

PD-ANV-632

ian: 50063

AUDIT OF THE PUBLIC LAW 480,  
TITLE II PROGRAM WITH THE  
ADVENTIST DEVELOPMENT AND RELIEF AGENCY  
IN BOLIVIA

Audit Report No. 1-511-87-16-N  
May 18, 1987

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

U. S. MAILING ADDRESS:  
RIG/T  
APO MIAMI 34022

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

TELEPHONES:  
32-9987  
also 32-3120 EXT. 2701-2703

May 18, 1987

MEMORANDUM

TO : Acting Director, USAID/Bolivia, George A. Wachtenheim

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

SUBJECT: Audit Report No. 1-511-87-16-N, "Audit of the Public Law 480, Title II Program with the Adventist Development and Relief Agency in Bolivia"

This report presents the results of a non-Federal audit of the Public Law 480, Title II Program in Bolivia operated by the Adventist Development and Relief Agency (ADRA) and its local counterpart organization, Obra Filantropica y Asistencia Social Adventista (Adventist Philanthropic and Social Assistance Work, OFASA). The certified public accounting firm of Horwath & Horwath in Bolivia prepared the report, which is dated May 7, 1987.

The purpose of this audit was to report on (1) the fairness of the commodity statements for the year ended September 30, 1986, (2) the system of internal accounting controls established for administering and supervising the project, and (3) compliance by ADRA/OFASA with the laws, regulations and agreement provisions to which they are subject in relation to the program.

In the opinion of Horwath & Horwath the commodity statements fairly present the position of ADRA/OFASA as of September 30, 1986, except for a limitation in scope due to inadequate inventory records and a departure from the proper use of program funds. Their study and evaluation of the system of internal controls disclosed certain weaknesses which except for the inadequate inventory records, were not, in the auditor's opinion, of such magnitude to result in significant errors and irregularities. They also determined that ADRA/OFASA was not in compliance with certain regulations applicable to the PL 480, Title II Program. For items not tested, nothing came to their attention that caused them to believe that untested items were not in compliance.

The Horwath & Horwath report contains 12 recommendations to improve the ADRA/OFASA system of internal controls and 4 recommendations to achieve compliance with laws, regulations and agreement terms. We believe that these recommendations will significantly improve ADRA/OFASA's administrative and compliance weaknesses. As a result, the following

recommendation will be included in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/Bolivia obtain evidence from the Adventist Development and Relief Agency in Bolivia to demonstrate that it has implemented the 12 recommendations to improve the system of internal controls and the 4 recommendations to achieve compliance with laws, regulations and agreement terms contained in the Horwath & Horwath report dated May 7, 1987.

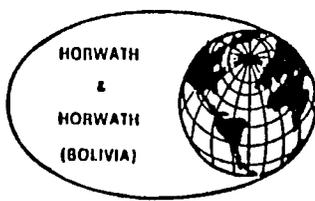
Please advise this office within 30 days of the actions planned or taken to implement this recommendation.

AUDIT OF THE PL 480 TITLE II  
PROGRAM - BOLIVIA  
ADVENTIST DEVELOPMENT AND RELIEF AGENCY

AUDIT OF PL 480 TITLE II, PROGRAM-BOLIVIA  
ADVENTIST DEVELOPMENT AND RELIEF AGENCY

TABLE OF CONTENTS

	<u>Page</u>
TRANSMITTAL LETTER AND SUMMARY	1
COMMODITY STATEMENTS	
Auditor's opinion	7
Commodity statements	8
Notes to commodity statements	12
INTERNAL CONTROLS	
Auditor's overall opinion	16
Accounting and administrative system	18
Storage and handling system	21
Inland transportation System	28
Supervision and promotion of programs	29
COMPLIANCE WITH AGREEMENT TERMS	
Auditor's overall opinion	33
General reporting requirements	34
Publicity as AID program	37



# HORWATH & HORWATH (BOLIVIA) LTDA.

CALLE CAPITAN RAVELO 2131 — TELFS. 374760 · 372108 · 372107 — CASILLAS 5000 · 6179 — TELEX 0309 · 3311 BV  
LA PAZ — BOLIVIA

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

Dear Mr. Gothard:

This report presents the results of our audit of the PL 480, Title II Program-Bolivia managed by the Adventist Development and Relief Agency (ADRA-OFASA) for the period October 1, 1985 to September 30, 1986.

## BACKGROUND

The Adventist Development and Relief Agency, (ADRA), is a relief agency of the Seventh-day Adventist Church, fully accredited by the Government of the United States. In Bolivia, ADRA works under the name of OFASA ("Obra Filantropica y Asistencia Social Adventista"). ADRA/OFASA has been working for many years in various forms in Bolivia, but it was not until 1983 that it initiated its program of distribution of Title II commodities.

The prime aim of the PL 480, Title II Program is to distribute in Bolivia more than six thousand tons of food to more than 78,500 needy persons through (1) improvement of the nutritional levels of young children, (2) creation of more jobs, (3) better education in rural areas and (4) general health and dietary instruction.

### 1. Mother-Child Health Program (MCH)

This program has been programmed to reach the most vulnerable and high risk sectors of the population i.e. the group is composed of the mother and her children under the age of six. This group is the core of the high infant mortality rate in Bolivia and is made-up of three thousand mothers and their children.

## 2. Other Child Programs (OC)

There are three different groups in the OC Program that ADRA/OFASA has programmed for FY 1986. These are preschool feedings, institutional feeding, and school feedings. These three programs total 17,500 beneficiaries.

- A. Preschool feedings: ADRA/OFASA was planned to aid 10,000 children of preschool age under this program.
- B. Institutional feedings: At the suggestion of the local AID Mission, ADRA/OFASA has planned to provide for 7,500 beneficiaries in orphanages and special child care centers in La Paz and Cochabamba.
- C. School feedings: This program is new for ADRA. It will start in Pando where there are no Title II programs at the present. ADRA/OFASA's goal is to help about 3,500 children of primary age.

## 3. Food for Work Programs (FFW)

FFW programs have been, and probably will always be, ADRA/OFASA's strongest programs. These are the type of programs that ADRA/OFASA feels will have the longest range impact on Bolivia. The programs stimulate communities to work together on projects like river defenses, flood control, irrigation, reservoir construction, road building, school buildings etc. In the urban areas, where these type of projects are generally not necessary, ADRA/OFASA promotes education in Family Education Centers (FEC's).

ADRA/OFASA is supporting two main types of projects under the FFW Program: Community Development and Family Education Centers.

- A. Community Development.- This program involves agriculture, economic, and community projects. Each worker in the ADRA, FFW program receives 4 rations- one for himself and three for his dependents.
- B. Family Education Centers- In these Centers, education is given in areas of economic importance, such as manual arts, hide tanning and handicrafts.

In 1986, ADRA/OFASA's goal's to help 45,750 beneficiaries in FFW programs.

## 4. General Relief (GR)

General Relief is a program that ADRA/OFASA sees as useful for occasional cases of poor, even dangerous health cases that cannot be helped through other types of programs. Such would be the case of adult TB. Considering that it is just for occasional cases, and there would be no regular program for General Relief, ADRA has programmed for a minimum of 250 beneficiares for this program.

SUMMARY OF BENEFICIARIES BY PROGRAM AND REGIONAL OFFICES  
PROGRAMMED FOR DISTRIBUTION DURING FY 1986

Program	La Paz	Cocha- bamba	Trinidad	Potosi	Pando	Total
Mother/child	13,500	750	----	400	350	15,000
Other Child:						
Preschool	4,250	750	----	500	500	6,000
Institutions	3,500	4,000	----	---	---	7,500
School	250	250	----	250	3,250	4,000
Food for work	20,000	10,000	5,000	7,750	3,000	45,750
General Relief	150	25	----	50	25	250
TOTAL:	41,650	15,775	5,000	8,950	7,125	78,500

QUANTITY OF FOOD PROGRAMMED FOR DISTRIBUTION DURING FY 1986

FY 1986 Program	No. Beneficiaries	Metric Tons of Food
Mother/Child	15,000	972
Other Child:		
Preschool	6,000	389
Institutions	7,500	486
School	4,000	115
Food For Work	45,750	4,943
General Relief	250	27
TOTAL	78,500	6,932

## AUDIT OBJECTIVES AND SCOPE

The objective of our audit was to perform a financial and compliance audit of the PL 480, Title II Program for the period October 1, 1985 to September 30, 1986. Our main task was to determine if funds and/or commodities were being properly accounted for and used as directed by the agreements or other applicable program documents. Our examination included a study and evaluation of internal controls over commodities and compliance with AID regulations and the Food For Peace Agreement with the Adventist Development and Relief Agency in Bolivia.

The specific functional issues addressed were whether:

1. Required reports were properly and accurately prepared and were submitted promptly.
2. Adequate accounting was being maintained over receipt, storage, shipment, distribution, sale, and inspection of the donated commodities, and over outreach grant funds.
3. Proper facilities existed for storage and handling to ensure ultimate distribution of the commodities in good condition.
4. Inland transportation of commodities was effective and transportation companies were competitively selected.
5. Commodities were distributed to eligible recipients and beneficiaries and were not sold or exchanged by the persons in charge of distributions.
6. Commodities were distributed free to eligible recipients or as partial payment of wages.
7. Adequate publicity was given to the fact that the commodities were donated or furnished by the people of the United States.
8. Proceeds from sales of containers and/or recipient contributions were accounted for and used for approved program expenses.
9. Beneficiaries qualified as eligible recipients under established criteria.
10. Commodities unfit for human consumption were promptly reported and disposed of by approved methods.
11. All losses and misuses of commodities were promptly reported to the AID Mission and to the Cooperating Sponsor's headquarters in accordance with regulations; reasonable efforts had been made to pursue claims against third parties; and claims proceeds payable locally had been deposited with the United States Disbursing Officer.
12. Adequate supervision was being provided to the program.

Our examination was performed 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 a review of the system of internal controls, test of transactions, and such other tests as we considered necessary to determine: a) whether the commodity statements of the audited entity present fairly the commodity and financial position and results of operations in accordance with generally accepted accounting principles and b) whether the entity has complied with the laws, regulations and agreement provisions.

The scope of the work consisted of:

1. Examining the commodity statements.
2. Performing a review and evaluation of the administrative and accounting control system pertaining to the physical receipt, storage, distribution and use of commodities.
3. Visiting the Regional Offices of the Cooperating Sponsor in the districts of La Paz, Cochabamba, and Beni for the purpose of establishing whether the use and distribution of commodities to recipients was in accordance with AID Regulation 11 and the Operational Plan for FY 1986.
4. Reviewing the internal control system of the Adventist Development and Relief Agency related to the physical safeguarding, warehousing, controlling and delivering of inventories of commodities.

## RESULTS OF AUDIT

### 1. Commodity Statements

Our examination of the commodity statements of the PL 480, Title II Program-Bolivia managed by the Adventist Development and Relief Agency as of September 30, 1986 revealed that, in our opinion, the Commodity Statements accurately, reasonably and fairly present the commodities received and distributed, except for the following limitations in our audit scope and departure from generally accepted accounting principles:

- A. Due to inadequate inventory records we could not satisfy ourselves as to the quantity of inventories of commodities as of September 30, 1986.
- B. Improper use of some funds from the sale of containers and contributions by the beneficiaries of the Program.

### 2. Internal controls

Our study and evaluation of the internal control system of the PL 480, Title II Program-Bolivia managed by the Adventist Development and Relief Agency revealed certain weaknesses such as administrative centralization in the Headquarters Office, lack of operational manuals, lack of storage facilities in their Regional Offices, lack of adequate supervision of the program, and inadequate inventory records. However, these weaknesses, in our opinion, are not of such magnitude to result in significant errors and irregularities, except for the matters included in our opinion on the Commodity Statements.

### 3. Compliance with Agreement Terms

Our examination revealed that ADRA/OFASA has not complied with AID Regulation 11 regarding the maintenance of adequate records and documents and necessary reports and publicity as an AID program. Other instances of non-compliance were also

revealed. For items not tested, nothing came to our attention that caused us to believe that untested items were not in compliance with applicable AID Regulations.

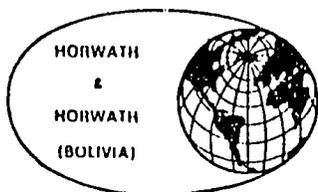
4. Management Comments

Relevant comments by ADRA/OFASA are incorporated in this report.

May 7, 1987



HORWATH & HORWATH BOLIVIA



HORWATH & HORWATH (BOLIVIA) LTDA.

CALLE CAPITAN RAVELO 2131 -- TELFS. 374760 - 372106 - 372107 -- CASILLAS 5441 6173 -- TELEX 0309 - 3311 BV  
LA PAZ -- BOLIVIA

AUDIT OF THE PL 480, TITLE II PROGRAM-BOLIVIA  
ADVENTIST DEVELOPMENT AND RELIEF AGENCY  
REPORT ON THE EXAMINATION OF COMMODITY STATEMENTS

AUDITOR'S OPINION

We have examined the Statement of Commodities Programmed and Distributed by the Adventist Development and Relief Agency (ADRA-OFASA) PL 480, Title II Program Bolivia for the Fiscal Year ended September 30, 1986, and the related Statement of Receipt and Distribution of Commodities and the Statement of Imports for the same Year. We also examined the Statement of Cash Income and Expenses for the year ended September 30, 1986. 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, except for the limitations explained in the following paragraph.

The inventory of commodities as of September 30, 1986 shown in the Statement of Receipt and Distribution of Commodities has been consolidated by the Headquarters office in La Paz, based on inventory reports submitted by its Regional Offices. Due to inadequate inventory records at the Regional Offices we could not satisfy ourselves as to the quantities of inventories of commodities as of September 30, 1986, even by means of other auditing procedures.

As described in Note B-9, the Statement of Income and Expenses includes under General Expenses 9,042 million of Bolivian pesos which were not expenses of the PL 480, Title II Program. AID Regulation 11 states that funds accruing to Cooperating Sponsors from the sale of containers and from charges to recipients shall be used for program costs in support of the Title II Program.

In our opinion, except for the effect of the matters mentioned in the second paragraph and subject to the adjustment of General Expenses as described in the preceding paragraph, the Statements referred to above accurately, reasonably, and fairly present the commodities received and distributed in the Fiscal Year ended September 30, 1986 under the PL 480, Title II Program - Bolivia managed by the Adventist Development and Relief Agency.

May 7, 1987

HORWATH & HORWATH BOLIVIA

PL 480 TITLE II PROGRAM - BOLIVIA  
 ADVENTIST DEVELOPMENT AND RELIEF AGENCY  
 STATEMENT OF RECEIPT AND DISTRIBUTION  
 OF COMMODITIES  
 FISCAL YEAR ENDED SEPTEMBER 30, 1986

(Expressed in Metric Tons)

(Note A)

	<u>Milk</u>	<u>Wheat flour</u>	<u>Corn flour</u>	<u>Rice</u>	<u>Bulgur</u>	<u>Beans</u>	<u>Oil</u>	<u>Oats</u>	<u>Total</u>
Beginning inventory as of October 1, 1985	314	573	10	289			88	119	1,393
Add Receipts:									
Imports (Note B-1)	247	3,093	43	82	1,667	1,115	413		6,661
Transfers (Note B-3)	<u>14</u>	<u>98</u>	—	<u>16</u>	<u>167</u>	—	<u>10</u>	<u>14</u>	<u>319</u>
Total	575	3,764	53	387	1,834	1,115	511	133	8,373
Less Deliveries:									
Distribution to beneficiaries (Note B-2)	<u>273</u>	<u>2,010</u>	<u>58</u>	<u>375</u>	<u>706</u>	<u>443</u>	<u>271</u>	<u>133</u>	<u>4,269</u>
	302	1,754	(5)	12	1,128	673	240		4,104
Losses in sea and inland transit	1	35		14	20	20	3		93
Commodities loaned to and returned from other Agencies (Note B-3)	<u>—</u>	<u>94</u>	<u>(5)</u>	<u>12</u>	<u>186</u>	<u>79</u>	<u>13</u>	—	<u>379</u>
Total inventory as of September 30, 1986	<u><u>301</u></u>	<u><u>1,625</u></u>	<u>—</u>	<u><u>(14)</u></u>	<u><u>922</u></u>	<u><u>571</u></u>	<u><u>224</u></u>	<u>—</u>	<u><u>3,632</u></u>

See notes to commodity Statements

PL 480 TITLE II PROGRAM - BOLIVIA  
 ADVENTIST DEVELOPMENT AND RELIEF AGENCY  
 STATEMENT OF COMMODITIES PROGRAMMED AND DISTRIBUTED  
 YEAR ENDED SEPTEMBER 30, 1986  
 (Expressed in Metric Tons)  
 (Note B-2)

	<u>PROGRAMMED</u>		<u>DISTRIBUTED</u>	
	<u>Number of Beneficiaries</u>	<u>Commodities M.T.</u>	<u>Number of Beneficiaries (1)</u>	<u>Commodities M.T.</u>
Mother-child	15,000	972	3,957	313
Pre school feeding	6,000	389	418	78
Other child	7,500	486	70	3
School feeding	4,000	115	696	69
Food for work	45,750	4,943	31,829	3,801
General Assistance and emergency	<u>250</u>	<u>27</u>	<u>1,964</u>	<u>5</u>
	<u>78,500</u>	<u>6,932</u>	<u>38,940</u>	<u>4,269</u>

(1) Average for the year

See notes to commodity statements

PL 480 TITLE II PROGRAM - BOLIVIA  
 ADVENTIST DEVELOPMENT AND RELIEF AGENCY

STATEMENT OF IMPORTS  
 YEAR ENDED SEPTEMBER 30, 1986

(Expressed in Metric Tons)

(Note B - 1)

<u>Commodities</u>	<u>Quantity Programmed</u>	<u>Quantity Shipped</u>	<u>Quantity in transit</u>	<u>Lost in sea transit and delivery</u>	<u>Quantity received</u>
Milk	450	947	699	1	247
Wheat flour	2,847	6,470	3,758	35	2,677
Bulgur	1,629	2,438	751	20	1,667
Beans	1,475	1,209	73	20	1,116
Oil	<u>531</u>	<u>735</u>	<u>395</u>	<u>3</u>	<u>337</u>
FY 1986	<u>6,932</u>	<u>11,799</u>	<u>5,676</u>	79	6,044
Shipments corresponding to FY 1985				<u>14</u>	<u>617</u>
Total				<u>93</u>	<u>6,661</u>

See notes to commodity statements.

PL 480 TITLE II PROGRAM - BOLIVIA  
 ADVENTIST DEVELOPMENT AND RELIEF AGENCY  
 STATEMENT OF CASH INCOME AND EXPENSES  
 YEAR ENDED SEPTEMBER 30, 1986  
 (Expressed in millions of Bolivian pesos)  
 (Note B -6)

Income:		
Sale of containers		56,517
Contributions		144,935
Other income	(Note B-7)	<u>22,009</u>
Total income		<u>223,461</u>
Expenses:		
Missionary expenses	(Note B-8)	67,555
Administrative expenses		52,553
General expenses	(Note B-9)	<u>25,321</u>
Total expenses		<u>145,429</u>
Income for the year		<u>78,032</u>

See notes to commodity statements.

AUDIT OF THE PL 480 TITLE II PROGRAM - BOLIVIA

ADVENTIST DEVELOPMENT AND RELIEF AGENCY

NOTES TO COMMODITY STATEMENTS

FISCAL YEAR ENDED SEPTEMBER 30, 1986

A. CONSOLIDATION

The Consolidation of ADRA-OFASA Commodity Statements is prepared from the Movement of Commodities and Cash Income and Expense reports submitted by the following Regional Offices:

La Paz  
Cochabamba  
Potosi  
Beni  
Pando

The Consolidated Commodity Statements include the Regular Program and the Special Program.

B. RECORDING PROCEDURES AND ACCOUNTING POLICIES

1. Imports

During Fiscal Year 1986, 14 shipments composed of 6,044 metric tons of commodities were received for the PL 480, Title II Program, of which 8 shipments composed of 617 metric tons corresponded to Fiscal Year 1985. The recording procedure originates in each port of entry according to cargo manifest. The unit of weight used for reporting purposes is net kilos. A summary report of deliveries to warehouses is prepared on a monthly basis.

The difference of 5,755 M.T. between the amount of FY 1986 commodities shipped and received is due to the following: 5,676 M.T. of commodities were received after September 30, 1986 and 79 M.T. of commodities were lost in transit from point of shipment to destination. In addition; 617 M.T. of FY 1985 commodities were received and 14 M.T. were lost as of September 30, 1986.

2. Distribution to beneficiaries

In accordance with AID Regulation 11, Paragraph 211.5 (e) Eligibility Criteria, ADRA-OFASA determines the eligibility of approved programs. Distributions to beneficiaries are accomplished every month according to approved rations.

3. Transfers and other receipts and deliveries of commodities represent loans to other cooperating agencies and institutions. The recording system is cumulative. A return of commodities does not cancel the recording of the loan.

4. Physical control of inventories

The procedure used for physical control of inventories is on the first in first - out system.

5. Use of funds generated from contributions and sales of containers.

ADRA-OFASA receives income from payments and contributions by beneficiaries and from sales of containers. These funds are used to carry out the objectives of the program by covering the costs of the program, including transportation, storage, improvement of storage facilities, construction of warehouses, control of insects and rodents, repacking of spoiled commodities, payments to local personnel and other authorized expenses.

6. Statement of Cash Income and Expenses.

The Cash Income and Expense Statement is prepared on a cash basis in accordance with fiscal accounting procedures. Each Regional Office has a budget and allotment control ledger. The annual report of cash income and expenses is prepared for the calendar year .

The sales of containers are made entirely to beneficiaries of the Program.

Income from contributions corresponds to funds collected from recipients of commodities in the Agencies according to their ability to pay as established in each program.

7. Other income

Rent of Agency vehicles for transportation of commodities to the communities, as well as the use of office equipment are posted to this account.

8. Missionary Expenses

These expenses correspond to the payments to foreign personnel of the Adventist Church that take part in the administration of the Program.

9. General expenses

Under this item are included \$b 1,305 million and \$b 7,737 million, which correspond to expenses of the Title I Program and the Title I Rural Program, respectively.

C. IMPORTS

Commodities received as imports during F.Y. 1986 were as follows:

Points of entry	PRODUCTS/METRIC TONS						C.S.M. and		Total
	Milk	Wheat flour	Bulgur	Beans	Oil	Rice	Corn	Flour	
La Paz	167	2,186	988	549	269		13		4,172
Cochabamba	24	352	293	264	60	72	25		1,090
Potosi	14	209	152	123	30				528
Trinidad	17	208	131	90	26	10	5		487
Pando	14	71	48	45	14				192
Riberalta	11	67	55	45	14				192
	247	3,093	1,667	1,116	413	82	43		6,661

D. TRANSFERS AND OTHER RECEIPTS AND DELIVERIES

The distribution of these items is as follows:

Institutions	Receipt M.T.	Deliveries M.T.
CRS/Caritas	94	45
Food For the Hungry	10	125
S.N.D.C.	78	54
Cotrans	63	149
Others	74	6
	319	379

E. PHYSICAL INVENTORY

The physical inventories as of September 30, 1986, by Regional Office, are as follows:

**PHYSICAL INVENTORY**  
**YEAR ENDED SEPTEMBER 30, 1986**  
**(Expressed in Metric Tons)**

<u>REGIONAL OFFICES</u>	<u>TOTAL</u>
La Paz	2,193
Cochabamba	511
Potosi	518
Trinidad	241
Riberalta	189
Cobija(Pando)	190
	-----
Physical inventory as of September 30, 1986 as per records	3,840
Less: Differences not recorded	208
	-----
Physical inventory adjusted	3,632
	=====

**F. CHART OF ASSIGNED RATIONS BY PROGRAM**

The chart of assigned rations by program approved for 1986 by ADRA-OFASA is as follows.

**COMMODITIES (in kg)**

<u>Program</u>	<u>Wheat</u>						<u>Total</u>	
	<u>Milk</u>	<u>flour</u>	<u>Bulgur</u>	<u>Beans</u>	<u>Oil</u>	<u>Rice</u>	<u>Corn</u>	
	-----	-----	-----	-----	-----	-----	-----	-----
Mother child	0,9	1,5	1,5	1.0	0,5			5,40
School								
breakfast	0,9	1,5	1,5	1.0	0,5			5,40
Other children	0,6	1,0	1,0	0.66	0,35			3,61
Food for work	2,04	12,0	10,0	10.0	2,0			36,04

Food for work program includes the Educational Family Center.



HORWATH & HORWATH (BOLIVIA) LTDA.

CALLE CAPITAN RAVELO 2131 -- TELFS. 374760 - 372108 - 372107 -- CASILLAS 5860 - 6179 -- TELEX 0309 - 3311 BV  
LA PAZ -- BOLIVIA

AUDIT OF THE PL 480 TITLE II PROGRAM - BOLIVIA

ADVENTIST DEVELOPMENT AND RELIEF AGENCY

REPORT ON INTERNAL CONTROL SYSTEM

AUDITOR'S OVERALL OPINION

In relation to the examination of the Commodity Statements of the PL 480, Title II Program-Bolivia, managed by the Adventist Development and Relief Agency (ADRA-OFASA) for the Fiscal Year ended September 30, 1986, we have performed a study and evaluation of the internal control system over commodities. Our study and evaluation was performed in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision).

ADRA-OFASA was responsible for the distribution of 12,000 metric tons of donated commodities under the PL 480, Title II Program in Bolivia, in accordance with the "Food for Peace Program Agreement" and the related AID Regulation 11 which establishes the procedures and obligations that the Cooperating Sponsor should follow in the administration and distribution of Title II Commodities. Our study included the evaluation of procedures used to account for the arrival, storage, shipment and distribution of these donated commodities; warehouse facilities for storage and handling; and supervision over the program.

ADRA/OFASA is responsible for establishing and maintaining a system of internal accounting control for this program. In fulfilling this responsibility, estimates and judgements by the directors are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide reasonable, but not absolute, assurance that commodities are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with applicable laws, regulations, and authorizations and are recorded properly to permit the preparation of commodity statements.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless 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 the procedures may deteriorate.

Our study and evaluation of the internal controls of ADRA/OFASA detected significant weaknesses which are described in the following pages. The main weaknesses detected were related to administrative centralization in the headquarters office which did not permit its Regional Offices to maintain adequate and up to date records including inventory records, lack of operational manuals, lack of adequate storage facilities in their three Regional Offices, and lack of adequate supervision of the program. These weaknesses, in our opinion, are not of such magnitude that they would result in significant errors and irregularities, except for the matters included in our auditor's opinion on the commodity statements as of September 30, 1986.

May 7, 1987



HORWATH & HORWATH BOLIVIA

## ACCOUNTING AND ADMINISTRATIVE SYSTEM

### 1. Administrative Centralization

#### Condition:

The National Office of ADRA/OFASA did not delegate management authority to their Regional Offices, therefore accounting and inventory records of commodity transactions were kept at the National Office, based on supporting documents submitted by the Regional Offices. Monthly and other periodic reports were prepared in the National Office based on such records after considerable delay. The Regional Offices could not compare physical inventories to inventory records.

#### Criteria:

In accordance with AID Regulation 11, Paragraph 211.10, the Cooperating Sponsor shall maintain records and documents in a manner which accurately reflects all transactions pertaining to receipt, storage, distribution, inventories and inspection of commodities.

#### Cause:

According to the 1986 Operational Plan, ADRA/OFASA determined that the best quality programs are managed by a Central Office. Therefore, records were maintained by the Central Office and not at the Regional Office level.

#### Effect:

There were delays and unreliable reports issued, because there were delays in delivering the necessary documentation from the Regional Offices. For the same reason there were delays in the processing of the accounting and commodity records. It was impossible to ascertain if the inventory on hand at a given date was correct and agreed with the inventory records.

#### Recommendation:

USAID/Bolivia should require the ADRA/OFASA National Office to delegate some management authority to their Regional Offices and have them prepare monthly and other periodic reports based on their own records. The Regional Offices should carry out periodic physical inventory counts for reconciliation with the inventory records.

## 2. Lack of Operational Manuals

Condition:

At the Cochabamba Regional Office:

- A. There was a lack of knowledge by the employees of proper accounting and administrative procedures. The administration of commodities was based on opinions and experience.
- B. The shopkeeper calculated the rations and the quantity of commodities that each center or project should receive.
- C. Personnel in charge of each center were also supervisors of their own programs.
- D. Cash collected and not deposited in the bank the same day was not kept in a safe box.

Criteria:

According to AID Regulation 11, Paragraph 211.5 (b) Cooperating Sponsors shall provide adequate supervisory personnel for the efficient operation of the program, including personnel to plan, organize, implement, control and evaluate programs involving distribution of commodities.

Cause:

The Agency did not have the necessary accounting and operational procedures manuals for administration, receipt, distribution and inventory of commodities.

Effect:

The personnel of the office did not comply with their assigned tasks, therefore commodities were not being distributed as programmed by the institution.

Recommendation:

USAID/Bolivia should require the National Office and the Cochabamba Regional Office of ADRA-OFASA to prepare, as soon as possible, an administrative and accounting procedures manual, which should include procedures for administration, receipt, distribution and inventory of commodities.

3. Delays in Deposits of Collections

Condition:

The collections from the sale of containers and payments by the beneficiaries, in Cochabamba and La Paz, were deposited in the bank account after delays of more than 15 days.

Criteria:

For good internal control, collections of cash must be deposited by the next day after the transaction.

Effect:

The real amount of cash available was not known; furthermore, some cash was kept in the cash box without any register.

Recommendation:

USAID/Bolivia should require the Central Office of ADRA/OFASA to instruct the Regional Offices to deposit the collections and the payments from beneficiaries immediately after collection, and to open a cash book for registering all cash transactions.

## STORAGE AND HANDLING SYSTEM

### 1. Warehouses - Storage Facilities

Condition:

At the Cochabamba Regional Office:

- A. Warehouse No.2 did not have adequate ventilation; the rooms were small, commodities were exposed to rodents and windows were not protected.
- B. Commodities were not well stacked and there was less than 15 centimeters between stacks and also from the wall to the stacks.
- C. There were no stands for several products. Food was scattered on the floor and had not been cleaned up.
- D. We observed some oil leaks. The corresponding containers were partially empty and had not been used before their expiration date.
- E. The warehouses were not clean; no steps were taken to eliminate rodents.
- F. The Regional Office warehouse did not operate during the period August 1985 to August 1986. It did not operate for approximately 8 months due to unavailability of commodities and for another 5 months due to organizing for the distribution of commodities.

Criteria:

In accordance with AID Regulations 11, Paragraph 211.1.(b)(7)(b) adequate storage facilities should be available in the recipient country at the time of exportation of commodities to prevent spoilage or waste of the commodities.

Cause:

Warehouse facilities were not adequate for proper storage of commodities.

Effect:

For one single large delivery of commodities the Regional Office did not have adequate warehouse facilities and had to improvise. No measures were taken, during the five months that the Regional Office was not operating, to prevent damage of commodities. It was not possible to establish the quantity of commodities damaged.

Recommendation:

USAID/Bolivia should require the ADRA/OFASA Cochabamba Regional Office to take the necessary measures to improve warehouse facilities as soon as possible in order to avoid damage and spoilage of commodities.

## 2. Inventory Procedures

### Condition:

At the Cochabamba Regional Office:

- A. There were no written monthly reports to support that physical inventories were taken.
- B. Personnel not working in the warehouse were not used to help take physical inventories.
- C. The movement of stocks was not controlled with control cards.
- D. We found undetermined quantities of commodity stocks that did not have movement for more than one year; for instance milk, flour, and bulgur. We also found five 20 kilogram bags of bulgur in bad condition.

### Criteria:

Monthly physical inventories should be reported in writing. Physical inventories should be supervised by personnel not working in the warehouse.

### Cause:

There was a lack of instructions and supervision for performing physical inventories.

### Effect:

Physical inventories were not reliable. It was unknown whether or not there were old commodities in bad condition.

### Recommendation:

USAID/Bolivia should require the ADRA/OFASA Cochabamba Regional Office to implement adequate procedures for taking monthly physical inventories.

3. Deficiencies in the Recording, Control and Condition of Commodities

Condition:

In the inspection made of the La Paz Regional warehouses, we detected the following deficiencies:

- A. There were no inventory control cards.
- B. The report on the movement of food was written in pencil.
- C. The capacity of the warehouses was not sufficient and the space between the stacks was too narrow. For instance, in warehouse "B" oil was not well stacked. Commodities and clothes for other programs were stored in the same warehouse.
- D. On the date of our visit, there were differences between the accounting records and the physical inventories.

Criteria:

AID Regulation 11, Paragraph 211.10 (a) states that the Cooperating Sponsor shall maintain records and documents in a manner which will accurately reflect all transactions pertaining to the receipt, storage and distribution of commodities.

Cause:

Quantities of commodities received were more than expected by ADRA-OFASA. Good inventory control procedures were not followed.

Effect:

There was a lack of control of inventories in the warehouses.

Recommendation:

USAID/Bolivia should require the ADRA/OFASA Regional Office of La Paz to:

- A. Post all commodity transactions to the inventory control cards.
- B. Record postings and reports of commodity movement in ink.
- C. Store different types of products, i.e. commodities and clothes, separately.
- D. Improve warehousing facilities for receipt and storage of commodities.

#### 4. Inventory Records and Facilities

Condition:

At the Beni Regional Office:

- A. The Kardex registers were only updated monthly and with a single entry.
- B. The storage conditions were poor due to the lack of space and of a person in-charge of the warehouse.
- C. No physical periodic inventories were taken.

Criteria:

- A. In accordance with AID Regulation 11, Paragraph 211.10, the Cooperating Sponsor shall maintain records and documents in a manner which will accurately reflect all transactions relating to the receipt and distribution of products.
- B. In accordance with the agreement with USAID, ADRA-OFASA must have the necessary infrastructure for excellent storage facilities.
- C. In accordance with AID Regulation 11 and with the agreement with USAID, ADRA/OFASA must take monthly physical inventories.

Cause:

- A. There was only a temporary employee assigned to the warehouses.
- B. There was not enough space for the proper storage of commodities.

Effect:

- A. Reports of inventory sent to the Central Office were not reliable.
- B. No surprise inventories were taken.
- C. Losses or damages to the products may not have been detected.

Recommendation:

USAID/Bolivia should require the ADRA - OFASA Regional Office of Beni to:

- A. Appoint a full time employee to carry out the administrative and storage control functions of the warehouses.
- B. Improve the infrastructure of the warehouses and enlarge the physical space of the building.
- C. Carry out physical inventories and establish better controls over physical and sanitary conditions of commodities.

5. Receipt of Commodities and Documents

Condition:

In the Beni Regional Office the files related to the shipment of products from Cochabamba were incomplete, i.e. the documentation was not available. No delivery orders or reports of arrival of commodities existed. Such documents were not sent to Beni by the Cochabamba Transportation Office (Cotrans).

Criteria:

In accordance with AID Regulation 11, Paragraph 211.10 the Cooperating Sponsor shall maintain records and documents in a manner which will accurately reflect all transactions pertaining to the receipt, storage and distribution of commodities.

Cause:

There was inadequate coordination between ADRA-OFASA Cochabamba and ADRA-OFASA Beni.

Effect:

Control over the arrival of commodities was deficient. There was not sufficient documentation to prepare the reports.

Recommendation:

USAID/Bolivia should require the ADRA/OFASA Beni Regional Office to establish control over the receipt of commodities and to maintain corresponding documents in order to administer the products in accordance with the regulations of the program.

6. Evaluation of Internal Controls over Port Handling Facilities

Total PL 430, Title II Commodities requested by ADRA/OFASA for fiscal year 1986 were 11,816 metric tons, of which 5,816 metric tons were for the Regular Program and 6,000 metric tons were for the Urban Food for Work Supplementary Programs. 11,799 metric tons of PL 480, Title II commodities were actually shipped from the U.S. to the points of entry. 6,044 metric tons were received up to September 30, 1986 and 5,676 were in transit. Total loss in transit amounted to 79 metric tons which represents less than 1% of total shipments. Maritime losses were 31 metric tons and inland losses were 48 metric tons.

In addition, during fiscal year 1986, another 617 metric tons of PL 480, Title II commodities were received from the fiscal year 1985 Program. Losses in transit of these shipments amounted to 14 metric tons.

Our evaluation of the procedures followed by the Cooperating Sponsor in the process of unloading commodities at the points of entry and delivering them to the distribution centers revealed that commodities were adequately handled.

7. Claims for Losses and Damages in Maritime Transportation

Our evaluation revealed that all of the losses and damages of commodities in maritime transportation were adequately covered by appropriate claims and reported by ADRA in the United States to the Maritime Shipping Transportation Company. ADRA/OFASA Bolivia did not have information concerning the status of such claims.

## INLAND TRANSPORTATION SYSTEM

### 1. Evaluation of Inland Transportation

Our evaluation of the process of inland transportation of commodities from the point of entry to the Regional Warehouses of the Cooperating Sponsor revealed that inland transportation of PL 480, Title II commodities during fiscal year 1986 was effective.

We could not find the supporting documentation of the selection of the transportation company in the ADRA/OFASA files. According to information of the Director of ADRA/OFASA the transportation company was selected by direct invitation as recommended by USAID/Bolivia.

## SUPERVISION AND PROMOTION OF PROGRAMS

### 1. Documents Regarding the Eligibility of the Beneficiaries

Condition:

At the Cochabamba Regional Office:

- A. There were no adequate files of required documents for each of the programs. We saw some general files which had documents from different projects.
- B. Quantity and type of commodities received by the beneficiaries were not specified.
- C. There was no control or reports supporting the quantity of commodities that each center or project received.
- D. The monthly inventory form for stocks of each center or project was not properly used. Economic reports and lists of beneficiaries were written in pencil.
- E. Documents supporting receipt of commodities of the Mother-Child Program were not signed by the members.

Criteria:

In accordance with AID Regulation 11, Paragraph 211.5 (b) the Cooperating Sponsor shall provide adequate supervisory personnel for the efficient operation of the program.

Cause:

The supervision system was inadequate.

Effect:

It was difficult to adequately follow-up on documentation due to deficient internal control procedures. Control was weak and irregularities could occur.

Recommendation:

USAID/Bolivia should require the ADRA/OFASA National Office to provide instructions and regulations, including forms, for implementing an adequate internal control system over documentation of the eligibility of beneficiaries.

## 2. Visits to Distribution Centers

### Condition:

At the Cochabamba Regional Office's distribution centers:

- A. We found that periodic supervision of the projects was not carried out, especially in those projects located far from the Regional Office. Furthermore, we did not find written supervision reports in the files.
- B. The rooms in which commodities were stored, in most cases, were inadequate.
- C. Most of the beneficiaries did not know the origin of the commodities.

### Criteria:

In accordance with AID Regulation 11, Paragraph 211,5 (b), the Cooperating Sponsor shall provide adequate supervisory personnel.

### Cause:

There was no support from the National Office in providing human resources.

### Effect:

The obligations and requirements that the beneficiaries must fulfill were not adequately controlled.

### Recommendation:

USAID/Bolivia should require the ADRA/OFASA Cochabamba Regional Office to implement proper supervisory functions and improve its human resources to handle such function adequately.

### 3. Lack of Supervision and Support Facilities

#### Condition:

In the Beni Regional Office the supervision and follow-up of the program did not cover all the region.

#### Criteria:

For the success of the program the Agency must provide the necessary infrastructure and administrative personnel for permanent control and evaluation of the program in accordance with their requirements.

#### Cause:

The Regional Office did not have the necessary infrastructure such as vehicles and administrative personnel.

#### Effect:

The established objectives of the programs were not fulfilled.

#### Recommendation:

USAID/Bolivia should require the ADRA/OFASA National Office to evaluate the programs that are carried out by the Beni Regional Office to determine the number of persons needed and how many vehicles are necessary to fulfill its goals.

4. Duplication of Efforts Among the Cooperating Sponsors

Condition:

Some beneficiaries of the ADRA-OFASA Beni Regional Office projects visited in Casarave, Somopal and Villa Cruz, also received food from another Cooperating Sponsor, CRS/Caritas. Food for Work projects were performed in the same region by both Agencies: ADRA/OFASA and CRS/Caritas.

Criteria:

Cooperating Sponsors should coordinate their FFW projects with USAID/Bolivia in order to avoid duplication of efforts as established by the corresponding agreements.

Cause:

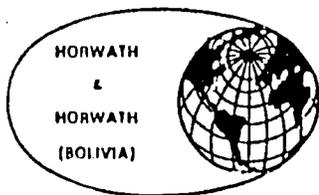
There was a lack of adequate planning and coordination of projects between ADRA/OFASA and the other Cooperating Sponsors.

Effect:

Duplication of efforts in the same regions decreases attention to other needy regions.

Recommendation:

USAID/Bolivia should require ADRA-OFASA to coordinate the distribution of commodities with the other Cooperating Sponsors and USAID/Bolivia to avoid concentration of programs in the same zones.



# HORWATH & HORWATH (BOLIVIA) LTDA.

CALLE CAPITAN RAVELO 2131 -- TELFS. 374760 - 372103 - 372107 -- CASILLAS 5800 - 6179 -- TELEX 0309 - 3311 BV  
LA PAZ -- BOLIVIA

## AUDIT OF THE PL 480, TITLE II PROGRAM-BOLIVIA

### ADVENTIST DEVELOPMENT AND RELIEF AGENCY

### REPORT ON COMPLIANCE WITH AGREEMENT TERMS

### AUDITOR'S OVERALL OPINION

We have examined the Commodity Statements of the PL 480, Title II Program - Bolivia managed by the Adventist Development and Relief Agency for the Fiscal Year ended September 30, 1986. As part of our examination, we made a study and evaluation of the accounting and administrative internal control system to the extent we considered necessary to evaluate the system. Our examination and study was made in accordance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision) which include as additional standards and requirements the review of the compliance with laws, regulations and agreements.

The scope of the matters subject to our examination included a determination of compliance with AID Regulation 11 for the following:

1. General reporting requirements (11.211.10)
2. Use of commodities (11.211.5)
3. Distribution of commodities (11.211.7)
4. Publicity as AID program (11.211.5)
5. Use of proceeds from sale of containers (11.211.5)
6. Eligibility of recipients (11.211.5)
7. Disposal of damaged commodities (11.211.8 and 11.211.9)
8. Report on losses and misuses of commodities (11.211.9)

Our study and evaluation disclosed conditions which are described in the following pages which, in our opinion, indicate that the Adventist Development and Relief Agency has not complied with certain AID Regulations regarding general reporting requirements and publicity as an AID program.

May 7, 1987

HORWATH & HORWATH BOLIVIA

## GENERAL REPORTING REQUIREMENTS

### 1. Documents, Records and Reports:

#### Condition:

#### At the Cochabamba Regional Office:

- A. Since August 1986, the commodity reports of physical movement of inventories sent to the National Office have not been issued in accordance with information recorded in the inventory kardex.
- B. Beginning in June 1986, records and control of the receipt of commodities were established. Before that date no such control existed. Therefore, we were unable to prove that all the receipt documents had been registered in the inventory kardex.
- C. The receipt documents, in 85% of the cases, were not supported by delivery orders.
- D. They were still using the old receipt forms which did not have all necessary information (date of arrival and entrance port of commodities).
- E. Recording of deliveries from the warehouses was done in a global manner (movement of 1 to 2 days).
- F. The warehouse kardex showed some errors and changes.
- G. We observed that the warehouse keeper did not sign the delivery notes, and did not use the corresponding seal to cancel such notes.

#### Criteria:

In accordance with AID Regulation 11, Paragraph 211.10 (a), the Cooperating Sponsors shall maintain records and documents in a manner which will accurately reflect all transactions pertaining to receipt, storage, distribution, and inspection of commodities.

#### Cause:

AID regulations were unknown and no sound internal controls existed. Also, there was insufficient personnel assigned to perform these duties.

#### Effect:

Procedures were inadequate, in some cases wasting time and effort.

#### Recommendation:

USAID/Bolivia should require the ADRA/OFASA Cochabamba Regional Office to implement adequate procedures relating to records, supporting documents and reports in order to comply with AID regulations.

2. Filing Documents Related to the Programs

Condition:

In the analysis of the documents and files at the La Paz Regional Office the following deficiency was detected:

- A. The documents were not filed in good order nor were they categorized

Criteria:

AID Regulation 11, Paragraph 211.10 (a) requires that "the Cooperating Sponsor should keep records and documents in such a way that will reflect all the transactions".

Cause:

The number of supervisors was insufficient in relation to the number of projects and centers in operation.

Effect:

The documents were filed in a disorderly manner with the risk that some of them may be misplaced or lost.

Recommendation:

USAID/Bolivia should require ADRA/OFASA La Paz to adequately categorize and file the documents of the different projects and centers with an index listing the documents filed in detail. The Agency should determine the number of supervisors needed to handle the program.

### 3. Noncompliance in the Presentation of Reports

#### Condition:

In the analysis carried out at the La Paz Regional Office we observed that the following reports were not prepared:

F.F.P.1.2 Monthly reports of the status of the food and of their beneficiaries.

F.F.P.1.3 Reports on shortages and damage or misuses of commodities.

F.F.P.1.6 Monthly report of income and expenses of funds.

F.F.P.1.7 Quarterly report of institutions and beneficiaries of the program.

F.F.P.1.9 Related to the self-evaluation of the programs by the voluntary offices.

#### Criteria:

AID Regulation 11, Paragraph 211.10 establishes that the Cooperating Sponsor shall maintain records and documents in a manner which will accurately reflect all transactions pertaining to the receipt, storage, sale and inspection of commodities.

#### Cause:

The La Paz Regional Office did not have the necessary, capable personnel to prepare such reports.

#### Effect:

There was an accumulation of work in the National Office, with a corresponding delay in the preparation of these reports.

#### Recommendation:

USAID/Bolivia should require the ADRA/OFASA La Paz Regional Office to comply with AID regulations regarding the preparation of required periodic reports.

## PUBLICITY AS AID PROGRAM

### 1. Insufficient Public Recognition

#### Condition:

During the visits we made to the distribution centers located in the La Paz and Beni Regions, we found that the beneficiaries only partially knew the origin of the commodities.

#### Criteria:

AID Regulation 11, Paragraph 211.5 (g) states that the Cooperating Sponsor, shall to the extent feasible, display banners, posters or similar media containing information that commodities have been donated by the people of the United States of America.

#### Cause:

The promotion of the origin of commodities was verbally done by the supervisors. The National Office did not issue any official instructions to obtain public recognition of the origin of the commodities.

#### Effect:

There was inadequate compliance with AID Regulation 11. As a result, there was low recognition that the commodities were furnished by the people of the United States.

#### Recommendation:

USAID/Bolivia should require that the La Paz and Beni Regional Offices use banners, posters or other means to show that the commodities were donated by the people of the United States.

REPORT DISTRIBUTION

	<u>No. of Copies</u>
Director, USAID/Bolivia	5
AA/LAC	2
LAC/CAP/E	1
LAC/CONT	1
LAC/DP	1
LAC/DR	1
LAC/GC	1
LAC RLAs	1
GAO Panama Branch	1
AA/XA	2
XA/PR	1
LEG	1
GC	1
AA/M	2
M/FM/ASD	3
PPC/CDIE	3
IG	1
AIG/A	1
IG/PPO	2
IG/LC	1
IG/EMS/C&R	12
IG/II	1
RIG/II/T	1
Other RIG/As	1