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AUDIT OF THE
SUPPORT FOR THE NATIONAL ANIMAL HEALTH PROGRAM
WITH THE GENERAL DIRECTORATE OF CATTLE HEALTH
AND PRODUCTION IN COSTA RICA

PUBLIC LAW 480, TITLE I

Audit Report No. 1-515-87-27-N
May 22, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL

AMERICAN EMBASSY

TEGUCIGALPA - HONDURAS

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May 22, 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. 1-515-87-27-N, "Audit of the Support for the National Animal Health Program with the General Directorate of Cattle Health and Production in Costa Rica - Public Law 480, Title I"

This report presents the results of a non-Federal financial and compliance audit requested by your Mission of the Support for the National Animal Health Program with the Ministry of Agriculture and Cattle through its General Directorate of Cattle Health and Production (DGSPP) - Public Law 480, Title I. The certified public accounting firm of Touche Ross & Co. prepared the report, which is dated May 18, 1987.

The purpose of this financial and compliance audit was to determine if the financial information of the project fairly presented its financial position as of September 30, 1985; to study and evaluate DGSPP's internal controls for controlling project assets; and to determine if DGSPP complied with applicable laws, regulations and letters of understanding.

Touche Ross disclaimed an opinion on the financial information as of September 30, 1985 due to inadequate accounting records. Their study and evaluation of internal controls disclosed a lack of specific independent accounting records for program operations and other conditions which result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the funds provided may occur and not be detected within a timely period. They also determined that DGSPP had not complied with certain agreement terms applicable to the project. For items not tested, nothing came to their attention that caused them to believe that untested items were not in compliance.

The Touche Ross report contains 21 recommendations to improve DGSPP's internal controls and 2 recommendations to achieve compliance with applicable laws, regulations, and agreements. We believe that these recommendations will significantly improve DGSPP'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/Costa Rica obtain evidence from the General Directorate of Cattle Health and Production (DCSPP) in Costa Rica to demonstrate that, to improve the Support for the National Animal Health Program, it has implemented the 21 recommendations for internal controls and the 2 recommendations for compliance contained in the Touche Ross report dated May 18, 1987.

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

Lara & González, CPA
Member Firm
Touche Ross International

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSP)
PL 480 TITLE I IN COSTA RICA
SUPPORT FOR THE NATIONAL ANIMAL HEALTH PROGRAM

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSP)

PL 480 TITLE I IN COSTA RICA

SUPPORT FOR THE NATIONAL ANIMAL HEALTH PROGRAM

AUDIT REPORT

CONTENTS

	<u>Page</u>
TRANSMITTAL LETTER AND SUMMARY	
Background	i
Audit objectives and scope	ii
Results of the audit	iii
Management comments	v
FINANCIAL INFORMATION	
Auditor's opinion	1
Project's financial information	3
Notes to financial information	4
INTERNAL ACCOUNTING CONTROL	
Auditor's opinion	6
Findings	8
COMPLIANCE WITH LAWS, REGULATIONS AND UNDERSTANDING LETTERS	
Auditor's opinion	25
Findings	27

Lara & González, CPA
Member Firm
Touche Ross International

May 18, 1987

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 examination of the Support for the National Animal Health Program managed by the Ministry of Agriculture and Cattle (Ministerio de Agricultura y Ganadería, MAG) through its General Directorate of Cattle Health and Production (Dirección General de Salud y Producción Pecuaria, DGSPP). This project was signed on July 2, 1984 between the Ministry of National Planning and Economic Policy (Ministerio de Planificación Nacional y Política Económica, MIDEPLAN), and the U. S. Agency for International Development in Costa Rica (USAID/Costa Rica), as part of the assistance program of the United States of America to developing countries, under Public Law 480 Title I (PL480 Title I).

BACKGROUND:

On March 25, 1982 the Governments of the United States of America and Costa Rica signed an agreement for the sale of agricultural products under PL480 Title I, which was confirmed on December 10, 1982, by the Government of Costa Rica (GOCR) Law Decree No. 6829. Under this agreement the Government of the United States was to provide \$20 million worth of U. S. agricultural products during fiscal year 1983. These products were to be sold to authorized Costa Rican buyers and the proceeds (approximately 553 million Costa Rican Colones), would be used by the GOCR to stimulate agricultural and livestock production and provide economic development assistance, thereby combating hunger and malnutrition.

To carry out the application of the law, a memorandum of understanding was signed on October 30, 1982 between both Governments, designating MIDEPLAN as the Costa Rican Government agent to coordinate, promote, supervise, report, and insure the accomplishment of the self-assistance measures. The benefiting

institutions must furnish to MIDEPLAN all the necessary information, and MIDEPLAN should report to the GOCR and USAID/Costa Rica on a regular basis.

Under this program support, the Ministry of Agriculture and Cattle (MAG) was provided with 33,694,835 Costa Rican Colones, approximately US\$763,000 at that date, (It was approved for C29,000,000 on July 2, 1984, modified in March 1985, and increased to C33,694,835 on July 23, 1985), to finance expenses related to National Program of Animal Health, as a counterpart to Interamerican Development Bank (IDB) Loan No. 531/SF-CR. MAG delegated the project's execution to its General Directorate of Cattle Health and Production (Dirección General de Salud Pecuaria y Producción, DGSP).

AUDIT OBJECTIVES AND SCOPE

The general objective of our examination was to conduct a financial and compliance audit of the Support for the National Animal Health Program carried out by DGSP for the period from March 18, 1985 to September 30, 1985 (approximately 6.5 months).

The review was made in accordance with generally accepted auditing standards and the U. S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision), and therefore included such tests of the accounting records considered necessary in the circumstances. Our examination was made to determine whether:

1. The financial information of the Support for the National Animal Health Program as of September 30, 1985, presented its financial position at that date, in accordance with generally accepted accounting principles.
2. The internal accounting control of the DGSP fairly contributed to control the program assets, disclosing any material weaknesses with recommendations for corrective action.
3. The DGSP had complied with applicable terms and conditions of the approved National Budget, local currency activity agreements and letters of understanding; with a positive assurance on tested items and a negative assurance on those items not tested.

The Scope of our Work Consisted of:

1. examining the specific project from March 18, 1985, the date of the initial transfer of PL480 Title I funds in local currency to DGSP up to September 30, 1985;

2. reviewing the letters of understanding and the law decrees under which the program was incorporated into the National Budget of Costa Rica;
3. reviewing all the applicable agreements on local currency;
4. performing a study and evaluation of DGSP's system of internal accounting control, limited to controls on the PL480 Title I funds;
5. evaluating the information reported by each involved institution to USAID/Costa Rica and the Costa Rican Government;
6. reconciling the bank accounts used to control PL480 Title I funds reception and disbursements, and determining the validity of the transactions recorded;
7. reconciling the agreement funds recorded by DGSP's with the amounts reported by the transferring institution;
8. determining if DGSP and MAC had complied with all the terms and conditions approved by the National Budget, the letters of understanding and the applicable laws and regulations;
9. determining if the DGSP: a) had paid fair and reasonable prices for the acquisition of goods and services with PL480 Title I funds, and b) followed sound commercial practices for the use of PL480 Title I funds; and
10. determining if the funds were disbursed only for the purposes of the program.

RESULTS OF THE AUDIT

Financial Information of the Program

Due to lack of adequate accounting records, the scope of our work was not sufficient to allow us to express, and we do not express, an opinion on the financial information of the project.

Internal Accounting Control

As part of our examination, we made a study and evaluation of the DGSP's internal accounting control related to the control and use of the funds provided to support the National Animal Health Program, to the extent we considered necessary to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on DGSP's program financial information.

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. We reviewed the following major areas with the following results:

1. Accounting Records for the Program. No specific and independent accounting records had been used to record the program support operations. The financial information was obtained from the budget records.
2. Budget Records. Modifications approved by General Comptroller of the Republic were incorporated into budget records with two months of delay and in some cases internal transfers between accounts were made without approval.
3. Vaccine Inventories. An adequate system to control the vaccines in stock and adequate controls on distribution and sale of vaccines were not implemented.
4. Supporting Documentation. The payments of purchase orders up to C30,000 were not adequately documented, the per diem expenses were not supported with liquidations, and salaries and wages reported to the Costa Rican Social Security were not reconciled with the accounting records.
5. Bank Account Reconciliation and Control. Important amounts were outstanding in the bank account reconciliation for several years, the bank account reconciliation did not show evidence of review and approval, bank account reconciliations were not prepared monthly, and the balance of the bank account was reconciled with subsidiary records which were not integrated to the official accounting records.

Our study and evaluation made for the limited purposes as described above, 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 DGSPPP taken as a whole. However our study and evaluation revealed some weaknesses that, 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 program support, may occur and not be detected opportunely.

Compliance with Laws, Regulations and Understanding Letters.

As result of our review, we determined that MAG and its executory unit the General Directorate of Cattle Health and Production (DGSPPP) did not comply with the Financial Administrative Law

because approval was not obtained to transfer items between budget accounts, or with Letter of Understand No. 6, because quarterly reports were not submitted to MIDEPLAN.

Nothing came to our attention that caused us to believe that untested items were not in compliance with applicable laws, regulations, and understanding letters.

MANAGEMENT COMMENTS

USAID/Costa Rica reviewed this report and the DGSP's principal officials participated in a discussion of all findings here mentioned, and were in general agreement that the report reflects MAG and DGSP's conditions at the time of the audit work, regarding program support operations and control. Suggested changes were incorporated to this report.

Touche Ross & Co.

TOUCHE ROSS & CO.
Certified Public Accountants

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR THE NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON FINANCIAL INFORMATION

AUDITOR'S OPINION

We have examined the financial information of the Support for the National Animal Health Program managed by the Ministry of Agriculture and Cattle (Ministerio de Agricultura y Ganadería, MAG), through its General Directorate of Cattle Health and Production (Dirección General de Salud Pecuaria y Producción, DGSP), for the period from March 18, 1985 to September 30, 1985, financed with PL480 Title I funds. Except as explained in the following paragraph, our examination was made in accordance with generally accepted auditing standards and the U. S. General Accounting Office "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 General Directorate of Cattle Health and Production, the unit of MAG appointed to implement the project, did not use separate or subsidiary records to control the funds to support the National Animal Health Program, and the condition of the records did not permit to us to apply alternative audit procedures.

Since MAG and the General Directorate of Cattle Health and Production did not use independent accounting records, and we could not apply alternative audit procedures, as explained in the precedent paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial information of the Support for the National Animal Health Program as of September 30, 1985.

This report is intended solely for the use of MAG, MIDEPLAN and the U. S. Agency for International Development. This restriction

Lara & González, CPA
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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.

Touche Ross & Co.

October 22, 1986
San José, Costa Rica

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION

PL480 TITLE I IN COSTA RICA

SUPPORT FOR THE NATIONAL ANIMAL HEALTH PROGRAM

STATEMENT ON PROJECT'S FINANCIAL INFORMATION

(COSTA RICAN COLONES - NOTE D)

	<u>Original budget</u>	<u>Modifications to budget</u>	<u>Total Budget</u>	<u>Expenses as of September 30, 1985</u>	<u>Net Available In Budget</u>
Funds provided	Q23,255,620 =====	Q10,439,215 =====	Q33,694,835 =====	Q11,050,272 =====	Q22,644,563 =====
Disbursements:					
Personnel Services	4,452,114	2,028,838	6,480,952	4,162,082	2,318,870
Non-Personnel Services	6,947,481	755,000	7,702,481	2,520,342	5,182,139
Materials and Supplies	7,895,000	6,009,618	13,904,618	3,795,683	10,108,935
Machinery and Equipment	2,100,000	500,000	2,600,000	14,107	2,585,893
Current Transfer	1,374,353	1,145,759	2,520,112	558,058	1,962,054
Global Assignments	486,672	-	486,672	-	486,672
Total	Q23,255,620 =====	Q10,439,215 =====	Q33,694,835 =====	Q11,050,272 =====	Q22,644,563 =====

See notes attached.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR THE NATIONAL ANIMAL HEALTH PROGRAM

NOTES TO FINANCIAL INFORMATION

FROM MARCH 18, 1985 TO SEPTEMBER 30, 1985

A. Basis of Presentation

The financial information on the Support for the National Animal Health Program was prepared by the General Directorate of Cattle Health and Production (DGSPP) using a commingled accounting basis where PL480 Title I funds were recorded on an accrual basis, while the expenses were recorded on a cash basis. The operations related to the program were recorded and controlled through the DGSPP's budget records.

B. Accounting Records

The General Directorate of Cattle Health and Production did not use independent accounting records to manage the PL480 Title I funds and the financial information was prepared from the budget execution controls which were not reconciled with the official accounting records. As result, the project transactions were commingled with DGSPP's normal operations.

C. Terms of the Support for the Program

On March 25, 1982 the Governments of the United States of America and Costa Rica signed an agreement for the sale of agricultural products under PL480 Title I, which was confirmed on December 10, 1982, by the Government of Costa Rica (GOCR) Law Decree No. 6829. Under this agreement the Government of the United States was to provide \$20 million worth of U. S. agricultural products during fiscal year 1983. These products were to be sold to authorized Costa Rican buyers and the proceeds (approximately 883 million Costa Rican Colones), would be used by the GOCR to stimulate agricultural and livestock production and provide economic development assistance, thereby combating hunger and malnutrition.

To carry out the application of the law, a memorandum of understanding was signed on October 30, 1982 between both Governments, designating MIDEPLAN as the Costa Rican Government agent to coordinate, promote, supervise, report, and insure the accomplishment of the self-assistance measures. The benefiting institutions must furnish to MIDEPLAN all the necessary information, and MIDEPLAN should report to the GOCR and USAID/Costa Rica on a regular basis.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR THE NATIONAL ANIMAL HEALTH PROGRAM

NOTES TO FINANCIAL INFORMATION

FROM MARCH 18, 1985 TO SEPTEMBER 30, 1985

Under this program support, the Ministry of Agriculture and Cattle (MAG) was provided with 33,694,835 Costa Rican Colones, approximately \$763,000 at that date, (It was approved for C29,000,000 on July 2, 1984, modified in March 1985, and increased to C33,694,835 on July 23, 1985), to finance expenses related to the National Program of Animal Health, as a counterpart to Interamerican Development Bank (IDB) Loan No. 531/SF-CR. MAG delegated the project's execution to its General Directorate of Cattle Health and Production (Dirección General de Salud Pecuaria y Producción, DGSPP).

As of September 30, 1985, MAG had received 23,255,620 Costa Rican Colones and the expenditures amounted to 11,050,272 Colones with a cash balance of 12,205,348 Colones.

D. Monetary Unit

The financial information was reported in Costa Rican Colones (C), the monetary unit of Costa Rican Republic. Transactions in foreign currencies are controlled by the Central Bank of Costa Rica.

The exchange rates as of September 30, 1985, were: Official: C20.00:US\$1.00, maintained since December 1981 and used for some Government transactions; and Interbanks C52.45:US\$1.00 used to liquidate active foreign transactions and liabilities authorized by the Central Bank. During 1985, the Central Bank of Costa Rica maintained a policy of periodic devaluations of the Colon in comparison to the dollar.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR THE NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON INTERNAL ACCOUNTING CONTROL

AUDITOR'S OPINION

We have examined the financial information of the Support for the National Animal Health Program managed by the Ministry of Agriculture and Cattle (Ministerio de Agricultura y Ganadería, MAG) through its General Directorate of Cattle Health and Production (Dirección General de Salud Pecuaria y Producción, DGSPP), for the period from March 18, 1985 to September 30, 1985 financed with PL480 Title I funds, and we have issued our report thereon dated October 22, 1986. As part of our examination, we made a study and evaluation of the internal accounting control of the General Directorate of Cattle Health and Production, an institutional unit of MAG, as required by generally accepted auditing standards and the U. S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions", (1981 Revision) and included the review of the following significant internal accounting controls: accounting records, investments, income and disbursements, financial information system and bank accounts.

The management of the General Directorate of Cattle Health and Production and the Ministry of Agriculture and Cattle are responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by the management are required to assess the expected benefits and related costs of the control procedures. The objectives of a system of internal accounting control 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 authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal accounting control system, errors and 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 the procedures may deteriorate.

Our study and evaluation made for the limited purposes as 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 General Directorate of Cattle Health and Production, a MAG's unit, taken as a whole. However, our study and evaluation revealed some conditions in the system of internal accounting control described in the following sections as findings No. 1 to No. 21 which, in our opinion, taken as a whole result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the provided funds may occur and not be detected within a timely period.

This report is intended solely for the use of MAG, MIDEPLAN, and the U. S. 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.

Touche Ross & Co.

October 22, 1986
San José, Costa Rica

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPD)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

1. Lack of Independent Accounting Records

Condition:

An independent specific accounting system had not been implemented for the program operations, which were controlled through the budget system in a single entry form not reconciled with accounting records. This record system did not include the control of the program's assets and liabilities.

Criteria:

The accounting system as a part of the system of internal accounting control, shall ensure the appropriate record of the commercial transactions and the confidence, reliability and fairness of the information system.

Cause:

Traditionally and by law, the budget system had been used as the Government's system for accountable records.

Effect:

Due to the absence of independent accounting records, the current financial situation of the project is only established after considerable efforts of the Accounting Department.

Recommendation:

The General Directorate of Cattle Health and Production should set up an accounting system parallel to the budget system which ensures adequate controls on the project's resources, and improve the different operational controls in all areas of it.

2. Insufficient Accounting and Administrative Personnel

Condition:

Many of the problems commented on in this report were caused principally by insufficient accounting and administrative personnel.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

Criteria:

The project should have the necessary staff to comply with the administrative and accounting responsibilities.

Cause:

The personnel positions which originally were included in the program's budget were assigned to other projects and units.

Effect:

Personnel limitations created deficiencies of internal controls in practically all the areas analyzed.

Recommendation:

MAG should carry out a study and evaluation of the DGSP's personnel assignments to determine the program's needs in the accounting and administrative areas and hire additional personnel, if necessary.

3. Deficiencies in Bank Reconciliations

Condition:

The bank reconciliations of account No. 57706-4 where PL480 funds were deposited up to September 30, 1985, show the following weaknesses:

- A. Deposits not journalized for C 30,675,728 during 1985, which include the deposit of C 23,255,620 for the Support for the National Animal Health Program. Thirty one checks issued from 1982 to 1984, amounting to C53,036, were outstanding as of September 30, 1985. There were seven bank debit notes from 1985, amounting to C331,900 which were not recorded nor investigated. There were 12 checks issued in 1985 for a total of C53,829, which appeared outstanding, however, we determined that they were void.
- B. The bank reconciled balance as of September 30, 1985 did not agree with the subsidiary records. This occurred because the bank reconciled balance was adjusted out of the accounting records with some checks amounting to C817,254 issued in June

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

1985 and not recorded until November 1985. Additionally, an uninvestigated difference of C9,703 existed between the subsidiary record and the bank reconciled balance at that date.

- C. The bank reconciliations were not dated or signed by the preparer and the reviewer of the Internal Auditing Department.

Criteria:

The bank reconciliations are a detective control to correct errors and omissions opportunely. A time limit, of six months, should be established for the outstanding checks. When this period is past, outstanding checks should be voided, crediting it to the appropriate liability account. Operations should be recorded in numerical order and the bank reconciliations should be signed by the preparer and the reviewer from Auditing Department.

Cause:

It was not considered a priority.

Effect:

- A. There was no support documentation of the deposits and debit notes. Improper use of funds could occur and not be detected.
- B. The accounting records did not present the real balance of the bank account.
- C. Frauds could occur without being detected opportunely.

Recommendation:

MAG and the DGSPP should:

- A. Investigate the unrecorded bank transactions, obtain the support documentation to carry out the corresponding journal entries, and void outstanding checks of more than six months. Any adjustment proposed should be authorized by the management prior to recording it.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

- B. Reconcile as soon as possible the bank account balances with the subsidiary records, which should be in agreement with the accounting records. Bank account reconciliations should be made monthly, without exception.
- C. Initial and date the reconciliations at the time of preparing them. The internal Auditing Department should review all the bank account reconciliations leaving evidence of this review.
4. Delay in Preparation of the Bank Reconciliations and 1986 Operations not Recorded

Condition:

At the date of our audit, October 22, 1986, the accounting records were current only until December 31, 1985 without any 1986 data recorded. In addition, the bank reconciliations were only prepared up to December 31, 1985.

Criteria:

Accounting and subsidiary records should be recorded on a current basis and bank reconciliations should be prepared monthly and reconciled against accounting and subsidiary records.

Cause:

Insufficient accounting and administrative personnel.

Effect:

There might be important operations not recorded, or incorrectly recorded.

Recommendation:

MAG should study and evaluate the functions of the DGSPP's Accounting Department in order to eliminate unnecessary tasks and assign to one person the monthly preparation of the reconciliations.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

5. Lack of Check Documentation

Condition:

Proforma invoices were used to pay some purchase orders of C30,000 or less, some of these invoices were not approved by the General Director. Once the procedure was completed there was no control which determines if the check was documented with the original invoice and if all the authorizations were obtained.

The bank reconciliation as of September 30, 1985, included two outstanding checks issued in 1984, supported by proforma invoices.

Criteria:

All the checks should be supported with original documents (invoices, receipts, etc).

Cause:

Lack of an established policy.

Effect:

Payments were not documented or not approved, and goods and services not received could be paid for. Additionally there was no possibility of evaluating and reviewing these payments after the fact.

Recommendation:

MAG should void the use of proforma invoices to pay for and document appropriately all the checks with the prior approval by the General Director.

6. Weaknesses in the Inventory Control

Condition:

The handling of the inventories had the following weaknesses:

- A. Some purchases of spare parts for vehicles and equipment were not entered into the warehouse, because they were used immediately and consequently were not recorded in the inventory.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

- B. Not all the products had an inventory card, so their movement was unknown.
- C. The inventory cards (kardex) had no date or reference to the document which originated the transaction.
- D. Some warehouse outlays are not recorded on the inventory cards.

Criteria:

There should be an efficient system of inventory control to guarantee that all the transactions carried out are recorded.

Cause:

Lack of established procedures.

Effect:

Due to the total absence of controls in the area of inventories, misuse of the inventories could occur without being detected. The validity of the transactions were not clear.

Recommendation:

MAG and/or the General Directorate of Cattle Health and Production should:

- A. carry out a physical inventory up to a given date, and take this date as the initial inventory control date;
- B. use cards for each product in the warehouse;
- C. establish adequate control procedures to handle the inventories, among others, these procedures should include:
 - (1) The use of pre-numbered forms for entries and outlays,
 - and (2) periodic physical inventories, comparing them against inventory records and investigating the differences, if any.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

7. Lack of Evidence of Reception of Merchandise by the Warehouse

Condition:

Not all the invoices were signed by the warehouse clerk when the merchandise was received, and there was no form to document the entrance of merchandise into the warehouse.

Criteria:

There should be a documented control procedure to guarantee that all materials purchased and/or returned entered the warehouse.

Cause:

Lack of established procedures.

Effect:

Due to the lack of control some purchased or returned materials could not be entered to the warehouse without being detected.

Recommendation:

The General Directorate of Cattle Health and Production should set up a procedure to guarantee that all the purchases or returns of materials are received satisfactorily in the warehouse, and design a pre-numbered form for entries to the warehouse with a clear reference to the purchase invoice, and use a receiving stamp when the materials are received.

8. Lack of Control on Accounts Receivable on the Sale of Vaccines

Condition:

The accounts receivable derived from the sale of vaccines showed some balances due for more than a year due to the deficiency in the collection and control of liquidations.

Criteria:

The procedures in use established that prior to the next vaccine delivery, a monthly liquidation of the vaccines

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

shipped should be prepared with copies of the cash receipts. However, the procedure was not always followed.

Cause:

Lack of supervision to enforce compliance with the established procedures.

Effect:

The established procedures were not observed causing the delinquency on accounts receivable and problems in cash flow.

Recommendation:

MAG and the DGSPP should comply with the established procedures, making no new deliveries of vaccines if an account receivable balance is due.

9. Lack of Signature of the Vaccines' Requests

Condition:

The vaccine requests were signed as evidence of receipt by persons different than the Section Chief or his designee.

Criteria:

Every delivery of vaccines should be given to the Section Chief or his designee, and the request form should be signed by him or his designee. The system of vaccine distribution and sale established that the Section Chief is responsible for the stock in hand and for the cash proceeds from the sale of vaccines.

Cause:

Lack of supervision.

Effect:

Vaccines could be delivered to unauthorized persons and sales could not be reported.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

Recommendation

The person responsible of the vaccines control in MAG, should deliver the vaccines directly to the Section Chief or his designee, obtaining the corresponding signatures.

10. Weak Internal Audit Review.

Condition:

The Internal Auditing Department did not conduct specific reviews of this program and this department did not report to the highest level of the General Directorate of Cattle Health and Production.

Criteria:

The Internal Auditing Department as supervisor for the adequate use of resources and attainment of goals, should review periodically and adequately the program's progress and operations, with the necessary scope and independence.

Cause:

The Internal Auditing Department covered the whole institution and did not have sufficient personnel to review this program.

Effect:

Deficiencies in the use of the funds were not detected and corrected opportunely.

Recommendation:

The Internal Auditing Department should report directly to the Director of the General Directorate of Cattle and Health Production. The scope and consistency of its programs should agree with the general dispositions of the Comptroller General of the Republic and the applicable laws, regulations and agreement terms. MAG should evaluate the Auditing Department workload and determine how many additional personnel are necessary to cover all projects.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

11. Salaries Paid were more than Authorized

Condition:

Not all salaries paid were properly authorized. We observed that the salary paid to Mr. Jorge Corrales Morales during March and June, 1985 was $\text{C}7,850$ monthly, however his approved monthly salary was $\text{C}7,150$.

Criteria:

The Personnel action is a document which the Administration uses to record and communicate all aspects relative to the employee-employer relation, including the salary. The salary paid to an employee should be compared against the respective personnel action.

Cause:

This case was an isolated error, there were no substantial nor numerous salary changes during the year, and therefore there was no permanent requirement.

Effect:

Salaries higher than those authorized for approximately $\text{C}1,400$ were paid in this case.

Recommendation:

The Department of Personnel of the General Directorate of Cattle Health and Production should periodically compare the salaries paid with the personnel actions, and with the amounts reported to the Costa Rican Social Security and to the National Institute of Insurance in order to make the necessary corrections.

12. Improper Use of Program Funds

Condition:

Check No. 4635, dated July 23, 1985 for $\text{C}30,000$ paid with PL480 Title I funds, was issued for the repair of the soda machine in the kitchen of the institution.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

Criteria:

In accordance with the program's objectives the resources should be used directly in activities related to the development of the program and not for expenses of the institution.

Cause:

This was done by instructions from high level staff.

Effect:

Funds were used for activities different than those programmed, which could affect the program's development.

Recommendation:

The General Directorate of Cattle Health and Production should use the funds received exclusively for the programmed objectives, and should regulate the use and destination of the funds, limiting the authorization of disbursements to the high level employees.

13. Lack of Control on per Diem Refunds

Condition:

There was no adequate control to identify the deposits of the per diem refunds with the advance check and the corresponding liquidation. It was not possible to identify the deposits on advances of per diem not utilized.

Criteria:

There should be a control which compares the advance on per diem with their liquidation, and the balance to be refunded.

Cause:

This was caused basically by an epidemic in the region of the Valley of the Star (Valle de la Estrella) and extraordinary expenses were required.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

Effect:

It was not possible to verify if all the per diem advances were duly justified and/or refunded.

Recommendation:

The General Directorate of Cattle Health and Production should set up a control to identify and compare the advance checks, the per diem liquidations and the deposits for the unused per diem. The advance and liquidation should be approved by a responsible official of the General Directorate.

14. Budget Modifications Recorded with Two Months Delay

Condition:

On July 29, 1985, the Comptroller General of the Republic approved modifications No. 1 and 2 to the budget, but these modifications were not incorporated into the budget until October 1985.

Criteria:

The budget modifications approved by the Comptroller General of the Republic should be recorded immediately in the budget records in order to be updated with this important information.

Cause:

It was an oversight.

Effect:

The approved budget modifications which were not incorporated to the budget opportunely distort the budget controls and records and errors could occur in budget implementation activities.

Recommendation:

The modifications approved by the Comptroller General of the Republic, should be incorporated into the budget of the General Directorate of Cattle Health and Production immediately or at least not later than the same month in which they were approved.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

15. No Authorization of Budget Internal Transfers

Condition:

The internal transfer No. 3 of December 1985 for C416,600 which increased the budget of some entries and decreased others, was not supported with an authorization.

Criteria:

All budget modifications should be supported with their respective authorization.

Cause:

The authorization did not appear due to file deficiencies.

Effect:

Due to the absence of a document which supports the authorization of the transfer, it was not possible to verify it.

Recommendation:

The General Directorate of Cattle Health and Production should locate in its files the authorization for internal transfer No. 3, and supports its journal entry and in the future do not transfer budget entries unless the corresponding authorization is obtained.

16. Deficiencies in Budget Subsidiary Records.

Condition:

We observed that in some budget subsidiary records the date and document number were different than the date and number of the supporting document.

Criteria:

The budget subsidiary records should record the correct information about the document that originated the transaction.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

Cause:

Lack of supervision.

Effect:

Due to errors in the budget subsidiary records regarding the date and number references, it was difficult to identify the document that support the transaction.

Recommendation:

The General Directorate of Cattle Health and Production should note correctly the references of the information, and periodically supervise the adequate transfer of information to budget subsidiary records from the supporting documents.

17. Lack of Authorization of Request for Materials

Condition:

The requests for materials were not always authorized by a member of the Technical Committee.

Criteria:

The current procedures established that all requests of material should be signed by a member of the Technical Committee as evidence of approval.

Cause:

Apparently, the lack of evidence of approval was caused by filing problems as explained to us.

Effect:

There was no possibility to review the transactions made and nobody can be sure about the propriety of them.

Recommendation:

MAG and the General Directorate of Cattle Health and Production should issue written instructions for compliance with this

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

requirement, requesting that prior to the delivery of the products an authorization should exist.

18. Lack of Bidding for Repairs and Maintenance

Condition:

The DGSPP carried out important repairs of the program's vehicles but the bids were not provided to us.

Criteria:

For an adequate evaluation and later review of the actual expenses, necessary documentation should support the transaction.

Cause:

Apparently the established procedures were not followed.

Effect:

Due to the fact that the documentation was not located in the institution's files it was not possible to evaluate and review whether the expense was adequate and reasonable.

Recommendation:

The DGSPP should locate all the documentation related to and keep a file of the bids for repair and maintenance of the vehicles.

19. No Expenses Control by Vehicle

Condition:

There was no adequate control of the expenses of each vehicle during the period from February 1984 to September 1985.

Criteria:

The operational procedures assigned to the warehouse require a control record for the expenses of maintenance and improvements for each one of the program's vehicles.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

Cause:

It was not considered a priority.

Effect:

There was no information about the maintenance cost for each vehicle.

Recommendation:

The DGSPP should comply with the established procedure of keeping a record for each vehicle for the accumulation of information related to its costs of maintenance, improvements, etc.

20. Salaries not fully Reported to the Costa Rican Social Security Office

Condition:

Salaries reported to the Costa Rican Social Security Office during June 1985, were C42,100 less than salaries paid as shown in the administrative payroll.

Criteria:

The salaries reported to the Costa Rican Social Security Office should reconcile with the salaries paid by the institution.

Cause:

It was an error.

Effect:

The institution assumes a contingent liability for taxes on the amount of salaries not reported to the Costa Rican Social Security Office plus the costs of interest, fines and/or charges when applicable.

Recommendation:

DGSPP should report the correct amount of Salaries for June 1985 to the Costa Rican Social Security Office .

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON THE INTERNAL ACCOUNTING CONTROL

FINDINGS

21. Deficiencies in the Check Filing System

Condition:

The file to control the sequential number of the issued checks were incomplete, also we observed some checks without supporting documentation.

Criteria:

A strict control of check sequential numbers should be carried out to improve checks recording and to detect possible omissions on checks issued. The checks should be supported with their respective documentation.

Cause:

The Financial Director said that the principal cause of this problem was the lack of personnel to maintain the control on the file of checks.

Effect:

It was difficult to locate the information and verify the details of the transactions. Some payments cannot be evaluated or later reviewed.

Recommendation:

The DGSPP Internal Auditing Department should be provided with the adequate resources to comply with its objectives and incorporate into its work program the permanent verification of the checks, which should include a review of all the necessary documentation and their sequential numbering.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR THE NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS

AND UNDERSTANDING LETTERS

AUDITOR'S OPINION

We have examined the Support for the National Animal Health Program managed by the Ministry of Agriculture and Cattle (Ministerio de Agricultura y Ganadería, MAG) through its General Directorate of Cattle Health and Production (Dirección General de Salud Pecuaria y Producción, DGSPP), for the period from March 18 to September 30, 1985 financed with PL480 Title I funds. Our examination was carried out to establish if MAG and the DGSPP had complied with applicable laws, regulations and letters of understanding over control and utilization of the funds provided for 33,694,835 Costa Rican Colones (approximately \$763,000). Our examination was made in accordance with generally accepted auditing standards and the U. S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions", (1981 Revision) which includes as additional standards and requirements the review of compliance with applicable laws, regulations and agreement terms.

In our opinion, except for the findings No. 1 and 2, included in the following pages, the Ministry of Agriculture and Cattle (MAG) and the General Directorate of Cattle Health and Production (DGSPP), complied in general terms, with the applicable laws, regulations and understanding letters related with the Support for the National Animal Health Program during the period from March 18, 1985 to September 30, 1985. Nothing came to our attention that caused us to believe that untested items were not in compliance with applicable laws, regulations and understanding letters.

This report is intended solely for the use of MAG, MIDEPLAN and the U. S. Agency for International Development. This restriction is not intended to limit the distribution of this report with,

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

Touche Ross & Co.

October 22, 1986
San José, Costa Rica

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR THE NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS

AND UNDERSTANDING LETTERS

FINDINGS

1. Overdrafts in Some Budget Items

Condition:

In several instances the balances of the budget items were overdrawn, in others expenditures were carried out without budget availability and consequently, without the implicit approval required by the Financial Administration Law of the Republic.

Criteria:

The Financial Administration Law of Costa Rica requires that all expenses should be made against the approved budget, and any change to the budget should be previously approved.

Cause:

The item budget was overdrawn or expenses were made without budget available due to an epidemic in the region of the Valley of the Star (Valle de la Estrella).

Effect:

There was non-compliance with the Financial Administration Law of Costa Rica.

Recommendation:

The General Directorate of Cattle Health and Production should limit the expenses to those approved in the budget.

2. Lack of Presentation of Quarterly Progress and Financial Reports to MIDEPLAN.

Condition:

Statements of budget implementation were prepared in May, September, and December, 1985, but there was no evidence that they were presented to MIDEPLAN.

GENERAL DIRECTORATE OF CATTLE HEALTH AND PRODUCTION (DGSPP)

PL480 TITLE I IN COSTA RICA

SUPPORT FOR THE NATIONAL ANIMAL HEALTH PROGRAM

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS

AND UNDERSTANDING LETTERS

FINDINGS

Criteria:

The USAID/Costa Rica Memorandum of Understanding No. 6, dated March 13, 1985, addressed to the Ministry of National Planning and Economic Policy (MIDEPLAN), requested quarterly progress and financial reports on the use of the PL480 Title I funds.

Cause:

It was not considered a priority.

Effect:

MIDEPLAN was not in condition to evaluate the development of the program and to exercise supervisory activities.

Recommendation:

MAG should comply with all information demands requested in the Memorandum of Understanding No. 6, consequently should request to the General Directorate of Cattle Health and Production to prepare the quarterly progress and financial reports as scheduled.

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