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AUDIT OF THE USE OF PL480, TITLE I  
LOCAL CURRENCY SALES PROCEEDS ALLOCATED  
SPECIFICALLY FOR THE SUPPORT OF  
USAID/COSTA RICA LOAN 515-T-034  
FOR AGRARIAN SETTLEMENT AND PRODUCTIVITY

Audit Report No. 1-515-87-07-N  
March 23, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL

AMERICAN EMBASSY

TIGUGUATPA HONDURAS

March 23, 1987

MEMORANDUM

TO : D/USAID/Costa Rica, Daniel A. Chaij

FROM : RIG/A/T, *Coinage N. Gothard*  
Coinage N. Gothard, Jr.

SUBJECT: Audit Report No. 1-515-87-07-N, "Audit of the Use of PL480, Title I Local Currency Sales Proceeds Allocated Specifically for the Support of USAID/Costa Rica Loan 515-T-034 for Agrarian Settlement and Productivity"

This report presents the results of a non-Federal audit that your Mission requested of the use of the PL480, Title I local currency sales proceeds allocated specifically for the support of USAID/Costa Rica Loan 515-T-034 for Agrarian Settlement and Productivity. The project is being implemented by the Institute for Agrarian Development (IDA) under the supervision of the Ministry for National Planning and Economic Policy (MIDEPLAN). The certified public accounting firm of Deloitte, Haskins & Sells in Costa Rica prepared the report which is dated March 5, 1987.

The purpose of this financial and compliance audit was to determine if the project's statement of investments for the period January 1, 1982 to September 30, 1985 adequately represents the investments made for this period; to study and evaluate IDA's system of internal controls related to the project; and to determine if IDA had complied with applicable laws, regulations, and agreements.

Deloitte, Haskins & Sells disclaimed an opinion on the statement of investments for the period January 1, 1982 to September 30, 1985 due to restrictions in the scope of the audit caused by material differences in the statements compared to funds disbursed by MIDEPLAN as well as to IDA's own accounting records, the unavailability of cancelled checks for verification, and the lack of separate accounting records or auxiliary records for machinery and equipment. Their study and evaluation of the internal control system revealed that the statement of investments was not reconciled with accounting information and disbursements reported by MIDEPLAN; IDA's own funds invested in the project and the PL 480, Title I funds were neither accounted for separately nor deposited in separate bank accounts; there were no specific or auxiliary accounts for the control of land, machinery and equipment; IDA's internal audit department did not perform reviews of the project; there was no agreement clearly delineating the objectives, financing, obligations and terms of the

project; the pending items from bank reconciliations were not analyzed adequately; the personnel records were incomplete; and cancelled checks were not requested from the bank for review. They report that these aspects result in more than 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 IDA 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.

The Deloitte, Haskins & Sells report contains nine recommendations which we believe will improve IDA's 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 evidence from the Institute for Agrarian Development (IDA) to demonstrate that it has implemented the nine recommendations to improve the system of internal controls included in the Deloitte, Haskins & Sells report dated March 5, 1987.

Please advise this office within 30 days of the actions planned or taken to implement this recommendation.

COUNTERPART SPECIFIC PROJECT TO THE AID LOAN 034  
PUBLIC LAW (PL) 480, TITLE I PROGRAMS IN COSTA RICA

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March 5, 1987

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

Dear Mr. Gothard:

This report presents the results of our audit of the Counterpart Specific Project to AID Loan 034. This project is financed with funds from Public Law (PL) 480, Title I Programs in Costa Rica. It is implemented by the Instituto de Desarrollo Agrario (Institute for Agrarian Development-IDA).

#### BACKGROUND

As of March 25, 1982, October 30, 1982, November 22 1983 and November 19, 1984 Memorandums of Understanding were signed between the Governments of United States of America and Costa Rica for the use of funds from the PL480, Title I Programs 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 PL 480 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 Institute for Agrarian Development is the implementing agency for Counterpart Specific Project to AID Loan 034. It was created by Law No. 2825 of October 14, 1961. The original name, Instituto de Tierras y Colonización (Institute of Land and Colonization), was changed to Instituto de Desarrollo Agrario (Institute for Agrarian Development) by Law 6735 of March 29, 1982.

The normal activity of the Institute is land marketing. This includes the purchase, sale, mortgage, rental and acquisition of

the goods and services necessary for the development of rural land.

The Institute for Agrarian Development is governed by a Board of Directors. The Executive President, who is appointed by the Costa Rican Council of Government, reports to the Board. The Internal Audit Department whose function is to oversee and control the other departments, is an advisory unit of the Board of Directors.

The Executive Office of AID Loan 034 reports directly to the Institution's Executive Presidency. It was created in January 1982 to coordinate all the activities related to the project including the loan and the local counterpart contributions financed by Public Law (PL) 480, Programs in Costa Rica, as explained in the next paragraph.

The Counterpart Specific Project to AID Loan 034 was to furnish the funds for the local contribution required under Loan agreement AID-IDA-034 between the Agency for International Development, the Costa Rican Government and Instituto de Desarrollo Agrario (Institute for Agrarian Development).

The overall objectives of the loan were to improve and extend the National Program for Distribution of Agricultural Goods and to increase the ownership of agriculture land in the Atlantic Region of the country. The project was to finance the acquisition of land for new areas to be reformed and developed and was to furnish the necessary support to establish new beneficiaries in those areas. It included the construction of roads, houses and community infrastructure and was to furnish aid to beneficiaries during the first years of farm development. The project also was to finance land surveys and mapping in the 160,000 hectares of the Atlantic Region. In this way a vast segment of the Catastro Nacional (National Register of Real Estate) was to be completed. The Instituto de Desarrollo Agrario was to furnish titles to farmers in the zone who did not have titles. The project also was to improve the administrative and technical capability of IDA and the ability to plan and carry on the national program for land reform.

There is no written agreement between AID, IDA and MIDEPLAN establishing a deadline for the completion of the Counterpart Specific Project for AID Loan 034.

#### AUDIT OBJECTIVES AND SCOPE

The overall objective of the examination was to perform a financial and compliance audit of the Counterpart Specific Project to AID Loan 034. The period audited was from January 1, 1982 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). It included the examination of accounting records and other auditing procedures which we considered necessary in the circumstances to determine that all transactions financed with Public Law (PL) 480, Title I Programs in Costa Rica funds 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 represented the investments made for the project during the audited period and whether the project had complied in all material respects with the laws, regulations and agreements affecting such statement of investments.

The scope of the work consisted of:

1. Reviewing the statement of investments of the project for the period from January 1, 1982 to September 30, 1985.
2. Reviewing the letter of understanding under which each transfer was programmed and the decree which incorporates programmed funds in the national budget.
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 (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 Institute for Agrarian Development has complied with the terms and conditions of laws, regulations and contracts which may affect the statement of investments.
8. Determining the following: 1) Whether the Institute for Agrarian Development 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 used 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

As a result of our examination, and because of material differences between the statements and funds disbursed by MIDEPLAN as well as IDA's own accounting records, the unavailability of cancelled checks for verification, and lack of separate accounting records or auxiliary records for machinery and equipment, the scope of our work was not sufficient to enable us to express an opinion on the statement of investments of the Counterpart Specific Project to AID Loan 034 for the period from January 1, 1982 to September 30, 1985.

### 2. Internal Controls

Our study and evaluation of the internal control system revealed that there are no specific accounts or auxiliary accounts for the control of land, machinery and equipment, the statement of investments is not reconciled with the accounting information and the disbursements reported by MIDEPLAN, the institution's own funds invested in the project is not controlled in accounts independent of the PL 480, Title I funds, the pending items of the bank reconciliation are not analyzed adequately, the Internal Audit Department does not perform reviews of the project, there is no agreement which clearly delineates the objectives, financing, obligations and terms of the Project, the personnel records were incomplete, the checks cancelled by the bank are not solicited or reviewed, and deposits of funds of the Institution are not made in the separate PL 480, Title I account, aspects which we consider important and which we detail in the respective report. These aspects result in more than 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

In connection with our review of the laws, regulations and agreements that could affect the statement of investments, we believe that the Counterpart Specific Project to AID Loan 034 has complied with the tested items of laws, regulations or agreement terms which 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.

**MANAGEMENT COMMENTS**

Personnel from the Project, MIDEPLAN, and USAID/Costa Rica reviewed a draft of this report and offered minor changes, which we now incorporated into this final report.

*Deloitte Hashim & Sells*  
CERTIFIED PUBLIC ACCOUNTANTS



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COUNTERPART SPECIFIC PROJECT TO AID LOAN 034

REPORT ON THE STATEMENTS OF INVESTMENTS

AUDITOR'S REPORT

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

We have examined the statement of investments for the period from January 1, 1982 to September 30, 1985, of the Counterpart Specific Project to AID Loan 034 implemented by the Instituto de Desarrollo Agrario (Institute for Agrarian Development) (IDA) and financed by funds from the Public Law (PL) 480, Title I Programs in Costa Rica (expressed in thousands of Costa Rican colones). Except as explained in the following paragraphs, 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.

The project's statement of investments showed an overinvestment in the project of 043,951 (thousands) compared to total funds approved and disbursed by AID/PLAW to IDA, and we could not obtain a reconciliation of the differences in these amounts (see note 2). Furthermore, the statement of investments did not agree with IDA's accounting by an overinvestment of 019,457 (thousands), and we were unable to obtain a reconciliation of the differences in these amounts (see note 3).

We could not verify the project's cancelled checks because they were not available from the bank.

We could not examine the project's disbursements for machinery and equipment which totaled 01,318 (thousands), because they were not recorded in separate accounts and there were no auxiliary records to control these investments.

As described in note 1 to the statement of investment, IDA's policy is 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.

Because of the limitations on the scope of our examination explained in the above paragraphs two to four, concerning material differences in the statement of investments compared to funds disbursed by HIDEPLAN as well as IDA's own accounting records, the unavailability of cancelled checks for verification, and no separate accounting records or auxiliary records for machinery and equipments, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statement of investments of the Countepart Specific Project to AID Loan 034 for the period from January 1, 1982 to September 30, 1985.

*Deloitte Haskins & Sells*

CERTIFIED PUBLIC ACCOUNTANTS

October 13, 1986

COUNTERPART PROJECT TO 034 AID LOAN

STATEMENT OF INVESTMENTS  
FOR THE PERIOD FROM JANUARY 1, 1982 THROUGH SEPTEMBER 30, 1985  
(THOUSANDS OF COSTA RICAN COLONES)

	NOTES	PERSONAL SERVICES	NON-PERSONAL SERVICES	MATERIALS AND SUPPLIES	MACHINERY AND EQUIPMENT	LAND	CONSTRUCTIONS AND IMPROVEMENTS	CURRENT TRANSFERS	TOTALS
Titling and parceling		¢21,070	¢ 3,670	¢ 857	¢ 198	¢	¢	¢ 4,092	¢ 29,827
Roads		7,792	980	487				1,471	10,730
Houses and community facilities		6,738	794	1,018	134			1,046	9,730
Organization and training		5,830	821	520	23			708	5,902
Planning		7,765	957	144	15			2,122	11,001
Crops and cattle development work		12,385	2,771	4,165	172	33,461		2,407	55,361
Evaluation		3,976	258	362	5			868	5,469
Computing		2,229	190	264	85			480	3,248
Administration		6,417	847	893	383			1,483	10,023
Project management		7,276	1,092	3,769	270	37,660	8,666	1,391	60,124
Agrarian fund		5,623	560	693	33			1,067	7,976
Totals	2,3,4	<u>¢85,099</u>	<u>¢12,940</u>	<u>¢13,172</u>	<u>¢1,318</u>	<u>¢71,121</u>	<u>¢8,666</u>	<u>¢17,135</u>	<u>¢209,451</u>

See notes to statement of investments

**COUNTERPART SPECIFIC PROJECT TO THE AID LOAN 034**  
**NOTES TO THE STATEMENT OF INVESTMENTS**  
**FOR THE PERIOD FROM JANUARY 1, 1982 TO SEPTEMBER 30, 1985**  
**(FIGURES IN THOUSANDS OF COSTA RICAN COLONES)**

\* \* \* \* \*

1. **SUMMARY OF THE MAIN ACCOUNTING POLICIES**

**General.** The purpose of the Counterpart Specific Project to AID Loan 034 is to provide funds as local contributions required under AID Loan 034. This project is being financed with funds of Public Law (PL) 480, Title I Programs in Costa Rica. It is intended to improve and extend the national program to redistribute agricultural goods and also to obtain better distribution of land in the Atlantic Region of the Country.

**Records** IDA records all project expenses in a specific account. The land, machinery and equipment acquired for the project are not recorded in specific accounts.

**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 sale 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 at 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 foreign rate applicable.

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

Accounting system and budget. The budget is integrated with the IDA's accounting system which is subjected to the General Comptrollership of the Republic and regulated by the Financial Administration Law. The statement of investments is prepared from budget records on the basis of cash disbursements; consequently, certain expenses are recognized when paid rather than when the obligation is incurred, and functions under the general requirements of the Costa Rican Government.

## 2. BUDGET AND INVESTMENT

The total approved budget for the execution of the project was for ₡193,000 as of September 30, 1985. Presented below is a summary of the investments made compared to the funds approved and disbursed by MIDEPLAN:

Total funds approved and disbursed by MIDEPLAN	₡ 193,000
Less: cash on hand according to the bank account balance	<u>( 27,500)</u>
Funds applied according to MIDEPLAN	165,500
Total disbursements made according to IDA's statement of investments as of September 30, 1985	<u>209,451</u>
Excess investments made compared to amounts approved and disbursed by MIDEPLAN	<u>₡ 43,951</u>

As is shown, there is an overinvestment compared to the applied resources from MIDEPLAN to IDA. There was no reconciliation for the difference of ₡43,951 (thousands).

3. DIFFERENCE IN ACCOUNTING RECORDS

The following is a comparison between the amounts shown in the statement of investments with those of the accounting records at September 30, 1985:

Total investments according to the statement of investments	Q 209,451
Total investments according to accounting records	<u>189,994</u>
Unreconciled difference	<u>Q 19,457</u>

There is no explanation of the differences.

4. LAND

The land acquired as of September 30, 1985 according to the statement of investments represents 34% of the total investments. The detail of the farms acquired according to the accounting records were the following:

Agropecuaria el Indio	Q 24,714
Industrial Neguev, S. A.	22,000
Finca Maryland	<u>9,000</u>
Total according to accounting records	55,714
According to the statement of investments	<u>71,121</u>
Difference not reconciled	<u>Q 15,407</u>

5. SUBSEQUENT EVENTS

Disbursements. On November 21, 1985 MIDEPLAN approved an increase in the budget of Q40,000, of which Q26,715 was paid out at that date.



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COUNTERPART SPECIFIC PROJECT TO AID LOAN 034  
REPORT ON THE INTERNAL CONTROL SYSTEM

AUDITOR'S OPINION

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

We have examined the statement of the Counterpart Specific Project to AID Loan 034 for the period from January 1, 1982 to September 30, 1985, implemented by Instituto de Desarrollo Agrario (Institute for Agrarian Development) (IDA), which has issued one report thereon dated October 13, 1986. As part of our examination, we have made a study and evaluation of the Project's system of internal accounting control 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, reconciliations 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 Counterpart Specific Project to AID-IDA Loan 034 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 safeguarded 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 a 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 first 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 Counterpart Specific Project to AID-IDA Loan 034 taken as a whole or on any of the categories of controls identified in the second paragraph. However, our study and evaluation disclosed the following conditions: there are no specific accounts or auxiliary accounts for the control of land, machinery and equipment, the investments are not reconciled in the budget reports with the accounting information and the disbursements reported by MIDEPLAN, the institution's own funds invested in the project are not controlled in separate accounts from the PL 480, Title I funds, the Internal Audit Department does not perform reviews of the project records and procedures, checks cancelled by the bank are not requested nor reviewed, and deposits of the Institution's funds are made in the specific account of the PL 480, Title I funds, conditions (detailed in the following section) in the system of internal accounting control of the Counterpart Specific Project to AID-IDA Loan 034 in effect as of October 13, 1986 which, in our opinion, result in more than 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 control included the following controls: a) bank reconciliations; and b) use of fair and competitive commercial practices that assure the most effective use of funds from the PL480 Title I Programs in Costa Rica.

In our opinion, except for the inadequate analysis of some bank reconciliation items, the bank reconciliation of the separate

Public Law (PL) 480 account as of September 30, 1985 is adequately prepared by the Institution.

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.

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 distribution of this report which, upon acceptance by the AID Regional Inspector General, is a matter of public record.

*Deloitte Haskins & Sells*

CERTIFIED PUBLIC ACCOUNTANTS

October 13, 1986

COUNTERPART SPECIFIC PROJECT TO AID-LOAN 034

REPORT ON INTERNAL CONTROL SYSTEM  
FOR THE PERIOD FROM JANUARY 1, 1982  
TO SEPTEMBER 30, 1985

COMMENTS AND RECOMMENDATIONS

1. SPECIFIC ACCOUNTS FOR THE PROJECT

**Condition:**

The expenses and investments incurred in the project AID-IDA-034 have been recorded by following two methods. The first concerns machinery, equipment, and land acquisitions which are not recorded in specific accounts, therefore they were not distinguished from the other general transactions. The second method which has been to register expenses in specific accounts for the project.

**Criteria:**

All disbursements of the project should be registered in accounts separate from the other general transactions.

**Cause:**

It has not been considered necessary to make this separation for machinery, equipment and land.

**Effect:**

The described procedure prevents an adequate control over the investments, because they cannot be identified as corresponding to the project.

**Recommendation:**

It is essential to create these separate accounts so as to identify the investments made by the project and to facilitate the independent control of these important items. We consider it necessary to reconstruct the transactions and balances of the account to date, and maintain it updated, in order to have an auxiliary record of proper assets.

## 2. BALANCE RECONCILIATION

### **Condition:**

The reports of the Project's Investments for MIDEPLAN are prepared with the data obtained from the budget. There are important differences between the accounting and budgetary information, which are not reconciled. In addition there are no reconciliations and identification of the amounts overinvested in relation with the funds disbursed by MIDEPLAN with those in accounting records.

### **Criteria:**

As a sound practice, all reports should be duly reconciled with the document which initiates the transaction; in this case, accounting records, budgetary records, and MIDEPLAN disbursement reports.

### **Cause:**

Knowledge of the necessity to prepare the reconciliations was lacking.

### **Effect:**

It is impossible to ensure that all funds provided by MIDEPLAN through PL 480 have been used in the project.

### **Recommendation:**

It is essential to prepare monthly reconciliations among the totals shown in the budget liquidations, the totals from the accounting records and the disbursements reported by MIDEPLAN.

## 3. LACK OF RECORDS BY SOURCE OF FUND

### **Condition:**

There have been many debits for expenses made to the Project Accounts which were paid from other sources of funds than PL 480, Title I. There are no auxiliary records which identify which expenses were made with the PL 480, Title I funds and which with other funds.

### **Criteria:**

Whenever an institution handles many project whose financing comes from many sources, it must keep specific accounts or

auxiliary records by source for its own control and in order to prepare reports for the different financial sources.

**Cause:**

Sometimes, due to lack of budgeted funds, the project has been without money, therefore, in order not to suspend project activities, payments have been made with IDA'S funds. This procedure did not take into account the resulting control problems.

**Effect:**

The above practice, as is the lack of reconciliations explained in finding No. 2, makes it impossible to verify the reasonable use of the funds provided by MIDEPLAN and other sources.

**Recomendation:**

It is essential to create complementary accounts for the project by sources of finance and debit them accordingly. In this way the reconciliation work will decrease.

4. **BANK RECONCILIATION**

**Condition:**

Bank reconciliations of project are only made arithmetically, without analyzing the reasonableness of the pending items.

**Criteria:**

The bank reconciliations are an instrument of control which permit detection of irregularities in handling cash.

**Cause:**

Its analysis has not been considered necessary.

**Effect:**

The lack of proper bank reconciliations has caused the following:

- a) Existence of items pending more than 3 months which have not been reviewed.
- b) Checks No. 1317 and 1318 have not been delivered to the beneficiaries, however they were not found.

- c) Issued and undelivered checks No.1321, 1328 and 1330 were shown to us by the IDA's employees after an arduous search. These incidents show carelessness in handling uncashed checks.

**Recommendation:**

It is absolutely necessary that the items which appear in the reconciliation be reviewed with a critical attitude, especially those whose date is not recent. On the other hand, the controls over handling and custody of the checks to beneficiaries should be improved by giving them a prudent term of validity, otherwise they should be voided.

5. LACK OF INTERNAL AUDIT TESTS

**Condition:**

The Institution's internal audit department does not perform specific tests of the project which guarantee its adequate operation and control. This is related to the established procedures of the Institution, and compliance with the specific loan agreement policies.

**Criteria:**

IDA's internal audit procedures should cover all the fundamental aspects of the Institution, among them the review of the use of external funds invested in the projects, and the verification of compliance with laws, regulations and contracts.

**Cause:**

The Internal Audit Department does not include in its annual plan the review of this Project.

**Effect:**

Until this date there has not been a regulating entity which verified the adequacy of the recording procedures, the use of funds, and the compliance with the contractual clauses and other types of laws.

**Recommendation:**

In order to maintain a constant control over the aspects indicated in the previous paragraphs, the Internal Audit Department should include within its annual programs

selective tests of all the projects under the Institution's responsibility.

6. THERE IS NO AGREEMENT FOR THE PROJECT

**Condition:**

The AID-IDA-034 program was originated under the term "transfers"; therefore it did not require a written agreement defining its objectives, financing, duties, terms, and other relevant aspects so that the program implementation could be regulated by defined policies.

**Criteria:**

For the purpose of adequate implementation, every project should have an agreement which regulates every aspect of the project.

**Cause:**

The "transfer projects" do not need an agreement.

**Effect:**

There is no clear definition of the project's objectives, deadlines, and the duties of the lender and the borrower.

**Recommendation:**

In any circumstance in which funds are granted to execute projects, it must be regulated properly by agreement which guarantees good controls, records and uses of funds.

7. LACK OF DOCUMENTS IN PERSONNEL FILES

**Condition:**

In our review, we examined some project personnel files which lacked personnel contracts, personnel evaluations and other documents.

**Criteria:**

The personnel records should contain at least: a photograph of the employee, a document for each employee transfer, and relevant correspondence, most importantly they must be updated frequently.

**Cause:**

There was a lack of administrative personnel.

**Effect:**

There is no way to verify if the amount paid is correct and if the employee is working on project activities.

**Recommendation:**

The employee records must be complete and updated frequently.

8. CHECKS CANCELLED BY BANK ARE NOT AVAILABLE

**Condition:**

The Institution does not request the checks cancelled by banks; consequently, they are not reviewed.

**Criteria:**

As an additional procedure to the review of bank reconciliations, checks cancelled by the bank should be examined for any evidence of alterations.

**Cause:**

The administration has not considered it necessary to compile checks.

**Effect:**

Improper uses of the project's funds might not be detected if endorsements are not checked.

**Recommendation:**

Checks cancelled by the bank should be compiled and verified by employees independent of those who have prepared and signed them, in order to look for alterations of amounts, signatures and suspicious endorsements.

9. PROJECT'S BANK ACCOUNT

**Condition:**

The project's checking account receives a lot of deposits from funds which do not correspond to those drawn by MIDEPLAN through PL 480.

**Criteria:**

For a better control of the funds of the Project, this account should handle only PL 480 funds.

**Cause:**

The Institution's employees lacked training.

**Effect:**

The above situation allows the use of the checking account for purposes other than the project's and prevents the ready identification of the cash balance available to invest in the Project.

**Recommendation:**

IDA should issue instructions to the employees of the Institution so that this account cannot be used to deposit money originating from funds that do not correspond to (PL) 480, Title I funds.



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COUNTERPART SPECIFIC PROJECT TO AID LOAN 034

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

AUDITOR'S OPINION,

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

We have examined the statement of investments for the period from January 1, 1982 to September 30, 1985, related to the Counterpart Specific Project to AID Loan 034, implemented by Instituto de Desarrollo Agrario (Institute for Agrarian Development) financed with funds of the Public Law (PL) 480, Title I Programs in Costa Rica. Except for material differences in the statement of investments compared to funds disbursed by MIDEPLAN as well as IDA's own accounting records, the unavailability of cancelled checks for verification, and no separate accounting records or auxiliary records for machinery and equipment, 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 the compliance with laws, regulations and agreements.

The scope of all the laws, regulations and agreements that could have an effect on the statement of investments, that were subjected to our examination included the following:

1. Financial Administration Law.
2. Trust Contract with Banco Nacional de Costa Rica.
3. Agrarian Development Law.
4. Land and Colonization 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 Counterpart Specific Project to AID Loan 034 has complied with tested items of applicable laws, regulations and agreement terms 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 agreement terms.

*Deloitte Haskins & Sells*

CERTIFIED PUBLIC ACCOUNTANTS

October 13, 1986

APPENDIX 1

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