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PRE-AWARD SURVEY OF THE  
PRIVATE SECTOR EDUCATION INITIATIVE  
PROJECT WITH THE ASSOCIATION  
OF FRIENDS OF THE COUNTRY  
IN GUATEMALA

AUDIT REPORT NO. 1-520-88-19-N  
September 19, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT

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September 19, 1988

MEMORANDUM

TO : D/USAID/Guatemala, Anthony J. Cauterucci  
FROM : RIG/A/T, *Coinage N. Gothard*  
Coinage N. Gothard, Jr.  
SUBJECT: Audit Report No. 1-520-88-19-N, "Pre-Award Survey of the Private Sector Education Initiative Project with the Association of Friends of the Country (AAP) in Guatemala"

This report presents the results of a non-Federal pre-award survey requested by your Mission of the Private Sector Education Initiative Project with the Association of Friends of the country (AAP). The certified public accounting firm of Price Waterhouse in Guatemala prepared the report, which is dated August 31, 1988.

The purpose of this pre-award survey was to determine if AAP: (1) fairly presented the initial receipts and disbursements of the project for the period August 4, 1987 through December 31, 1987; (2) has presented a cost proposal which is current, accurate, and reflects only costs which are allowable and necessary; (3) has sufficient management capability and span of control to administer the project; (4) is financially capable of performing the project; (5) has an adequate system of accounting and internal control; and (6) is in compliance with agreement terms and applicable laws and regulations.

In the opinion of Price Waterhouse, AAP:

- fairly presented the financial situation of the project as of December 31, 1987 by means of a fund accountability statement prepared on the basis of cash receipts and disbursements;
- does not have an adequate internal control system because internal control procedures have not been adequately defined, controls over fixed assets are lacking, and the accounting system needs substantial improvement; and

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- has complied with agreement terms and applicable laws and regulations tested, except for four observed instances of non-compliance. For items not tested, nothing came to their attention to indicate that AAP was not in compliance.

Price Waterhouse disclaimed an opinion on the cost proposal due to a scope limitation resulting from disbursement budgets with insufficient detail and a lack of action plans for the project. They disclaimed an opinion on AAP's management capability because the project's organizational and administrative structure had not yet been defined and key full-time project staff had not been hired. They disclaimed an opinion on AAP's financial capability to manage the project because they were unable to examine detailed disbursement budgets for both A.I.D. funds and counterpart contributions.

The Price Waterhouse report contains 17 recommendations concerning AAP's cost proposal, management capability, financial capability, system of internal control, and compliance with agreement terms. We believe that the findings and related recommendations are significant and should be implemented. However, this report is advisory only, since it is our policy for pre-award surveys not to include recommendations in the Office of the Inspector General's audit recommendation follow-up system.

PRE-AWARD SURVEY OF THE  
PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0304

PRE-AWARD SURVEY OF THE  
PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

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*Price Waterhouse*



August 31, 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 Private Sector Education Initiative Project with the Association of Friends of the Country (Asociación de Amigos del País) - USAID/Guatemala Project No. 520-0364.

#### BACKGROUND

The Association of Friends of the Country (Asociación de Amigos del País or AAP) was created by royal order during 1795 in the reign of Charles III of Spain. AAP is a non-profit, cultural, scientific and educational entity, pursuing the improvement of Guatemala based on freedom and dignity for all Guatemalan citizens. Since its inception, AAP has undertaken social, agricultural, educational and artistic activities, as well as those connected with industry and trade. Its bylaws and legal status were approved on June 16, 1967. The entity is headquartered in Guatemala City and is authorized to open offices and chapters within and outside the country. At present, AAP is supporting three main projects: publication of text-books, preparation of a general history of Guatemala, and integral basic education.

The Text-books Publication project started in 1981 with financing from the private sector, and is aimed at producing and distributing social science books pertaining to elementary education.

The General History of Guatemala project began in 1986 and comprises five history volumes, according to the epoch covered, estimated to be completed by 1992, when five centuries since the discovery of America will be celebrated.

The Private Sector Education Initiative project, also known as the Integral Basic Education project, was structured as a plan initially addressed to rural areas, covering agricultural concerns (farms), aimed at providing reading materials to new readers to strengthen their skills and improving their levels of living. The project is based on the legal obligation provided for by the Guatemalan Constitution, and specifically regulated by the Literacy Act (Ley de Alfabetización) and its rulings to the effect that all enterprises should contribute in the literacy campaign.

The General Assembly has ultimate authority over AAP and it is represented by all members. The Board of Directors is the next authority level and is responsible for overseeing compliance with the Association objectives and for the administration of its resources. The Chairman of the Board is also President of the Association and its legal representative. His responsibilities include the implementation of decisions of both the Assembly and the Board of Directors, and the administration of AAP's resources.

The General Director of the Integral Basic Education project is responsible for administering and implementing the project, and is also a liaison with the AAP's president and other related agencies. Other project directors who assist the General Director, are the directors of the Departments of Marketing and Media; Training Programming and Evaluation; Computation; and Administration and Finance.

On July 31, 1987 AAP and the United States Agency for International Development (A.I.D.) signed grant agreement No. 520-0364 - Private Sector Education Initiative Project. The general objective of the project is to complement the National Literacy Program of the Ministry of Education addressed to adult literacy needs, with a special focus on the Pacific coast, highlands and low income areas. The project also attempts to assist AAP in implementing in the private sector a non-formal education program for the poor rural and peri-urban areas to improve living conditions.

The program started on July 31, 1987 for a four year period. The non-formal education program will consist of the following elements:

### A Weekly Publication

A weekly publication is considered the project's main vehicle towards achieving stated objectives. It is expected that by the end of the second year it will have a wide circulation reaching 300,000 people.

### Courses

The courses to be offered will include printed material designed to address the specific needs of the population.

### Family Library and Educational Campaign

This campaign is scheduled to start during the project's third year of operations.

### AUDIT OBJECTIVES AND SCOPE

The specific objectives of our review were to determine whether:

- a) The financial information of the project as of December 31, 1987 presents accurately the receipts and disbursements of project funds up to that date.
- b) The estimated direct and indirect proposed costs are based on the most current, complete, and accurate pricing data available, and reflect only those costs which are allowable and necessary to accomplish the work.
- c) AAP has sufficient financial and management capability and span of control to manage the project, considering the contractor's current forecasted project workload and staffing levels.
- d) The accounting records and the internal control system of AAP are adequate to manage the project's funds as required by USAID/Guatemala.
- e) AAP complied with the applicable regulations, agreement terms, and implementation letters which may affect the project's incurred costs.

Our audit was performed in accordance with generally accepted auditing standards and with the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision).

The scope of our work consisted of:

- Examining the financial information of the project from August 4 through December 31, 1987 to determine whether all funds were deposited and handled in separate bank accounts, in U. S. dollars and in local currency, and if the related disbursements were reasonable, allocable and allowable in accordance with agreement terms and standard provisions.
- Reviewing the proposed costs for the project to determine whether they were allowable, reasonable and necessary in accordance with the guidelines provided by OMB Circular A-122, and whether the projected computations were based on current pricing quotations, contracts, per diem allowances, cost of living and escalation factors available.
- Reviewing the organizational and administrative structure of AAP for executing the project. The accounting and administrative procedures adopted for recording and controlling project operations were reviewed, as well as the established measures to reinforce the financial administration and the counterpart contributions.
- Reviewing AAP's financial capability with respect to the Project. Detailed receipt and disbursement budgets, mainly dealing with counterpart contributions, and the entity's unaudited financial statements at December 31, 1987 were reviewed.
- Reviewing the internal accounting and administrative control systems, with emphasis on the budget, training, and procurement components and other items which will be applied in recording Project activities, and identifying the controls that were evaluated and those that were not evaluated.
- Reviewing the activities, administrative policies, contracts and amendments thereto, as well as administrative accounting procedures to determine possible areas of non-compliance with agreement terms, standard provisions, Handbook 11 and applicable laws and regulations of Guatemala.

During our work, we were alert to situations or transactions that could be indicative of fraud, abuse or illegal expenditures and acts.

## RESULTS OF AUDIT

### Fund Accountability Statement

The Fund Accountability Statement reasonably presents the results of operations for the Private Sector Initiative Project implemented by AAP for the period from August 4, 1987 through December 31, 1987.

### Proposed Costs

We were unable to obtain sufficient data to determine whether the proposed costs were in compliance with the guidelines established by OMB Circular No. A-122. Therefore, we do not express an opinion on the fairness of the overall proposed costs for the Private Sector Education Initiative Project.

### Financial Capability

Since we were not furnished with data concerning plans, goals and budgets that AAP may have for handling A.I.D. funds and counterpart funds, we were not able to determine whether AAP has the financial capability to administer the Private Sector Education Initiative; therefore, we are not in the position to express, and we do not express, an opinion on the financial capability of AAP for administering the above mentioned Project.

### Management Capability

The capability that AAP may have for managing the Project cannot be determined at the present time since it is subject to overall project restructuring which includes the securing of counterpart funds and full-time key personnel for the Project. The following situations, however, were observed in the normal course of our review and evaluation:

- a) The Project Director and the Administrative Director do not work on a full-time basis for the Project.
- b) The Project's organizational and administrative structure has not been defined.
- c) The contracting of a CPA firm to provide consulting services has not assured implementation of a functional accounting system. The accounting records are three months in arrears.
- d) The administrative procedures manual requires modifications and adjustment.
- e) AAP's accounting system needs improvement.
- f) There is a lack of salary policies.

### Internal Controls

Our study and evaluation revealed that the internal control system in effect is not adequate to control the Project operations. Our opinion is based on the following deficiencies, which are detailed in the Internal Control, Proposed Costs, and Management Capability sections of this report:

- Internal accounting control procedures have not been adequately defined.
- There is lack of adequate control over fixed assets.

These conditions, together with other situations described under findings 3 and 4 in the Management Capability section of this report, 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.

### Compliance with Agreement Terms and Applicable Laws and Regulations

AAP is in compliance with agreement terms and applicable laws and regulations, except for the following:

- AAP was in default in complying with some legal requirements of the Government of Guatemala, such as registration as a withholding agent for the Workers' Bank and filing an income tax return as at December 31, 1987.
- AAP has not submitted its annual implementation plan for approval by USAID/Guatemala.
- The Grant Agreement contains a discrepancy regarding the amount of counterpart contributions to be provided by AAP.
- There is a lack of procedures for selection and contracting Project personnel.

With respect to items not reviewed or examined, nothing came to our attention that would indicate non-compliance by AAP with agreement terms and applicable laws and regulations.

MANAGEMENT COMMENTS:

All recommendations included in this report are well taken and considered appropriate at the time the audit was conducted. Corrective action has already been taken on the majority of the recommendations presented and management will see that a proper control environment is maintained from now on in conducting the activities related to the Private Sector Education Initiative Project.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON THE FUND ACCOUNTABILITY STATEMENT

AUDITOR'S OPINION

We have performed an examination of the Fund Accountability Statement of the Private Sector Education Initiative Project implemented by the Association of Friends of the Country (AAP) for the period August 4, 1987 through December 31, 1987 under Cooperative Agreement No. 520-0364 entered into with the U. S. Agency for International Development (A.I.D.). Our examination was performed pursuant to the Statement of Work for reviewing the disbursements related to the above mentioned agreement and in accordance with the United States Comptroller General's "Standards for Audit of Government 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.

As described in Note 1 to the fund accountability statement, AAP's policy is to prepare its financial information on the basis of cash receipts and disbursements; consequently, certain revenues and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying fund accountability statement is not intended to present the results of operations in conformity with generally accepted accounting principles.

In our opinion the accompanying Fund Accountability Statement presents fairly the financial situation of the Private Sector Education Initiative Project, USAID/Guatemala Project No. 520-0364, implemented by the Association of Friends of the Country, for the period August 4, 1987 through December 31, 1987 in conformity with the accounting practices described in Note 1.

This report is intended solely for the use of the Association of Friends of the Country and the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Piero Waterhouse*

April 29, 1988  
Guatemala, C. A.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT No. 520-0364

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD AUGUST 4, 1987 TO DECEMBER 31, 1987  
(expressed in Quetzales)

<u>Cash Receipts</u>			
Funds received from USAID			Q 609,318
<u>Less Cash Disbursements:</u>			
<u>Budget</u>	<u>Budget</u>	<u>Amount</u>	
<u>Categories</u>	<u>Amount</u>	<u>Disbursed</u>	
Salaries	Q 570,375	Q33,604	
Consultants	199,913	1,200	
Travel expenses	57,270	417	
Equipment, vehicles, furniture	121,130	19,701	
Training	1,830,362	750	
Other direct costs	342,684	11,135	
Operating costs	146,216	1,710	
Promotion	39,163	37	
	<u>Q3,307,113</u>	<u>Q68,554</u>	<u>68,554</u>
Cash balance at December 31, 1987			<u>Q 540,764</u>

See accompanying notes 1 and 2

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT No. 520-0364

NOTES TO THE FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD AUGUST 4, 1987 TO DECEMBER 31, 1987

Note 1 - Nature of Operations and Summary of Significant  
Accounting Policies:

Nature of Operations -

The Association of Friends of the Country (Asociación de Amigos del País or AAP) was created by royal order during 1795 in the reign of Charles III of Spain. AAP is a non-profit, cultural, scientific and educational entity, pursuing the improvement of Guatemala based on freedom and dignity for all Guatemalan citizens. Since its inception, AAP has undertaken social, agricultural, educational and artistic activities, as well as those connected with industry and trade. Its bylaws and legal status were approved on June 16, 1967. The entity is headquartered in Guatemala City and is authorized to open offices and chapters within and outside the country. At present, AAP is supporting three main projects: Publication of Textbooks, General History of Guatemala, and Integral Basic Education.

On July 31, 1987 AAP and the United States Agency for International Development (A.I.D.) signed grant agreement No. 520-0364 - Private Sector Education Initiative Project. The general objective of the project is to complement the National Literacy Program of the Ministry of Education addressed to adult literacy needs, with a special focus on the Pacific coast, highlands and low income areas. The project also attempts to assist AAP in implementing in the private sector a non-formal education program for the poor rural and peri-urban areas to improve living conditions. The program started on July 31, 1987 for a four year period.

Accounting Records -

The records of the Association of Friends of the Country are maintained in Quetzales, denoted by the symbol Q. The Fund Accountability Statement was prepared on the basis of cash receipts and cash disbursements. Consequently,

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT No. 520-0364

NOTES TO THE FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD AUGUST 4, 1987 TO DECEMBER 31, 1987

revenues and the related assets are recognized when received rather than when earned and expenditures are recognized when paid rather than when the obligation is incurred.

Note 2 - Foreign Currency Regulations:

Effective June 6, 1986 the Government of Guatemala established temporary regulations with respect to the parity of the Quetzal (Guatemalan currency) to the US dollar and over international monetary transactions. On April 15, 1987 the Government of Guatemala modified these regulations and as part of these modifications three monetary markets were established, allowing different exchange rates for each one of them:

1. Official market - (Q1.00 = US\$1.00), applicable only for debt owed by the public and private sectors for transactions previously considered essential and recorded with the Central Bank prior to the date of the regulations.
2. Regulated market - (Q2.50 = US\$1.00), applicable to the liquidation of imports and exports.
3. Banking market - Applicable to all other transactions not having access to the other two markets. The exchange rate in this market fluctuates based on demand and supply of foreign currency.

Subsequent to the completion of the audit field work but before issuance of the auditor's report, the Monetary Board issued new regulations which established a rate of exchange at Q2.70 - US\$1.00 for all transactions not having access to the official market.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON PROPOSED COSTS

AUDITOR'S OPINION

We have reviewed the cost proposal for the Private Sector Education Initiative Project related to Cooperative Agreement No. 520-0364 between Association of Friends of the Country (AAP) and the Agency for International Development (A.I.D.). Except for the scope limitations described in the second paragraph, our review was made in accordance with the criteria established by the Statement of Work for the pre-award survey of the above mentioned agreement, applicable guidelines included in OMB Circular No. A-122, and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision).

The scope of our examination was limited as follows:

1. AAP did not furnish us with the receipts and disbursement budgets for both A.I.D. assigned funds and counterpart contributions.
2. AAP lacked plans of action, goals and appropriate details for estimating the budgets that will comprise the financial plan described by the Cooperative Agreement.

Because of the scope limitations, as described above, our review was not sufficient to permit us to express, and we do not express, an opinion on the fairness of the overall proposed costs for the Private Sector Education Initiative Project. However, our work disclosed the situations which are discussed under findings 1 to 4 in the following pages.

This report is intended solely for the use of the Association of Friends of the Country and the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.



April 29, 1988  
Guatemala, C. A.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON PROPOSED COSTS

FINDINGS

1. AAP Does Not Have Action Plans and Defined Budgets  
for Project Execution.

Condition:

AAP lacks organization charts, goals, plans, operation manuals and job descriptions clearly defined and approved for project execution. It also lacks detailed monthly, quarterly and annual receipt and disbursement budgets for both A.I.D. assigned funds and counterpart contributions.

Criteria:

AAP should define and document its objectives, plans, goals and budgets setting forth the strategies, departments and required staff, with their duties and responsibilities clearly defined in order to attain the envisaged Project goals.

Cause:

The original project, on the basis of which the Agreement was approved, had to be modified as it did not meet Guatemala's needs. The related plans, goals and budgets had to be restructured.

Effect:

Lack of action plans and budgets may delay compliance with agreement terms and introduce uncertainty in attaining the Project's objectives.

Recommendation:

USAID/Guatemala should require AAP to expedite preparation of the project budget, the restructuring of the Project, and the redefining of its objectives and goals.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON PROPOSED COSTS

FINDINGS

2. Salaries To Be Paid with Counterpart Funds Have Not Been Defined.

Condition:

At present the Project Director's salary is considered by AAP as part of its counterpart contribution. According to the project budget, staff salaries to be paid with A.I.D. funds would only cover approximately two years, and the salaries for the remaining years would have to be covered with AAP counterpart funds. However, AAP has not prepared a budget identifying the source and use of such funds.

Criteria:

Project design should take into account the staff needs to implement it, and also the source from which the funds will be provided.

Cause:

Personnel have been contracted according to the Project needs, disregarding availability of funds, primarily those to be provided by counterpart contributions.

Effect:

Project activities may be delayed because of the lack of funds to pay project staff salaries or lack of indication of the source, A.I.D. or AAP, from which funds would be paid. (possible budget transfer, changes in personnel already contracted, disbursements not in line with the restructuring of the Project, etc.).

Recommendation:

USAID/Guatemala should require the AAP Board of Directors to define the positions required by its administrative structure and its salary plan, and submit a revised budget which includes a detailed budget for personnel in accordance with project needs, for both sources of funds, A.I.D. and counterpart contributions.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON PROPOSED COSTS

FINDINGS

3. Project Expenses Paid with Counterpart Funds Have Not  
Been Recorded in AAP's Books of Record.

Condition:

The reports submitted to A.I.D. include disbursements made with counterpart funds from October to December, 1987 and from January to March, 1988 although they have not been recorded in the books.

Criteria:

Counterpart fund disbursements should be recorded in the books as soon as they are made.

Cause:

Counterpart fund disbursements have not been posted to the accounting records due to lack of a defined budget and criteria regarding the related expenditures.

Effect:

The project's accounting records cannot be relied on as a basis for determining counterpart contributions made, thus encouraging lack of control over these disbursements.

Recommendation:

USAID/Guatemala should require AAP to define appropriate policies for identifying counterpart contributions. The counterpart contributions identified with the project should be recorded in the project's accounting records on a timely basis. AAP's accountant should be adequately trained in order to maintain up to date the recording of transactions.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON PROPOSED COSTS

FINDINGS

4. AAP's Approved Quarterly Budget for October Through December, 1987 Was Inconsistent with the Overall Budget and with Related Actual Disbursements.

Condition:

A.I.D. made the first advance of Q609,318 based on the approved budget for October/December 1987. However, some inconsistencies in this budget were detected as described below:

- The quarterly budget submitted by AAP included a budget category for furniture, equipment, and vehicles amounting to Q166,425 but the Cooperative Agreement provided US\$82,543 for this category to be procured directly by A.I.D. On February 10, 1988 amendment No. 1 was signed authorizing AAP to use the advanced funds.
- The budget allocated Q55,000 under the furniture, equipment and vehicles component for acquisition of a computer. The unit was purchased for Q88,356.
- The "other expenses" component included installation expenses for Q30,000 and computer software for Q75,000 with no specific indication as to which budget category of the financial plan described in the agreement would apply.

Criteria:

Both the partial budgets prepared by AAP and the related disbursements should agree with the budgets and components established in the Cooperative Agreement.

Cause:

The budget for October/December 1987 was prepared without considering the overall budget and disregarded overall project restructuring.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON PROPOSED COSTS

FINDINGS

Effect:

Lack of coordination and integration of the quarterly budgets with the overall Project budget may result in purchases of furniture and equipment not programmed. Loss of control over budget components and possible financial problems due to unnecessary or non-allowable expenditures may occur.

Recommendation:

USAID/Guatemala should require AAP to prepare its quarterly budgets considering the overall Project budget, which is presently in its preparation stage, taking into consideration the financial plan described in the Cooperative Agreement. AAP should request on a timely basis from A.I.D. the budget transfers, if any, required to attain the stated Project objectives.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON FINANCIAL CAPABILITY

AUDITOR'S OPINION

We have performed an evaluation of the Association of Friends of the Country's (AAP) financial capability to manage the Cooperative Agreement No. 520-0364 with the Agency for International Development (A.I.D.). Our evaluation was performed pursuant to the Statement of Work for the review of the above mentioned agreement and, except for the scope limitation mentioned in the second paragraph, was made in accordance with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision).

We were not able to examine the detailed project receipt and disbursement budgets for A.I.D. funds and for AAP's counterpart contributions since the overall project's goals, plans, and organization were under revision and in the process of being restructured.

Because of the scope limitation mentioned in the preceding paragraph, our work was not sufficient to permit us to express, and we do not express, an opinion on the financial capability of Association of Friends of the Country to manage the Private Sector Education Initiative Project. However, our work disclosed the situation discussed under finding No. 1 which is relevant to our evaluation.

This report is intended solely for the use of the Association of Friends of the Country and the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.



April 29, 1988  
Guatemala, C. A.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON FINANCIAL CAPABILITY

FINDINGS

1. Apparent Lack of Financial Capability to Manage the Project

Condition:

The Cooperative Agreement with A.I.D. requires AAP to assign US\$4.7 million as counterpart contributions (approximately Q12.7 million at the rate of exchange of Q2.70 = US\$1.00). AAP has not defined how its counterpart contributions will be furnished, which may not be an easy task based on past performance. Cash receipts, in 1987, exceeded cash disbursements by only Q55,884.

Criteria:

Counterpart contributions should be adequately budgeted with clear indication of the sources thereof.

Cause:

Cash flows and detailed budgets have not been prepared.

Effect:

A lack of a clear definition of other sources of funds to meet project requirements may result in non-compliance with agreement terms and delays in project execution.

Recommendation:

USAID/Guatemala should require AAP to prepare detailed budgets of management's best estimates of sources of funds to meet counterpart contribution requirements under reasonable assumptions. If it appears that estimated future cash flows will not be sufficient, AAP should request that its counterpart contributions under the agreement be adjusted to manageable levels.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 52C-0364

REPORT ON MANAGEMENT CAPABILITY

AUDITOR'S OPINION

We have performed a study and evaluation of the Association of Friends of the Country's (AAP) management capability to administer the Private Sector Education Initiative Project under the Cooperative Agreement No. 520-0364 with the Agency for International Development (A.I.D.). Our study and evaluation covered those areas we considered relevant to the criteria established by the Statement of Work for the pre-award survey of the above mentioned agreement. Our work was performed in accordance with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision).

Based on our evaluation and our understanding of the criteria included in the Statement of Work mentioned in the preceding paragraph, we believe that the capability that AAP may have for efficiently managing and controlling execution of Cooperative Agreement No. 520-0364 cannot be determined at the present time, since it is subject to overall Project restructuring, which includes securing sufficient funds as counterpart contributions and contracting full-time key staff directly related to the Project. However, our work revealed the situations which are discussed under findings 1 to 6.

This report is intended solely for the use of Association of Friends of the Country (AAP) and the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.



April 29, 1988  
Guatemala, C. A.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

1. The Positions of General Director and Administrative Director of the Project Are Not Presently Filled on a Full-time Basis.

Condition:

At the date of this report, the Director of the Private Sector Education Initiative Project, whose salary is considered as a counterpart contribution, does not work full time for the Project. Also, the Director of the Administrative Department holds another position with AAP in addition to this function.

Criteria:

The cooperative agreement requires both a full-time Project Director and an Administrative Department Director.

Cause:

Because of his personal activities, the Project Director cannot devote sufficient time to the Project for discharging his duties with the Project during normal working hours. The Administrative Department Director works partially with both the Project and with the Association to fulfill the latter's needs.

Effect:

Lack of full-time devotion of key staff to the Project may delay its activities, cause non-compliance with agreement terms, overload the work of subordinate staff and cause key decisions not to be made on a timely basis.

Recommendation:

USAID/Guatemala should require AAP's Board of Directors to contract a Project Director on a full-time basis, and retain the present Director as an advisor in view of his thorough knowledge of Project objectives. The

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REPORT ON MANAGEMENT CAPABILITY

FINDINGS

present Administrative Department Director should discharge her functions on a full-time basis for the Project and divest herself of other activities.

2. The Project's Organizational and Administrative Structure Has Not Been Formalized.

Condition:

AAP does not have a defined organizational and administrative structure for executing the Private Sector Education Initiative Project. Its organizational structure and the specific functions of each department and staff member have neither been defined nor implemented.

Criteria:

Sound management practices require a well-structured organization with clearly defined levels of authority and an appropriate definition of the specific responsibilities to be assigned to each job position.

Cause:

The Project's overall restructuring has prevented a proper definition of goals, plans and budgets for each department, as well as their specific functions and those of the staff required for the Project development.

Effect:

Lack of a clear definition of both AAP's administrative and organizational structure and that of the Project may result in non-compliance with agreement terms and delays in project execution.

Recommendation:

USAID/Guatemala should require AAP to formally define the entity's organizational and administrative structure for executing the Project.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
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USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

3. The Objectives Sought by Contracting for Accounting Advisory Services Have Not Been Attained.

Condition:

To the date of this report, the objectives of the accounting advisory services contracted by AAP to a consulting firm had not been attained. The accounting records are three months in arrears, and the accountant was not familiar with the new accounting manual.

Criteria:

The agreement requires the recipient to maintain separate records to account for A.I.D. funds on a timely basis, in accordance with generally accepted accounting principles.

Cause:

Compliance with contract objectives and improvement of its accounting capacity has not been established by AAP.

Effect:

Improper implementation of accounting procedures may occur and not be in accordance with generally accepted accounting principles. Also, the financial information is not up to date, and management decisions may not be appropriately made.

Recommendation:

USAID/Guatemala should require AAP to demand that the consulting firm comply with its accounting advisory services contract to ensure implementation of a functional accounting system and related procedures.

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REPORT ON MANAGEMENT CAPABILITY

FINDINGS

4. The Administrative Procedures Manual in Process of Implementation Has Several Deficiencies.

Condition:

The Administrative Procedures Manual, designed by a consulting firm and which is in the process of implementation, has the following deficiencies:

- It does not include all significant required forms.
- It assigns incompatible functions to several positions.
- Some procedures overlook specific requirements that should govern the related activities.
- It refers to some activities and positions required by the organization manual which are not yet in force.
- It takes into account some positions not covered by the Project's envisioned organizational structure.

Criteria:

The Procedures Manual should cover all positions provided for by the entity's organizational structure, and should encompass all the activities, controls and documents required for an efficient discharge of responsibilities assigned to each position or function.

Cause:

It would appear that preparation of the Manual did not benefit from a detailed evaluation of and an integrated approach to AAP and Project activities.

Effect:

The deficiencies in the Manual may cause errors or omissions and lack of proper assignment of responsibilities to AAP's staff.

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USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

Recommendation:

USAID/Guatemala should require AAP to revise the Administrative Procedures Manual on the basis of the entity's organizational and administrative structure and in accordance with management's needs and specific project objectives and goals.

5. AAP's Accounting System Needs Improvement.

Condition:

AAP lacks an adequate accounting system which provides for auxiliary records or ledgers for detailing the balances shown on the financial statements and corresponding relationship to a budgetary control system.

Criteria:

Attachment 1, paragraph H to the Cooperative Agreement establishes that by January 1, 1988 AAP should have adopted a budget control system and evaluated the possibility of strengthening its financial administration.

Cause:

Prior to contracting a consulting firm to design an Accounting and Administrative Procedures Manual, AAP processed its transactions through an external service. However, a budgetary control system was not included in the Manual.

Effect:

Lack of an adequate accounting and budget control system may cause delays and errors in recording transactions and executing the budget and in the application of sound accounting principles and practices. The generated financial information may not be reliable.

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USAID/GJATEMALA PROJECT NO. 520-0364

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

Recommendation:

USAID/Guatemala should require AAP to revise the Accounting and Administrative Procedures Manuals in order to generate adequate records that permit proper accounting for both A.I.D. and AAP funds, with the incorporation of a budgetary control system.

6. There Was Inconsistency in the Salary Policy Covering the Department Directors.

Condition:

The Project Department Directors contracted by AAP are at the same level within the organization chart prepared for approval by the Board of Directors. However, their monthly remuneration differs significantly as one Director will be paid a salary of Q2,500, while the other two will be paid fees of Q3,000 and Q4,000, respectively.

Criteria:

AAP should have a salary policy allowing for similar scales for key positions and establishing escalating factors and standard payments.

Cause:

Lack of a well defined salary policy and grading system for the key staff contracted has prevented the adoption of a consistent salary determination criteria.

Effect:

The different compensation assigned to key staff at the same level of responsibility may cause internal conflicts, possible labor contingencies, loss of personnel at key positions, confusion at command levels and negative consequences to the Project.

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USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

Recommendation:

USAID/Guatemala should require AAP to adopt a wage and salary administration program and personnel administration procedures consistent within the organizational structure and the duties of each position.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

REPORT ON INTERNAL CONTROLS

AUDITOR'S OPINION

We have performed a pre-award study and evaluation of the internal accounting and administrative control systems of the Association of Friends of the Country (AAP) in connection with Cooperative Agreement No. 520-0364 with the Agency for International Development (A.I.D.). The purpose of our study and evaluation was to determine whether the control systems were adequate to record transactions under the Agreement. 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 pursuant to the criteria set forth in the Statement of Work for the pre-award survey. It was limited to an evaluation of key controls over cash disbursements, procurement practices, asset safeguarding and financial data submission.

The management of AAP is responsible for establishing and maintaining adequate internal controls in areas of significance to the Project covered by the above mentioned Agreement. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of any system of internal control are to provide management with reasonable, but not absolute, assurance that resources are safeguarded against waste, loss or misuse; that resources are properly used and in compliance with established procedures; and that reliable data is obtained, maintained and fairly disclosed in management reports.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Based on our study and the criteria referred to in the first paragraph of this report, we believe that AAP's

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REPORT ON INTERNAL CONTROLS

AUDITOR'S OPINION

internal control system is not adequate for A.I.D. purposes. The bases for our conclusion are described in the accompanying findings Nos. 1 and 2, finding No. 3 of the report on proposed costs, and findings Nos. 3, 4, and 5 of the report on management capability, which 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.

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April 29, 1988  
Guatemala, C. A.

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REPORT ON INTERNAL CONTROLS

FINDINGS

1. Internal Accounting Procedures and Related Controls  
Have Not Been Adequately Defined.

Condition:

In general, internal procedures and controls have not been defined in areas of significance to accounting and administrative functions.

Criteria:

Adequate procedures and internal controls should be defined and implemented as a basis for the reliable recording of the Association's daily operations and those of the Project.

Cause:

No adequate internal control system had been implemented by AAP because of its size and the fact that it had never managed projects requiring defined procedures and controls.

Effect:

Lack of adequate procedures and controls may give rise to deficiencies and/or deviations preventing compliance with previously established management objectives.

Recommendation:

USAID/Guatemala should require AAP to implement accounting and administrative standards and procedures manuals as soon as possible, in order to strengthen the internal accounting control and management information systems of both AAP and the Project.

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REPORT ON INTERNAL CONTROL

FINDINGS

2. Controls Over Fixed Assets were Weak.

Condition:

At present no physical inventories of fixed assets are taken at year-end to be used for comparison with the related auxiliary ledgers. The general ledger control account is not reconciled with the auxiliary ledger.

Criteria:

All fixed assets should be controlled beginning with their acquisition.

Cause:

AAP lacked an adequate system to safeguard its fixed assets and had not implemented a policy to control fixed assets.

Effect:

Assets acquired may be written-off, withdrawn or transferred without appropriate management approval, and this might not be detected.

Recommendation:

USAID/Guatemala should require AAP to define and implement a policy regarding fixed asset control, which among other things would require that:

- All items be identified by number upon their acquisition.
- Physical inspection and counts be made periodically.
- A comparison between the results of periodic physical inventories of fixed assets with the related auxiliary ledgers be made, and any significant differences be immediately investigated.

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REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND  
APPLICABLE LAWS AND REGULATIONS

AUDITOR'S OPINION

We have performed a study and evaluation of compliance with agreement terms and applicable laws and regulations with respect to Cooperative Agreement No. 520-0364 between the Association of Friends of the Country (AAP) and the Agency for International Development (A.I.D.), signed on July 31, 1987. Our study and evaluation was performed in accordance with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision).

The management of AAP is responsible for the entity's compliance with terms of the above mentioned agreement and with applicable laws and regulations. For purposes of our study we reviewed and/or tested the following matters related to AAP activities and to the Project:

1. Cooperative Agreement No. 520-0364, Private Sector Education Initiative Project.
2. Project progress as of April 29, 1988 compared to activities programmed as included in the project plan.
3. Payment of salaries, fees and rent.
4. Compliance with applicable regulations and Guatemalan laws.

The results of our evaluation indicate that for the items reviewed and/or tested, AAP complied with Agreement terms and applicable laws and regulations, except as described in the accompanying findings 1 to 4, finding No. 1 of the report on proposed costs, and finding No. 5 of the report on management capability. With respect to items not reviewed or tested, nothing came to our attention to indicate that AAP had not complied with Agreement terms and applicable laws and regulations.

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AUDITOR'S OPINION

This report is intended solely for the use of the Association of Friends of the Country and of the Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.



April 29, 1988  
Guatemala, C. A.

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REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND  
APPLICABLE LAWS AND REGULATIONS

FINDINGS

1. AAP Had Not Complied With Some Requirements Estab-  
lished by Applicable Laws of Guatemala.

Condition:

As of the date of our review, AAP did not have internal labor regulations, labor contracts, salaries and financial statement legal ledgers; was not registered as a Workers' Bank withholding agent; had not filed its income tax return for the year ended December 31, 1987 and had not legally appointed its accountant before the Tax Office of the Government.

Criteria:

AAP should comply with all applicable Guatemalan legal requirements for non-profit organizations.

Cause:

Non-compliance with the above requirements was prompted by lack of legal and administrative advisory services.

Effect:

Non-compliance with the above mentioned legal requirements may give rise to legal and tax contingencies for AAP. Penalties could be imposed which could affect Project development.

Recommendation:

The Board of Directors of AAP should adopt whatever actions are necessary to comply in full with any legal requirement, and give both the Administration and Finance Director and the accountant the necessary instruction on the laws of Guatemala which are applicable to the entity.

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REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND  
APPLICABLE LAWS AND REGULATIONS

FINDINGS

2. The Annual Implementation Plan Had Not Been Presented to USAID/Guatemala.

Condition:

As of the date of this report, AAP had not submitted to USAID/Guatemala an Annual Implementation Plan with respect to the activities of the Private Sector Education Initiative Project.

Criteria:

According to the Cooperative Agreement, section D of attachment 2, AAP is required to submit to USAID/Guatemala an Annual Implementation Plan detailing the Project objectives and goals per year, and generally the activities to be undertaken to meet its objectives.

Cause:

The Project was in the process of restructuring, including its Annual Implementation Plan.

Effect:

Lack of annual implementation plans and unawareness by USAID/Guatemala of related activities may delay the Project.

Recommendation:

USAID/Guatemala should require AAP to submit as soon as possible a report on the present situation of the Project indicating when the Annual Implementation Plan will be presented.

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REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND  
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FINDINGS

3. The Grant Agreement Contains a Discrepancy  
Regarding the Amount of Counterpart Contributions  
Required.

Condition:

The Agreement signed on July 31, 1987 establishes in section B of attachment 2 that the counterpart contribution to be paid by AAP amounts to \$4.7 million. However, in section E of attachment 1 such contribution is set forth a Q4,687,767 (US\$1,875,107).

Criteria:

The Agreement should clearly specify the total counterpart contributions that AAP should pay.

Cause:

AAP elected not to clarify in writing the above mentioned discrepancy, as it was orally agreed that it would pay US\$4.7 million.

Effect:

Lack of a clear definition in writing of the total amount that AAP should contribute as counterpart funds may cause contingencies and confusion, thus negatively affecting the Project development and execution.

Recommendation:

USAID/Guatemala should amend the Agreement to clearly establish the correct amount of counterpart contributions that AAP is required to contribute.

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REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND  
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FINDINGS

4. AAP Has not Adopted Formal Personnel Selection,  
Evaluation and Contracting Procedures.

Condition:

To the date of our review, AAP had not adopted procedures for the selection, evaluation and contracting of personnel. To the date of this report, USAID/Guatemala had only been advised as to when the staff had been contracted.

Criteria:

AAP should have defined procedures for the selection, evaluation and contracting of its personnel according to the Project plans, goals, and budget, for approval of A.I.D. prior to actual contracting of key staff. The procedures should have provided for minimum and maximum remuneration for each hiree as well as escalating factors for the Project duration.

Cause:

Staff was contracted as the Project needs were identified, because the plans, goals and budget restructuring had not been completed.

Effect:

Contracting staff without following an established approved set of procedures may cause labor contingencies and uncertainty as to payment of fringe benefits; non-compliance with the social security laws; internal conflicts within AAP and personnel inefficiencies, thus affecting the Project development and completion.

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REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND  
APPLICABLE LAWS AND REGULATIONS

FINDINGS

Recommendation:

USAID/Guatemala should require AAP to adopt as soon as possible a set of administrative procedures for the selection, evaluation and contracting of personnel, which should include a clear definition of contract terms as well as the related legal aspects. The procedures should be approved by A.I.D. prior to implementation. Also, before hiring a person, approval should be obtained from A.I.D.

PRIVATE SECTOR EDUCATION INITIATIVE PROJECT WITH THE  
ASSOCIATION OF FRIENDS OF THE COUNTRY  
USAID/GUATEMALA PROJECT NO. 520-0364

LIST OF REPORT RECOMMENDATIONS

REPORT ON PROPOSED COSTS

Recommendation 1:

USAID/Guatemala should require AAP to expedite preparation of the project budget, the restructuring of the Project, and the redefining of its objectives and goals.

Recommendation 2:

USAID/Guatemala should require the AAP Board of Directors to define the positions required by its administrative structure and its salary plan, and submit a revised budget which includes a detailed budget for personnel in accordance with project needs, for both sources of funds, A.I.D. and counterpart contributions.

Recommendation 3:

USAID/Guatemala should require AAP to define appropriate policies for identifying counterpart contributions. The counterpart contributions identified with the project should be recorded in the project's accounting records on a timely basis. AAP's accountant should be adequately trained in order to maintain up to date the recording of transactions.

Recommendation 4:

USAID/Guatemala should require AAP to prepare its quarterly budgets considering the overall Project budget, which is presently in its preparation stage, taking into consideration the financial plan described in the Cooperative Agreement. AAP should request on a timely basis from A.I.D. the budget transfers, if any, required to attain the stated Project objectives.

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LIST OF REPORT RECOMMENDATIONS

REPORT ON FINANCIAL CAPABILITY

Recommendation 1:

USAID/Guatemala should require AAP to prepare detailed budgets of management's best estimates of sources of funds to meet counterpart contribution requirements under reasonable assumptions. If it appears that estimated future cash flows will not be sufficient, AAP should request that its counterpart contributions under the agreement be adjusted to manageable levels.

MANAGEMENT CAPABILITY

Recommendation 1:

USAID/Guatemala should require AAP's Board of Directors to contract a Project Director on a full-time basis, and retain the present Director as an advisor in view of his thorough knowledge of Project objectives. The present Administrative Department Director should discharge her functions on a full-time basis for the Project and divest herself of other activities.

Recommendation 2:

USAID/Guatemala should require AAP to formally define the entity's organizational and administrative structure for executing the Project.

Recommendation 3:

USAID/Guatemala should require AAP to demand that the consulting firm comply with its accounting advisory services contract to ensure implementation of a functional accounting system and related procedures.

Recommendation 4:

USAID/Guatemala should require AAP to revise the Administrative Procedures Manual on the basis of the entity's organizational and administrative structure and in accordance with management's needs and specific project objectives and goals.

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LIST OF REPORT RECOMMENDATIONS

Recommendation 5:

USAID/Guatemala should require AAP to revise the Accounting and Administrative Procedures Manuals in order to generate adequate records that permit proper accounting for both A.I.D. and AAP funds, with the incorporation of a budgetary control system.

Recommendation 6:

USAID/Guatemala should require AAP to adopt a wage and salary administration program and personnel administration procedures consistent within the organizational structure and the duties of each position.

REPORT ON INTERNAL CONTROLS

Recommendation 1:

USAID/Guatemala should require AAP to implement accounting and administrative standards and procedures manuals as soon as possible, in order to strengthen the internal accounting control and management information systems of both AAP and the Project.

Recommendation 2:

USAID/Guatemala should require AAP to define and implement a policy regarding fixed asset control, which among other things would require that:

- All items be identified by number upon their acquisition.
- Physical inspection and counts be made periodically.
- A comparison between the results of periodic physical inventories of fixed assets with the related auxiliary ledgers be made, and any significant differences be immediately investigated.

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LIST OF REPORT RECOMMENDATIONS

REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Recommendation 1:

The Board of Directors of AAP should adopt whatever actions are necessary to comply in full with any legal requirement, and give both the Administration and Finance Director and the accountant the necessary instruction on the laws of Guatemala which are applicable to the entity.

Recommendation 2:

USAID/Guatemala should require AAP to submit as soon as possible a report on the present situation of the Project indicating when the Annual Implementation Plan will be presented.

Recommendation 3:

USAID/Guatemala should amend the agreement to clearly establish the correct amount of counterpart contributions that AAP is required to contribute.

Recommendation 4:

USAID/Guatemala should require AAP to adopt as soon as possible a set of administrative procedures for the selection, evaluation and contracting of personnel, which should include a clear definition of contract terms as well as the related legal aspects. The procedures should be approved by A.I.D. prior to implementation. Also, before hiring a person, approval should be obtained from A.I.D.

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