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**AUDIT OF
COOPERATIVA AGRICOLA INTEGRAL
UNION DE CUATRO PINOS, R.L.
USAID/GUATEMALA PROJECT NO. 520-0238**

**AUDIT REPORT NO. 1-520-86-02-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, *Coinage N. Gothard* Coinage N. Gothard Jr.
SUBJECT : Audit Report No. 1-520-86-02-N, "Audit of Cooperativa Agricola Integral Union de Cuatro Pinos, R.L."

This report presents the results of a non-Federal financial and compliance audit that your Mission requested of Cooperativa Agricola Integral Union de Cuatro Pinos (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 26, 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 35 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 Agricola Integral Union de Cuatro Pinos, 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
UNION DE CUATRO PINOS, R. L.
AUDIT REPORTS
DECEMBER 31, 1985

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COOPERATIVA AGRICOLA INTEGRAL
UNION DE CUATRO PINOS, R. L.

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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 Unión de Cuatro Pinos, R. L.

Background

Cooperativa Agrícola Integral Unión de Cuatro Pinos, Limited Liability (R. L.), serves its members located in the Department of Sacatepéquez, and its offices are located in Municipio of Santiago Sacatepéquez, Department of Sacatepéquez, Guatemala. It was organized and obtained its actual legal status as a Cooperative on February 15, 1980. It is registered under No. 235 in the Folio No.235, Book 1 of the National Institute of Cooperatives.

The Cooperative's principal activity is the commercialization of agricultural products that are peculiar in the region, such as snow peas, brocolli, cauliflower, parsley and onions. Some of these products are sold directly and the others are dehydrated for future sales. According to its bylaws, the Cooperative is oriented toward reaching economic and social improvements for its associates and developing those products that are peculiar in the region and activities necessary for the mechanization of its operations and increasing cooperativism.

The cooperative receives financial and technical assistance in accordance with 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 through the following:

1. Financial assistance from Banco Nacional de Desarrollo Agrícola (BANDESA) to at least three agricultural cooperatives growing fresh vegetables 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 Agrícola Integral Unión de Cuatro Pinos, 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 according to 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 December 31, 1985.
2. Performing a review and evaluation of the accounting system to determine if it complies with laws, bylaws of the Cooperative, and generally accepted accounting principles.
3. Performing a detailed review of the funds disbursed by the Cooperative from January 1, 1982 to December 31, 1985 to determine if the expenses were correctly and adequately supported.
4. Reviewing the internal control system of the Cooperative, with an emphasis in transactions of costs and purchases, and the management of supplies and materials.

5. Reviewing warehousing 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 inappropriate application of the accounting principles, inadequate accounting records, donations received but not registered and a contingency for omission of taxes. However, the Cooperative is in a profitable operation because most of its sales are realized abroad; it is also a productive operation because of the number of associates that it benefits.

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 effective participation by the Board of Directors for its operation.
- B. Lack of qualified personnel and training programs.
- C. Inadequate accounting by the Cooperative's staff of generally accepted accounting principles and fiscal regulations which affect the Cooperative.
- D. Lack of understanding by the Cooperative's staff of generally accepted accounting principles and fiscal regulations which affect the Cooperative.
- E. At the present the management depends on external assistance to 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, statutes of the Cooperative, loan agreements and foreign exchange rate laws. This has caused a contingent liability for the omission of taxes, penalties and moratorium interest that affect the Cooperative and which cannot currently be quantified.

The noncompliance with the law and the Cooperative's bylaws are related to the deficiencies in internal controls that might cause losses and material effects in the financial position.

Lara & González, CPA
Member Firm
Touche Ross International

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 26, 1986
Guatemala

COOPERATIVA AGRICOLA INTEGRAL

UNION DE CUATRO PINOS, R. L.

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

AUDITOR'S OPINION

We have examined the balance sheet of Cooperativa Agrícola Integral Unión de Cuatro Pinos, 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 Unión de Cuatro Pinos, 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 inventories as of December 31, 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: a) The consistency in the inventory pricing method as commented in policy A-2. b) All products sent to the intermediaries abroad were invoiced and deposited during the year and c) Posterior transactions corresponding to March and April 1986.
3. As of the date our examination was completed, we had not received any answer to our confirmation inquiry about the donation from the bank in the United States of America.

The financial position of the Cooperative is affected by in-

adequate management and supervision of the operational procedures to ensure all the financial information is registered; such deficiencies caused amounts in excess of Q.34,868 to be reported in other accounts receivable, Q.26,192 in Imports in Transit; unrecorded amounts of US\$17,992 and Q.33,378 in Accounts Receivable, Q.14,338 in Inventories, Q.19,531 in Accounts Payable and unrecorded Sale Expenses of US\$465,234 which were paid.

As explained in notes A-6 and N, transactions in US Dollars are not valued according to generally accepted accounting principles. Balances as of December 31, 1985 valued according to the official exchange rate US\$1:Q.1 include: cash US\$84,257; Accounts Receivable US\$359,480, Other Accounts Receivable US\$2,594, Inventories US\$8,193; acquisitions of furniture, machinery and equipment and sales abroad could not be determined.

As explained in notes A-5 and M, unrecorded donations amount to approximately Q.194,000 of capital donations and Q.52,426 in donations for operations.

As mentioned in Note J, the Cooperative has not met its legal obligations which has caused a contingent liability for omitted taxes which currently cannot be determined and no provision exists for such liabilities that might affect the financial statements.

In our opinion, because of the effects of the matters discussed in the preceding paragraph the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of Cooperativa Agrícola Integral Unión de Cuatro Pinos, R. L. as of December 31, 1985, or the result of its operations and changes in its financial position for the year then ended.

Touche Ross 2/69

COOPERATIVA AGRICOLA INTEGRAL

UNION DE CUATRO PINOS, R. L.

BALANCE SHEET

	Year Ended December 31,	
	<u>1985</u>	<u>1984</u>
Current Assets:		
Cash (1985 US\$ 84,257)	Q. 229,827	Q. 25,956
Accounts Receivable:		
Trade, in US\$ 359,480 and US\$156,202 (Note C)	376,289	181,226
Associates less allowance for doubtful Accounts of Q. 4,403 and Q. 4,669	69,055	27,741
Other in US\$2,594 in 1985 (Note D)	<u>79,281</u>	<u>15,881</u>
Total Accounts Receivable	<u>524,625</u>	<u>224,848</u>
Inventories (Note E)	207,987	77,837
Advanced Expenses	<u>15,756</u>	<u>4,467</u>
Total Current Assets	978,195	333,108
Property Plant and Equipment - Net (Note F)	258,868	108,191
Other Assets	<u>240</u>	<u>210</u>
	Q.1,237,303	Q.441,509
	=====	=====
<u>LIABILITIES AND ASSOCIATES' EQUITY</u>		
Current Liabilities:		
Associate Savings Accounts (Nota G)	Q. 48,694	Q. 29,762
Short Term Debt (Nota H)	105,000	60,932
Accounts Payable to Associates	146,412	128,573
Accrued Expenses	10,588	14,683
Other	<u>5,113</u>	<u>21,399</u>
Total Current Liabilities	315,807	255,349
Contingent Liabilities (Note J)		
Associates' Equity:		
Cooperative Capital (Note K)	14,184	12,277
Grants (Note M)	122,281	122,966
Reserves (Note L)	244,901	17,482
Retained Earnings	<u>540,130</u>	<u>33,435</u>
	<u>921,496</u>	<u>186,160</u>
	Q.1,237,303	Q.441,509
	=====	=====
See Notes to Financial Statements		

COOPERATIVA AGRICOLA INTEGRAL

UNION DE CUATRO PINOS, R. L.

STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	<u>1985</u>	<u>1984</u>
Net Sales	Q. 2,049,391	Q. 1,222,688
Cost of Products Sold	<u>2,360,812</u>	<u>1,177,880</u>
	(311,421)	44,808
Operating Expenses:		
Selling and Administrative Expenses	<u>316,838</u>	<u>174,344</u>
Net Losses	(628,259)	(129,536)
Other Income (Expenses):		
Other Income	1,408,786	149,913
Interest Expenses	<u>(9,066)</u>	<u>(7,712)</u>
Net Earnings	Q. 771,461	Q. 12,665
	=====	=====

See Notes to Financial Statements

COOPERATIVA AGRICOLA INTEGRAL
 UNION DE CUATRO PINOS, 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.12,277	Q.122,966	Q. 17,482	Q. 33,435
News Affiliations, Paid in Capital	2,026			
Resigned Affiliations	(119)			
Grants Received		11,800		
December 31, 1985 Balance Adjustments		(12,485)		
Period Net Earnings				771,461
Period Net Earnings Reserves			231,438	(231,438)
Use of Reserves			(4,019)	
Distributions of Retained Earnings	_____	_____	_____	<u>(33,328)</u>
Balance December 31, 1985	Q.14,184 =====	Q.122,281 =====	Q.244,901 =====	Q.540,130 =====

See Notes to Financial Statements

COOPERATIVA AGRICOLA INTEGRAL

UNION DE CUATRO PINOS, R. L.

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1985

SOURCE OF FUNDS:

Operating Results

Net Earnings	Q.771,461
Plus: Items not requiring the use of Working Capital	
Provision for Severance Compensation	16,593
Depreciation	<u>12,886</u>
Total Source of Funds from Operations	800,940
Grants Received	11,800
Property Sale	3,127
Paid in Capital	<u>2,026</u>
	Q.817,893 =====

APPLICATION OF FUNDS:

Acquisition of Property	Q.166,690
Distribution of Retained Earnings	33,328
Severance Compensation	16,593
Grant Adjustments	12,495
Use of Legal Reserves	4,019
Reimbursement for Resigned Affiliates	119
Other Assets Increase	30
Increase in Working Capital	<u>584,629</u>
	Q.817,893 =====

INCREASE (DECREASE) IN WORKING CAPITAL
COMPONENTS:

Cash	Q.203,871
Accounts Receivable	299,777
Inventories	130,150
Advanced Expenses	11,289
Associate Savings Accounts	(18,932)
Short Term Debt	(44,068)
Accounts Payable to Associates	(17,839)
Accrued Expenses	4,095
Other Accounts Payable	<u>16,286</u>
	Q.584,629 =====

See Notes to Financial Statements

COOPERATIVA AGRICOLA INTEGRAL

UNION DE CUATRO PINOS, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

A. Summary of Significant Accounting Policies:

1. Accounts Receivable. The overdue balance of the associates earns interest of 1% per month.
2. Inventories. Are valued at the lower of cost or market. Cost is determined under the average method.
3. Property 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 sold or disposed, are eliminated in the year when the sale or disposal occurred.
4. 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 accumulated 4% of provision for those salaries paid during the year. As of December 31, 1985 this liability has been cancelled.
5. Grant. Grants and technical assistance received as part of the grants from loan agreement 520-T-030 between the Government of Guatemala and Agency for International Development are not recorded.
6. Income Recognizing. The gain obtained on the sale of foreign currency is recognized when received and registered as other income.

B. The Cooperative:

The Cooperative was organized as a Cooperative of first grade and limited liability, with no profit objectives and started by 650 associates. It was constituted in Santiago Sacatepéquez, Department of Sacatepéquez, and its statutes were approved on February 15, 1980. Its main objectives are to obtain economic and social improvements for its associates, the development of those products that are peculiar in the region, and to develop activities that tend to improve the agricultural production of its associates and the development of cooperativism. Its principal activity is the sale of vegetables to commercial markets and agricultural supplies.

COOPERATIVA AGRICOLA INTEGRAL

UNION DE CUATRO PINOS, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

C. Clients:

	<u>December 31,</u>	
	<u>1985</u>	<u>1984</u>
Foreign Clients (in US\$)	Q. 359,480	Q. 156,202
Local Clients	<u>16,809</u>	<u>25,024</u>
	Q. 376,289	Q. 181,226
	=====	=====

Sales abroad are realized through sales agents, regulated by contracts of sales, who act as direct buyers, recognizing a commission on sale; according to terms of agreements, the payments in account of these operations are considered as advances, being liquidated at the end of the season. The sales are not considered as realized until their financial inspection in the destination point. Although, the Cooperative records the sales as realized when shipped.

D. Accounts Receivable - Others:

	<u>December 31,</u>	
	<u>1985</u>	<u>1984</u>
Advances	Q. 34,652	Q. 15,107
Rejected Checks	25,170	-
Fertilizer Purchases unsupported	15,675	-
Pending Accounts	<u>3,784</u>	<u>774</u>
	Q. 79,281	Q. 15,881
	=====	=====

Advances correspond to the purchase of packing boxes that are liquidated through partial receptions.

E. Inventories:

	<u>December 31,</u>	
	<u>1985</u>	<u>1984</u>
Agricultural Store	Q. 60,900	Q. 30,918
Packing Material	51,136	20,837
Merchandise in Transit	48,306	-
Agricultural Supplies	45,040	25,382
Chemical Products	1,747	-
Bamboo	<u>858</u>	<u>700</u>
	207,987	Q. 77,837
	=====	=====

COOPERATIVA AGRICOLA INTEGRAL

UNION DE CUATRO PINOS, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

The inventory of agricultural supplies is pledged to short term loans as follows:

- a) 800 quintales of snow pea valued at Q.120. each.
- b) 2,760 quintales of cauliflower valued at Q.12. each.

F. Property, Plant and Equipment:

	<u>Depreciation</u>	<u>December 31,</u>	
		<u>1985</u>	<u>1984</u>
Plant	5%	Q. 68,745	Q. 66,167
Furniture and Equipment	5%	44,411	7,953
Machinery and Equipment	5%	12,150	2,184
Vehicles	10%	116,836	23,042
Implements	10%	<u>243</u>	<u>253</u>
Depreciable Property		Q. 242,395	Q. 99,589
Less: Accumulated Depreciation		<u>(28,381)</u>	<u>(17,367)</u>
Depreciable Property - Net		214,014	82,222
Land		<u>44,854</u>	<u>25,969</u>
		Q. 258,868	Q. 108,191
		=====	=====

Plant and Equipment with an estimated cost of Q.194,000 granted in 1982 to the Cooperative, has not been recorded (Note M).

G. Saving Account Deposit:

Earns 8.0% 8.5% in 1985 and 1984 respectively, whenever held for a minimum of six months; if it is cancelled before that term, the deposit will earn 5% of interest.

H. Short Term Debt:

8% annual interest, payable in one installment at its maturity in January 10, 1986. It is guaranteed with first farming pledge of 800 quintals of snow-pea valued at Q.96,000, 2,760 quintals

COOPERATIVA AGRICOLA INTEGRAL

UNION DE CUATRO PINOS, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

	<u>December 31,</u>	
	<u>1985</u>	<u>1984</u>
of cauliflower valued at Q.33,120; and a fiduciary guarantee of the members of the Cooperative (Note C) (1)	Q. 95,000	Q. 53,432
Does not earn interest, payable in two installments of Q.5,000 each on October 31 and November 30, 1985 without guarantee	<u>10,000</u>	<u>7,500</u>
	Q. 105,000	Q. 60,932
	=====	=====

- (1) Loan contract of Q.95,000 establishes the following clauses whose default can cause the expiration of the contract:
- A. Failure in the punctual payment of the agreed amortization and interest.
 - B. Assets used by the cooperative cannot be used as collateral by any other institution or person.
 - C. Substitution the guaranty if the deterioration or depreciation of the assets is such that does not offer a guaranty to the Bank.
 - D. Not to use as a guaranty under any concept the properties pledged with the bank.
 - E. Not to use the funds for any purposes different from the ones agreed.
 - F. If the Cooperative enters into settlement or dissolution or if its social bylaws are changed.

I. Taxes:

The Cooperative enjoys exemption from income taxes, stamp (Documentary) taxes, sales taxes, legacies and donations of real state designated for Cooperative operations, and import duties on machinery working, vehicles, working tools and equipment. It

COOPERATIVA AGRICOLA INTEGRAL

UNION DE CUATRO PINOS, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

remains under the review of the Government of Guatemala through the General Inspection of Cooperatives, annexed to 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.

J. Contingent Liability:

The Cooperative has not charged the Value Added Tax (VAT) on sales from August 1983 to January 1985; has not complied with the regulations of the Guatemalan Social Security Institute (IGSS) and with the penal code, in reference to the exchange crime (Note N), without the omitted taxes have been quantified.

K. Associate's Equity:

The capital of the Cooperative is variable and it is made up with obligatory contributions with nominal value of Q.25. each, that can be paid through one sole amortization when entering as an associate, or 25% paid when entering and the balance in a maximum of twelve months. These contribution do not earn interest.

The associates can suscribe additional contributions for specific purposes, accorded in General Assembly, that will earn interest, but at a rate not higher that the one authorized for saving accounts in the banking system. No associate can own more than 5% of these contributions.

L. Capital Reserves:

The bylaws of the Cooperative establish the following reserves on the operation results:

	<u>December 31,</u>	
	<u>1985</u>	<u>1984</u>
10% as minimum for Nondistributable Reserve (1)	Q. 85,188	Q. 7,985
10% for Reserve for Education	77,266	3,822
10% for Reserve for Social Works	<u>82,447</u>	<u>5,675</u>
	Q. 244,901	Q. 17,482
	=====	=====

(1) The Nondistributable Reserve includes Q.1. from each affiliation quota of the associates.

COOPERATIVA AGRICOLA INTEGRAL

UNION DE CUATRO PINOS, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

M. Grants:

Swiss Assistance:

The Cooperative has received grants since 1981 as follows:

Plant and land where its central offices are located	Q. 85,000
Truck for Cooperative's operations	15,000
Cash, for the purchase of a Pick-up	<u>11,800</u>
	Q. 111,800
	=====

In 1981 a pick-up valued in Q.5,000 was received and documented in a conveyance but it has not been registered. Swiss Assistance provides technical and educational assistance that amounted Q.35,373 and Q.34,830 in 1985 and 1984 respectively but was unrecorded.

Agency for International Development:

The grant agreement 520-T-030 signed on February 15, 1984 between the Government of Guatemala and Agency for International Development (USAID) includes financial assistance for:

- a) Producing, packing, storing, processing and selling of fresh vegetables.
- b) Loans for production.
- c) Loans for consulting services and supervision of property, equipment and working capital.
- d) Technical assistance.

The project provides funds from the loan of USAID to finance technical assistance. BANDESA will grant loans to the Cooperatives and participating associations to finance the production, storage, packing and commercialization of fresh vegetables at a rate of 8% per year. The term for the maturity of the loans and free periods will be established according to the policy of BANDESA.

COOPERATIVA AGRICOLA INTEGRAL

UNION DE CUATRO PINOS, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

As of December 31, 1985 the Cooperative has received 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 systems through the implementation of a dynamic and efficient accounting system.

Institute for Nourishment of Central América and Panamá (INCAP):

Grants in cash of Q.10,841 received in 1982 were registered. Although, plant and equipment for the dehydration plant, initiated on September 1981, have not been registered, because it is unsupported; this project amounts to about Q.188,712.

N. 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 to 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 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 Bank of Guatemala, 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 situations 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 Bank of Guatemala.
- b) The auction market for the sale of the remaining foreign currency not used by Bank of Guatemala, 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.

COOPERATIVA AGRICOLA INTEGRAL

UNION DE CUATRO PINOS, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

- 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 December 31, 1985 the free market exchange rate averaged Q.2.983:US\$1. According to Bank of Guatemala this rate is lower than the rate applied in the uncontrolled market. Transactions in the free market have to be realized through the Bank of Guatemala or the banks from the system and are affected in 3.5% tax on international transactions.

According to the regulations established in the law-Decree No.94-85 that modifies the penal code, exchange crime is committed when: Selling or purchasing foreign currency without authorization and with profit objectives; not selling foreign currency that obligatory must be negotiated with the banks of the system; if foreign currency is utilized for purposes different to those that were authorized and when false support documents are utilized to obtain authorization of importations or exportations.

Lara & González, CPA
Member Firm
Touche Ross International

COOPERATIVA AGRICOLA INTEGRAL
UNION DE CUATRO PINOS, R. L.
REPORT ON INTERNAL CONTROL SYSTEM
AUDITOR'S OPINION

We have performed a study and evaluation of the internal control system of Cooperativa Agrícola Integral Unión de Cuatro Pinos, 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 Unión de Cuatro Pinos, 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 judgments 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 Unión de Cuatro Pinos, R. L. for the four years ended December 31, 1985, which are described in the following sections No. 1 to No. 35, 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.

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1. Apparent Preferential Treatment to the Agricultural Consultant
in the Purchase of Agricultural Products

Condition:

The agricultural advisor of Cooperative Unión de Cuatro Pinos, R. L. export snow peas through the Cooperative, for which he made verbal agreement with the Cooperative, giving in turn a certain percentage on the sale of his product. The Cooperative gives the advisor the net sale price obtained in U. S. Dollars abroad paying him the equivalent in Quetzales out of the net sales obtained in Dollars. As of December 1985, accounts payable to the advisor an unrecorded liability, amounted to Q19,531 applying an exchange rate of Q2.75:US\$1. This represents a special treatment in regard to the other members, since they are paid for their product at Q.1:US\$1 rate and they are also charged a service charge for the expenses of the Cooperative. (Additional net profits to Cooperative may be distributed to members at the end of the year).

Besides, some of the deliveries from the advisor and others have been carried out with no existing records or verification of the quality and quantities received by the Cooperative. If there was a claim from abroad because the product did not meet the quality required all the shipment would be affected, thus harming all the Cooperative members.

Criteria:

No preferential treatment must be given, neither to an associate, nor to a third party, although it has a direct relationship with the Cooperative.

Cause:

Due to the position the advisor holds in the Cooperative, he is in a position to have influence over the members for his own benefit.

Effect:

The Cooperative is not receiving the proper income, as a third party is receiving such benefits.

Recommendation:

Incorporate the agricultural advisor as a new associate with the same privileges and responsibilities or suspend his operations.

2. Use of Foreign Currency = US Dollars

Condition:

We observed the following weaknesses:

A. The sales of foreign currency (US Dollars) is handled by both

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the President of the Administrative Committee and Manager of the Cooperative with no written authorization.

- B. The sale is done with private persons and not with the banking system, which does not give sufficient evidence of the total amount of the negotiation.
- C. The per diem allowances authorized to the Board Members, as per minute 181-85 of October 3, 1985 is US\$100 per member, nevertheless in a recent trip in January 1986, they were paid US\$150.00.
- D. The Board Members and the advisor obtain loans in US\$ with no authorization, no limit and at an arbitrarily established exchange rate.
- E. Their travel expenses incurred and paid in US Dollars lack support.
- F. On November 18, 1985 the agricultural consultant received US\$594.00 at the exchange rate of Q.2:US\$1 while the banking exchange rate at that time was Q3.45: US\$1. In October 21, 1985 a third party received US\$2,000 which was reimbursed in 1986. Both transactions lack authorization from the Administrative Board.
- G. They cannot explain the exchange rate with which they obtained US\$5,000 on March 15, 1985 to purchase a vehicle.

Criteria:

All foreign exchange transactions must be carried-out in order, and clearly showing evidence of the exchange rate applied and with supporting documents of any payment made. The Administrative Board, on its part, must supervise the handling of all these operations.

Cause:

All the handling of foreign currency is done in a disorderly manner, with almost no supervision whatsoever in the way it is being administered.

Effect:

Risk of robbery due to the characteristics of the exchange

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rate in the present situation, due to the constant change in the exchange rate and the lack of supporting documentation of payments made.

Recommendation:

- A. Get the Administrative Board involved in the supervision of foreign exchange transactions.
- B. Have all foreign exchange transactions done through the banking system and be properly supported.
- C. Verify that all traveling expenses be adjusted to the authorized amount and these be properly supported.
- D. No loans should be granted without the previous authorization from the Administrative Board.

3. Claims over losses, shortages, and damages on the shipments

Condition:

In August 1985 three CCT containers with 105,000 pounds transported by sea were damaged and airway shipments of November and December 1985 reported shortages of 1,000 pounds. The Cooperative does not have the relating information in regard to these claims and is ignorant of any action taken.

Criteria:

The Cooperative must maintain in its files all the information related to the claims or the steps taken in such cases.

Cause:

The role of the export control is not in the hands of an specific employee. The agricultural advisor is the person that coordinates the exportations and in his absence nobody assumes such responsibility. The deficient filing system contributes to the lack of information.

Effect:

They are not aware if the claims were submitted or, if they were, what their current status is.

Recommendation:

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Delegate the responsibility of shipments on one person, from its departure until the payment from the client.

4. Sales Abroad

Condition:

We have observed the following deficiencies:

- A. Shipments sent without an invoice and without any formal supporting documents that the product has been received by the client when the shipment is delivered to him.
- B. Shipments invoiced for amounts and sale prices less than the accepted sale price.
- C. No evidence exists of a review of the sale reported by the intermediary and the shipping documents.
- D. The product is delivered to a local exporter so that he can sell on behalf of the Cooperative. No document is prepared for the receipt of the product. The export documentation is extended in the name of the local exporter so the Cooperative cannot make, at anytime, any claim for the payment of their product. The local exporter does not assure any financial risk.

Criteria:

All shipments must be billed, bearing the exact amount of product shipped.

Cause:

Administrative disorganization and lack of an inventory control system.

Effect:

They do not have control over their shipments.

Recommendation:

- A. Invoice all shipments or prepare a shipping document at the moment the product leaves.
- B. Take measures to share the exportation risk with the local exporter or directly contract with U. S. importers without using a local intermediary.

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5. Inappropriate procedure for fixed assets acquisition

Condition:

In March 1985, a pick-up was purchased and paid in the following manner:

<u>Document</u>	<u>Date</u>	<u>Beneficiary</u>	<u>Amount</u>	<u>Remarks</u>
Chk #3329 BANDESA.	20-02-85	Cofiño Stahl & Co.	Q 5,000	No supporting documentation
Chk #98 BARNETT BANK	15-03-85	Carmen de Alonso	Q 5,000	No supporting documentation and they never showed us the difference out of the exchange negotiation
Cash in Hand	31-03-85	Unknown person	Q 5,800	Cash payment with no supporting documentation
Entry 45	31-03-85	Provision balance pending of payment	Q 25	-----
Total cost of vehicle			Q15,825 =====	

This purchase is supported with photocopies of Bill #34597 dated March 1, 1985 to the Cooperative for Q.15,825 and Cash Receipt #13562 dated March 1, 1985 for the amount of Q10,825 as an installment. Both documents belong to Cofiño Stahl & Co. The Cash Receipt indicates that the payment of Q10,825 was done through checks from Lloyds Bank International and Banco del Café but the Cooperative does not work with these two banks.

Criteria:

All fixed assets must be paid by checks from the Cooperative with no intermediaries.

Cause:

Lack of adequate procedures for the purchase of fixed assets.

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Effect:

Possible misappropriation of funds due to the lack of supporting documentation in the money exchange negotiations and the lack of documentation in the cash deposits.

Recommendation:

- A. No intermediates should be used in the purchase of fixed assets for the Cooperative.
- B. Make payments of assets with checks from the Cooperative's account directly to the suppliers.
- C. Negotiate the foreign currency in the Banking system.

6. Cash on Hand

Condition:

No daily deposits were made. In December 23, 1985 the books balance amounted to Q.171,974. They don't have a Safety Vault. All cash is kept in the cashier's desk drawer. In some cases when cash from the Swiss group is received it is not deposited immediately but used to make other payments.

Criteria:

All cash must be deposited the day after it is received.

Cause:

No daily supervision on the Cashier job is done.

Effect:

Risk of robbery or bad use of the cash.

Recommendation:

- A. Deposit all the cash the day after it is received and do not mix funds.
- B. Have a safety vault to guard the cash during the night previous to its deposit the next day.

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7. Donations received not journalized

Condition:

Donations such as building and machinery for the dehydration factory, cold rooms, and social assistance from the Swiss Group and technical assistance from AID are not journalized.

Criteria:

All grant including commodities or services must be recorded.

Cause:

They have not been journalized because they lack supporting documents regarding the donations.

Effect:

The amounts shown in the financial statements do not fairly report the real situation of the Cooperative.

Recomendación:

Include in the financial statements the effect of any financial assistance and other resources obtained through donations to show a more realistic situation.

8. No verification of the agricultural supplies received is carried-out

Condition:

There is no source of information to verify the receipt of the agricultural supplies outlined in the suppliers bills.

Criteria:

All payments for the purchase of agricultural supplies should be accompanied by documents that clearly show that the product has been received by the Cooperative. This can be achieved by issuing pre-numbered receipts and by physical inventories compared to the kardex.

Cause:

No adequate control of kardex exists. They don't use pre-numbered receipts. The handling of all the products is concentrated in the store clerk without any independent verification of his work.

Effect:

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The products can easily be removed without anyone's acknowledgment, or paying for false purchases.

Recommendation:

Establish a kardex control in an independent manner and carry-out selective physical inventories. The store clerk must leave evidence in the bill from supplier that the merchandise was actually received prior to its payment.

9. No Sale prices are verified

Condition:

The list of prices of the agricultural supplies sold at the Cooperative's Store is not authorized. Nobody verifies the sale prices. The clerk only prepares a receipt when a buyer requires it.

Criteria:

The sale of agricultural products must be made taking into consideration the approved official prices. The Accounting Department must verify the prices and calculations, reported in the bills.

Cause:

The person in charge of the store handles all the agricultural products and no supervision procedures exist.

Effect:

Fraud is possible through billings.

Recommendation:

Establish that all sales must be billed. A daily check by the Accounting Department on all the prices reported on the bills and reconciliation against the cash collected during that day must be done.

10. No quotations are carried-out when purchasing agricultural supplies, packing material and other goods

Condition:

The purchase of agricultural supplies are made without keeping evidence of requests for other supplier's prices. To pay for

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these purchases they extend a check with an estimated amount, reimbursing afterwards the money left over.

Criteria:

The purchase of agricultural supplies must be made accompanied by a purchase order previously made and leaving evidence of the quoted prices. The checks extended to pay these purchases should include the exact amount reported on the bill prepared by the supplier.

Cause:

No adequate procedure of purchase has been established.

Effect:

Risk of non-authorized purchases and fraud when these are made by altering the prices.

Recommendation:

Price quotes must be on hand before carrying-out the purchase. Afterwards a purchase order duly authorized by responsible person should be prepared.

11. Insurance on property and fidelity bond for management and employees

Condition:

The inventories, vehicles, machinery and buildings are not insured.

Criteria:

All properties must be insured and have fidelity bonds for the management and employees who handle funds from the Cooperative.

Cause:

Nobody has assumed the responsibility to get insurance or fidelity bonds and nobody as yet has demanded them.

Effect:

In case of disaster or calamity to the properties, cash,

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valuables and inventories, no claim can be filed for its replacement, in example: loss of Q.1,114.68 in one of the stores.

Recommendation:

- A. Insure all properties of the Cooperative.
- B. Obtain fidelity bonds for the management and employees who handle funds of the Cooperative.

12. Sales not billed

Condition:

Sales of grapes in great quantities have been carried-out which have not been invoiced as required by the Value Added Tax Law.

Criteria:

All sales of agricultural products must be duly billed, to keep records of the transaction and to comply with the legal requirements.

Cause:

No established procedures exist to verify that the sale of all agricultural products has been previously authorized and subsequently invoiced.

Effect:

Sales are made and not reflected in the books. The Cooperative will be subject to fiscal penalty as per the VAT Law.

Recommendation:

Use pre-numbered formats and keep evidence of all agricultural products that leave the Cooperative. Verify that all products taken out have been billed.

13. Local sales not immediately invoiced

Condition:

All local sales to customers are not immediately billed after the product has been sold. Rather the Cooperative bills only at the

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end of the month which results in an accumulation of deliveries made during the month. The billings are made in accordance with the payments submitted by the client without verifying that all deliveries were included in such document.

Criteria:

All sales must be billed at the moment the delivery is made.

Cause:

They are not aware of the importance of this control.

Effect:

If a delivery receipt is lost, sales may not be billed. Risk of fraud are possible on the part of the client by not including some shipments when presenting his payment settlement.

Recommendation:

- A. Extend bills of all sales immediately after the shipment is made.
- B. Use pre-numbered forms when delivering shipments to verify that everything has been billed.

14. Funds of the Cooperative lent to third parties

Condition:

Funds of the Cooperative were used, including US Dollars, for loans to third parties.

Criteria:

Funds of the Cooperative must be used exclusively to finance its own operations.

Cause:

The cash is handled by the President and Manager without a close control on the part of the Administrative Board with regard to its use.

Effect:

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Risk of loss on the part of the Cooperative for not being in a position to recover the cash. Limitations on working capital.

Recommendation:

Do not use funds of the Cooperative to lend money to third parties.

15. No Contracts have been made with intermediates

Condition:

No contract exists regarding the conditions of sales agreed upon with J. O. Sims.

Criteria:

All sales conditions and benefits should be formalized through a contract to ensure a legal recourse.

Cause:

They don't realize the risk this operation entails.

Effect:

Risk of losses for any disagreement with the intermediate.

Recommendation:

Formalize the relationship with J. O. Sims. with a contract.

16. Payment Checks

Condition:

- A. The Manager signs blank checks for payments.
- B. Only one signature is required to extend checks against Banco Agrícola Mercantil.

Criteria:

- A. Those persons authorized to sign checks must do so based on the supporting documents.

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B. Checks, as a control measure, should bear two signatures as a minimum.

Cause:

Ignorance of the risks this procedure entails.

Effect:

Risk of paying non-authorized bills.

Recommendation:

- A. All checks should be accompanied by the supporting documentation prior to their signature.
 - B. Register other authorized signatures with the bank and instruct the Bank officials that all checks must bear joint signatures.
17. After severance payment is made, no discharge document is prepared
-

Condition:

Personnel have been dismissed without preparing the proper discharge documents.

Criteria:

When an employee is dismissed, a final discharge document must be prepared to prevent future claims from this person against the Cooperative.

Cause:

They are not aware of the legal repercussions at not preparing these documents.

Effect:

The Cooperative is exposed to future claims from fired personnel for payments not duly supported.

Recommendation:

Require a discharge document in any termination of labor that may occur in the future.

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18. Accounting and General Administration

Condition:

- A. The entries are made out as a draft and then written down in the Journal Entry Record, causing duplicity of work.
- B. Entries are prepared without detailed summaries. For example, Entry No. 113 of December 31, 1985 only stated to capitalize expenses from the dehydration factory in the amount of Q.3,188.
- C. The auxiliary records are not filed properly nor updated. (The balance of Q4,028 from Surpacifico was eliminated in 1985 from the accounts receivable with no explanation whatsoever. The auxiliary records of Peter Buffone and Fruit World Marketing were lost. The auxiliary records of accounts receivable from members lack the accrued interest payable in December 31, 1985).
- D. Voucher checks are not filed correctly by number for February and March 1986.
- E. Some checks show in the voucher section "VOID" but the upper part is intact. Some checks are signed blank.
- F. Some pages of the minutes have been left blank.

Criteria:

- A. The work must be planned so that it is not duplicated.
- B. Every entry must be duly supported.
- C. All journal auxiliary entry records must be updated and duly filed.
- D. All check vouchers must be filed consecutively.
- E. No blank checks must be signed.
- F. All the minute book folios must be used consecutively and completely.

Cause:

- A. Lack of supervision in the activities of the Accounting Department.

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B. Lack of information concerning the proper use of the minutes.

Effect:

- A. Delays in accounting.
- B. Lack of supporting documentation in the Journal Entry Record.
- C. Difficulty in reconciling the balance of a current account at a specific date.
- D. Some of the used checks may not be journalized.
- E. Inappropriate use of funds from the Cooperative.
- F. Improper use of the minutes.

Recommendation:

- A. Record the vouchers directly on the Journal Entry Record each month.
- B. Itemize the entries in a proper manner.
- C. File and up-date the auxiliary records of the accounts receivable.
- D. File in numerical order voucher checks.
- E. Void original checks not utilized.
- F. Utilize the pages of the book of minutes in their numerical sequence.

19. No revision of Payrolls is done

Condition:

Payrolls are prepared in an independent manner by each Department. No evidence is left in regard to who made it and who checked it. Overtime salaries are paid by an estimated basis and not on an actual basis as the law stipulates. There is no record to show that the overtime was actually worked. In 1983 no payroll records were made.

Criteria:

The payroll preparation should be under the control of one specific person and be supported by a responsible official. Each

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Department should authorize its extra hours separately and leave evidence of such authorizations. The overtime rate should be according to the law which is 1.5 times the hourly rate.

Cause:

The Administration ignores the risks that such lack of supervision over the payrolls involves. The preparation procedures are inadequate.

Effect:

By not having an adequate payroll system, errors such as duplication of payment to an employee or payment for extra hours not actually worked, may occur. The amounts paid for overtime may raise objections of the part of the employees. There exists a high risk of collusion between boss and employee.

Recommendation:

Assign the responsibility of the payroll preparation to the personnel Department. It must be subject of approval from the Accounting Department and the General Manager.

20. Deficiencies in the control of accounts receivable to associates

Condition:

We observed the following deficiencies in accounts receivable to associates:

- A. A delinquency policy is not adequately established; no consideration is given to the time the loan is granted only to the date the member made his last payment.
- B. In the settlement over the payment of agricultural products, there is no adequate reference where retentions are made over the debt.
- C. The loan requests don't show the number of the minutes by which they were approved.
- D. No specifics are given with regard to the conditions by which a loan is granted.
- E. On all the granted loans, the approval signature is not shown.

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F. Some old balances are supported by notes. In other instances no documents exist. Some notes show corrections and deletions which makes it impossible to obtain exact figures.

Criteria:

All the details in regard to the handling of loan accounts to members must be adequately supported. The delinquency must begin to be accounted for from the date the loan is granted and steps should be taken to recover delinquent loans. All loans granted must be adequately supported.

Cause:

The person in charge of loans ignores the means of controlling these operations.

Effect:

Risk of losses due to lack of irrecoverable balances. Difficulty in verifying in a given moment the pending balance of an associate.

Recommendation:

Instruct the person in charge of loans on how to manage the loan records documenting the procedures and exercise close supervision over his work.

21. The Cards for Recording the Contributions of the Associates are not Adequately Referenced.

Condition:

There exist several cases in which the cards for recording the contributions of associates do not indicate the receipt number and date with which the contribution was recorded.

Criteria:

The contributions of associates should be adequately referenced.

Cause:

The person in charge of this area has not received instruction on how to adequately manage these records.

Effect:

It is impossible to verify if all the contributions have been properly recorded.

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Recommendation:

Instruct the person in charge of this area about how to properly manage these cards.

22. Improper Use of the Stamp of the Credit Committee

Condition:

The credit committee is formed by seven members (one from each one of the villages). Each one has a copy of the stamp of the committee which is the only requirement taken as the base for authorizing and granting a credit. At an opportune time one of the members of the committee authorized himself a loan of Q.6,000 with this stamp without the agreement of the other members of the committee.

Criteria:

The loans approved by the credit committee should be recorded in minutes which should be signed by all members of the committee. The Vigilance Committee must verify the accomplishment of this decision.

Cause:

The credit committee is not aware of risk which it is incurring.

Effect:

An improper use of this stamp may occur again, by a member of the committee or by third parties that might have access to this stamp against the interests of the Cooperative.

Recommendation:

Utilize one single stamp and designate its safekeeping to one specific person. Resume the approval of the loans by the credit committee in their minutes.

23. There is no Evidence of the Purchase Prices

Condition:

The prices payable to agricultural producers are approved orally by the agricultural advisor, after obtaining the sale price abroad.

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Criteria:

The prices payable to the producers must be in writing to formalize them and must be authorized by a responsible officer to support the basis of the payment.

Cause:

It is done this way to give flexibility to the operations but there is no consciousness of the risk that this process creates.

Effect:

An incorrect price may be paid to the associates and this may be manipulated. There does not exist any evidence to give explanations if any claim of the associates arises.

Recommendation:

To prepare a price listing duly approved by the General Manager or by an other responsible officer.

24. Checks for Transfer of Funds made to the Order of the Messenger

Condition:

We observed that several checks for transfer of funds from Banco de Occidente to Banco Agricola Mercantil were issued to the order of the messenger. Sometimes it is not completely deposited but used to make some purchases.

Criteria:

The transfer of funds must be made directly to the order of the bank.

Cause:

They are not fully aware of the risk from this type of process.

Effect:

Risk of robbery. The check may easily be lost or changed by an other person.

Recommendation:

Record the transfer of funds directly to the order of the bank inscribing on the reverse that it is a check "to credit to

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the account".

25. Checks that do not Agree with the Supporting Documentation

Condition:

There are several cases in which the checks were issued to the order of a different person from the one that issued the supporting documentation of the payment.

Criteria:

All checks have to be issued to the order of the person that provided services or goods to the Cooperative.

Cause:

Checks are issued to the order of the messenger and not to the order of the person that provided the services or goods to make more easy the subsequent payment in cash.

Effect:

The Cooperative has no evidence that the payment of the services of goods received was actually made.

Recommendation:

Issue the checks to the order of the person that actually provided the service or goods.

26. The Supporting Documentation is not Stamped of "CANCELLED"

Condition:

The supporting documentation which has already been paid is not marked with the "CANCELLED" stamp.

Criteria:

All the supporting documentation that corresponds to a payment made by the Cooperative should be stamped as "CANCELLED".

Cause:

There are no defined procedures on the proper method of preparing supporting documentation.

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Effect:

A supporting document could be paid twice.

Recommendation:

Stamp all supporting documentation with "CANCELLED" and write down the number of the check issued to cover the payment.

27. Petty Cash Expenses that are not Properly Documented

Condition:

We found several cases in which the supporting documentation of the petty cash are not added properly nor are they formally documented by means of an approved form. Also, in several cases there is lack of authorization of the payment and of the "CANCELLED" stamp.

Criteria:

The expenses made through petty cash have to be reported periodically by means of a document which is prepared to obtain the reimbursement. This document should be supported by the authorization of the payment identifying as "CANCELLED" all the supporting documentation.

Cause:

Petty cash reports are filed separately.

Effect:

Duplicate payments or payments without supporting documentation could occur.

Recommendation:

Use a form especially designed for documentation of expenses by petty cash. Establish a formal procedure for documenting such expenses.

28. Lack of Control on the Receipt of Boxes for Exports

Condition:

Purchases of export boxes from local suppliers are not verified the Cooperative does not verify if it received the export boxes it purchased from local suppliers. In several instances, the Cooperative did not know who received the boxes.

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The Cooperative has granted significant quantities as advances to its supplier.

As of December 31, 1985 there is a difference of Q.19,193.55 between the balance that the supplier reports and the balance of the Cooperative's records.

Criteria:

All box deliveries made by the supplier should be verified. The amounts given as advances should be periodically reconciled and any difference investigated. Other sources of supply might be sought to avoid depending on this supplier.

Cause:

The Cooperative does not have its own controls. It accepts what the supplier reports.

Effect:

Risk of fraud. The boxes may easily be taken and nobody would be aware of the situation. Risk of manipulation of the prices or fraud in the liquidation of the account by the supplier.

Recommendation:

- A. Report the receipt of the boxes to the Cooperative in a separate document.
- B. Keep a current account of the supplier and reconcile the balances periodically.
- C. Reduce the amount of the advances.
- D. Search other sources of supply.

29. The Advances for Expenses are not Supported

Condition:

We have observed that in several instances, cash for expenses has been advanced and that they have not been supported by the authorization from a responsible officer. In some cases such expenses don't have any supporting documentation invoices or internal receipts of the Cooperative.

Criteria:

All advance for expenses must be refunded, including the support of reported expenses, and requiring the approval of a responsible officer.

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Cause:

An adequate follow-up of the amounts given on this concept is not made.

Effect:

Risk that personnel expenses may be transferred to the Cooperative and that cash may be disbursed without recoverability.

Recommendation:

Require the timely liquidation of all advances for expenses. Submit such documentation for the management approval. Verify that the liquidation is supported with formal documentation that fulfill the legal requirements.

30. Sale of Assets

Condition:

A vehicle was sold but we could not obtain evidence that this transaction was approved.

Criteria:

All asset disposals should be approved by the Board of Directors and recorded in the minutes of the Board.

Cause:

Lack of definition of duties and responsibilities that have to be attributed to each element of the organization.

Effect:

An asset may be sold without the authorization of the Board of Directors.

Recommendation:

Support the decision of the Board of Directors concerning sale of assets.

31. Identification of the Property

Condition:

The furniture, vehicles, and machinery are not identified and

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their location is unknown.

Criteria:

All major assets of the Cooperative should be properly identified and their location known.

Cause:

There is no policy for the control of major assets.

Effect:

In case of loss, deterioration or destruction responsibilities may not be known due to the lack of control.

Recommendation:

- A. Identify properly all fixed assets.
- B. Introduce the use of responsibility cards for each employee.

32. Documentation of the Vehicles

Condition:

The original invoices for the purchase of a truck and of a pick-up were not found in the files of the Cooperative.

Criteria:

All the original documentation that supports the purchase of vehicles have to be in the files of the Cooperative.

Cause:

Deficiencies in the documentation file.

Effect:

There are no original documents to support the ownership of the vehicles.

Recommendation:

Properly file all original vehicles documents to avoid loss.

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33. Documentation of Land

Condition:

Q.12,360 for the purchase of land was paid and it but notirized for Q.400. The checks for the payment of this puchase were issued to the order of the messenger and of the ex-president of the Board of Directors. We didn't find the approval for this purchase. Other land was purchased on 1985 and is not notarized as yet.

Criteria:

The land should have been notarized at the real purchase price because the Cooperative has an exemption for the payment of stamp taxes and for purchases, sales, and exchanges of real state tax when they are destined for its objectives in accordance to the General Law of Cooperatives. The land has to be notirized at the moment which the purchase and payment is made.

Cause:

It was made this way to avoid the payment of fiscal stamp tax and of sale and purchase tax.

Effect:

- A. Property is not properly supported.
- B. No evidence exists of the use of the funds because the checks and supporting documentation are issued to the order of the ex-president of the Cooperative.
- C. The salesman of the land is obliged to pay the purchase and sale tax.

Recommendation:

Notarize all land at the real purchase price and at the moment of the payment.

34. Fixed Assets not Recorded

Condition:

Several machincs are not recorded.

Criteria:

All assets should be recorded.

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Cause:

The purchase was made in USA by a customer, Peter Buffone, who bills the Cooperative. It is usual to discount the amount of this purchases in the payment of the sales.

Effect:

The purchase of the asset was deducted from sales due to non record; in case of loss it might not be noted.

Recommendation:

Make a physical inventory of the property and compare it with the auxiliary records. Any asset that is not recorded will have to be adjusted in the books.

35. Authorized Signatures Registered at the Bank

Condition:

Two ex-directors of the Cooperative are registered as the authorized signatures at the Banco Industrial for the saving account.

Criteria:

The actual directors should have their signatures registered at the bank and eliminate the signatures of the ex-directors.

Cause:

Lack of administrative organization.

Effect:

Improper use of funds.

Recommendation:

Send a notice as soon as possible to the bank cancelling the signatures of the ex-directors and registering the signatures of the actual directors.

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REPORT ON THE COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

AUDITOR'S OPINION

We have examined the financial statements of Cooperativa Agrícola Integral Unión de Cuatro Pinos, 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 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. Loan and Sale Agreements.
- G. Law Decree No. 94-85 Modifications to Penal Code.
- H. Statutes of the Cooperative.

Due to the inherent limitations of every internal control system, there may exist errors, fraud, 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.

Our examination and study revealed certain matters which are described in sections No. 1 to No. 7 and in the above paragraph, that in our opinion, the Cooperative has defaulted certain laws, agreements and contracts.

Touche Ross & Co.

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1. Apparent Default of Decree Law 94-85, Modifications to the
Penal Code - Felony on the Exchange Rate Law

Condition:

- A. The Cooperative has not sold to the banking system its foreign currency (US Dollars).
- B. It has illegally sold foreign currency out of the banking system.
- C. It has shown incorrect values and quantities of sales on its export invoices.
- D. It has exported without obtaining the legal authorization from the Exchange Department of the Central Bank.

Criteria:

The Cooperative must comply with the legal regulations established by the Monetary Board of Central Bank with regard to foreign currency.

Cause:

The Officials are not duly informed of the implications of this situation.

Effect:

- A. Risk that one of his employees or Officials suffer imprisonment (the law stipulates from 2 to 5 years).
- B. Risk a fine equivalent to the amount the transactions involved, when the exact amount can be established or from Q.500 to Q.5,000 when it cannot.

Recommendation:

- A. Follow closely the foreign exchange law.
- B. Quantify the illegal transactions and journalize a provision to account for the fine.

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2. Non-compliance with Law and Bylaws

A. Bylaws of the Cooperative

Condition:

<u>Article No.</u>	<u>Title</u>	<u>Clause</u>	<u>Comments</u>
3	Objectives	f)	The Cooperative profitted by importing grapes in 1985 which is outside its legal authority.
4	Achievement of its objectives	a)	The total amount of the contributions have not been collected from the associates.
8	Contributions	-	They do not comply with the requirement to collect the quotas within a 6 month term.
10	Certificates of contributions paid	-	The certificates of contributions paid have not been issued yet.
16	Duties of the members	c)	Not all members are up-dated in their quotas.
40	Duties of the General Meeting	c)	The General Meeting does not stipulate the allowances obtained by the Officials for attendance at the meetings.
		d)	They do not prepare a detailed budget for the year to come.
		i)	There are no standards established over capital policies.
43	Membership of the Administrative Board		It is constituted with 8 persons, 3 in excess of what is established in the statutes.
52	Attendance at Meetings by the Administrative Board		The allowances to attend meeting are stipulated by the Board of Directors themselves instead of through the bylaws or minutes.
55	Obligations of the Administration Board	d)	No internal regulations have been made to cover all areas, i.e.: Internal Work regulations; regulations on savings deposits from the members.

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<u>Article No.</u>	<u>Title</u>	<u>Clause</u>	<u>Comments</u>
		i), s)	Work plans and budgets are not approved because they are not done.
		r)	They don't discuss the financial statments monthly.
		u)	No bonds existed up to December 31, 1985, they were contracted in February, 1986.
58	Membership of the Supervision Commission	-	It is formed by 7 persons, 4 in excess to what the statutes establish.
63	Obligations of the Supervision Committee	b), c)	The Cooperative's operations are not always checked; they should be supervised at least every three months and to count cash at least once a month.
64	Membership of the Education Committee	-	It is formed by 7 persons; 4 in excess of that stipulated in the statutes.
68	Manager	-	No fidelity bonds existed up to December 31, 1985; they were contracted in February 1986.
69	Responsibilities of the Manager	d)	No annual plan of his activities nor the general budget of the Cooperative are made.

B. General Law of the Cooperatives and its Regulations

Condition:

Law:

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<u>Article No.</u>	<u>Title</u>	<u>Clause</u>	<u>Comments</u>
23	Fiscal Incentives and special help	c)	As yet they have not benefitted from the law that grants them the authorization to purchase work vehicles and machinery.
29	Prohibitions	c)	Special treatment has been established in favor of the technical advisor and he is not an associate (See paragraph on the report on the internal control).

Regulations

21	Allowances	-	The allowances of the board members are not set by the General Meeting.
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Criteria:

Bylaws of the Cooperative, General Law of Cooperatives and its regulations.

Cause:

Lack of control over the requirements of the law that regulates cooperatives on the part of the Administration Board and the Supervising Commission.

Effect:

The default of the law and its regulations could cause a fine of between Q.25 and Q.1,000, suspension of the benefits granted by the law, and cancellation of their legal capacity.

Recommendation:

- A. Comply with the Law and its Regulations.
- B. Instruct the Officials and members of the importance of compliance with the Law and its Regulations.

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3. The Value Added Tax:

Condition:

- A. The purchase and sale records are not up-dated.
- B. These records show smudges and deleting lines.
- C. The adding is done by hand.
- D. They are not signed by the person responsible of supervision.
- E. Some legal declarations are not signed by the Legal Representative of the Cooperative.
- F. Some legal debits and credits declared do not match the figures in the General Ledger.
- G. Some legal declarations have typing errors.
- H. The balance of the fiscal credit at the end of each quarter forms part of the fiscal credit of the following month, carrying a different balance.
- I. No steps have been taken to collect fiscal assets.
- J. The fiscal liabilities for internal use, destructions, loss and missing inventories are not known and it is not possible to reach an amount since the Cooperative lacks an inventory control system.
- K. Sales are done without extending invoices (See paragraph 12 of the Internal Control Report).
- L. No legal declarations were submitted from August 1983 through January 1985. At the moment the total amount of taxes omitted and interest owed are ignored.

Criteria:

The Cooperative must comply with the fiscal laws of the country.

Cause:

Ignorance of the law.

Effect:

- A. Fine of Q.100 for:

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- a) Not extending sales invoice for each sale not invoiced.
 - b) For not keeping the purchase and sales records up-dated.
 - c) Submitting the legal declaration without the legal representative's signature.
- B. A fine equivalent to the tax not declared for reporting incorrect, incomplete, and inexact data.
- C. Loss of fiscal credit of 10%, 20% and 30% for late submittal of the legal declaration.
- D. Interest for negligent delay applying to the amount of tax to pay, the maximum active rate of annual interest established by the Monetary Board for the banking system, increased in four percentage points.

Recommendation:

- A. Correct all irregularities described above adjusting them to the legal requirements.
- B. Compute the omitted taxes, fines, and interest pending payment and journalize.
- C. Try to obtain the fiscal credit owed them when the taxes they paid are more than taxes they received from the value-added tax.
- D. Use of a stamp which should read "VAT DECLARED ON THE MONTH OF _____" and stamp it on the records.

4. Fiscal Credit Losses - VAT

Condition:

From February to May, 1985 fiscal credits were lost in accordance with Decree Law 97-84 in the amount of Q.1,497 for extemporary submittal of VAT declarations.

Criterion:

The VAT legal declarations must be submitted each month to prevent fines and to obtain to the maximum benefit from the fiscal credit.

Cause:

Their argument is lack of time to comply with this requirement.

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Effect:

Unnecessary loss on the part of the Cooperative.

Recommendation:

Comply with the monthly presentation of the legal declaration. Verify that it is complete with all the required information and that it includes all the additional documents required, checking both payments made and accounts payable.

5. Invoices and Receipts which Lack Legal Requirements

Condition:

Some receipts are not extended in the name of the Cooperative or do not belong to formal invoices; important amounts of money paid are supported by informal receipts without fiscal stamps.

Criterion:

All receipts extended to pay for goods or services received by the Cooperative must be extended in the name of same and comply with all legal requirements.

Cause:

No verification is done on the receipts so that they comply with all the legal requirements prior to their payment.

Effect:

- A. The receipts may be adjusted by the revenue office in accordance with the VAT law and with the fiscal stamps and paper.
- B. It may result in payments by the Cooperative of expenses which do not belong to it.

Recommendation:

Verify that all bills submitted to the Cooperative comply with the legal regulations and that all goods and services described have been actually received by the Cooperative prior to authorizing payment.

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6. Packing Employees are not included in the Social Security Payroll

Condition:

The wages of the packing personnel are paid outside of the payroll and are recorded as exportation expenses. When paying these wages the time worked during night hours is not considered as overtime. These employees are not enrolled in the social security system.

Criteria:

Any person that works permanently with the Cooperative is entitled by law to social security and therefore should be included in this monthly report. Time worked at night must be considered as overtime.

Cause:

Ignorance of the risk this situation entails.

Effect:

Risk of fines from the Social Security System. The total amount of this liability has not been quantified.

Recommendation:

- A. Include the packing personnel in the social security system.
- B. Estimate the omitted liabilities by quotas, fines and interest not paid and journalize them.

7. Income Tax Retainer Agent

Condition:

The Cooperative is not registered as an Income Tax retainer agent.

Criteria:

Law Decree No. 229 requires the Cooperative to be registered as an Income Tax retainer agent.

Cause:

Lack of knowledge of these requirements.

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Effect:

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

Recommendation:

The Cooperative should take the necessary steps to register as an Income Tax retainer agent and carry out all regulations for the withholding and payment of these taxes.

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