and selling fresh vegetables.
- b) Credits for production.
- c) Credits for consulting services and engineering supervision, building, equipment, microcomputers, vehicles and working capital.
- d) Technical assistance and training.

The project provides funds from the USAID to finance the technical assistance and training. BANDESA will grant credits to the cooperatives and/or participating associations to finance the production, packing, storage and commercialization of fresh vegetables at an interest rate of 8% annually. The term for amortizing the credits and the days of grace will be established in accordance with the policies of BANDESA.

As of December 31, 1985 the Cooperative has received assistance consisting of a technical consultant who works directly with the Cooperative to improve its administrative and accounting systems, under the supervision of the Committee of Coordination of the Agricultural, Cattle and Nourishment Ministry, of the AID project and technical assistance to improve the administrative and accounting systems through the implementation of a dynamic and efficient accounting system.

J. Legal Reserves

The bylaws of the Cooperative establish obligatory reserves on the operating results of each year, amounting to:

	<u>December 31,</u> <u>1985</u>	<u>1984</u>
10% as minimum for non-Distributable Reserves	Q. 7,744	Q. 3,316
10% for Reserves for Education	7,582	3,316
10% for Reserves for Social Works	<u>7,664</u>	<u>3,315</u>
	Q. 22,990	Q. 9,947
	-----	-----

COOPERATIVA AGRICOLA INTERAL MAGDALENA, R. L.

NOTES TO FINANCIUAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

K. Monetary Unit:

The financial statements and its notes are expressed in Quetzales (Q.), the national currency of Guatemala which have an official exchange rate of Q.1:US\$1. Since April 1980 exchange controls were introduced for transactions in foreign currency.

On November 15, 1984 the Emergency Regime for Transactions in Foreign Currency was introduced replacing the measures introduced in April 1980, establishing, among other things the following conditions: a) Imports of goods which are handled with a special exchange rate for essential items, and the rest of imports have to be cancelled with foreign currency acquired in the free market; b) The foreign currency from exports proceeds should be declared and sold to the Central Bank, a portion at the official exchange rate and the other on the free market, depending upon the type of articles that were exported and the country of destination. The aforementioned regulations created three legal markets:

- a) The controlled market for essential payments where the parity is maintained with the dollar of the United States of America, controlled by the Central Bank.
- b) The auction market, for the sale of the remaining foreign currency not used by Central Bank, for the payment of imports that are not essential and that can be left behind, through the auction of exchange licenses. The exchange rate fluctuates based on the supply and demand of each auction.
- c) The free (parallel) market utilized to negotiate foreign exchange coming mainly from investments and loans not assigned to the essential market, to cover payments other than those classified as essential or not included in the auction market. All payments other than those classified as essential or not included in the auction market have to be made through this market. On December 31, 1985 the free market exchange rate reported an average of Q.2.983:US\$1.

*Lara & González, CPA*  
Member Firm  
*Touche Ross International*

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

AUDITOR'S OPINION

We have performed a study and evaluation of the internal control system of Cooperativa Agrícola Integral Magdalena, R. L. for the four years ended December 31, 1985. Our study and evaluation was performed in accordance with the standards for audit of programs, activities and functions for governmental organizations of the United States of America.

The management of Cooperativa Agrícola Integral Magdalena, R. L. is responsible for the implementation and maintenance of the internal control system. To fulfill this responsibility, the management needs to make appraisals and judgements to be able to evaluate the expected benefits and the related costs of the control procedures. The objectives of an internal control system are to provide reasonable, but not absolute, assurance that the assets are adequately safeguarded from loss due to unauthorized disposition or use, and that the operations are executed in accordance with management approval and that they are correctly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Due to the inherent limitations of any internal control system, there may occur errors and irregularities which might not be detected by the system.

Our study and evaluation revealed some conditions in the internal control system of Cooperativa Agrícola Integral Magdalena, R. L. for the four years ended December 31, 1985, which are described in the sections No. 1 to No. 19, and which taken as a whole, in our opinion, may result in more than a relatively low risk that errors and irregularities might occur in amounts that may be significant in relation with the financial statements and that may not be detected in a timely manner.

*Touche Ross & Co.*

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

YEARS ENDED IN DECEMBER 31, 1985, 1984, 1983 AND 1982

1. Inventory Control

Condition:

No control exists in the warehouse and store for receiving and transferring agricultural supplies and agricultural products.

Criteria:

Internal Control procedures should exist to allow the protection and safety of the inventories against their inappropriate use.

Cause:

- A. Lack of administrative and operational organization.
- B. Lack of knowledge of the inventory control objectives.

Effect:

There is no way to verify if the purchases of agricultural supplies have really properly entered or left in the warehouse and agricultural store of the Cooperative.

Recommendation:

- A. Institute an inventory control system, for agricultural supplies and agricultural products.
- B. Instruct the personnel on the objectives and handling of the inventory control.

2. Cash Sales not Invoiced

Condition:

In July 1985 cash sales of agricultural supplies amounting to Q1,611 were not invoiced, they were only supported by cash receipts.

Criteria:

As a mean of internal control, all sales must be invoiced; it is required by law (Value Added Tax).

Cause:

A cash register ticket is extended at the moment that a sale occurs. At that time they ignored the law that requires an invoice.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

YEARS ENDED IN DECEMBER 31, 1985, 1984, 1983 AND 1982

Effect:

The lack of an adequate internal control system makes it impossible to verify that all sales are billed and collected in favor of the Cooperative.

Recommendation:

Design and implement a sales internal control system that includes the use of invoices to adequately control agricultural supplies.

3. Journalizing of Sales of Agricultural Products

Condition:

The credit sales of agricultural products are journalized at the time of its collection.

Criteria:

Generally accepted accounting principles require that sales are carried-out at the time the product is delivered to the purchaser and when they are billed, and not when paid.

Cause:

The sales price depends on the quality control analysis of the purchasers.

Effect:

The sales of a period are registered in another period.

Recommendation:

- A. Journalize as inventory in consignment the products not collected at the closing of the accounting period.
- B. During the year the sales should be recorded at the moment the product is accepted by the client.

4. Journalizing of Purchases

Condition:

The agricultural supplies purchased by credit are registered the

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

YEARS ENDED IN DECEMBER 31, 1985, 1984, 1983 AND 1982

moment they are paid for and/or a partial payment is made.

Criteria:

All purchase must be registered at the moment the warehouse receives the merchandise.

Cause:

The accountant does not receive the supporting documents in a timely manner.

Effect:

The books do not show the accurate balances. Purchases may not be journalized.

Recommendation:

Require the use of a purchase journal, using the warehouse receipt slips, as support documents, independent of the form of payment.

5. Insurance

Condition:

The assets of the Cooperative are not insured.

Criteria:

Assets should be insured to the value required for replacement.

Cause:

The Cooperative lacks the economic capacity to contract for insurance.

Effect:

In case of a disaster the Cooperative will not be in a condition to replace its assets, which could cause it to close its operations.

Recommendation:

Obtain the necessary insurance coverage to protect the assets

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

YEARS ENDED IN DECEMBER 31, 1985, 1984, 1983 AND 1982

of the Cooperative against disaster.

6. Transfers of Funds in Cash

Condition:

On June 10, 1985 a withdrawal of Q5,000 was made from the savings account in Bandesa, and deposited in the monetary account of the Cooperative, in the following manner:

- A. In June 12, 1985 Q875.15.
- B. In June 20, 1985 Q4,124.85.

Criteria:

Cash transfers must be deposited the same day.

Cause:

Lack of adequate controls and procedures.

Effect:

It may cause an inappropriate use of funds of the Cooperative because it lacks the corresponding authorization.

Recommendation:

Deposit funds on the same day the funds are transferred.

7. Transfer of Funds with Checks

Condition:

In July 1985 the General Accountant extended checks #104294 thru 104297 in the name of several persons amounting to Q1,200 intending to make a bank transfer. These checks were cashed and deposited in the accounts of the Cooperative by the General Accountant.

Criteria:

The use of checks to transfer funds should be made out to the name of the bank where the money is going to be deposited.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

YEARS ENDED IN DECEMBER 31, 1985, 1984, 1983 AND 1982

Cause:

Lack of knowledge of appropriate control procedures.

Effect:

It could cause an inappropriate use of funds.

Recommendation:

Prepare checks for transfer of funds in the name of the bank into which the money will be deposited.

8. Reference of Bank Deposits

Condition:

No reference is made on the deposit slips with regard to the source documentation (Income receipts, invoice, etc.)

Criteria:

All collections should contain the supporting documentation with the necessary information to identify the collection.

Cause:

Unknown.

Effect:

Weakens the internal controls for collections, as it prevents the verification that all that was sold was billed, collected and deposited in the bank.

Recommendation:

Use a form to monitor collections clearing and instruct the General Cashier of the importance of its use and fill-out correctly and adequately all the bills and cash receipts with their deposit slip.

9. Reference and Information in the Support Documentation

Condition:

Up to January 1984 the supporting documentation was not referenced with regard to the check number and/or the cash disbursement.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

YEARS ENDED IN DECEMBER 31, 1985, 1984, 1983 AND 1982

Criteria:

The disbursement supporting documentation must be referenced with the number of check or the respective receipt with which it was paid.

Cause:

Lack of administrative and operational organization.

Effect:

Difficulty in identifying the supporting documentation of each check and/or receipt.

Recommendation:

Enclose with each check and/or receipt the supporting documentation, identifying it with the check number respectively.

10. Supporting Documentation

Condition:

The supporting documentation for disbursements is not identified with a stamp that reads "PAID".

Criteria:

As means of an internal control principle, all supporting documentation must be cancelled.

Cause:

Lack of administrative organization.

Effect:

Payments may be duplicated.

Recommendation:

Identify all supporting documentation of disbursements with a stamp made for this purpose, including: PAID, CHECK No. \_\_\_\_\_, BANK \_\_\_\_\_, DATE \_\_\_\_\_.

11. Journalizing of the Payments

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

YEARS ENDED IN DECEMBER 31, 1985, 1984, 1983 AND 1982

Condition:

Up to August 1984 no journal entry existed which detailed the monthly disbursements.

Criteria:

All accumulation in the accounting books must have an adequate reference regarding the supporting documentation.

Cause:

The current personnel are unaware of the need for this control.

Effect:

The records for the cash account of the General Ledger do not allow an easy identification of the supporting documentation.

Recommendation:

Record in a correlative and chronological manner the disbursements in the journal entry of payments, as a basis to prepare the monthly voucher.

12. Banking Reconciliations

Condition:

No bank reconciliations were made during the years 1982, 1983 and from January to August of 1984.

Criteria:

The balances of bank statements and accounting books must be reconciled monthly, as a means of controlling or detecting irregularities and errors in the income and disbursement system of the Cooperative.

Cause:

Lack of fulfillment of established procedures.

Effect:

It is a weakness in the internal control system that could affect the financial situation of the cooperative and/or allow irregularities to go undetected.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

YEARS ENDED IN DECEMBER 31, 1985, 1984, 1983 AND 1982

Recommendation:

Reconcile the bank statements in a monthly basis against the accounting books and leave written evidence of its revision and approval.

13. General Ledger Reconciliations Against Auxiliaries

Condition:

- A. No reconciliation is done with the accounts of the General Ledger with auxiliary records.
- B. At the end of 1985, Q6, 205.68 were recorded in accounts receivable as an adjustment to the balance reported in the auxiliary records. This adjustment was credited against sales of agricultural supplies without any investigation.

Criteria:

All General Ledger accounts must be reconciled monthly as a means of detecting errors or irregularities to allow a reasonable security of the operations journalized.

Cause:

- A. The auxiliary records were inadequate.
- B. The accounting was not up-dated.

Effect:

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

YEARS ENDED IN DECEMBER 31, 1985, 1984, 1983 AND 1982

Criteria:

GAAP requires that the depreciation of a property be recorded when it begins to be used.

Reason:

The current accountant does not know the reason since he was hired in 1984.

Effect:

The principle of consistency is ignored which affects the reliability of the financial statements.

Recommendation:

Establish a formal policy to compute the depreciation.

15. Payroll

Condition:

- A. The payroll is not adequately documented to show its computation; it is only supported with a disbursement receipt.
- B. They do not comply with the Social Security regulations.

Criteria:

- A. Payrolls must be prepared including all the necessary information for an adequate control of salaries and wages.
- B. As required by the Social Security Law, the Cooperative must withhold taxes from employees as well as pay the employer's respective share.

Cause:

- A. The Administration was not aware it had to prepare a Social Security Report.
- B. The Cooperative is not enrolled in the Social Security System.

Effect:

Non authorized salaries might be included.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

YEARS ENDED IN DECEMBER 31, 1985, 1984, 1983 AND 1982

Recommendation:

Introduce the use of a form for payrolls that contains as a minimum:

- A. Period covered,
- B. Employee's name,
- C. Position held,
- D. Days of work,
- E. Ordinary and overtime salary earned,
- F. Deductions,
- G. Net salary,
- H. Signature of the employee,
- I. Signatures of "made by" and "authorized by", and
- J. Date.

16. Control of Paid-in Money

Condition

The paid-in obligations of each member are not supported by any documentation.

Criteria:

An auxiliary ledger for each member must exist to verify the entries of the paid-in obligations from the moment he becomes part of the Cooperative.

Cause:

Lack of operational control.

Effect:

Incorrect balances in the paid-in entries.

Recommendation:

Begin an auxiliary ledger of paid-in obligations.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.  
REPORT ON THE INTERNAL CONTROL SYSTEM  
YEARS ENDED DECEMBER 31, 1985, 1984, 1983 AND 1982

17. Bank Deposits

Condition:

No daily deposit is done. Balance of Q.536.50 in General Cash as of December 31, 1985 was deposited on January 9, 1986.

Criterion:

All cash must be deposited the day after its reception.

Cause:

Cash was kept by the General Accountant.

Effect:

Risk of robbery or fraudulent use of cash.

Recommendation:

Deposit all cash the day after its reception.

COOPERATIVA AGRICOLA MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

YEARS ENDED DECEMBER 31, 1985, 1984, 1983 AND 1982

18. Disturbance of Expense Vouchers

Condition:

Several expense vouchers are incorrect with respect to their original value, apparently to report a payment in excess of the really paid amount.

Criteria:

Voucher expenses must be maintained intact, without any disturbance or alteration, when issued by the supplier.

Cause:

Lack of supervision on the job of accountant. Concentration of functions.

Effect:

Risk of possible fraud.

Recommendation:

Separate the functions of payment and keeping in custody of documents. The Committee of Vigilance must review expense liquidation.

19. Weakness in the Internal Control System

Condition:

As a result of the matters discussed in this section and lack of compliance with laws, we observed lack of active participation from the management of qualified personnel and of training plans.

Criteria:

The bylaws of the Cooperative and improvement of internal control procedures must be accomplished.

Cause:

Lack of knowledge of legal and technical matters referred to the Cooperative.

Effect:

Findings observed as a result of the audit.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

YEARS ENDED DECEMBER 31, 1985, 1984, 1983 AND 1982

Recommendation:

- A. Register the Cooperative in a Federation to increase its capital through saving of its associates and new loans; project Cooperative education in the long term.
- B. Verify the implementation of the accounting procedures manual specially designed for the Cooperative.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.  
REPORT ON THE COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS  
AUDITOR'S OPINION

We have examined the financial statements of Cooperativa Agrícola Integral Magdalena, R. L. for the year ended December 31, 1985 and we have performed a study and evaluation of the accounting internal control system for the years ended December 31, 1985, 1984, 1983 and 1982. Our examination and study were made in accordance with generally accepted auditing standards and with the standards for audit of programs, activities and functions of Governmental organizations of the United States of America, which include, as additional standards and requirements, the review of the compliance with laws, regulations and agreements.

The scope of the matters subject to our examination included the following:

- A. General Law for Cooperatives.
- B. Value Added Tax Law.
- C. Social Security Law.
- D. Fiscal Stamp Tax Law.
- E. Income Tax Law, whenever applicable.
- F. Statutes of the Cooperative.

Due to the inherent limitations of every internal control system, there may exist errors, frauds, abuses or illegal acts which may not be detected.

There is no agreement between the Agency for International Development (USAID) and the Cooperative that establishes specific requirements for an assistance program for the Cooperative.

Our examination and study revealed certain matters which are described in sections No. 1 to No. 7 enclosed that, in our opinion, the Cooperative has not complied with agreements and contracts.

*Touche Ross & Co*

**COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.**  
**REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS**  
**YEARS ENDED DECEMBER 31, 1985, 1984, 1983 AND 1982**

**1. Default of Statutes of the Cooperative**

Condition:

<u>Article No.</u>	<u>Title</u>	<u>Paragraph</u>	<u>Comments</u>
4	Objectives	a)	They have not collected all the funds.
8	Cooperative Capital	-	They have not complied with the 12 month term for the collection of contributions.
10	Certificates of paid-in capital	-	No certificates have been issued for paid-in capital.
13	Affiliation Quotas	-	They don't record the affiliation shares within the nondistributed reserve.
16	Duties of the members	b)	They don't comply with bylaws.
		c)	They are not up-to-date in the payment of their contributions.
		f)	There are members who do not sell their products to the Cooperative.
20	Withdrawal of Associates	-	They have not received the dividends that belong to them.
32	General Assembly Meetings	-	They have been carried out yearly. In 1985 it was not held during the first quarter as required in the bylaws.
55	Obligations of the Administrative Board	e)	The Supervising Committee does not monitor the activities developed by the Administrative Board,

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.  
 REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS  
 YEARS ENDED DECEMBER 31, 1985, 1984, 1983 AND 1982

<u>Articulo No.</u>	<u>Title</u>	<u>Paragra.</u>	<u>Comments</u>
			the budget layout, the balance, the income statement; and on the project for the distribution of dividends.
		m)	The fee admission certificates have not yet been sent to the monitoring section of INACOP for their authorization.
		u)	As yet they have not determined the amount of the bond to cover the officials and employees that handle valuables.
63	Duties of the Supervising Committee	b)	The operations of the Cooperative have not as yet been revised.
		c)	They have not carried out on a monthly basis a cash count of store, petty cash and general cash of the administration.
		d)	Has not approved the reports and accounting documents that the Administration Committee must submit to the Ordinary General Assembly.
		e)	Does not verify that the employees of the Cooperative comply with their responsibilities.
		j)	Has not required the rules by which the associates can examine the books and documents of the Cooperative.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

YEARS ENDED DECEMBER 31, 1985, 1984, 1983 AND 1982

<u>Article No.</u>	<u>Title</u>	<u>Paragraph</u>	<u>Comments</u>
66	Duties of the Education Committee.	e)	Does not extend a report to the ordinary General Assembly on the activities developed during the year.
71	Inventory	-	No physical inventory was made during the years of 1981, 1982, 1983 and 1984.
73	Legal Reserve	-	No deductions were made from the net results of the year 1983 for the non-distributable reserves, for education and social work which amounted to Q.5,428.65.
74	Project on Distribution of Benefits	-	The Administrative Board has not yet elaborated the project for distributing benefits since 1982.
77	Loss Compensation	a, b, c and d	The Ordinary General Assembly did not comply with the dispositions of this article to compensate the loss of 1981 in the amount of Q.922.79; it was registered as an expense of year 1982.

Criteria:

The laws of the Cooperative.

Case:

Loss of interest on the part of members and officials of the Cooperative.

Effect:

Non-compliance with the law can mean fines of Q.25 up to Q.1,000;

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.  
REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS  
YEARS ENDED DECEMBER 31, 1985, 1984, 1983 AND 1982

suspension of the benefits that the law gives them or cancellation of the legal capacity.

Recommendation:

- A. Comply with those regulations established in the law of the Cooperative as well as in its bylaws.
  - B. Activate and stimulate the participation of the members in all the activities developed by the Cooperative.
2. Book of Purchases of the Valued Added Tax - VAT

Condition:

- A. On November 1985 the column "Net Purchases Affected" shows the total amount of the invoice, including the value of the tax.
- B. The documents recorded in the book of purchases are not identified as operational.

Criteria:

- A. As per Law Decree 97-84, the column "Net Purchases Affected" it should record only purchases without including the tax.
- B. Prevent duplication of supporting documents in the VAT records, which might cause a fine.

Cause:

- A. Lack of knowledge about how the documents must be recorded in the book of purchases.
- B. Lack of knowledge of control procedures.

Effect:

- A. Possible fines from future audits on the part of the Internal Revenue Department.
- B. To declare fiscal credits that don't correspond to the Cooperative will cause adjustments after fiscal inspections.

Recommendation:

- A. Instruct all personnel in charge of the purchases and sales records of how to account for VAT in these books.

COOPERATIVE AGRICOLA INTEGRAL MAGDALENA, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

YEARS ENDED DECEMBER 31, 1985, 1984, 1983 AND 1982

- B. All documents recorded in the Book of Purchases VAT should be stamped with a seal "OPERATED VAT MONTH OF \_\_\_\_\_ 19 \_\_\_\_\_".

3. Labor Benefits

Condition:

An adequate policy for estimating vacation and severance payments is nonexistent. They are made by the judgement of the technical advisor.

Criteria:

By the Constitution of the Republic, Law Decree No. 76-78, labor Code of the Congress of the Republic, the "Christmas Bonus Law", established the legal procedure for estimating labor benefits.

Cause:

Ignorance of these laws.

Effect:

They don't comply with the existing legal regulations.

Recommendation:

Prepare a social benefit policy that will comply with all requirements that the labor law establishes and instruct the general accountant to follow the laws and to make proper estimates.

4. Social Work Reserve

Condition:

In January 1984 they charged to profits and losses the cost of the purchase of books for the member's children and the Social Work Reserve was not used.

Criteria:

Article No. 73 of the bylaws establishes that education expenses must be applied to reserve for social work.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.  
REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS  
YEARS ENDED DECEMBER 31, 1985, 1984, 1983 AND 1982

Cause:

Ignorance on the part of the personnel in the use of this reserve.

Effect:

Expenses that must be applied to capital reserves are incorrectly charged to profits and losses.

Recommendation:

Instruct the accounting personnel in the proper use of capital reserves.

5. Cash Sales not Invoiced

Condition:

The sales made in July 1985 were not invoiced. (See paragraph 2 Cash Sales of the Report on the Internal Control System)

6. Social Security (IGSS)

Condition:

Apparently they have not complied with the laws (See Paragraph 15 Payroll Report on the Internal Control System).

7. Invoicing on Sale of Agricultural Products

Condition:

To those clients who provide agricultural supplies to the Cooperative, the net sale price of sale is invoiced, i.e. invoice No. 4 from August 1985:

Sale registered	Q. 10,909.78
Discount for Supplies	
Received	<u>3,000.00</u>
Invoiced Sale	Q. 7,909.78
	*****

Criteria:

The total amount of the sale must be invoiced, as stipulated in Law Decree 97-84 Value Added Tax. All purchases must be supported with invoices.

COOPERATIVA AGRICOLA INTEGRAL MAGDALENA, R. L.  
REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS  
YEARS ENDED DECEMBER 31, 1985, 1984, 1983 AND 1982

Cause:

Due to lack of knowledge about the law, the amount collected was invoiced.

Effect:

- A. Possible fines from future audits.
- B. Penalties imposed by INACOP.

Recommendation:

Invoice the total amount of sales.

REPORT DISTRIBUTION

	<u>No. of Copies</u>
Director, USAID/Guatemala	5
RLA	1
AA/LAC	2
AA/M	2
LAC/CAP/G	1
GC	1
LAC/CONT	1
LAC/DP	1
LAC/DR	1
LAC/GC	1
XA	1
XA/PR	2
LEG	1
M/FM/ASD	2
PPC/CDIE	3
GAO (Panama)	1