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AUDIT OF THE USE OF PL480, TITLE I LOCAL
CURRENCY PROCEEDS ALLOCATED SPECIFICALLY
FOR THE SUPPORT OF THE EUROPEAN ECONOMIC
COMMUNITY'S PROJECT FOR AGRARIAN
DEVELOPMENT REFORM IN COSTA RICA

Audit Report No. 1-515-87-08-N
March 23, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA 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. 1-515-87-08-N, "Audit of the Use of PL480, Title I Local Currency Proceeds Allocated Specifically for the Support of the European Economic Community's Project for Agrarian Development Reform in Costa Rica"

This report presents the results of a non-Federal audit that your Mission requested of the use of PL480, Title I local currency proceeds allocated specifically for the support of the European Economic Community's Project for Agrarian Development Reform in Costa Rica. 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 February 21, 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.

In the opinion of Deloitte, Haskins & Sells, the statement of investments presents fairly the investments made by the project for the period February 21, 1982 to September 30, 1985, except that the over-investment shown on the statement was not reconciled with the total funds approved and disbursed by MIDEPLAN. Their study and evaluation of the internal control system revealed that the amount of investments shown in the project's accounting records were not reconciled with the disbursements reported by MIDEPLAN; specific accounts for land purchases were not maintained; IDA's internal audit department did not perform reviews of the project; and there was no covenant clearly establishing the objectives, financing, obligations and deadlines of the project. 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

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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 four 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 four 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.

DIRECT TRANSFER AID - IDA - EUROPEAN ECONOMIC COMMUNITY PROJECT
PUBLIC LAW (PL) 480, TITLE 1 PROGRAMS IN COSTA RICA

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Deloitte Haskins+Sells

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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 Direct Transfer AID-IDA-European Economic Community Project. This project is financed with funds of Public Law (PL) 480, Title I Programs in Costa Rica.

BACKGROUND

As of November 22, 1983 a Memorandum of Understanding was signed between the Governments of United States of America and Costa Rica for the use of funds from PL480, Title I 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 the 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, implementing agency of the Direct Transfer AID-IDA-European Economic Community Project, was created by Law No. 2825 of October 14, 1961 with the original name of Instituto de Tierras y Colonización (Institute of Land and Colonization) and changed to the Instituto de Desarrollo Agrario (IDA) (Institute for Agrarian Development) by Law 6735 of March 29, 1982. The normal activity of the Institute is land marketing, which includes the purchase, sale, mortgaging, rental and acquisition of goods and services necessary for the development and use of rural land, and the development of land settlements and titling.

The Institute for Agrarian Development is governed by a Board of Directors. The Executive President is appointed by the Costa Rican Council of Government and reports to the Board of Directors.

The Internal Audit Department acts as an advisory entity to the Board of Directors, and oversees the other departments.

The Direct Transfer IDA-AID-European Economic Community Project was implemented by the Instituto de Desarrollo Agrario. Nevertheless, there was no personnel directly assigned to the project to form an executive unit, since all procedures for purchasing land are performed with the normal resources of the institution.

The purpose of the Direct Transfer AID-IDA-European Economic Community Project was to carry out the agreement between the European Economic Community and the Costa Rican Government for reinforcing Agrarian and Integral Development Reform. The project's funds have been used only to purchase lands in the communities of San Mateo, Orotina and Puriscal.

There is no signed agreement for this project, consequently there is no established bases that regulate its use and date of execution.

AUDIT OBJECTIVES AND SCOPE

The overall objective of the examination was to perform a financial and compliance audit of the Direct Transfer AID-IDA-European Economic Community Project, for the period from February 21, 1982 to September 30, 1985. This project is implemented by the Instituto de Desarrollo Agrario and is financed with funds of the Public Law (PL), Title I Programs in Costa Rica.

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 with Public Law (PL) 480, Title I 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 adequately 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 contracts 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 February 21 to September 30, 1985.
2. Reviewing 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 the AID and to the Costa Rican Government.
5. 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.
6. 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.
7. 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 uses fair and competitive commercial practices to assure the most effective use of PL 480, Title I funds.
8. 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 except for the scope limitation related basically with the fact that the project has not reconciled the overinvestment shown in the statement of investments against the total funds approved and disbursed by Ministerio de Planificación Nacional, the statement of investments of the project presents fairly the investments made by the Direct Transfer AID-IDA-European Economic Community Project for the period from February 21 to September 30, 1985.

2. Internal controls

Our study and evaluation of the internal control system revealed that they do not reconcile the records of investments according to the accounting information with

those of the disbursements reported by MIDEPLAN; specific accounts for the purchasing of land are not maintained; the internal audit does not carry out reviews of the project; and no covenant exists to establish clearly the objectives, financing, obligations and deadlines of the project; aspects which we consider important, which are detailed in the report. These aspects result in more than a relatively low risk that errors of 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 exam and study of all the laws, regulations and agreements that could affect the statement of investments, we believe that the Direct Transfer IDA-AID-European Economic Community Project has complied with tested items of laws, regulations and agreements that could affect the statement of investments. For the 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 US AID/Costa Rica reviewed a draft of this report and offered minor changes, which we have incorporated into this final report.

Deloitte Haskins & Sells

CERTIFIED PUBLIC ACCOUNTANTS



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DIRECT TRANSFER AID-IDA-EUROPEAN COMMUNITY
PROJECT

REPORT ON THE STATEMENT OF INVESTMENTS

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 February 21 to September 30, 1985, related to the Direct Transfer AID-IDA-European Economic Community Project implemented by the Instituto de Desarrollo Agrario (IDA) (Institute for Agrarian Development) and financed by Public Law (PL) 480, Title I Programs in Costa Rica funds (expressed in thousands of Costa Rican colones). Except as explained in the following paragraph, 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 shows an overinvestment of \$1.932 (thousands) compared to total funds approved and disbursed by the Ministerio de Planificación Nacional y Política Económica and it was not possible to obtain a reconciliation of the differences in the amount (see note 2).

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, except for the effects of the adjustments, if any, as might have been determined to be necessary had we been able to review the reconciliation of the matter mentioned in paragraph 2, the accompanying statement of investments presents fairly the investments made by the Direct Transfer IDA-AID-European Economic Community Project for the period from February 21 to September 30, 1985, in conformity with the basis explained in note 1.

Deloitte Haskins & Sells

CERTIFIED PUBLIC ACCOUNTANTS

October 13, 1986

DIRECT TRANSFER AID-IDA-EUROPEAN ECONOMIC COMMUNITY PROJECT

STATEMENT OF INVESTMENTS

FOR THE PERIOD FROM FEBRUARY 21
TO SEPTEMBER 30, 1985
(EXPRESSED IN THOUSANDS OF COSTA RICAN COLONES)

INVESTMENT	NOTES	AMOUNT
Purchases of land	2, 3	<u>¢ 35,163</u>
See notes to statement of investments.		

DIRECT TRANSFER AID-IDA-EUROPEAN ECONOMIC COMMUNITY PROJECT

NOTES TO STATEMENT OF INVESTMENTS
FOR THE PERIOD FROM FEBRUARY 21 TO
SEPTEMBER 30, 1985
(EXPRESSED IN THOUSANDS OF COSTA RICAN COLONES)

* * * * *

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General. The Direct Transfer AID-IDA-European Economic Community Project's objective is the acquisition of land to develop rural settlements in the communities of San Mateo, Orotina and Puriscal. This project is being financed with funds from Public Law (PL) 480, Title I Programs in Costa Rica. Its implementation is under the Instituto de Desarrollo Agrario.

Records. IDA records all investments of the project in the general accounts of IDA without separating project items from those of its general activities.

Accounting system and budget. The Project's budgetary system is integrated with IDA's accounting system and as such is submitted for approval of the General Comptrollership of the Republic and it is regulated by the Financial Administration Law. The statement of investment is prepared from the 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.

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 as of 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.

2. BUDGET AND INVESTMENT

The original budget for the execution of the Project was for ₡50,000(thousands). The original budget, disbursements of MIDEPLAN and the statement of investments as of September 30, 1986, is presented as follows:

Approved budget	₡ 50,000
Balance to be disbursed as of 9-30-85	<u>16,769</u>
Disbursements by MIDEPLAN as of 9-30-85	33,231
Disbursements as of 9-30-85 taken from statement of investments	<u>35,163</u>
Unreconciled Overinvestment	₡ <u>1,932</u>

3. LAND

The funds had been disbursed to purchase land which was the intent of the project. The detail of the farms acquired is the following:

Finca Las Animas - La Garita	₡ 25,970
Thelma Retana - Arturo Valverde	<u>9,193</u>
Total	₡ <u>35,163</u>

4. SUBSEQUENT EVENTS

Land Acquisition. In November 1985 the Arturo Retana's farm was acquired for Q9,974 (thousands).

5. CLAIM

There exists an unsettled claim by the Project against Thelma Retana Delgado and Arturo Valverde Sandí for Q1,335 (thousands) because the final measurements of the farm, that the Project had bought from them, were lower than initially estimated.



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DIRECT TRANSFER AID-INS EUROPEAN ECONOMIC

COMMUNITY PROJECT

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 Direct Transfer AID-IDA European Economic Community implemented by the Instituto de Desarrollo Agrario (Institute for Agrarian Development) for the period from February 21 to September 30, 1985, and have 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 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, reconciliations of information with other regulating entities, purchases distribution and titling of land, and review by the Internal Audit department.

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 Direct Transfer AID-IDA-European Economic Community Project 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 Direct Transfer AID-IDA-European Economic Community Project 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: they do not reconcile the investments entered in the accounting system with those of the disbursements reported by the Ministerio de Planificación Nacional y Política Económica (MIDEPLAN), specific accounts for the purchasing of land are not maintained; the internal audit department does not examine, or review project accounts and procedures; and no covenant exists to establish clearly the objectives, financing, obligations and deadlines of the project; conditions (detailed in the following section) in the system of internal accounting control of Direct Transfer AID-IDA-European Economic Community 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 control on the use of fair and competitive commercial practices that assure the most effective use of funds from PL 480 Title I, Programs in Costa Rica.

In our opinion, IDA 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 project 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 Haskins & Sells
CERTIFIED PUBLIC ACCOUNTANTS

October 13, 1986

DIRECT TRANSFER AID-IDA-EUROPEAN ECONOMIC COMMUNITY PROJECT

REPORT ON INTERNAL CONTROL SYSTEM
FOR THE PERIOD FROM FEBRUARY 21 TO SEPTEMBER 30, 1985

1. OVERINVESTMENTS

Condition:

As of September 30, 1985 the Project has made investments of 035,163 (thousands), however the available funds and the money received by MIDEPLAN with (PL) 480 funds amounted 033,231 (thousands), and it was not possible to obtain an explanation of this difference. This shows an overinvestment of 01,932 (thousands).

Criteria:

The project's investments should be made in accordance with the availability of funds. Any other modification should be documented, clearly identified and reconciled with the accounting records and reports.

Cause:

To speed up the project, funds from other resources were used.

Effect:

There has been a lack of control over handling and recording of the invested resources.

Recommendation:

It is important to reconcile the overinvestment so as to be able to identify clearly the reasons for this difference and the respective adjustments be carried out.

2. SPECIFIC ACCOUNTS FOR THE PROJECT

Condition:

The acquisitions of land related to AID-IDA-EEC have not been recorded in separate accounts.

Criteria:

All the disbursements made for the project should be recorded in separate accounts.

Cause:

It has not been considered necessary to establish separate accounts for land.

Effect:

Without clear identification of these items there is inadequate control over these investments.

Recommendation:

It is necessary to create auxiliary records which may permit the clear identification of Project investments and available cash and to facilitate the independent control of these assets.

We recommend creation of auxiliary records through reconstruction of the balances components and institution of procedures to continually update them.

3. INTERNAL AUDIT REVIEW

Condition:

The Institution's internal audit does not perform specific tests on the project records and procedures, which would guarantee its adequate operation and control in relation with the procedures established in the Institution and the specific standards set by the agreements.

Criteria:

The Internal Audit Department should include procedures for all the fundamental aspects of IDA, including tests of the proper use of the external funds involving the Project.

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, of the use of funds, or 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 on all the projects under IDA's responsibility.

4. THERE IS NO REGULATING AGREEMENT**Condition:**

The counterpart project AID-IDA-EEC was originated under the terms "transfers", therefore it did not require an agreement limiting its objectives, finance, duties, terms, and other relevant aspects so that the execution of the programs could be regulated by defined policies.

Criteria:

With the objective of obtaining an adequate performance, every project should have an agreement regulating its different aspects.

Cause:

The transfer projects does not need an agreement.

Effect:

There is no clear definition of project objectives, deadlines, and the duties of the donor and grantee.

Recommendation:

Prepare written agreements for every project financed with Public Law (PL) 480.

We should clarify that corrective actions in this regard have been taken. The 1986 (PL) 480 Title I Sales Agreement requires that agreements be signed for each activity.

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DIRECT TRANSFER AID-IDA-EUROPEAN ECONOMIC
COMMUNITY PROJECT

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 February 21 to September 30, 1985, related to the Direct Transfer AID-IDA-European Economic Community Project, implemented by Instituto de Desarrollo Agrario (Institute for Agrarian Development) and financed by the Public Law (PL) 480, Title I Programs in Costa Rica funds. Except that the project has not reconciled the overinvestment showed in the statement of investments against the total funds approved and disbursed by MIDEPLAN, our examination was made in accordance with the 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 laws, regulations and agreements that could have an effect on the statement of investments, which were subject to our examination included the following:

1. Financial Administration Law.
2. Fideicomissum Contract with Banco Nacional de Costa Rica.

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

In connection with our examination, in our opinion the Direct Transfer AID-IDA-European Economic Community Project has complied with tested items of 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 agreements.

Deloitte Haskins & Sells

CERTIFIED PUBLIC ACCOUNTANTS

October 13, 1986

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