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AUDIT OF THE PROJECT FOR
THE ANALYSIS OF THE POST-CROP HANDLING
SYSTEM AND THE GRAIN MARKETING SYSTEM
IN COSTA RICA

PUBLIC LAW 480, TITLE I FUNDS

AUDIT REPORT NO. 1-515-87-04-N
FEBRUARY 27, 1987

U. S. MAILING ADDRESS:
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AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA --- HONDURAS

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

February 27, 1987

MEMORANDUM

TO : D/USAID/Costa Rica, Daniel A. Chaij
FROM : RIG/A/T, *Lois N. Gothard* Coinage N. Gothard, Jr.
SUBJECT : Audit Report No. 1-515-87-04-N, "Non-Federal Audit of the Project for the Analysis of the Post-Crop Handling System and Grain Marketing System in Costa Rica"

This report presents the results of a non-Federal audit that your Mission requested of the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica (Project) which is being implemented by the Research Center for Grains and Seeds (CIGRAS), a unit of the University of Costa Rica. The project is supported with Public Law 480, Title I funds. The certified public accounting firm of Deloitte, Haskins & Sells in Costa Rica prepared the report, which is dated February 19, 1987.

The purpose of this financial and compliance audit was to determine if the Project's statement of investments for the period April 14, 1983 to September 30, 1985 adequately represents the investments made for this period, to study and evaluate CIGRAS' system of internal controls related to the project, and to determine if CIGRAS had complied with applicable laws, regulations, and agreements.

In the opinion of Deloitte, Haskins & Sells, the Project's statement of investments for the period April 14, 1983 to September 30, 1985 presents fairly the investments made by the Project. Their study and evaluation of the internal control system for the Project revealed that some of the personnel files were incomplete, the Internal Audit Department did not carry out reviews of project records and procedures, and the checks cancelled by the bank were not reviewed. They report that these aspects result in a relatively low risk that errors or irregularities in amounts that would be material in relation to the statement of investments may occur and not be detected within a timely period. They also determined that CIGRAS had complied with tested items of applicable laws, regulations, and agreements that could affect the statement of investments. For items not tested, nothing came to their attention that caused them to believe that untested items were not in compliance with applicable laws, regulations, and agreements.

1

The Deloitte, Haskins & Sells report contains three recommendations which we believe will improve CIGRAS' system of internal controls. As a result, the following recommendation will be included in the OIG's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/Costa Rica obtain from the Research Center for Grains and Seeds (CIGRAS) evidence to demonstrate that it has implemented the recommendations in the Deloitte, Haskins & Sells report dated February 19, 1987.

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



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**PROJECT FOR THE ANALYSIS OF THE
POST-CROP HANDLING SYSTEM AND THE
GRAIN MARKETING SYSTEM IN COSTA RICA**

PUBLIC LAW (PL) 480, TITLE I PROGRAMS IN COSTA RICA

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal letter and Summary	1
Financial statements	
Auditor's Opinion	5
Statement of investments	7
Notes to statement of investments	8
Internal Accounting Control System	
Auditor's Opinion	11
Findings	14
Compliance with Laws, Regulations, and Agreements	
Auditor's Opinion	16

Deloitte Haskins+Sells

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February 19, 1987

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

Dear Mr. Gothard:

This report represents the results of our audit of the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica implemented by the Investigation Center for Grains and Seeds (CIGRAS). This project is financed with funds of Public Law (PL) 480, Title I Programs in Costa Rica.

BACKGROUND

As of March, 22, 1982 a Memorandum of Understanding was signed between the Governments of United States of America and Costa Rica for the use of PL480, Title I funds in Costa Rica. The Ministry for National Planning and Economic Policy (MIDEPLAN) was appointed as the Costa Rican governmental institution in charge of coordinating, planning, promoting and supervising program activities and disbursements of funds, as well as reporting and assuring compliance for both the Memorandum of Understanding and the Public Law PL480, Title I programs in Costa Rica. MIDEPLAN reports to the Government of Costa Rica and the Agency for International Development (AID). The institutions benefiting from PL480, Title I funds in Costa Rica report to MIDEPLAN.

The University of Costa Rica was created on August 29, 1940 by Law No. 362. It is charged with the implementation of the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica. The University is an autonomous institution of higher education dedicated to teaching, investigation, meditation, artistic creation, and diffusion of knowledge.

The University of Costa Rica is governed by the University Assembly, the University Council, the Rector and the Vice-

rectors. The Rector is the highest executive officer. He is appointed by the University Assembly.

The Center of Investigation for Grains and Seeds (CIGRAS) is an interdisciplinary unit dedicated to manage, in a coordinated effort, the investigation and social change in the field of grains and seeds. The CIGRAS is assigned to the Faculty of Agronomy of the University of Costa Rica, it is directed by the Scientific Council and a Director, who is appointed by the University Council. CIGRAS is the executive unit of the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica, and is financed with funds of the Public Law (PL) 480 Title I, Programs in Costa Rica.

The overall objective of this project was to analyze the physical and economic aspects of the post crop handling system, and the basic grains marketing system, identifying areas in which it was possible to improve the systems. The general objective of the project was divided into the following specific components:

- 1) Preparation of a descriptive analysis of the post-crop handling procedures system in use from producer to retailer.
- 2) Evaluation of the post-crop marketing system looking for efficient uses of resources and effective ways to reach the goals.
- 3) Formulation of recommendations to improve the post-crop handling system and the basic grain marketing operation in Costa Rica in accordance with the scope of this study.
- 4) Increasing the technical, professional and informative capacity regarding postcrop matters of CIGRAS and organizations involved in the systems handling post-crop operations.

Two agreements were executed for the project between the Universidad de Costa Rica, the Agency for International Development and the Ministerio de Planificación Nacional, dated April 14, 1983 and August 6, 1984 respectively, establishing September 14, 1985 as the project completion date.

AUDIT OBJECTIVES AND SCOPE

The overall objective of the examination was to perform a financial and compliance audit of the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica, implemented by the Universidad de Costa Rica through the Investigation Center for Grains and Seeds, for the period from April 14, 1983 to September 30, 1985.

The audit was performed in accordance with generally accepted auditing standards and with the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs,

Activities, and Functions" (1981 Revision) and, consequently, included the examination of accounting records and other auditing procedures which we considered necessary in the circumstances to determine that all transactions financed by funds of Public Law (PL) 480, Title I Programs in Costa Rica were adequately recorded in the accounting records of the project.

The scope of the examination included sufficient tests to determine if the statement of investments adequately represented the investments made for the Project during the audited period and whether the project had complied in all material aspects with the laws, regulations and agreements affecting the statement of investments.

The scope of the work consisted of:

1. Reviewing the statement of investments of the project for the period from April 14, 1983 to September 30, 1985.
2. Reviewing the covenants signed for the project.
3. Reviewing and evaluating the internal controls including compliance and substantive tests which we considered necessary in the circumstances.
4. Evaluating the accuracy of the information reported by the Institution to AID and to the Costa Rican Government.
5. Reconciling all bank accounts that control the receipt and disbursements of Public Law (PL) 480, Title I funds, determining the validity of the recorded transactions.
6. Reconciling the amounts recorded by the Project for funds of Public Law (PL) 480, Title I, with those reported by the Ministerio de Planificación Nacional as disbursements.
7. Determining whether the CIGRAS has complied with the terms and conditions of laws, regulations and agreements which may affect the statement of investments.
8. Determining the following: 1) Whether the CIGRAS paid fair and reasonable prices for goods and services financed in whole or in part with PL 480, Title I funds, and 2) Whether the procurement system uses fair and competitive commercial practices to assure the most effective use of PL 480, Title I funds.
9. Determining if the funds of PL 480, Title I were used only for purposes of the Project.

RESULTS OF AUDIT

1. Statement of investments

A summary of the results of our examination revealed that the statement of investments of the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica, implemented by Investigation Center for Grains and Seeds, for the period from April 14, 1983 to September 30, 1985, presents fairly the investments carried out by the Project with Public Law (PL) 480, Title I Programs in Costa Rica funds.

2. Internal controls

Our study and evaluation of the internal control system revealed that some of the personnel files were incomplete, the Internal Audit does not carry out reviews of project records and procedures, and the checks cancelled by the bank are not reviewed, aspects which we consider important and which are detailed in the report. These aspects result in a relatively low risk that errors or irregularities in amounts that would be material in relation to the statement of investments may occur and not be detected within a timely period.

3. Compliance with applicable laws, regulations and agreements

As a result of our study of the laws, regulations and agreements that could affect the statement of investments, we believe that the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica, implemented by the Investigation Center for Grains and Seeds, has complied with tested items of applicable laws, regulations or agreements that could affect the statement of investments. For items not tested, nothing came to our attention that caused us to believe that untested items are not in compliance with applicable laws, regulations, and agreements.

Deloitte, Haskins & Sells

CERTIFIED PUBLIC ACCOUNTANTS



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**PROJECT FOR THE ANALYSIS OF THE POST-CROP HANDLING
SYSTEM AND THE GRAIN MARKETING SYSTEM IN COSTA RICA**

REPORT ON THE STATEMENTS OF INVESTMENTS

AUDITOR'S OPINION

To the Regional Inspector General for Audit
U.S. Agency for International Development
Tegucigalpa, Honduras

We have examined the statement of investments of the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica for the period from April 13, 1983 to September 30, 1985, implemented by the Universidad de Costa Rica through the Investigation Center for Grains and Seeds (CIGRAS) financed by Public Law (PL) 480, Title I Programs in Costa Rica funds (expressed in thousands of Costa Rican colones). Our examination was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in note 1 to the statement of investments, the Project's policy was to prepare the statement from budget records on the basis of cash disbursements, consequently, certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying statement of investments is not intended to present the financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the accompanying statement of investment presents fairly the investments made for the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in

Costa Rica for the period from April 14, 1983 to September 30, 1985, in conformity with the basis explained in note 1.

Deloitte, Haskins & Sells

CERTIFIED PUBLIC ACCOUNTANTS

October 13, 1986

**PROJECT FOR THE ANALYSIS OF THE
POST-CROP HANDLING SYSTEM AND
THE GRAIN MARKETING SYSTEM IN COSTA RICA**

STATEMENT OF INVESTMENTS

FOR THE PERIOD FROM APRIL 14, 1983
TO SEPTEMBER 30, 1985
(IN THOUSANDS OF COSTA RICAN COLONES)

CONCEPT	NOTE	AMOUNT
Personnel services	2	¢ 4,765
Non-personnel services	2	2,624
Materials and supplies	2	1,005
Machinery and equipment	2	878
Current transfers	2	<u>28</u>
Total		<u>¢ 9,300</u>

See notes to statement of investments.

PROJECT FOR THE ANALYSIS OF THE POST-CROP
HANDLING SYSTEM AND THE GRAIN
MARKETING SYSTEM IN COSTA RICA

NOTES TO THE STATEMENT OF INVESTMENTS

FOR THE PERIOD FROM APRIL 14, 1983 TO
SEPTEMBER 30, 1985
(FIGURES IN THOUSANDS OF COSTA RICAN COLONES)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General. The objective of the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica was to analyze the economic and physical aspects of the post-crop handling system and the marketing of the basic grains, identifying the areas in which improvement could be made. This project includes a descriptive analysis of the systems, evaluation and formulation of recommendations, and increasing the technical capability of the institutions included in the post crop handling system. This project is financed with funds of the Public Law (PL) 480, Title I Programs in Costa Rica. Its implementation is under the University of Costa Rica through the Grains and Seeds Investigation Center (CIGRAS).

Records. The University of Costa Rica records all the investments of the Project through a specific account.

Currency The accounting records of the Project are maintained in Costa Rican colones (¢), the legal currency of the Country.

In accordance with the Law and certain Central Bank regulations, for the purchase of US\$1 at September 30, 1985 the following rates of exchange were in effect:

Official rate of exchange	¢ 20.00
Interbank rate of exchange	¢ 51.95

The official rate of exchange is established by Congressional law and is applicable only to a few transactions. The

interbank rate of exchange is established by the Central Bank and operates for exports, imports and other financial transactions.

The foreign currency exchange is a prerogative of the Central Bank and its authorized agents. The conversion of foreign currency to colones and viceversa inside the Costa Rican territory should be made only by the banks appointed by the Central Bank (state commercial banks and some private banks). The conversion and the exchange of foreign currency by individuals and other entities is specifically illegal.

The holding and ownership of foreign currency is permitted as long as it does not come from exportation activities. The foreign currency holders may also make payments in such currency or use it for their convenience outside the Costa Rican territory.

All requests to obtain foreign currency to make payments abroad should be approved by the Central Bank which authorizes the amounts and the applicable foreign rate.

The Project receives all the disbursements from MIDEPLAN in Costa Rican colones and has not made any transaction in foreign currencies.

Accounting and budget system. The budget is integrated with the accounting system of the University of Costa Rica, which is subject to the General Comptrollership of the Republic and to the Financial Administration Law. The statement of investments is prepared from budget records on the basis of cash disbursements, consequently, the expenses are recognized when paid rather when the obligation is incurred, and functions under the general requirements of the Costa Rican Government.

2. **BUDGET AND INVESTMENT**

The original budget amount for the implementation of the project was established at ₡5,800 (thousands). An addendum was signed on August 6, 1984 increasing this amount to ₡9.300 (thousands). The following is detailed budget and investment information of the project for the period from April 7, 1983 to September 30, 1986:

	BUDGETED	INVESTED	DIFFERENCE
Personnel services	₡ 4,039	₡ 4,765	₡(726)
Non - personnel services	3,377	2,624	753
Materials and supplies	1,023	1,005	18

	BUDGETED	INVESTED	DIFFERENCE
Machinery and equipment	755	878	(123)
Current transfers	106	28	78
Total	£ 9,300	£ 9,300	£ 0



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**PROJECT FOR THE ANALYSIS OF THE POST-CROP
HANDLING SYSTEM AND THE GRAIN MARKETING
SYSTEM IN COSTA RICA**

REPORT ON THE INTERNAL CONTROL SYSTEM

AUDITOR'S OPINION

To the Regional Inspector General for Audit
U. S. Agency for International Development
Tegucigalpa, Honduras

We have examined the statement of investments of the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica for the period from April 14, 1983 to September 30, 1985. The project is implemented by the University of Costa Rica through the Investigation Center for Grains and Seeds (CIGRAS) and it has issued one report dated October 13, 1986. As part of our examination, we have made a study and evaluation of the system of internal accounting controls of the Project as of October 13, 1986, to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

For the purpose of this report, we have classified the significant internal accounting controls evaluated in the following categories: disbursements of cash, inputs of cash, payrolls, reconciliation of information with other regulating entities, purchases and contracts of services, distribution and titling of land, the entity's internal audit procedures, and electronic data processing.

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the project's statement of investments. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguard against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the statement of investments in accordance with the accounting basis used.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the second paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed the following conditions: some of the personnel files were incomplete, the Internal Audit Department does not carry out reviews of the Project, and the checks cancelled by the bank are not reviewed; conditions (detailed in the following section) in the system of internal accounting control of the Project in effect as of October 13, 1986 which, in our opinion, result in a relatively low risk that errors or irregularities in amounts that would be material in relation to the statement of investments may occur and not be detected within a timely period.

As set forth in the statement of work for the financial and compliance audit of the project, our evaluation and study of internal controls included the following controls: a) use of fair and competitive commercial practices that assure the most effective use of funds from PL480 Litter I Programs in Costa Rica and b) banks reconciliation.

In our opinion, the institution has followed, according to the circumstances, fair and competitive commercial practices that

assure the most effective use of the Public Law (PL) 480, Title I funds.

In our opinion, the bank reconciliation of the specific account in which the Public Law (PL) 480 funds were handled as of September 30, 1985 is adequately prepared by the CIGRAS employees.

This report is intended solely for the use of the management of the project and the Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the AID Regional Inspector General, is a matter of public record.

Deloitte, Haskin & Sells

CERTIFIED PUBLIC ACCOUNTANTS

October 13, 1986

**PROJECT FOR THE ANALYSIS OF THE POST-CROP
HANDLING SYSTEM AND THE GRAIN MARKETING
SYSTEM IN COSTA RICA**

**REPORT ON INTERNAL CONTROL SYSTEM
FOR THE PERIOD FROM APRIL 14, 1983 TO SEPTEMBER 30, 1985**

1. DOCUMENTS ARE MISSING FROM THE PERSONNEL RECORDS

Condition:

As a result of our review we detected a lack of documents in some personnel records such as contracts, personnel actions, evaluations, etc.

Criteria:

The personnel files should contain as a minimum: photographs of employees, applications, personnel actions for each employee change, and correspondence. These documents should be updated.

Cause:

There was a lack of administrative personnel relative to the size of the Personnel Department and number of files.

Effect:

It is difficult to document the correct payments and to detect whether the employees are working in direct functions of the project.

Recommendation:

The personnel files should always be updated and complete.

2. LACK OF INTERNAL AUDITS

Condition:

The Institution's Internal Audit Department does not perform specific tests of the project records and procedures, which guarantee the adequate operation and control of the project. This related to the established procedures of the Institution and in accordance with the specific loan agreement policies.

Criteria:

The internal audit procedures should cover all material aspects of the Institution, among them the different projects financed with external funds and compliance with agreements, laws and regulations.

Cause:

The Internal Audit Department does not include in its annual plan a review of this project.

Effect:

Until the present there has not been a regulatory agency to test the adequacy of the recording procedures, use of funds and compliance with agreement clauses and other types of laws.

Recommendation:

In order to permanently control the aspects indicated in the previous paragraphs, the Internal Audit Department should include in its annual programs selective tests on all Projects.

3. **CHECKS CANCELLED BY THE BANK ARE NOT REVIEWED**

Condition:

The University of Costa Rica compiles the checks cancelled by the bank, but no review procedures are applied to the checks of this project.

Criteria:

The checks cancelled by the bank must be reviewed to verify if alterations or any other anomalies exist in the endorsements.

Cause:

The review has not been considered necessary.

Effect:

There could be some alterations in the checks cancelled by the bank which may not be detected.

Recommendation:

The checks cancelled by the bank must be reviewed by employees independent of those who have written and signed them, to search for alterations in figures, signatures or suspicious endorsements.

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**PROJECT FOR THE ANALYSIS OF THE POST-CROP
HANDLING SYSTEM AND THE GRAIN MARKETING
SYSTEM IN COSTA RICA**

**REPORT ON THE COMPLIANCE WITH LAWS,
REGULATIONS, AND AGREEMENTS**

AUDITORS' OPINION

To the Regional Inspector General for Audit
U. S. Agency for International Development
Tegucigalpa, Honduras

We have examined the statement of investments of the Project for the Analysis of the Post-Crop System and the Grain Marketing System in Costa Rica, for the period from April 13, 1983 to September 30, 1985, implemented by the Universidad de Costa Rica through the Investigation Center for Grains and Seeds (CIGRAS) financed with funds of the Public Law (PL) 480, Title I Programs in Costa Rica. Our examination was made in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision), which includes additional standards and requirements for the review of compliance with laws, regulations and agreements.

We tested items for all the laws, regulations and agreements that could have an effect on the statement of investments, which included the following:

1. Covenant between Universidad de Costa Rica, Agency for International Development and Ministerio de Planificación Nacional, dated April 13, 1983.
2. Financial Administration Law.

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

In connection with our examination, in our opinion the Specific Project for the Analysis of the Post-Crop Handling System and the Grain Marketing System in Costa Rica has complied with tested items of laws, regulations or agreement that could have an effect on the statement of investments. For items not tested, nothing came to our attention that caused us to believe that untested items are not in compliance with applicable laws, regulations, and agreements.

Deloitte, Haskins & Sells

CERTIFIED PUBLIC ACCOUNTANTS

October 13, 1986

APPENDIX 1

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