

PD-AAT-515

45344

AUDIT OF
COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS
FLOR PATZUNERA, R.L.
USAID/GUATEMALA PROJECT NO. 520-0238

AUDIT REPORT NO. 1-520-86-03-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 & 294

May 30, 1986

MEMORANDUM FOR: D/USAID/Guatemala, Charles E. Costello
FROM : RIG/A/T, *Coinage N. Gothard*
SUBJECT : Audit Report No. 1-520-86-03-N, "Audit of Cooperativa de Consumo y Servicios Varios Flor Patzunera, R. L."

This report presents the results of a non-Federal financial and compliance audit that your Mission requested of Cooperativa de Consumo y Servicios Varios Flor Patzunera (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 18 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 Cooperativa de Consumo y Servicios Varios Flor Patzún, 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 DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

AUDIT REPORTS

JUNE 30, 1985

3-

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

TABLE OF CONTENTS

	<u>Page</u>
Introduction	1
Examination of Financial Statements	
Auditor's Opinion	4
Basic Financial Statements	6
Notes to Financial Statements	10
Report on Internal Control System	
Auditor's Opinion	15
Observed Conditions	16
Report on the Compliance with Laws, Regulations and Agreements	
Auditor's Opinion	32
Observed Conditions	34

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 the Cooperativa de Consumo y Servicios Varios Flor Patzunera, R. L.

Background

Cooperativa de Consumo y Servicios Varios Flor Patzunera, Limited Liability (R. L.), serves its members located in the Department of Chimaltenango, and its offices are located in Canton Oriente, Municipio de Patzún, Department of Chimaltenango, Guatemala. It was initially organized on February 6, 1977 and obtained its actual legal status as a Cooperative on January 25, 1978. It is registered under No. 07 in the Folio No. 07, Book 1 of the National Institute of Cooperatives (INACOP).

The Cooperative's principal activity is the sale of agricultural supplies to its associates as well as the sale of its member's wheat and vegetables to commercial markets. According to its bylaws the Cooperative is oriented to improve the economic and social well being of its members and to develop activities that tend to improve their agricultural production, taking into consideration specific areas like: industrialization and commercialization of its 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 marketing of 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 selling 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 de Consumo y Servicios Varios Flor Patzún, 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 statements of the Cooperative as of June 30, 1985.
2. Performing a review and evaluation of the accounting system to determine if the system is consistent with the Cooperative's law and statutes and generally accepted accounting principles.
3. Performing a detailed review of the expenditure of funds maintained by the administrative staff from January 1, 1982 through June 30, 1985 to determine if the expenses are accurate and adequately supported.
4. Reviewing the Cooperative's internal control system with an 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 shows that the financial statements of the Cooperative do not present fairly the financial position due to errors in the financial statements caused by an inappropriate application of the accounting principles and inadequate accounting records.

2. Internal Control

Our study and evaluation of the Cooperative's internal control system determined that it is not functional as a result of a:

- A. Lack of an active participation by the Board of Directors for its operation.
- B. Lack of qualified personnel and training programs.
- C. Inadequate accounting records.
- D. Lack of understanding by the Cooperative's staff of generally accepted accounting principles and fiscal regulations which affect the Cooperative.

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, bylaws of the Cooperative and loan agreements. This has caused a contingent liability for the omission of taxes, penalties and moratorium interest that affect the Cooperative and that have not been quantified due to inadequate information.

These non-compliance problems are related to the deficiencies in internal controls which do not permit the Cooperative to reach the objectives for which it was created.

For 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

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

EXAMINATION OF FINANCIAL STATEMENTS

AUDITOR'S OPINION

We have examined the balance sheet of Cooperativa de Consumo y Servicios Varios Flor Patzunera, R. L. as of June 30, 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 de Consumo y Servicios Varios Flor Patzunera, R. L. for the year ended June 30, 1984, were not audited by us and, accordingly, we do not express an opinion on such financial statements, which are only 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 commodities and agricultural supplies as of June 30, 1985 and 1984, since that date was prior to the time we were appointed as 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 the inadequate records, we were unable to satisfy ourselves about the existence of: Cash funds of Q.8,604, accounts receivable of Q.2,313, furniture, equipment and implements of Q.3,480 and accounts payable to suppliers of Q.4,244; and of the pricing method for inventories, furniture and implements and the consistent application of the utilized method and of an adequate operations cut-off.
3. We did not obtain evidence that its land and buildings of Q.9,245 are registered in the name of the Cooperative in the National Register of Property of Real Estate.

The financial position of the Cooperative is affected by:

1. Accounts receivable to associates. A balance of Q.10,116 for the sale of fertilizers has not been itemized and according to the management, the majority of this balance has been collected.
2. Other accounts receivable. Includes Q.7,940 of an advance for the purchase of fertilizers, that was not realized and according to the management its recovery occurred after the date reported in the financial statements, and no evidence exists of such recovery.
3. Short term loan. Loans of Q.1,000 from 1979 are not identified that according to the management had a redemption that has not been registered due to the lack of documentation.
4. Accounts payable to suppliers. There exist liabilities of Q.4,000 that correspond to the purchase of fertilizers in 1983, and are not registered due to the lack of documentation.
5. Other accounts receivable. The financial statements include Q.28,180 of non-identifiable liabilities as a provision to cover other contingent liabilities.

As shown in Note I, the Cooperative received in 1980 a grant of US\$69,955; being obliged to maintain a revolving fund for loans to associates of US\$40,000; the interest generated by this fund might be utilized for the operation and maintenance of machinery and equipment. Such conditions have not been met and the grant was recorded as an income in 1981.

As referred in Note F, the Cooperative reports contingent liabilities due to omitted taxes which have not been quantified.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of Cooperativa de Consumo y Servicios Varios Flor Patzún, R. L. as of June 30, 1985, or the results of its operations and changes in its financial position for the year then ended.

Touche Ross & Co.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

BALANCE SHEET

<u>A S S E T S</u>	<u>June 30,</u>	
	<u>1985</u>	<u>1984</u>
Current Assets:		
Cash	Q. 14,451	Q. 5,508
Accounts Receivable:		
Associates	12,429	10,446
Other	<u>8,679</u>	<u>839</u>
Total Accounts Receivable	21,108	11,285
Inventories (Note C)	<u>10,245</u>	<u>10,932</u>
Total Current Assets	45,804	27,725
Property, Machinery and Equipment - Net (Note D)	38,498	37,917
Other Assets	<u>181</u>	<u>200</u>
	Q. 84,483	Q. 65,842
	=====	=====
<u>LIABILITIES AND ASOCIATES' EQUITY</u>		
Current Liabilities:		
Short Term Debt	Q. 1,000	Q. 1,000
Accounts Payable	4,244	2,758
Advances from customers	3,217	2,000
Other	<u>28,180</u>	<u>29,951</u>
Total Current Liabilities	36,641	35,709
Contingent Liabilities (Note F)		
Associates' Equity:		
Cooperative Capital (Note G)	4,021	4,593
Reserves (Note H)	26,695	21,167
Retained Earnings	<u>17,126</u>	<u>4,373</u>
	<u>47,842</u>	<u>30,133</u>
	Q. 84,483	Q. 65,842
	=====	=====

See Notes to Financial Statements

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

STATEMENT OF OPERATIONS

	Year Ended June 30,	
	<u>1985</u>	<u>1984</u>
Net Sales	Q. 351,257	Q. 282,740
Cost of Products Sold	<u>306,787</u>	<u>272,462</u>
	44,470	10,278
Operating Expenses:		
Selling Expenses	6,438	10,416
Administrative Expenses	<u>19,813</u>	<u>18,388</u>
Total Operating Expenses	<u>26,251</u>	<u>28,804</u>
Net Earnings (Losses)	Q. 18,219 =====	Q. (18,526) =====

See Notes to Financial Statements

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED JUNE 30, 1985

SOURCE OF FUNDS:

From Operations:

Net Earnings	Q. 18,219
Items not requiring the use of Working Capital	
Depreciation	4,270
Amortization	<u>19</u>
Total Source of Funds from Operations	Q. 22,508
Paid-in Capital	546
New Affiliations Income	<u>62</u>
	Q. 23,116
	=====

APPLICATION OF FUNDS:

Acquisition of Property, Machinery and Equipment	Q. 4,851
Reimbursements for Resigned Affiliations	1,118
Increase in Working Capital	<u>17,147</u>
	Q. 23,116
	=====

INCREASE (DECREASE) IN WORKING CAPITAL
COMPONENTS:

Cash	Q. 8,943
Accounts Receivable	9,823
Inventories	(687)
Accounts Payable	(1,486)
Advances from customers	(1,217)
Other Liabilities	<u>1,771</u>
	Q. 17,147
	=====

See Notes to Financial Statements

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

STATEMENT OF ASSOCIATES' EQUITY

	<u>Cooperative Capital</u>	<u>Reserves</u>	<u>Retained Earnings</u>
Balance, June 30, 1984	Q. 4,593	Q.21,167	Q. 4,373
New Affiliations Paid-in Capital	546	62	
Resigned Affiliations	(1,118)		
Period Net Earnings			18,219
Period Net Earnings Legal Reserves	_____	<u>5,466</u>	<u>(5,466)</u>
Balance, June 30, 1985	Q. 4,021 =====	Q.26,695 =====	Q.17,126 =====

See Notes to Financial Statements

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1985 AND 1984

A. Summary of Significant Accounting Policies:

1. Property, Machinery and Equipment. They 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 life of assets are capitalized. The cost of the assets sold or disposed and their accumulated depreciation are eliminated in the year when the sale or disposal occurred.
2. 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 the beneficiaries. The policy of the Cooperative is to record this benefit when the payment occurs. As of June 30, 1985 this liability has not been estimated.
3. Grants. Are recorded directly as income in the year in which the funds are received. The technical assistance received as part of the grant originated from 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 started by 200 associates. It was constituted in Guatemala and located in Patzún, Department of Chimaltenango; its statutes were approved on January 25, 1978. 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 wheat and vegetables to commercial markets and agricultural supplies to its members.

C. Inventories:

	<u>June 30,</u>	
	<u>1985</u>	<u>1984</u>
Agricultural supplies	Q. 5,880	Q. 6,204
Fertilizers	2,681	3,071
Basic Commodities	1,384	1,307
Other	<u>300</u>	<u>350</u>
	Q. 10,245	Q. 10,932
	*****	*****

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1985 AND 1984

D. Property, Machinery and Equipment:

	<u>Depreciation</u>	<u>June 30,</u>	
		<u>1985</u>	<u>1984</u>
Building	10%	Q. 12,332	Q. 8,605
Furniture and Equipment	10%	2,092	1,615
Agricultural Machinery	10%	29,047	29,047
Agricultural Implements	15%	<u>1,388</u>	<u>1,240</u>
Depreciable Property		44,859	40,507
Less: Accumulated Depreciation		(<u>15,607</u>)	(<u>11,336</u>)
Depreciable Property - Net		29,252	29,171
Land		<u>9,246</u>	<u>8,746</u>
		Q. 38,498	Q. 37,917
		=====	=====

E. Taxes:

The Cooperative enjoys exemption from income taxes, stamp (documentary) taxes, sales 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 review 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.

F. Contingent Liability:

The Cooperative has not been registered as a contributor for Value Added Tax purposes. Therefore, the Cooperative has not collected such taxes on the sale of agricultural supplies realized from 1983 until now. The omitted tax plus fines and interest has not been estimated; additionally, the Cooperative has not complied with the regulations of the Guatemalan Social Security Institute (IGSS).

G. Associates' Equity:

The capital of the Cooperative is variable, and it is made up with obligatory contributions with nominal value of Q.5 each, which must

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1985 AND 1984

be paid through one sole amortization when entering as an associate. The contributions are individually assigned and non assignable and will earn interest when the General Meeting decide; currently Q.25 are being required as obligatory contribution and no interest rate has been established.

H. Capital Reserves:

The bylaws of the Cooperative establish the following obligatory reserves on the operating results, that as of June 30, 1985 and 1984 amount to:

	<u>June 30,</u>	
	<u>1985</u>	<u>1984</u>
10% as a minimum for non-Distributable Reserves (1)	Q. 9,882	Q. 7,998
10% for Reserve for Education	8,407	6,585
10% for Reserve for Social Works	<u>8,406</u>	<u>6,584</u>
	Q. 26,695	Q. 21,167
	=====	=====

(1) The non-distributable reserve includes Q.1 from each affiliation quota of the associates. The Cooperative is actually charging Q.2.50 for this concept.

I. Grant:

Inter-American Foundation:

Through an agreement suscribed on July 14, 1980 with the Inter-American Foundation, the Cooperative obtained a grant amounting to US\$69,955 with the following objectives:

Constitution of a revolving fund, loans to associates for fertilizer purchases	US\$ 40,000
Acquisition of Agricultural Machinery	25,075
Manager Salary, 50% during the year	2,880
Audit Fees	<u>2,000</u>
	US\$ 69,955
	=====

The activities program included one year until July 1981, the main commitment for the Cooperative was the development of cultivation areas in a land of 435 hectares owned by the associates.

Agency for International Development:

The loan agreements No. 520-T-030 of February 15, 1984

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1985 AND 1984

between the Government of Guatemala and USAID includes the financial assistance project for:

- a) Producing, packing, storing, processing, and commercialization of fresh vegetables.
- b) Credits for production.
- c) Credits for consulting services and engineering supervision, building, equipment 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, storing, and commercialization of vegetables and apples 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 June 30, 1985, the Cooperative has received the technical 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 system through the implementation of a dynamic and efficient accounting system.

J. Monetary Unit:

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

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1985 AND 1984

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 considered as essential have the one-to-one exchange rate, and the rest of imports have to be paid 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 types of articles that were exported and the country of destination. The aforementioned dispositions 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 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 mainly coming 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 June 30, 1985 the free market exchange rate averaged Q.2.982:US\$1.

Lara & González, CPA
Member Firm
Touche Ross International

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON INTERNAL CONTROL SYSTEM

AUDITOR'S OPINION

We have performed a study and evaluation of the internal control system of Cooperativa de Consumo y Servicios Varios Flor Patzunera, R. L. from January 1, 1982 to June 30, 1985. Our study and evaluation was performed in accordance with The "Standards for Audit of Governmental Organizations, Programs, Activities And Functions"(1981 Revision).

The management of Cooperativa de Consumo y Servicios Varios Flor Patzunera, R. L. is responsible for the implementation and maintenance of the internal control system. To fulfill this responsibility, the management needs to make 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 de Consumo y Servicios Varios Flor Patzunera, R. L. from January 1, 1982 to June 30, 1985, which are described in the following sections No.1 to No. 18, 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 they may not be detected in a timely fashion.

Touche Ross & Co.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

1. Inappropriate Accounting Records

Condition:

The accounting records show conditions and limitations which don't guarantee the accuracy of the financial information.

- A. Operations are not recorded in a timely fashion. Up to now, the books are updated only as of June 1985.
- B. Auxiliary records of important accounts are non-existent.
- C. Some auxiliary records have been prepared outside of the formal accounting records and they don't reconcile with the balances of the main ledger, such as accounts receivable and contributions from members.
- D. No financial statements are prepared periodically.
- E. The principal records show scratched changes, stains and alterations with liquid paper, balances in pencil, and mathematical errors.
- F. The registration of operations is not done taking as reference the supporting documentation.
- G. Some balances of the financial statements are not shown in the General Ledger, registration of the General Ledger which are not shown in the Journal Entry and they balance corrections without entering the contra debit.
- H. No statements of monthly balances are done.
- I. The operations are registered globally by month, taking the available information as a basis and there are no means of detecting or controlling the operations carried-out with no supporting documentation.
- J. The accounting and administrative files don't give enough security that all the information is under control before and after it is being recorded. The inventory records dated June 30, 1985 could not be found.
- K. Procedures are non-existent for the revision, authorization and approval of transactions and their records.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

Criterion:

The accounting records should provide adequate and timely information for decision making by the Administration.

Cause:

- A. Lack of knowledge on the part of the Accountant.
- B. Lack of responsibility on the part of the Accountant.
- C. Lack of adequate procedures for the control and supervision from the Management and the Supervising Committee.
- D. Lack of an appropriate accounting system.

Effect:

The information given by the accounting division is not reliable and presents too many limitations in regard to the analysis in its content and presentation.

Recommendation:

- A. Establish an accounting system and procedures to verify and approve the operations, that will point-out the weak points in a timely manner in order to take immediate action.
- B. Hire efficient accounting personnel with enough responsibility, capacity and knowledge, and see that all the accounting and fiscal records are kept updated.
- C. Request from the Management and Supervision Committee more participation in the revision and supervision of the operations in the accounting ledgers.

2. Control over the Handling of Funds

Condition:

No appropriate control exists regarding the handling of funds, the only source is the cash book, which shows the following:

- A. The transactions are not recorded in due time.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

- B. It is not kept up-to-date.
- C. The balance is obtained only at the end of each month, but is not reconciled with the General Ledger, resulting in important differences.
- D. There is no evidence of verification of balances through an audit.
- E. The records show deleting lines, smears and alterations with liquid paper.
- F. Sometimes the balance shows a credit.
- G. The transactions are recorded generally with no reference whatsoever to the supporting documentation.
- H. Adjustments are made with no justification whatsoever to reconcile with the general ledger.
- I. It does not show the daily cash position.

Criterion:

The control of funds through the cash account is effective once adequate control procedures of verification and supervision exist that will allow one to detect errors or irregularities in the handling of funds.

Cause:

Carelessness on the part of the Accountant and lack of supervision and control on the part of the Supervising Committee.

Effect:

Cash management is not under control, causing inadequate handling; the records of the cash books are utilized to journalize the ledger, thus resulting in an unreliable balance in the ledger due to inappropriate entries in the cash book.

Recommendation:

Establish an appropriate control over the handling of cash funds through the cash book, implement at the same time policies that will make Management responsible for their previous authorization of the operations, require periodic and uncheduled audits by

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

Supervising Committee on the operations.

3. Collections and Cash Funds

Condition:

Collected funds are not deposited in the bank; the total amount collected is handled in the general cash fund and, when deposits are made, the deposit slips are not identified with the cash operations. As indicated by the Manager, some of the checks received are cashed to make purchases and meet expenses, when he is in Guatemala, with no clearances of these collections.

Criterion:

The Cooperative's cash must be handled in banking accounts to provide adequate control over the transactions and physical security on the amount of money available.

Cause:

As indicated by the Management, there are too many problems to pay with checks and the local bank, BANDESA, does not provide enough checks to carry-out all the payments; BANDESA has imposed a limit on the amount of checks and has imposed a charge against the Cooperative for checks based on the number of checks used.

Effect:

No appropriate control and security exists on the collected funds and the availability of funds of the Cooperative, ensuring that they are handled correctly.

Recommendation:

- A. Deposit and control all of the funds through banks.
- B. Establish a special account for the Manager for expenses in Guatemala, making periodic reconciliations.
- C. Establish a fixed cash deposit for purchases and payments in general and withdraw the necessary funds as needed for payment of purchases to associates.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

- D. Establish a policy that prohibits the cashing of checks received from the buyers; deposit collections fully integrated.
- E. Match the deposit slips with the operations in cash on the collections made.

4. Purchase of Agricultural Products

Condition:

Purchases of agricultural products are documented by informal and uncontrolled receipts; copy of the receiving document is not enclosed; no reference is made to the entry document in the warehouse and there is no evidence that the payment receipt and that of the entry document have been compared.

Criteria:

All payment slips must be supported by an entry to a warehouse slip and must show evidence that such documents were compared to support the validity of the transaction.

Cause:

The entry document is not pre-numbered and is filed separately from the payment slips in a random order, which makes it very difficult to find or identify a transaction.

Effect:

There is no evidence of the entry of the purchases, as a result; duplicate payments may occur and verification is difficult.

Recommendation:

Use pre-numbered slips for the entry of purchases to the warehouse and attached them to the payment slips making reference to the number of the entry document and vice-versa.

5. Refund of Contributions

Condition:

- A. The refund of contributions to associates is only supported with informal and uncontrolled receipts without evidence of approval and reference to the decision of the Administrative Board.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

- B. In 1985 refunds were made on additional contributions of capital that according to the receipts were for the purchase of land, nevertheless, there is no balance on the additional contributions of refunds so the refunds were charged as expenses to the period.

Criterion:

- A. The refund of contributions must be supported with ordinary receipts approved by the Management and acknowledged by the Administrative Board.
- B. The refund of contributions does not represent operational expenses; it is a capital refund.

Cause:

No control has been established in regard to contributions and its procedures for an eventual refund.

Effect:

- A. Refunds may be made to persons who lack evidence of having paid contributions.
- B. Refunds may be made for incorrect amounts.

Recommendation:

All the refunds of contributions should have prior approval by the Manager with the knowledge of the Administrative Board. They must be recorded in separated accounts with itemization.

6. Invoicing on Sales of Agricultural Products

Condition:

All invoices for sale of agricultural products lack references of the delivery number or shipment from the warehouse that allows verification that the total amount delivered has been invoiced. There is no evidence that the invoices have been compared against the deliveries.

Criterion:

The amounts and the description of the goods billed must be supported by the warehouse delivery slips or references to them to

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

insure that all products dispatched have been billed.

Cause:

The copies of the delivery slips are not pre-numbered; they are filed in a separate manner with no reference to the number of the bill and are kept in boxes without any control.

Effect:

Delivery of agricultural products may be made without being billed or errors may occur on the bills without being detected.

Recommendation:

Prepare a delivery slip for each warehouse delivery. Enclose with each bill a copy of the delivery slip. Make reference to the number of this document on the bill and on the copies of the deliveries indicate the number of the bill.

7. Agricultural Mechanization Service

Condition:

There is no report on the hours of operation of the agricultural machinery to determine that the total amount of hours worked has been billed and that the amount of the bills for this service is correct. In the case of the wheat flour the billing is done taking in account the production that the person delivers to the Cooperative.

Criterion:

The invoicing of the services for use of the machine must be supported by the control of hours worked by the machine to insure that the total amount of agricultural services has been billed.

Cause:

There is no control over the hours of operation of the machine.

Effect:

Services carried-out may not be billed and sales of machine services erroneously reported.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

Recommendation:

Start a daily log of operations of the machine detailing hours of operation, production, name and number of member or third parties and bill the services of the machine based on this report. Maintain evidence of prior approval for the services.

8. Journalization of Entries and Deliveries of Warehouse

Condition:

No journalization is made of the entries and deliveries of the warehouse as part of the inventories. The entries are journalized as "Purchases" for each type of product and the deliveries are not journalized; under this system the inventories are balanced by the stock at the end of each year and the difference is recorded as cost of sales.

Criterion:

All of the stock in warehouse should be accounted for through an inventory control system.

Cause:

Lack of appropriate control by the Accounting Department for the entries and deliveries from the warehouse as well as from the stocks.

Effect:

There may exist entries or deliveries not journalized which are undetected, waste or loss of products from spoilage are not known, situations which affect the computation of cost of sales and, as a consequence, the results of the year.

Recommendation:

Establish controls that require journalization of the entries and deliveries from the warehouse.

9. Transfer of Cash

Condition:

The transfer of cash funds to banks and vice-versa are not reported as part of the detailed cash movement, these are journalized by month as incomes and expenses from the bank.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

Criterion:

All cash transfers must be documented and recorded for in such a manner that they can be easily identified.

Cause:

In the Cash Book the daily operations are recorded in a global manner three to six months later. The deposits and withdrawals are not documented in the cash book.

Effect:

The funds lack control for their receipt and use, and thus one cannot detect possible misuse.

Recommendation:

Document cash transfers in a timely manner and in a way that they can be identified.

10. Security of Funds in Cash

Condition:

Considerable amounts of cash are kept in the Cashier's desk drawer which does not provide any physical protection whatsoever.

Criterion:

Cash funds must be limited to petty cash and all payment must be done with check.

Cause:

They keep large amounts of cash due to the fact that the majority of the associates require payment in cash.

Effect:

The funds could be stolen from persons other than the cashier and the cashier may not be held responsible for missing funds because of a lack of security.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

Recommendation:

Stipulate specific dates to carry-out cash payments eliminating daily payments in cash; a metal box with lock, may be kept in the file cabinet during holidays and non-working hours.

11. Handling of Check Books

Condition:

The handling of check books shows different deficiencies:

- A. The checks are not given consecutive numbers.
- B. The manager has signed blank checks.
- C. The voided checks have not been made useless.

Criterion:

Checks must be appropriately controlled to prevent their misuse.

Cause:

The checks signed in blank by the manager are prepared so that they can be used in his absence, afterwards obtaining the second signature. Those checks not voided and the lack of correlativity are due to carelessness on the part of the person in charge of the check books.

Effect:

Risk of making unauthorized payments by Management and possible misuse of the bank funds.

Recommendation:

Program ahead of time the dates of payments of those checks that must be extended so no blank checks are signed by the Manager; number the checks sequentially and make useless the voided checks so they cannot be used.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

12. Cash Disbursements

Condition:

The cash disbursements are supported with informal and uncontrolled receipts with the following deficiencies:

- A. They do not show evidence of approval.
- B. They are not stamped as "CANCELLED".
- C. Some are too general and do not specify the purchase.
- D. Some purchases are not supported by formal invoices.
- E. Signatures are illegible and the name is not on the check.
- F. They lack signatures and, in some cases, only show initials.

Criterion:

The disbursements must be supported with formal authorized slips, that submit requirements to support the reality of the expense.

Cause:

No control system has been established to support the validity of the disbursements.

Effect:

Unauthorized payments may be made, supporting documents could be used more than once and informal documents could be used without the knowledge of the Management.

Recommendation:

Support the disbursements with formal receipt on invoices authorized by the Manager, file information that supports the expense and start using a stamp "CANCELLED", "DATE" in those bills paid, and in the case of checks it also must show "CHECK NUMBER" and "BANK".

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

13. Salaries and Wages

Condition:

The expenses for salaries and wages show the following:

- A. Lack evidence of approval.
- B. The social security deduction is not shown clearly and the journal entry of the payment is made of the total amount without considering the deduction.
- C. Show different concepts for overtime or temporary work that do not describe clearly those services rendered.
- D. They do not identify the payment of temporary or overtime personnel.
- E. They are supported with informal and uncontrolled receipts.

Criterion:

The payment of salaries and wages should be supported with authorized documents, including the services of temporary or overtime personnel.

Cause:

The expenses are inadequately supported due to the lack of procedures and controls necessary to verify the validity of transactions.

Effect:

The expenser for salaries and wages may be inflated by non-existing personnel or for services not really received.

Recommendation:

Start using forms to control the time of service, contracted personnel and activities carried-out to support the payment; start payroll forms for the payment of salaries of permanent personnel and another for the temporary and overtime personnel that shows evidence of approval of the disbursement.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

14. Freight Services Purchases

Condition:

The freight services paid in the purchases of the Cooperative are generally supported by informal and uncontrolled receipts and lack authorized signatures, clear description of the service rendered, unit prices and references to the entry document of the transported goods.

Criterion:

The disbursements should be supported with formal documents and include information and reference to the entry documents of the goods transported so the validity of the transaction can be proved.

Cause:

- A. In some cases they have been documented with ordinary receipts to avoid payment of the value added tax.
- B. No controls have been established to compare the documentation.

Effect:

There does not exist enough evidence of the validity of the transaction and this could cause duplication of expenses without detection and any loss of the cash could be supported with receipts of this type.

Recommendation:

Support the freight services with formal receipts; require acceptance signatures from the Manager; and enclose a copy of the entry documents to the warehouse of the goods being transported, making a cross reference of both documents.

15. Insurance Policies

Condition:

No insurance policies have been obtained to insure the goods of the Cooperative. There are assets subject to earthquake risks, fire, theft and other damages (building, inventories, cash, machinery) that have not been insured.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

Criterion:

The assets should be insured against loss or damages.

Cause:

The Cooperative wanted to save money by not purchasing insurance.

Effect:

Losses or damages can occur to the assets of the Cooperative that for lack of insurance in case of disaster could jeopardize the future of the Cooperative.

Recommendation:

Obtain insurance policies that give coverage to the most important assets of the Cooperative.

16. Funds

Condition:

The Cooperative has not obtained fidelity bonds for the employees who handle the funds of the Cooperative. Employees handle large amounts of cash subjecting the funds to robbery or inappropriate use.

Criterion:

The funds must be protected from risks due to inappropriate use.

Cause:

This has not been considered by the Administration.

Effect:

In the event of fraud or misuse of funds by the individuals in charge of the funds, the funds may not be recovered.

Recommendation:

Obtain bonds that will cover the responsibilities of the personnel in charge of the funds of the Cooperative.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

17. Authorized Prices for Purchases to Associates

Condition:

No evidence exists in regard to the approval of the authorized prices for the purchases from the associates; normally the prices are established by the management.

Criterion:

The prices used for purchases must be authorized by writing so that its application can be verified later.

Cause:

The procedure has not been established.

Effect:

Arbitrary application of the prices to certain members or to different quality of products, that may cause an overvaluation of the purchase.

Recommendation:

Establish lists of purchase prices agreed upon for each type and quality of product that are approved by the Administrative Board and file according to their use.

18. Lists of Sales Prices

Condition:

No price lists exist for the sale of agricultural supplies to members and approval of sales prices of agricultural products to commercial markets.

Criterion:

The sales prices must be approved by writing so their application is done correctly.

Cause:

The procedure has not been established.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE INTERNAL CONTROL SYSTEM

JANUARY 1, 1982 TO JUNE 30, 1985

Effect:

The reported sales may be incorrectly valued or unfairly priced to different members.

Recommendation:

Establish the approval of sales prices in writing.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON THE COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

AUDITOR'S OPINION

We have examined the financial statements of Cooperativa de Consumo y Servicios Varios Flor Patzunera, R. L. for the year ending June 30, 1985 and we have performed a study and evaluation of the accounting internal control system from January 1, 1982 to June 30, 1985. Our examination and study were made in accordance with generally accepted auditing standards and with the standards for audit of programs, activities and functions for 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. Grant Agreement with Inter American Foundation.
- G. Statutes of the Cooperative.
- H. Regulations for Loans to Associates.

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 are no agreements at this time between the Agency for International Development (USAID) and the Cooperative that establish

specific requirements for an assistance program which the Cooperative is receiving.

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

Touche Ross & Co.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

FROM JANUARY 1, 1982 TO JUNE 30, 1985

1. Apparent Default of Statutes of the Cooperative

Condition:

<u>Article No.</u>	<u>Title</u>	<u>Clause</u>	<u>Comments</u>
3	The sale of articles to members should only be made in cash.	c)	The fertilizers and seeds are sold on credit.
7	Regulations that the members must comply with	d) e)	No membership request in writing exist as required. The Cooperative charges Q.2.50 as initiation fee and should charge only Q.1.00.
9	Withdrawal of members from the Cooperative		This withdrawal is not notified by writing to the Administrative Board.
16	Obligation to attend to all the General Assembly Meetings	a)	They do not comply with the attendance requirements in the meetings.
22	Date to carry-out the General Assembly Meeting		The meetings of June 30, 1982, 1983 and 1984 have been carried-out three months late.
26	Agenda to consider in the General Assembly Meeting	d) e) f) n)	They do not conform to requirements to read the following reports: Administrative Board. From the Supervising Committee. Education Committee. No indication is given of the general delineation of the Cooperative's policy for the new fiscal year.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

FROM JANUARY 1, 1982 TO JUNE 30, 1985

<u>Article No.</u>	<u>Title</u>	<u>Clause</u>	<u>Comments</u>
42	Obligations of the Administrative Board	e)	Work plan and year budget of the Cooperative is not submitted to the General Assembly Meeting.
		f)	There is no budget to work on.
		i)	Non-updated accounting registers.
		j)	The following are not submitted to the General Assembly Meeting: 2. Information of the budgetary execution. 4. Benefits distribution or the way to recover the loss of a year.
			It was not approved in the meeting:
		k)	Contract for the purchase of fertilizer in the amount of Q.8,000.
		n)	No decision was taken to collect through the court to Mr. Marco Tulio Toledo "Carmol".
		ñ)	No regard has been given to the observation from INACOP in relation to a difference in the cash.
50	Obligations of the Supervision Committee	b)	As the cash journal is not updated it is not possible to carry-out cash counts.
		d)	The accountant resigned and left records

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

FROM JANUARY 1, 1982 TO JUNE 30, 1985

<u>Article No.</u>	<u>Title</u>	<u>Clause</u>	<u>Comments</u>
			without nine months of posting. The vigilance Committee did not take any timely action.
53	Duties of the Education Committee	d)	No report is submitted to the Education Committee in regard to the activities developed.
55	Contributions of capital of the Cooperative		The established contributions are of Q.5. and the Cooperative charges Q.25.
60	Capitalization of extraordinary fees in the nondistributable reserve		In 1985 extraordinary fees are returned for years back that were not authorized by the Assembly and which were not capitalized in the nondistributable reserve.
65	Distribution project on the benefits		The Administrative Committee has not as yet presented a project of distribution of benefits to the Assembly.

Criterion:

To comply with the Law of Cooperatives and its bylaws.

Cause:

Lack of control over the requirements of the statute by the Administrative Board and the Supervision Commission.

Effect:

Noncompliance with the law can result in fines from Q.25. up to Q.1,000, suspension of the benefits that the law gives them; and the cancellation of the legal capacity.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

FROM JANUARY 1, 1982 TO JUNE 30, 1985

Recommendation:

Comply with the law and its bylaws.

2. Value Added Tax

Condition:

The Cooperative has not as yet enrolled in the Internal Revenue System as a contributor of the VAT, in force since August 1983.

Criterion:

As per Law-Decree No. 97-84 "VAT" Article No.9, paragraph 6, the Cooperative is supposed to register as a contributor and to charge the tax for the commercialization of fertilizers, sprayers, agricultural supplies, agricultural implements and commodities.

Cause:

Unknown.

Effect:

- A. No VAT collections have been made on the sale of affected products. for this reason the Cooperative is obliged to pay the omitted taxes plus fines and interest. They don't know the amount of all these facts.
- B. A fine of Q.50. must be paid because the Cooperative issued invoices that did not fulfill the legal requirements.
- C. They paid a fine of Q.100 for not enrolling in the VAT.

Recommendation:

- A. Enroll the Cooperative in the VAT system and comply with the regulations it requires.
- B. Originate a provision to cover the omitted tax plus fine in case of an audit from the Internal Revenue Department.

3. Apparent Noncompliance of the VAT payment on purchases

Condition:

Purchases in large amounts exist that have only been supported with

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

FROM JANUARY 1, 1982 TO JUNE 30, 1985

Informal and uncontrolled receipts. Nevertheless, the law requires that Cooperatives and these types of sales have formal and controlled invoices.

Criterion:

Those purchases supported with ordinary receipts allow the tax evasion on the part of the vendor with the consent from the Cooperative.

Cause:

Since the Cooperative is not registered as a contributor in the VAT, the charges for this tax must be absorbed as part of its expenses and in this manner the tax payment is prevented.

Effect:

The VAT payment is being evaded allowing at the same time that vendor may eliminate the same tax and the amount of sales carried out with the Cooperative for the income tax purposes, which implies that the Cooperative does not watch closely the compliance of the fiscal requirements.

Recommendation:

That all purchases be supported by formal invoices complying with the VAT payment.

4. Apparent Noncompliance with Deposits of Social Security (IGSS)

Condition:

The Cooperative has fallen behind in the payment of the social security quota since May 1984 on the salaries paid to the permanent employees and has not made any deductions from the wages paid to temporary employees.

Criterion:

Any enterprise or organization exceeding three employees is required to participate in the social security system.

Cause:

No steps have been taken to enroll the Cooperative's personnel

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

FROM JANUARY 1, 1982 TO JUNE 30, 1985

in the social security system. The Cooperative's enrollment began in May 1985.

Effect:

Since no deductions for social security quotas were retained from employees during the period May 1984 through May 1985 they must be paid by the Cooperative and they already have incurred expenses due to surcharges and collection expenses via legal procedures.

Recommendation:

Management must verify that all legal and fiscal laws are followed closely and proceed to pay whatever money that is owed to prevent penalties and to proceed to deduct social security quotas out of all salaries already paid.

5. Grant Agreement with the Interamerican Foundation

Condition:

The Cooperative did not comply with some the conditions established in the agreement of donation with the Interamerican Foundation (IAF) in the following manner:

A. Use of funds.

- a) No revolving funds for loans to members to purchase fertilizers are established.
- b) The Loan Agreement dispositions have not been followed when granting loans.

B. Obligations of the Cooperative:

- a) The funds were not invested as indicated in the grant agreement.
- b) No auxiliary ledgers are made separately to control donation funds.
- c) Local legal dispositions have been disregarded.
- d) No statistical information exists to determine that 1,200 hectares have been mechanized.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

FROM JANUARY 1, 1982 TO JUNE 30, 1985

- e) The services of an agricultural technician were not contracted.
- f) Interest obtained from loans to members has not been identified nor reinvested in one of the following categories as required by the grant.
- Equipment maintenance.
 - Agricultural technician's salary.
 - Machine operator's salary.
 - Acquisition of new machinery.
 - Increase in the funds for loans.
- g) No committees have been organized for: Mechanization, transportation and agricultural supplies and there are no other means by which these procedures are covered.

Criterion:

Defaulting conditions established in the agreement with Inter-American Fundation (IAF).

Cause:

Lack of interest and participation of the Administrative Board, the Supervision Committee and the Management.

Effect:

Due to the seniority of the agreement the conditions of same are unknown and they do not establish long term penalties.

Recommendation:

That the Administrative Board of the Cooperative verify the fulfillment of the conditions stated in the agreements.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

FROM JANUARY 1, 1982 TO JUNE 30, 1985

6. Loan Regulations

Condition:

Some of the regulations have not been followed which are outlined in the loan regulations of the Cooperative.

- A. The loan format to purchase fertilizers does not show the approval of the Management and the decision taken by the Loan Committee.
- B. The amount of the loan has exceeded, in some cases, the contribution paid by the associates by ten fold.
- C. The 1% charge per month is not applied to those overdue loans.

Criterion:

The loan agreement establishes the procedures for the granting of loans to members so that they are not made in an arbitrary manner with risk for the Cooperative.

Cause:

Lack of control on the part of the Supervision Commission.

Effect:

Overdue problems; uncollectable loans.

Recommendation:

The Loan Committee strictly follow the conditions on the loan agreements and that the Supervision Commission verify periodically that they are carried-out

7. Income Tax Retainer Agent

Condition:

The Cooperative is not registered as Income Tax retainer agent.

Criterion:

Decree Law No. 229 requires the cooperative to be registered as an income tax retainer agent.

COOPERATIVA DE CONSUMO Y SERVICIOS VARIOS

FLOR PATZUNERA, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

FROM JANUARY 1, 1982 TO JUNE 30, 1985

Cause:

Lack of knowledge of these requirements.

Effect:

The sanctions established by the law range from Q.25. to Q.500. depending on the time they did not follow these regulations and the time of non-payment of the retentions plus fines and interest payable by the Cooperative.

Recommendation:

That the Cooperative take the necessary steps to register as an Income tax retainer agent and that all regulations for the retentions be carried-out according to the payment of those services affected.

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