PN-52420

AUDIT OF THE PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II WITH THE PENNY FOUNDATION IN GUATEMALA

AUDIT REPORT NO. 1-520-88-20-N
September 30, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT

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September 30, 1988

MEMORANDUM

TO : D/USAID/Guatemala, Anthony J. Cauterucci

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

SUBJECT: Audit Report No. 1-520-88-29-N, "Audit of the Pilot Commercial Land Markets Project-Phase II with the Penny Foundation in Guatemala"

This report presents the results of a non-Federal financial and compliance audit requested by your Mission of the Pilot Commercial Land Markets Project-Phase II with the Penny Foundation. The certified public accounting firm of Touche Ross prepared the report, which is dated September 29, 1988.

The purpose of the audit was to report on (1) the fairness of the fund accountability statement of the project for the period August 30, 1985 to December 31, 1987; (2) the system of internal control, including procurement controls, budgetary controls, inventory management, and land purchase and credit practices; (3) compliance by the Penny Foundation with applicable laws, regulations, and agreement terms; (4) the Penny Foundation's financial capability to manage the project; and (5) the Penny Foundation's management capability to administer the project.

In the opinion of Touche Ross, the fund accountability statement presents fairly the financial situation of the project for the period August 30, 1985 to December 31, 1987. Touche Ross's study and evaluation of internal accounting and administrative control revealed weaknesses which, in their opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement may occur and not be detected within a timely period. The major weaknesses observed were (1) insufficient financial data and budgetary controls, (2) lack of accounting manuals, (3) lack of administrative and inventory controls on the farms, (4) lack of formal written agreements with beneficiaries of land parcels, (5) undocumented legal status of farms, (6) some unrecorded fixed assets on farms, and (7) lack of an allowance for bad debts. In the opinion of Touche Ross, the Penny Foundation complied with applicable laws,

regulations, and agreement terms, except that (1) some production loans were granted in excess of the maximum authorized by the agreement, (2) land parcels smaller than the minimum established by the agreement were granted, (3) the mix of production loans was not in compliance with the stipulated minimum of 60% short-term and maximum of 40% medium-term, (4) the Penny Foundation did not maintain a separate bank account for project funds, and (5) the Penny Foundation maintained large cash advances from USAID/Guatemala which appeared to be in excess of the 90-day requirement for budgeted expenditures. In the opinion of Touche Ross, the Penny Foundation has sufficient financial and management capability to administer the project.

The Touche Ross report contains 10 recommendations to improve internal controls, including those recommendations regarding management capability, and five recommendations on compliance, including one recommendation on financial capability. We believe that the findings are significant and, as a result, we are including the following recommendation in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Guatemala:

a. obtain evidence from the Penny Foundation to demonstrate that it has implemented the 10 recommendations to improve internal controls contained in the Touche Ross report dated September 29, 1988. This includes the recommendations contained in their report on management capability; and

b. obtain evidence from the Penny Foundation to demonstrate that it has implemented the five recommendations on compliance contained in the Touche Ross report dated September 29, 1988. This includes the one recommendation in their report on financial capability.

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

Lara & González, CPA
Member Firm
Touche Ross International

AUDIT OF THE PILOT COMMERCIAL LAND MARKETS
PROJECT-PHASE II WITH THE PENNY FOUNDATION
USAID/GUATEMALA PROJECT No.520-0343

AUDIT OF THE PILOT COMMERCIAL LAND MARKETS

PROJECT-PHASE II WITH THE PENNY FOUNDATION

USAID/GUATEMALA PROJECT No.520-0343

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Lara & González, CPA
Member Firm
Touche Ross International

September 29, 1988

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 Pilot Commercial Land Markets Project-Phase II, USAID/Guatemala Project No. 520-0343, managed by the Penny Foundation (Fundación del Centavo, FUNDACEN), from August 30, 1985 to December 31, 1987.

BACKGROUND

The Penny Foundation (FUNDACEN) is a nonprofit organization established per law decree on June 3, 1973, with an indefinite life, apolitical and with the principal purpose to stimulate mutual cooperation for the development of the communities through promotion, economical support and technical assistance provided to the most needy sectors in Guatemala. The FUNDACEN's bylaws, were approved on June 8, 1970 before its legal recognition and were revised on November 28, 1979. They include the following objectives:

a) training residents and rural communities on the uses of credit;

b) increasing the level of income of the beneficiaries;

c) improving living conditions of the family and the community;

d) procuring the integration of the communities into the socio-economic life of the country;

e) increasing and diversifying the level of production and improving farming, artisan and industrial production;

f) promoting mechanisms to improve education; and

g) promoting the participation of the private sector in the socio-economic development of the country.

In 1984 the Penny Foundation (Fundación del Centavo, FUNDACEN) started the Pilot Commercial Land Markets Project which included two phases and became the largest program managed by FUNDACEN. The project provided funding to finance the purchase/sale of land for small farmers and support for the development of the land. After various amendments, the project estimated completion date is scheduled for August 30, 1992.

The principal goal of the project was to establish and expand FUNDACEN's voluntary land purchase/sale program as a self-supporting activity capable of increasing the agricultural productivity and income of the rural sector in Guatemala and to identify and promote additional means to increase production.

The project is funded principally by the U. S. Agency for International Development in Guatemala (USAID/Guatemala). Phase I started in 1984 with Grant Agreement No.520-0330 for US$1,000,000. Phase II was initiated by Amendments No.1 and 2 dated August 30, 1985 and July 18, 1986 under Grant Agreement No.520-0343, and provided additional funding of US$2,000,000, extending the project completion date to August 30, 1988. On July 31, 1987, new amendments increased the funding to US$3,456,000 and Q.26,360,000 and extended the project completion date to august 30, 1992.

The project was evaluated in May 1987. As of that date FUNDACEN had purchased 19 farms, equivalent to 3,908 hectares divided into 1,223 parcels. It had sold 625 parcels to families, had given titles to 153 of them and had 400 additional families as candidates to acquire parcels on the most recently purchased farms. The farms are located throughout the country depending on where FUNDACEN finds good deals. The prices paid per hectare varied from a high of US$2,363 to a low of US$44 with an average of US$513 per hectare.

AUDIT OBJECTIVES AND SCOPE

The general objective was to perform a financial and compliance audit of the Commercial Land Markets Project-Phase II, USAID/Guatemala Project No. 520-0343 as of December 31, 1987. Our review was made in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and therefore included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances. Our examination was made to determine whether:

1. The fund accountability statement of the Phase II Project fairly presents the receipts and disbursements of project as of December 31, 1987, with disclosures of questionable costs, if any.

2. FUNDACEN is financially capable of performing the proposed project.

3. The administrative personnel of FUNDACEN had sufficient capability to manage the project as required by USAID/Guatemala.

4. FUNDACEN's internal accounting and administrative controls were adequate to manage the project's funds as required by USAID/Guatemala. Our study included the following significant controls related to the project: budgetary controls, land purchase and allocation mechanisms, procurement system, inventory system, credit allocation process and payroll system.

5. FUNDACEN had complied with applicable laws, regulations and agreement terms which may have a material effect on the fund accountability statement.

The scope of our work consisted of:

1. Reviewing the Grant Agreement, its amendments and Project Implementation Letters (PILs), OMB Circulars No.110 and 122, applicable tax laws in Guatemala and other applicable regulations.

2. Reviewing the project's fund accountability statement as of December 31, 1987.

3. Conducting a study and evaluation of the internal accounting and administrative controls, which included budgetary controls, land purchase and allocation mechanisms, procurement system, inventory handling and management, credit allocation process and payroll system.

4. Analyzing FUNDACEN's financial capability to pay expenses until USAID/Guatemala makes periodic reimbursements.

5. Conducting a study and evaluation of FUNDACEN's administrative capability to manage the project.

6. Determining whether FUNDACEN is complying with applicable terms and conditions of the Grant Agreement, Project Implementation Letters, amendments and applicable laws and regulations.

RESULTS OF AUDIT

Fund Accountability Statement

The results of our examination on the fund accountability statement of the Pilot Commercial Land Markets Project-Phase II, for the period from August 30, 1985 to December 31, 1987,

disclosed no material errors. Consequently, in our opinion the financial information therein included presents fairly the project's situation as of December 31, 1987.

Financial Capability

As a result of our evaluation we believe that FUNDACEN has sufficient financial capability to manage the project and its resources are sufficient to cover the project's operating expenses until USAID/Guatemala provides reimbursement of funds. However, our report discloses cash on hand of approximately Q.1,162,000 as of December 31, 1987, principally from USAID/Guatemala funding, which appeared to be excessive for FUNDACEN and the project's needs for the near future.

Management Capability

Except for the weaknesses mentioned below, FUNDACEN possesses sufficient capability to manage the project's current level of operations. Its management has strong experience in handling similar projects and the administrative structure created for the project is supported with qualified technical personnel to attend to the requirements of each position. The weaknesses disclosed include:

1. lack of appropriate internal controls on the farms;

2. weaknesses in the computer department;

3. insufficient financial data; and

4. lack of accounting manuals.

Internal Controls

Our study and evaluation of the internal controls disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities, in amounts that would be material in relation to the fund accountability statement of the project, may occur and not be detected within a timely period.

The findings on our study and evaluation of the FUNDACEN's internal control were as follow:

1. lack of an analytical budget for the project salaries;

2. lack of Formalized Agreements for Purchase/Sale of Land;

3. legal status of farms improperly documented prior to purchase;

4. unrecorded fixed assets;

5. undocumented inspection visits to the farms; and

6. lack of allowance for bad debts.

Additionaly as set forth in the work order our study and evaluation of FUNDACEN's internal controls included the following major areas with the following results:

A. Budgetary Controls. The financial information related to the budgetary controls, currently provided by the accounting department, is insufficient. There was no information comparing budgeted and actual expenditures nor itemized budgets for each farm.

B. Land Purchase and Allocation Mechanism. There was a formally established procedure for land purchases and allocation among beneficiaries. The steps developed for the purchase of the different farms included procedures in which FUNDACEN paid 50% in cash and guaranteed the remaining 50% to the sellers of the farms.

C. Procurement System. Our evaluation of the procurement system did not disclose any material weaknesses.

D. Inventory Management. The inventories of supplies handled on each farm were not properly controlled because the Penny Foundation had not implemented administrative procedures to control and report the receipt and delivery of agricultural supplies.

E. Credit Allocation Process. Credits of supplies granted to small farmers were not being properly allocated. The allocation of these credits was not supported with documentation. These credits were not reconciled against records handled on each farm, because the farms lacked such information.

F. Payroll System. Our evaluation of procedures established for computation and payment of payrolls did not disclose any material weaknesses in the system.

Compliance with Laws, Regulations and Agreement Terms

As a result of our review, we believe that FUNDACEN had complied in general terms with the applicable laws and regulations and with the project's agreement terms, amendments and Project Implementation Letters, except for the following:

1. Production loans were granted in excess of the maximum authorized.

2. Land parcels smaller than the minimum established in the agreement were sold.

3. Production loans maturities were different than established in the agreement.

4. There was a lack of a separate bank account for the project.

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

MANAGEMENT COMMENTS

We submitted a draft copy of this audit report to FUNDACEN's management and USAID/Guatemala for their review and analysis. The written comments of FUNDACEN's management on this report are included in the attached appendix I and their and USAID/Guatemala's comments have been considered in the final report.

TOUCHE ROSS & CO.

Lic. Rolando Lara Leiva

Lara & González, CPA
Member Firm
Touche Ross International

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON FINANCIAL INFORMATION

AUDITOR'S OPINION

We have performed a financial and compliance audit of the fund accountability statement of the Pilot Commercial Land Markets Project-Phase II, USAID/Guatemala Project No.520-0343, managed by the Penny Foundation (Fundación del Centavo, FUNDACEN), for the period from August 30, 1985 to December 31, 1987. Our examination was made in accordance with generally accepted auditing standards and the United States 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 under the circumstances.

As described in Note A, the FUNDACEN's policy is to prepare the fund accountability statement on the basis of cash receipts and disbursements; consequently, revenues and the related assets are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. In this regard and as explained in Note D FUNDACEN has accepted commitments to pay the remaining 50% on the purchase value of farms acquired for resale to small farmers. This liability amounted to approximately Q.1,400,000 as of December 31, 1987 and is not included in the fund accountability statement.

In our opinion, the fund accountability statement referred to above presents fairly the financial information therein included, related to the Pilot Commercial Land Markets Project Phase II, USAID/Guatemala Project No. 520-0343, for the period from August 30, 1985, to December 31, 1987, on the basis of accounting

described in Note A which has been applied in a manner consistent during the period.

Touche Ross & Co.

March 11, 1988
Guatemala

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

FUND ACCOUNTABILITY STATEMENT

From August 30, 1985 to December 31, 1987

(U. S. Dollars)

Budget Categories	Budget	Actual
Income:		
Funds received from USAID/Guatemala	$2,000,000	$1,603,617
Expenditures:		
Land purchase/Sale	900,000	542,840
Guaranty fund	200,000	-
Production loans	450,000	449,239
Traditional programs	50,000	49,996
Administrative expenses	400,000	198,177
	$2,000,000	$1,240,252
Cash in banks as of December 31, 1987		$ 363,365

Enclosed notes are an integral part of this financial report.

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

From August 30, 1985 to December 31, 1987

A. Summary of Significant Accounting Policies

Accounting Method. The fund accountability statement of the project is reported on a cash basis in which revenues and the related assets are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred.

Foreign Currency Translation. The FUNDACEN's accounting records are maintained in Quetzales, the Guatemalan official currency. However, the fund accountability statement is presented in U. S. dollars applying the exchange rates used by USAID/Guatemala for each advance to Penny Foundation, which is similar to the legal banking exchange rate in effect, using the first-in first-out method (FIFO).

B. Grant Agreement

In 1984 the Penny Foundation (Fundación del Centavo, FUNDACEN) started the Pilot Commercial Land Markets Project which included two phases and become the largest program managed by FUNDACEN. The project provided funding to finance the purchase/sale of land for small farmers and support for the development of the land. After various amendments, the project estimated completion date is scheduled for August 30, 1992.

The principal goal of the project was to establish and expand FUNDACEN's voluntary land purchase/sale program as a self-supporting activity capable of increasing the agricultural productivity and income of the rural sector in Guatemala and to identify and promote additional means to increase production.

The project is funded principally by the U. S. Agency for International Development in Guatemala (USAID/Guatemala). Phase I started in 1984 with Grant Agreement No.520-0330 for US$1,000,000. Phase II was initiated by Amendments No.1 and 2 dated August 30, 1985 and July 18, 1986 under Grant Agreement No.520-0343, and provided additional funding of US$2,000,000, extending the project completion date to August 30, 1988. On July 31, 1987, new amendments increased the funding to US$3,456,000 and Q.26,360,000 and extended the project completion date to August 30, 1992.

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

From August 30, 1985 to December 31, 1987

The project was evaluated in May 1987. As of that date FUNDACEN had purchased 19 farms, equivalent to 3,908 hectares divided into 1,223 parcels. It had sold 625 parcels to families, had given titles to 153 of them and had 400 additional families as candidates to acquire parcels on the most recently purchased farms. The farms are located throughout the country depending on where FUNDACEN finds good deals. The prices paid per hectare varied from a high of US$2,363 to a low of US$44 with an average of US$513 per hectare.

The specific purpose of Phase II of the Project, is to support the development of a mechanism to permit small farmers to purchase arable lands and to provide these farmers with production credit and timely technical assistance. The following objectives have been proposed for the life of the Phase II:

a) To establish a mortage guarantee program for the sale of land in which the sellers will receive most of the selling price of their land in cash and the remainder in mortgage guarantees issued by FUNDACEN.

b) To establish a land purchase program for small farmers, where participants must provide at least 10% of the down payment on the selected land parcels and pay the remaining balance in installments with the land as a guaranty until final payment.

c) To establish a support mechanism that will ensure payment to the seller of any pending balance not made by the debtor. This mechanism includes a guaranty fund in dollars in a U.S. bank, which would be increased periodically to the equivalent of 10% of the pending balance on the purchase of land. After some evaluations, USAID/Guatemala agreed to use this fund to purchase more lands.

d) To establish a financial mechanism within FUNDACEN for the issuance and sale of mortgage bonds, based on collateral provided by the small farmers' mortgages, so that additional financial resources may be obtained from the private sector to continue the land marketing program.

e) To provide approximately 575 participating small farmers a minimum of 3.5 hectares per family of arable land with title and deed.

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

From August 30, 1985 to December 31, 1987

FUNDACEN shall maintain proper accounting records to control the grant funds.

The grant can be terminated or suspended under the following circumstances:

a) the grantee failes to comply with the conditions of the agreement;

b) both parties agree that continuing the project would not produce beneficial results commensurate with the further expenditure of funds; and/or

c) A.I.D. determines that continuation of funding for the project is not in accordance with the national interest of the United States or that it would be in violation of an applicable law.

C. The Foundation

The Penny Foundation (FUNDACEN) is a nonprofit organization established per law decree on June 3, 1973, with an indefinite life, apolitical and with the principal purpose to stimulate mutual cooperation for the development of the communities through promotion, economical support and technical assistance provided to the most needy sectors more needed in Guatemala. The FUNDACEN's bylaws, were revised on June 8, 197[illegible] before its legal recognition and were reviewed on November 28, 1979. They include the following objectives:

a) training residents and rural communities on the uses of credit;

b) increasing the level of income of the beneficiaries;

c) improving living conditions of the family and the community;

d) procuring the integration of the communities into the socio-economic life of the country;

e) increasing and diversifing the level of production and improving farming, artisan and industrial production;

f) promoting mechanisms to improve education; and

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

From August 30, 1985 to December 31, 1987

g) promoting the participation of the private sector in the socio-economic development of the country.

D. Commitments

Due to the nature of the project, basically consisting of purchasing the land and providing credits to small farmers, FUNDACEN has committed to pay the remaining 50% of the cost of land, Q.1,407,654 as of December 31, 1987.

To cover such debt FUNDACEN must use the reflows generated from the loans to the beneficiaries, totaling as of December 31, 1987, Q.1,362,386 on agricultural loans and housing construction. The small farmers will be able to repay the loans if they are successful in developing the project in the long term, obtaining the necessary profits to pay the installments on the purchase of land, agricultural and housing loans and obtaining sufficient excess to cover the necessary expenses to maintain their families.

E. Subsequent Events

On January 27, 1988 El Pino farm located in Guanagazapa, Department of Escuintla, wich has 74 hectares and is mainly dedicated to pineapple cultivation, had a fire and all the crop was lost. As of December 31, 1987 these farmers owed Q.39,002 to the project which is considered collectible by FUNDACEN because new crops and infrastructure were created.

F. Monetary Unit

The FUNDACEN's accounting records related to the project are stated in Quetzales (Q.), the monetary unit of Guatemala. Foreign currency transactions must be realized through the banking system in which three different exchange rates have been established: a) official market to pay the public debt and those private liabilities registered prior to June 6, 1986 (Q.1.00:US$1.00); b) regulated market to pay imports and to liquidate exports (Q.2.50:US$1.00); and c) banking market for those transactions not included in the above mentioned markets, where the exchange rate is established by the Monetary Board. As of December 31, 1987 the exchange rate in this market was Q.2.51:US$1.00

Lara & González, CPA
Member firm
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PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON FINANCIAL CAPABILITY

AUDITOR'S OPINION

We have performed a study and evaluation of Penny Foundation's financial capability. This evaluation was made in connection with the financial and compliance audit of the Pilot Commercial Land Markets Project-Phase II, USAID/Guatemala Project No.520-0343, managed by the Penny Foundation (Fundación del Centavo, FUNDACEN) for the period from August 31, 1985 to December 31, 1987. Our evaluation was performed in accordance to the statement of work for the financial and compliance audit of the above mentioned project and in accordance with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

As discussed in more detail in the accompanying finding No. 1, FUNDACEN maintains large amounts of cash in bank accounts, principally from USAID/Guatemala cash advances, which as of December 31, 1987, amounted to approximately Q.1,162,000 (US$430,400).

In our opinion, the Penny Foundation possess sufficient financial capability to administer the project and its resources are sufficient to cover the project's operating expenses until USAID/Guatemala provides fund reimbursements.

This report is intended solely for the use of the management of FUNDACEN 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 Office of the Inspector General, is a matter of public record.

Touche Ross & Co.

March 11, 1988
Guatemala

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON FINANCIAL CAPABILITY

FINDINGS

1. Excess Cash on Hand

Condition:

Cash advances from USAID/Guatemala amounting more than one million Quetzales, was maintained mainly in bank non-interest bearing checking accounts. This excess of cash could be maintained during the next year because FUNDACEN will receive additional resources from USAID/Guatemala for new purchases of land and agricultural credits. These facts demand inmediate follow-up in cash management.

The FUNDACEN's budgeted amounts for 1988 as of December 31, 1987 were as follow:

	(In Thousand Quetzales)
Cash on hand as of December 31, 1987	Q.1,162
Expected income for 1988	7,947
	9,109
Budgeted expenditures for 1988	
USAID/Guatemala Project 520-0343	7,870
Administrative expenses	345
Other projects	210
	8,425
Expected cash balance as of December 31, 1988	Q. 684

Criteria:

Cash advances from USAID/Guatemala should not be in excess of budget expenses for a three month-period.

Cause:

There was inadequate management policies on the handling of financial resources.

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON FINANCIAL CAPABILITY

FINDINGS

Effect:

Profitability on available financial resources is reduced.

Recommendation:

USAID/Guatemala should require FUNDACEN:

a) To prepare reasonable budgeted expenses for a three month period, to which cash advances would be limited.

b) To transfer excess cash resources to short-term savings accounts in order to earn interest income on amounts not immediately needed for expenditures. This interest should be reimbursed to USAID/Guatemala.

Lara & González, CPA
Member Firm
Touche Ross International

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON MANAGEMENT CAPABILITY

AUDITOR'S OPINION

We have performed a study and evaluation of Penny Foundation's management capability. This evaluation was made in connection with the financial and compliance audit of the Pilot Commercial Land Markets Project-Phase II, USAID/Guatemala Project No.520-0343, managed by the Penny Foundation (Fundación del Centavo. FUNDACEN), for the period from August 31, 1985 to December 31, 1987. Our evaluation was performed in accordance to the statement of work for the financial and compliance audit of the above mentioned project and in accordance with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

In our opinion, except for a lack of appropriate controls on the farms, some weaknesses in the computer department, insufficient financial data, and a lack of manuals and written instructions as discussed in findings 1 to 4; FUNDACEN posseses sufficient management capability to manage the project at its current level of operations.

This report is intended solely for the use of the management of FUNDACEN 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 Office of the Inspector General, is a matter of public record.

Touche Ross & Co.

March 11, 1988
Guatemala

APARTADO POSTAL 317-1 GUATEMALA C.A. TELEPHONE 66595/315466

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

1. Lack of Appropriate Internal Controls on the Farms

Condition:

The farms lacked administrative controls for the distribution and consumption of agricultural supplies and for accounts payable to FUNDACEN on agricultural loans. Receipt and deliveries of supplies were not properly reported and loans provided to each beneficiary were not controlled or reconciled against FUNDACEN controls. For instance, in our review we found that the beneficiaries of the farms Venecia and Sam Greene did not know their loan balances as of December 31, 1987.

Criteria:

FUNDACEN must be able to control all areas of operation including the farms. The administration of each farm must keep the beneficiaries informed about their rights and responsibilities.

Cause:

The technical personnel lacked knowledge of administrative controls and in some cases, charges to the beneficiaries were estimated by FUNDACEN.

Effect:

Some agricultural supplies might be lost without identification. Dissatisfaction of beneficiaries may arise regarding balances reported by FUNDACEN.

Recommendation:

FUNDACEN should implement better controls on inventories, loans and accounts receivable related to the farms. FUNDACEN should provide training to technical personnel regarding the implementation of administrative controls and reconcile the subsidiary records of farms against FUNDACEN records.

2. Weaknesses in the Computer Department

Condition:

The computer department and the computer records on loans and

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

accounts receivable showed the following weaknesses:

a) There were no established input procedures with pre-numbered controls and/or comparison of the print-outs with the figures showen in the general ledger.

b) The security was inadequate to protect the data available in the computer.

c) No back-up data existed outside the computer center.

d) The print outs included only the loan balances due at a given date with no additional information regarding the performance, aging or delinquency of loans and accounts receivable.

e) Some loan transactions were recorded without written evidence of their origins.

Criteria:

a) All input transactions affecting loans and accounts receivable should be properly documented and pre-numbered prior to their recording. Balances on computerized subsidiary records should be reconciled monthly against control accounts in the general ledger.

b) Access to the computer department should be limited to authorized personnel.

c) A back up of all computer programs and records should be maintained outside of the institution for protection in case of fire or disaster.

d) The records used to control loans and accounts receivable should provide additional information, including amount of credit provided during the year to each beneficiary, amounts collected, delinquent balances and interest earned as a useful tool for management to keep better control over loans and accounts receivable.

Cause:

The computer department was informally organized and neither

specific controls nor independent reviews were performed.

Effect:

a) Some transactions might not be recorded because of the lack of appropriate documentation and controls on input procedures.

b) Changes to the data could be made without written authorization and without independent verification on the accuracy of such changes. No independent review on the accuracy of reported balances was performed by the accounting department.

c) Important data or sensitive information might be lost, stolen or destroyed.

d) The information prepared by the computer department could be wrongly interpreted.

Recommendation:

FUNDACEN should:

a) Properly document and pre-number all computer input transactions regarding credits to beneficiaries and the accounting department should reconcile the balances in the printouts with the control accounts in the general ledger.

b) Implement controls over access to the computer department, which should be restricted to acces only by authorized personnel. This should include the use of personal key controls for access to the computer.

c) Keep a complete back up of all the computer software (programs) in use and the daily recorded transactions, including copies of the daily reports, in a safe place, preferably outside of the office.

d) Design and implement formal applications that would provide analytical information regarding loans and accounts receivable.

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

3. Insufficient Financial Data

Condition:

The financial information currently provided to management by the accounting department is insufficient. The reports prepared by the accounting department lacked information regarding:

a) budgetary execution with comparison of budgeted and actual expenses;

b) operational costs incurred on each farm; and

c) cash-flow performance.

Criteria:

The above mentioned information must be provided on a monthly basis is a tool to facilitate the management decision process.

Cause:

The accounting department had not been required to provide this information.

Effect:

There is a risk that timely and appropriate management decisions cannot be made.

Recommendation:

FUNDACEN's accounting department should be required to provide management with monthly information regarding:

a) budgetary execution including a comparison of budgeted and actual expenditures with explanations of significant variances;

b) complete details of all operational costs incurred on each farm; and

c) projected cash-flow for each next quarter.

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

4. Lack of Accounting Manuals

Condition:

FUNDACEN did not have accounting manuals explaining the chart of accounts and the different operating procedures of the accounting system.

Criteria:

Accounting manuals provide uniformity and facilitate an understanding of control accounts.

Cause:

The excessive of workload in the financial department has, apparently, not allowed time to prepare the manuals.

Effect:

There is a risk that the lack of written explanations regarding the use of the chart of accounts and the other accounting procedures will result in errors in the recording of data that might not be detected.

Recommendation:

USAID/Guatemala should require FUNDACEN to prepare accounting manuals and/or written accounting procedures for the project.

Lara & González, CPA
Member Firm
Touche Ross International

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON INTERNAL CONTROLS

AUDITOR'S OPINION

We have performed a financial and compliance audit of the Pilot Commercial Land Markets Project-Phase II, USAID/Guatemala Project No.520-0343, managed by the Penny Foundation (Fundación del Centavo, FUNDACEN), for the period from August 30, 1985 to December 31, 1987. As part of our examination, we performed a study and evaluation of FUNDACEN's system of internal accounting and administrative controls to comply with the requirement of this engagement and to the extent we considered necessary to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was made in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision), and included a review of the significant internal controls in the areas of budgeting, land purchase and allocation mechanisms, procurement system, inventory management, credit allocation process and payroll system.

The management of FUNDACEN is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related cost of control procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and properly recorded to permit the preparation of financial information in accordance with generally accepted and/or comprehensive accounting principles. Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to

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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 with the limited purpose as described in the first paragraph, would not necessarily disclose all material weaknesses in the system, and accordingly, we do not express an opinion on the system of internal control of FUNDACEN taken as a whole. However, our study and evaluation disclosed the conditions described in the accompanying findings No.1 to 6 that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement of the project may occur and not be detected within a timely period.

This report is intended solely for the use of FUNDACEN 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 Office of the Inspector General, is a matter of public record.

Touche Ross & Co.

March 11, 1988
Guatemala

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT No. 520-0343

REPORT ON INTERNAL CONTROLS

FINDINGS

1. Lack of Analytical Budget for the Project Salaries

Condition:

There was no analytical budget identifying each authorized position's salary.

Criteria:

A list of the authorized salaries for each position, including fringe benefits should be elaborated for the project.

Cause:

The project agreement contains only an overall amount of US$60,000 for salaries per year.

Effect:

The salaries of some officers are higher than those prevailing in the local market. FUNDACEN would not have the economic capability to pay such salaries unless subsidized by USAID/Guatemala.

Recommendation:

USAID/Guatemala should require FUNDACEN to review the current schedule of salaries and prepare an analytical budget with salaries and job descriptions for each employee of the project.

2. Lack of Formalized Agreements for Purchase/Sale of Land

Condition:

The parcels granted to the beneficiaries are not supported with written formal agreements between FUNDACEN and the beneficiaries.

Criteria:

Besides the record of the proceedings, a formalized agreement which could be called a "Purchase/Sale Promise", should be completed to assure the beneficiaries that they will be the owners of the parcels if they comply with the contractual terms established.

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PILOT COMMERCIAL LAND MARKETS PROJECT PHASE II

USAID/GUATEMALA PROJECT No. 520-0343

REPORT ON INTERNAL CONTROLS

FINDINGS

Cause:

FUNDACEN did not consider it necessary to prepare these formal agreements with the beneficiaries.

Effect:

The beneficiaries are farmers whom usually are illiterate and never have owned real estate. Therefore, they are distrustful of the program and some of them desert it. A formal document in their hands would be very reassuring to them.

Recommendation:

USAID/Guatemala should require FUNDACEN to prepare formalized agreements with the beneficiaries. The agreement could be called a "Purchase/Sale Promise" and would document that the beneficiary will be the owner of the parcel. The form should also include the cost of the parcel and the periodic installments to be made.

3. Legal Status of Farms Improperly Documented Prior to Purchase

Condition:

The study made by the Legal Department of FUNDACEN, which is related to the evaluation of the legal status of the farms before issuing the purchase deeds, was not properly documented.

On April 27, 1985, a promise deed for the purchase of Finca Chimucuy was issued and an advance of Q35,000 was made. Due to certain problems, the transaction was not completed, the expenditure was rejected by USAID/Guatemala, and the loss generated by this transaction was absorbed by FUNDACEN.

Criteria:

Formal written documentation to support the studies carried out by the Legal Department and written authorization from the General Manager should be obtained for the purchase of land.

Cause:

Lack of supervision from FUNDACEN's management on the activities of the Legal Department.

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT No. 520-0343

REPORT ON INTERNAL CONTROLS

FINDINGS

Effect:

According to the Legal Department, the Q.35,000 are not recoverable, which is a significant loss to the Foundation. The development of the program may be affected by any other significant negotiation.

Recommendation:

USAID/Guatemala should require FUNDACEN to:

a) Make appropriate socio-economic studies of the legal status of farms to establish if there are existing mortgages or problems before purchases are made. lands to avoid problems.

b) Issue checks for advances for the purchase of land with mortgages to the mortagees.

c) Properly file all the corresponding documentation supporting the legal status of farms.

4. Unrecorded Fixed Assets

Condition:

Some fixed assets, including machinery, horses and cattle were acquired by FUNDACEN as a part of the farms. The price paid for the land was properly allocated but the fixed assets mentioned below were not recorded:

Farm Name	Date of Purchase	Estimated Value
San Juan Monte Real	04-30-86	Q. 6,000
San Cayetano	11-19-86	39,900
San Antonio Buena Vista	06-23-87	6,850
Total		Q.52,750

Criteria:

All the assets acquired for the project must be recorded at cost.

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PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT No. 520-0343

REPORT ON INTERNAL CONTROLS

FINDINGS

All the assets included in the purchase transaction must be properly identified and accounted for.

Cause:

The management had not issued a resolution on this issue.

Effect:

The assets may be subject to misuse.

Recommendation:

FUNDACEN should take a physical inventory of fixed assets and adjust the project's records accordingly and, for further purchases, take all the necessary steps to ensure that all the assets included as a part of the transactions are properly identified and recorded.

5. Unsupported Inspection Visits to the Farms

Condition:

The inspection visits made by the General Manager to verify the information prepared by FUNDACEN's technical personnel, prior to purchasing the farms, was not documented.

Criteria:

According to the procedures manual, such visits should be properly documented.

Cause:

The General Manager did not consider it necessary because he reported the results of visits orally to the Board of Directors in their regular meetings and the minutes prepared contained the information.

Effect:

There is non-compliance with the procedures manual and some visits might not be made on a timely basis and this could go undetected.

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PILOT COMMERCIAL LAND MARKETS PROJECT PHASE II

USAID/GUATEMALA PROJECT No. 520-0343

REPORT ON INTERNAL CONTROLS

FINDINGS

Recommendation:

FUNDACEN should comply with the procedures for documentation of visits described in the manual for purchase/sale of land.

6. Lack of Allowance for Bad Debts

Condition:

As of December 31, 1987 FUNDACEN had no allowance for bad debts on agricultural support loans.

Criteria:

Sound management practices require the creation of an allowance for bad debts.

Cause:

The agreement did not include a clause for this purpose nor the was management aware that an allowance for bad debts should be established.

Effect:

Losses caused by uncollectable loans and accounts receivable, if any, might not be covered by the budget.

Recommendation:

USAID/Guatemala should require FUNDACEN to establish an adequate mechanism to create an allowance for bad loans. This allowance could be created by accumulation of part of the interest generated from the loans.

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENT TERMS

AUDITOR'S OPINION

We have performed a financial and compliance audit of the Pilot Commercial Land Markets Project-Phase II, USAID/Guatemala Project No.520-0343, managed by the Penny Foundation (Fundación del Centavo, FUNDACEN), for the period from August 31, 1985 to December 31, 1987. Our study and evaluation was made in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision), which includes requirements for the review of compliance with applicable laws, regulations and agreement terms. Accordingly our examination included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The laws, regulations and agreements terms reviewed for compliance included:

1. Grant Agreement No.520-0343, its amendments and Project Implementation Letters applicable to the Phase II of the project.

2. The United States Office of Management and Budget (OMB) Circular No. 122 and Circular No. 110.

3. Mandatory Standard Provisions for Non-U. S., Non-Governmental Grantees.

4. Applicable Tax Law in Guatemala.

5. The Guatemalan Social Security Law.

The results of our study indicates that for items tested, except for the accompanying findings No.1 to No.4, FUNDACEN has complied in general terms with the applicable laws, regulations and agreement terms. Nothing came to our attention that caused us to

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believe that untested items were not in compliance with the applicable laws, regulations and agreement terms.

This report is intended solely for the use of the management of FUNDACEN 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 Office of the Inspector General, is a matter of public record.

Touche Ross & Co.

March 11, 1988
Guatemala

FUNDACEN

PILOT COMMERCIAL LAND MARKETS PROJECT PHASE II

USAID/GUATEMALA PROJECT 520 0343

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENT TERMS

FINDINGS

1. Production Loans were Granted in Excess of the Maximum Authorized

Condition:

Some loans granted to support the agricultural production on lands purchased exceed the established limit of Q.225 per manzana. Of the 18 loans provided, 14 exceeded the limit with differences ranging from 10% to 300%.

Criteria:

Annex 2, clause D, number 2 of the agreement stipulates that the production loans will range from Q.200 to Q.225 per manzana. Loans Granted for more could be considered questionable.

Cause:

The crops to be cultivated affect cost per manzana. This fact was not considered when establishing the average amount per manzana allowed for the loans.

Effect:

There was noncompliance with agreement terms. As a result the loans granted in excess of the maximum authorized can be questioned by USAID/Guatemala.

Recommendation:

USAID/Guatemala should require FUNDACEN to make a study to consider the cost of different types of crops and to modify the loan amounts allowed per manzana as specified in the Agreement, if necessary.

2. Land Parcels Sold were Smaller than the Minimum Established in the Agreement

Condition:

Only 4 of the 18 farms complied with the minimum area of 5 manzanas per family as stipulated by the agreement. The other farms were reported to have an average of 4 manzanas per parcel.

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PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENT TERMS

FINDINGS

Criteria:

According to the agreement the farm parcels granted have to be a minimum of 3.5 hectares (about 5 manzanas) per family.

Cause:

The FUNDACEN believed that farmers benefiting from the program could not maintain parcels of 5 or more manzanas.

Effect:

The production capacity of the small farmers is limited because the amount of land granted was smaller than stipulated in the agreement.

Recommendation:

USAID/Guatemala should require FUNDACEN to comply with agreement terms, which stipulates 5 manzana land parcels per family. Waivers should be obtained from USAID/Guatemala when considered appropriated.

3. Production Loans Maturities Different than Established in the Agreement

Condition:

The maturities of production loans granted were not in compliance with the agreement. As of December 31, 1987, 23% of the loans were short-term and 77% were medium-term production loans.

Criteria:

The agreement stipulates that a minimum of 60% of the production loans would be short-term, and a maximum of 40% would be medium-term.

Cause:

More medium term agricultural credit was granted because more emphasis was given to coffee growing which produces the first crop in about 3 years.

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PILOT COMMERCIAL LAND MARKETS PROJECT PHASE II

USAID/GUATEMALA PROJECT 520-0343

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENT TERMS

FINDINGS

Effect:

Noncompliance with agreement terms could change the period to be covered by the project because loan collection periods are different than originally planned.

Recommendation:

USAID/Guatemala should require FUNDACEN to comply with agreement terms, which specify a minimum of 60% short term and a maximum of 40% long term loans. Waivers should be obtained from USAID/Guatemala when considered appropriate.

4. Lack of a Separate Bank account for the Project

Condition:

There was no separate bank account to control project funding and USAID/Guatemala funds were commingled with other FUNDACEN's funds.

Criteria:

The grant agreement clearly establishes that USAID/Guatemala funds shall not be commingled with other funds of FUNDACEN.

Cause:

Because the terms of the agreement were not known at the beginning of the project, the funds were deposited in the general bank account of FUNDACEN.

Effect:

It is difficult to determine the cash balances of the Project and USAID/Guatemala funding at a given moment, because they are commingled with other funds.

Recommendation:

USAID/Guatemala should require FUNDACEN to open a separate bank account to specifically control the funds provided by USAID/Guatemala under this project agreement.

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

LIST OF REPORT RECOMMENDATIONS

FINANCIAL CAPABILITY

1. USAID/Guatemala should require FUNDACEN:

   a) To prepare reasonable budgeted expenses for a three month period, to which cash advances would be limited.

   b) To transfer excess cash resources to short-term savings accounts in order to earn interest income on amounts not immediately needed for expenditures. This interest should be reimbursed to USAID/Guatemala.

MANAGEMENT CAPABILITY

1. FUNDACEN should implement better controls on inventories, loans and accounts receivable related to the farms. FUNDACEN should provide training to technical personnel regarding the implementation of administrative controls and reconcile the subsidiary records of farms against FUNDACEN records.

2. FUNDACEN should:

   a) Properly document and pre-number all computer input transactions regarding credits to beneficiaries and the accounting department should reconcile the balances in the printouts with the control accounts in the general ledger.

   b) Implement controls over access to the computer department, which should be restricted to access only by authorized personnel. This should include the use of personal key controls to access to the computer.

   c) Keep a complete back-up of all the computer software (programs) in use and the daily recorded transactions, including copies of the daily reports, in a safe place, preferably outside of the office.

   d) Design and implement formal applications that would provide analytical information regarding loans and accounts receivable.

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

LIST OF REPORT RECOMMENDATIONS

3. FUNDACEN's accounting department should be required to provide management with monthly information regarding:

   a) budgetary execution including a comparison of budgeted and actual expenditures with explanations of significant variances;

   b) complete details of all operational costs incurred on each farm, and

   c) projected cash flow for each next quarter.

4. USAID/Guatemala should require FUNDACEN to prepare accounting manuals and/or written accounting procedures for the project.

INTERNAL CONTROLS

1. USAID/Guatemala should require FUNDACEN to review the current schedule of salaries and prepare an analytical budget with salaries and job descriptions for each employee of the project.

2. USAID/Guatemala should require FUNDACEN to prepare formalized agreements with the beneficiaries. The agreement could be called a "Purchase/Sale Promise" and would document that the beneficiary will be the owner of the parcel. The form should also include the cost of the parcel and the periodic installments to be made.

3. USAID/Guatemala should require FUNDACEN to:

   a) Make appropriate socio-economic studies of the legal status of farms to establish if there are existing mortgages or problems before purchases are made. lands to avoid problems.

   b) Issue checks for advances for the purchase of land with mortgages to the mortagees.

   c) Properly file all the corresponding documentation supporting the legal status of farms.

PENNY FOUNDATION

PILOT COMMERCIAL LAND MARKETS PROJECT-PHASE II

USAID/GUATEMALA PROJECT 520-0343

LIST OF REPORT RECOMMENDATIONS

4. FUNDACEN should take a physical inventory of fixed assets and adjust the project's records accordingly and, for further purchases, take all the necessary steps to ensure that all the assets included as a part of the transactions are properly identified and recorded.

5. FUNDACEN should comply with the procedures for documentation of visits described in the manual for purchase/sale of land.

6. USAID/Guatemala should require FUNDACEN to establish an adequate mechanism to create an allowance for bad loans. This allowance could be created by accumulation of part of the interest generated from the loans.

COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENT TERMS

1. USAID/Guatemala should require FUNDACEN to make a study to consider the cost of different types of crops and to modify the loan amounts allowed per manzana as specified in the Agreement, if necessary.

2. USAID/Guatemala should require FUNDACEN to comply with agreement terms, which stipulates 5 manzana land parcels per family. Waivers should be obtained from USAID/Guatemala when considered appropriated.

3. USAID/Guatemala should require FUNDACEN to comply with agreement terms, which specify a minimum of 60% short term and a maximum of 40% long term loans. Waivers should be obtained from USAID/Guatemala when considered appropriate.

4. USAID/Guatemala should require FUNDACEN to open a separate bank account to specifically control the funds provided by USAID/Guatemala under this project agreement.

APPENDIX I

AUDIT OF THE PILOT COMMERCIAL LAND MARKETS
PROJECT-PHASE II WITH THE PENNY FOUNDATION
USAID/GUATEMALA PROJECT No.520-0343
MANAGEMENT COMMENTS

FUNDACION DEL CENTAVO

FUNDACION GUATEMALTECA PARA EL DESARROLLO

Guatemala,
23 de septiembre de 1988

Licenciado
Rolando Lara Leiva
LARA Y GONZALEZ AUDITORIA
Ciudad

Estimado Licenciado Lara:

Refiriéndome a lo que acordamos en la reunión en la que discutiéramos el borrador del reporte de auditoría que ustedes practicaran en la Fundación del Centavo del Programa Compra Venta de Tierra Fase II, le estoy adjuntando nuestras aclaraciones a varios puntos de dicha auditoría.

Hemos omitido los puntos en que convenimos ustedes harían los cambios en su informe, derivados de apreciaciones que se hicieron en ese momento diferentes a lo establecido en el convenio firmado entre AID y la Fundación.

Si desea alguna aclaración al respecto, estoy disponible en el momento que usted lo indique.

Sin más por el momento, aprovecho la oportunidad para suscribirme de usted atentamente,

Hernán Quán Berducido
Gerente General

/avcp

8a. Calle 5-09, Zona 9, C. P. 01009. Apartado Postal 2211. Tels.: 367213, 367697 y 310754. Cables: FUNDACEN. Guatemala, C. A.

ACLARACIONES A PUNTOS DE AUDITORIA DE LA FASE II DEL PROYECTO PLAN PILOTO PARA LA COMPRA/VENTA DE TIERRAS USAID/GUATEMALA PROYECTO 520-0343, ADMINISTRADO POR LA FUNDACION DEL CENTAVO (FUNDACEN) EN EL PERIODO DE AGOSTO 30 DE 1985 A DICIEMBRE 31 DE 1987

El procedimiento de cada aclaración sigue en el orden de exposición del informe de Auditoria para los resultados:

1. Estado de Ejecución Presupuestaria
2. Capacidad Financiera
3. Capacidad Administrativa
4. Controles Internos
5. Cumplimiento con leyes, regulaciones y términos del convenio.

Nuestras aclaraciones son las siguiences:

1. Estado de Ejecución Presupuestaria

Comentarios de Auditoria

1.1 Costos cuestionables por US$ 6,734 desembolsados en el rubro Compra/Venta de Tierras.

Aclaración

Estos costos se incluyeron en este rubro porque corresponden a pagos obligados en toda transacción de bienes inmuebles, (alcabala y registro) y forman parte del valor de la propiedad que se asigna a las fincas adquiridas dentro del programa.

2. Capacidad financiera

Comentarios de Auditoria

2.2 Se argumenta que FUNDACEN mantiene exceso de efectivo disponible en cuentas de depósitos monetarios que aparentan ser excesivos en función de las necesidades futuras de fondos.

Aclaración

La disponibilidad de exceso aparente se origina de dos situaciones:

a) Recursos previstos para atender la carga operativa derivada de gastos fijos mensuales, que son utilizados por períodos no mayores de tres meses.

b) Recursos previstos para compra de tierra cuya disponibilidad es relativa, por el aprovechamiento de ofertas que requieren una decisión rapida y que minimizan los costos de adquisición y la oportunidad de realizar la negociación. Los recursos pueden utilizarse en su totalidad y en forma anticipada al plan financiero original, situación que requiere mantener una flexibilidad en la aplicación de los recursos.

3. Capacidad Administrativa

Comentario de Auditoría

3.1 Falta de controles internos adecuados en las fincas.

FUNDACEN deberá establecer mejores controles sobre los inventarios y préstamos por cobrar relativos a las fincas, proporcionar adiestramiento al personal técnico relativo al establecimiento de controles administrativos y reconciliar los registros auxiliares de las fincas contra los registros de FUNDACEN.

Aclaración

FUNDACEN mantiene un seguimiento sostenido a nivel técnico sobre los proyectos de cada finca. Se instruye a los campesinos en aspectos organizacionales y administrativos para que aprendan a llevar sus propios controles en cuanto a la distribución de insumos de los créditos de producción recibidos.

Estamos conscientes de que hay algunas deficiencias en el procedimiento actual, sin embargo, se está trabajando con los beneficiarios a efecto de mejorar los mecanismos de registros y controles, pues estamos dentro de un proceso educativo que requiere el programa no sólo a nivel institucional sino de los propios agricultores.

Los esfuerzos se orientan a reforzar el siguiente procedimiento ya en ejecución:

a) Los créditos contablemente se aplican en su totalidad a nivel de grupo que son representados por un gestor en cada finca, asignándoseles un número que identifica la operación global.

b) Los insumos u otros gastos que sean aplicados a cada crédito son distribuidos por los agricultores de acuerdo al tipo y área de cultivos en forma individual, llenando una forma que incluye cantidades, valores, fechas y firmas de recepción que posteriormente sirven para las asignaciones individuales en el centro de computo, constituyéndose en registros auxiliares que deben conciliar con los valores globales del departamento de contabilidad.

c) Los insumos o equipo asignados como se indica en el inciso a) y manejados según el inciso b) quedan bajo el control de la Junta Directiva del grupo, la que decide sobre la distribución bajo la supervisión del técnico de campo. De esta manera FUNDACEN no maneja inventarios en las fincas en proceso productivo, considerando que son los agricultores quienes deciden en cada caso.

3.2 Información Financiera Insuficiente

Los reportes preparados por el Departamento de Contabilidad carecen de información relativa a costos operacionales incurridos en cada finca.

Aclaración

Los costos operativos se contabilizan de acuerdo al esquema que define el Convenio suscrito con USAID 520-0343 en los rubros: Compra de Tierras, Préstamos de Producción, Programas Tradicionales y Gastos Administrativos en forma consolidada.

Internamente los gastos operativos están integrados dentro del presupuesto general de gastos de la fundación pero no por fincas, considerando lo difícil de ponderar dichos gastos a este nivel. Sin embargo los recursos aplicados a Compra de Tierras, Préstamos de Producción y Programas Tradicionales si procede y ha sido factible detallarlos en esta forma.

3.3 Falta de manuales contables

Se indica que FUNDACEN no dispone de manuales contables que explique el uso de la nomenclatura contable y de los diferentes procedimientos para estandarizar el sistema contable y ser consistentes con años anteriores.

Aclaración

La Fundación dispone de un manual general que ha normado los procedimientos contables, que se reestructuró en junio de 1979 cuando se adoptó el Sistema de Contabilidad por Fondos, pero debido al crecimiento que implico la creación del Programa Compra Venta de Tierra en 1984, se requiere incorporar las ampliaciones necesarias para adecuarlo a los términos y condiciones del convenio con AID, actividad en la que actualmente se trabaja. Sin embargo, la Fundación ha mantenido uniformidad y consistencia en los registros contables de todos los programas que ejecuta.

4. Controles Internos

Comentarios de auditoría

4.1 No existe un presupuesto detallado con identificación del salario autorizado para cada posición dentro del Proyecto de Compra-Venta de Tierra Fase II.

Aclaración

a) Existe un detalle del personal asignado al programa con indica-

ción de nombre, posición y sueldo que oportunamente se informó a la misión AID.

b) Los cálculos de sueldos para las distintas posiciones se manejan en US dólares conforme el convenio original con el objeto de mantener la política salarial interna en moneda local, lo que permite realizar los ajustes salariales de acuerdo a la devaluación de nuestra moneda, garantizando la continuidad de la ejecución del programa, sin alterar su valor en dólares.

c) Efectivamente los salarios de algunos ejecutivos en el área técnica son ligeramente superiores en comparación con el mercado local. La política institucional se basa en seleccionar personal con experiencia y calificación profesional en áreas específicas; lo que permite mantener un permanente seguimiento en las fincas en el orden técnico y administrativo en forma ininterrumpida, tomando en cuenta que así lo requiere las necesidades operativas. De esta manera se garantiza la estabilidad del personal, el apoyo sostenido de proyectos y su éxito.

4.2 <u>Anticipos para Compra de Tierras se documentaron inadecuadamente</u>

El estudio realizado por el Departamento Legal de FUNDACEN relativo a la evaluación de la situación legal de las fincas - previo a emitir las escrituras de compra no se documentó adecuadamente.

<u>Aclaración</u>

Efectivamente la negociación de la finca Chimucuy, único caso, fue - una de las primeras experiencias de FUNDACEN, que representó un costo en el aprendizaje dentro del Programa de Compra de Tierras, pero las circunstancias que originaron esta pérdida no se derivaron de una debilidad de carácter legal, sino que fue circunstancial.

Sin embargo, este fue un caso aislado - único que permitió a la Institución mejorar los procedimientos de evaluación, de sustentación legal y financieros que han permitido al Consejo Ejecutivo y a la Gerencia fortalecer las decisiones de compra.

4.3 <u>Falta de una cuenta separada para el proyecto</u>

No existe una cuenta bancaria separada para controlar los fondos del proyecto y los fondos de USAID/Guatemala se mezclaron con los fondos restantes de la Fundación.

Aclaración

Los adelantos provenientes de AID para gastos se depositan en una cuenta bancaria específica, de donde se realizan los distintos desembolsos. Excepcionalmente por razones de necesidad operativa y no de facilidad. transitoriamente y de acuerdo a un plan de desembolsos, se realizan - transferencias a otro banco que son adecuadamente controlados.
No obstante, nuestro sistema contable permite llevar registros separados por Fondos o Programas y el mecanismo de control del efectivo disponible se refleja a través de un "Fondo de Tesorería", de tal manera que en cualquier momento facilmente puede establecerse el saldo de los adelantos provenientes de AID.

4.4 Activos fijos no registrados

Algunos activos fijos, incluyendo caballos y reses, fueron adquiridos por FUNDACEN como parte de la negociación de las Fincas. El precio pagado por la tierra se distribuyó apropiadamente pero los activos mencionados a continuación no se incluyeron.

Nombre de la Finca	Fecha de compra	Valor Estimado
San Juan Monte Real	04-30-86	Q 6,000
San Cayetano	11-19-86	39,900
San Antonio Buena Vista	06-23-87	6,850
		Q 52,750

Aclaración

Producto de la compra de algunas fincas existen algunos activos que no han sido contabilizados, aún cuando originalmente se había previsto su incorporación a los inventarios de FUNDACEN, por las circunstancias siguientes:

a) Se estableción que la maquinaria y equipo se encontraba en condiciones no óptimas de funcionamiento, que no garantizaba su utilización adecuada en las fincas dentro de un proceso de readecuación de las áreas a parcelar, lo que implicó un alto grado de incertidumbre para su valoración.

b) Se consideró que la maquinaria y equipo y algunas cabezas de ganado caballar podrían ser utilizados por los campesinos en los trabajos primarios de preparación de suelos y de los cultivos

en forma colectiva dentro de la comunidad. Esto implicó realizar los gastos necesarios de fuente propia para habilitarlos y ponerlos en condiciones de aprovechamiento, sin que estas erogaciones constituyan costos adicionales al valor de la tierra para los campesinos.

4.5 Visitas de inspección a las fincas no documentadas

Las visitas de inspección efectuadas por el Gerente General para verificar la información preparada por el personal técnico de FUNDACEN previo a la compra de finca no se documentó.

Aclaración

El Gerente General realiza las visitas a las fincas que dentro de los informes técnicos de campo son potencialmente sujetas de negociación al llenar los requisitos técnicos y de compra. Las visitas sirven para corroborar la información tanto del Asistente Técnico de Campo como del Director del Programa. Una vez realizados los contactos con el vendedor del inmueble y conviniendo en el valor y condiciones de compra y demás aspectos que viabilicen la negociación, el Gerente realiza una exposición y opinión al Consejo Directivo, el cual después del análisis y consideraciones aprueba o rechaza la negociación, quedando esta decisión en punto de acta.

El acta que se asienta en un libro legalizado se constituye en el documento básico de aprobación institucional.

4.6 Falta de reserva para Cuentas Incobrables

A diciembre 31, 1987 FUNDACEN no cuenta con una reserva para cuentas incobrables sobre créditos agrícolas, ni hay intención de crearla.

Aclaración

Efectivamente no se incluyó dentro del Convenio la creación de una reserva para cuentas incobrables al considerarse dos situaciones que minimizan el riesgo:

a) En los primeros cinco años del programa existe una supervisión y orientación técnica permanente que requieren los distintos proyectos. La Fundación asigna personal técnico que vive en cada finca para mantener un seguimiento adecuado en todo el proceso de ejecución y comercialización.

b) La inversión crediticia se realiza en parcelas individuales que dentro del mecanismo de entrega a los agricultores constituyen primera y única hipoteca a favor de la Fundación hasta su pago. No obstante, en el Convenio Cooperativo No. 520-0343-A-00-7484 - suscrito con USAID el 31 de julio de 1987 y que vence el 30 de agosto de 1992, se ha previsto la formación de una reserva para cuentas de cobro dudoso equivalente al 5 % del monto de los créditos para producción pendiente de cobrar, y de un medio por ciento del total pendiente por cobrar de los créditos para compra de tierras. Esta asignación será ajustada cerca de la finalización del proyecto con base a la experiencia de la Fundación y de acuerdo al monto de las cuentas incobrables.

5. Cumplimiento con leyes, regulaciones y términos del convenio

5.1 Créditos de producción concedidos en exceso

Algunos préstamos concedidos para financiar la producción agrícola de la tierra comprada exceden el límite establecido de - Q 255 por manzana, de los 18 préstamos proporcionados 14 exceden el límite con diferencias que varían entre un 10 % y un 300 %.

Aclaración

En la propuesta original de la Fundación se tomó como promedio a manera de ejemplo, el requerimiento crediticio que los grupos tradicionales solicitan de financiamiento por manzana para cultivos básicos, pero en la realidad en que se impulsa cultivos permanentes sus requerimientos son mayores. Estamos de acuerdo en que se haga una revisión a este respecto.

5.2 Se concedieron parcelas más pequeñas que las estipuladas en el Convenio

Solo 4 de las 18 fincas parceladas concedidas cumplen con el área de 5 manzanas por familia estipuladas en el Convenio. Las otras fincas concedidas reportan un promedio de 4 manzanas por parcela distribuida.

Aclaración

De acuerdo con estimaciones de ingresos netos por manzana, dedicadas a cultivos permanentes de alta rentabilidad y para exportación, se

concluyó que 5 manzanas por familia es mucha tierra, por ello se redujo el promedio a 4 manzanas. Aún así, se estima que puede reducirse el área a entregar ya que 4 manzanas con café por ejemplo darán ingresos brutos del orden de los Q 24,000 y netos de Q 15,000 por familia por año.

5.3 El plazo de los préstamos de producción difiere a lo que establece el Convenio

Los préstamos de producción fueron concedidos en diferentes porcentajes a los vencimientos establecidos en el convenio. A diciembre 31,1987 los créditos de producción estaban divididos en 23 % de corto plazo y 77 % de mediano plazo.

Aclaración

Esta variación está en función de la vocación de la tierra y las estimaciones se hicieron en función de compra de tierra para hortalizas que requieren préstamos a corto plazo y de cultivos permanentes que requieren créditos a mediano plazo. El comportamiento de la oferta para adquirir tierra fué mayor en aquellos en que su vocación es para cultivos permanentes por ello la estimación en los porcentajes no se cumple.

APPENDIX 2

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