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NON-FEDERAL PRE-AWARD SURVEY OF THE INTEGRATED AQUACULTURE EXTENSION PROJECT WITH THE COOPERATIVE FOR AMERICAN RELIEF EVERYWHERE (GUATEMALA)

USAID/GUATEMALA PROJECT NO. 520-0351

Audit Report No. 1-520-87-01-N
January 20, 1987

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

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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January 20, 1987

MEMORANDUM FOR: D/USAID/Guatemala, Anthony Caputerucci

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

SUBJECT : Audit Report No. 1-520-87-01-N, "Non-Federal Pre-Award Survey of the Integrated Aquaculture Extension Project with the Cooperative for American Relief Everywhere (Guatemala)"

This report presents the results of a non-Federal pre-award survey that your Mission requested of the Integrated Aquaculture Extension Project with the Cooperative for American Relief Everywhere in Guatemala (CARE/Guatemala). The certified public accounting firm of Peat, Marwick, Mitchell & Company (Peat Marwick) in Guatemala prepared the report which is dated January 14, 1987.

The purpose of this pre-award survey was to determine if (1) CARE/Guatemala has sufficient administrative ability and span of control to administer the project, (2) the proposed estimated direct and indirect costs are based on available, up-to-date, complete and accurate information on prices and reflect only costs which are acceptable and necessary to carry out the work, (3) CARE/Guatemala is financially capable of carrying out the proposed work, and (4) CARE/Guatemala's accounting system has sufficient capacity to process the project's accounting data accurately and that internal controls are adequate for government accounting.

In the opinion of Peat, Marwick, Mitchell & Company, CARE/Guatemala:

-- has sufficient administrative ability and span of control to administer the project,

-- has not adequately supported its proposed costs for the second and third years of the project,

-- is financially capable of carrying out the proposed work, and

-- has an accounting system which has sufficient capacity to process the project's accounting data accurately and internal controls adequate to account for AID funds.

The Peat Marwick report contains two recommendations to improve CARE/Guatemala's administrative ability, one recommendation to better support its cost proposal, one recommendation to improve its financial capability, and seven recommendations to improve its internal controls.

Although the report contains 14 findings, CARE/Guatemala corrected three findings when notified of the problems; so this report only contains 11 recommendations for the areas not yet corrected.

We believe that the recommendations contained in this report will significantly improve CARE/Guatemala's performance on this project. As a result, the following recommendation will be included in the OIG's audit recommendation follow-up system.

Recommendation No. 1

USAID/Guatemala obtain from CARE/Guatemala evidence to demonstrate that it has implemented the recommendations in the Peat Marwick audit report.

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

b

Certified Public Accountants

PRE-AWARD SURVEY OF THE INTEGRATED AQUACULTURE EXTENSION PROJECT WITH CARE/GUATEMALA

USAID/GUATEMALA PROJECT No. 520-0351

PRE-AWARD SURVEY OF THE INTEGRATED AQUACULTURE
EXTENSION PROJECT WITH CARE/GUATEMALA
USAID/GUATEMALA PROJECT NO. 520-0351

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PEAT MARWICK

Certified Public Accountants

January 14, 1987

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

Dear Mr. Gothard:

This report presents the results of our pre-award survey audit of the Integrated Aquaculture Extension Project (No. 520-0351) with the Cooperative for American Relief Everywhere in Guatemala (CARE/GUATEMALA).

BACKGROUND

The Agency for International Development (AID) proposes to make a grant of US$500,000 to the Cooperative for American Relief Everywhere for the Integrated Aquaculture Extension Project, an expansion of the Fish Pond Project.

The Fish Pond Project has been active since 1982, establishing almost 500 family fish ponds, mainly in the Eastern region departments of Zacapa and Chiquimula. Through the project CARE has given materials, equipment and training to small farmers interested in improving their diet and income generation through the consumption and sale of fresh fish. Although fish culture was an entirely new idea, farmers accepted the concept, and the high demand and price paid in rural areas for fresh fish demonstrates the project's viability. This original project formed the base of aquaculture in the communities upon which the extension project will be built. The extension is the logical outgrowth of the original and would not be possible if that first project had not demonstrated such success in pond promotion and construction.

The extension has the additional objective of transferring responsibility for project management to DIGESEPE (General Directorate of Animal Husbandry) and to the communities so that CARE participation can be phased out over a three year period. Upon completion of the project, aquaculture would be part of normal government extension service activities. In order to achieve this consolidation, the project will focus on the organization of producers into associations, training of DIGESEPE technicians as aquaculture extensionists, and integration of family ponds. The project will be expanded to serve approximately forty communities in Regions I, II, V, VI, and VIII, and three additional communities in Region VII, where the project originated. These regions

include the Highland, Northern Transversal Strip, Eastern, and Verapaz areas of the country, and will encompass aproximately 9,000 beneficiaries.

Expansion of the program requires additional trained local promoters, technically qualified DIGESEPE aquaculture extension agents and supervisors, renovation and upgrading of the existing fishery stations and their management, provision of technical equipment for basic experimentation, materials for family pond construction, and transportation for field personnel. A major project component will be to establish the infrastructure of trained personnel needed for a functional aquaculture extension service. DIGESEPE personrel to be trained under this program would include field extensionists, fish station managers, regional supervisors, and central level project coordinators. The project will also form producer associations in some communities when possible. Once the producer associations are established, direct CARE support for the purchase of project materials and equipment could be phased out. An effectively functioning association could manage a revolving fund providing farmers access to credit with which to establish, diversify, or expand their ponds. The associations would also serve to improve producers' income through bulk purchasing of commodities and improved commercialization of fish.

The organizational structure of CARE/GUATEMALA is composed of a Director, who is in charge of the Mission in Guatemala, five advisors and seven project heads. The five advisors cover the areas of nutrition and health, project coordination, comptrollership, administrative assistance and computing. Three of the advisors also carry out specific functions in the organization. The Project Coordinator is the head of the Aquaculture and Urban Food for Work Projects; the Comptroller is responsible for all matters related to finance and inventories; and the Administrative Assistant is responsible for the administration and communication between CARE/GUATEMALA and other related institutions (CARE/NEW YORK and CARE/CANADA).

The project heads have responsibility for all personnel dedicated to a project, for example, the project assistants and the field supervisors. There are differences in the personnel structures of the various projects, depending on the size of the project and its requirements. At present, CARE/GUATEMALA administers nine projects assigned among the different project heads. This structure makes it possible to assign new responsibilities to the project heads without changing the present organization by adding personnel to specific projects.

AUDIT OBJECTIVES AND SCOPE

The objectives of our review were to determine whether:

1. CARE/GUATEMALA has sufficient administrative ability and control capacity to administer the project, considering the present and future work load of the project itself, personnel levels and past performance.

2. The proposed estimated direct and indirect costs are based on available up-to-date complete and accurate information on prices and reflect only costs which are acceptable and necessary to carry out the work.

3. The prospective recipient's accounting system has sufficient capacity to process the contract accounting data accurately and that internal accounting controls are adequate for government accounting.

4. The prospective recipient is financially capable of carrying out the proposed work.

The scope of the work consisted of:

1. Analyzing the prospective recipient's ability to carry out the project efficiently.

2. Analyzing the proposed costs for the Integrated Aquaculture Extension Project.

3. Reviewing the prospective recipient's systems of accounting, record keeping, internal control, administrative control and policies for the management of funds.

4. Analyzing the prospective recipient's financial capacity for carrying out the proposed work.

5. Performing other audit steps necessary to accomplish survey objectives.

6. Discussing the results with RIG/A/T and appropriate USAID/Guatemala officials and obtaining additional information concerning the project or programs for incorporation into an audit report as appropriate.

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

RESULTS OF AUDIT

1. Management Capabilities

As a result of the audit, we concluded that CARE/GUATEMALA has sufficient administrative ability and control to administer the project considering the present and projected work load, staffing levels and past performance, even though the organization had been considerably short of its established goals for prior years. Planning for project goals should be revised to be as realistic as possible.

2. Proposed Costs

As a result of our review, we were unable to express an opinion on the proposed costs because CARE/GUATEMALA had no support for its proposed costs for FY's 1988 and 1989. Therefore, our examination was limited in scope to only the proposed costs for FY 1987. For the examined costs, we determined that the budget for materials, instruments and equipment should be revised because it did not adequately contemplate the price increases that those products might undergo during the performance period.

3. Financial Capability

We determined that CARE/GUATEMALA has sufficient financial capability to meet the expenditures required for the execution of the project until reimbursed by AID. CARE/GUATEMALA has not implemented controls over the collection of counterpart contributions required by the agreement, but it has the financial support of CARE/NEW YORK and CARE/CANADA, who periodically send remittances to cover its general expenditures.

4. Internal Control

According to our study and evaluation of the accounting and internal control system, we determined that CARE/GUATEMALA has a plan for organization and sufficient procedures which enables it to protect its assets, verify the accurancy and reliability of the accounting data, promote the efficiency of operations and comply with the policies established by management.

Weaknesses in the system requiring correction included the lack of a separate bank account for the project, which would be necessary if USAID/ Guatemala advances funds to CARE, and untimely requests for reimbursement of expenses from AID.

Peat, Marwick

Management Comments

Based upon a review of our draft report, USAID/Guatemala and CARE/GUATEMALA provided us with their comments on the draft report on December 8, 1986. They were generally in agreement with the draft report although they suggested some changes which have been incorporated in this report.

Peat, Marwick, Mitchell & Co

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON MANAGEMENT CAPABILITIES

AUDITOR'S OPINION

We have examined the administrative ability and control measures of CARE/GUATEMALA, considering the present and planned work load, levels of personnel and past performance. The study was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision) and with guidelines specified by AID.

We determined that CARE/GUATEMALA had established new working positions in order to reach its projected goals. With regard to the level of personnel, they had the structure necessary to develop the project. The accounting system was adequate and accounting policies were applied consistently. Support documentation for expenditures was duly authorized and information was appropriately entered into the accounting system for processing and distributing to the different projects managed by CARE/GUATEMALA. The organization's fund management policies were adequate.

As mentioned in Finding No. 1, CARE/GUATEMALA did not fulfill the goals established for the number of ponds which would be rehabilitated and constructed. CARE only reached 70% of its goals in 1984, 75% in 1985 and 58% in 1986.

In our opinion, except for not fullfulling the established goals as mentioned above, CARE/GUATEMALA has the necessary management and administrative resources to administer the proposed grant to be used for the Integrated Aquaculture Extension Project, and no additional assistance to its administration is necessary.

Peat, Marwick, Mitchell & Co.

October 28, 1986

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON MANAGEMENT CAPABILITIES

1. Poor Planning for the Number of Ponds to be Built and Rehabilitated

Condition:

The budgeted number of ponds to be built or rehabilitated was not met.

PONDS	1984			1985			1986		
	ACTUAL	PLANNED	%	ACTUAL	PLANNED	%	ACTUAL	PLANNED	%
Built	157	225	70	99	180	55	122	214	57
Rehabilitated				70	46	152	66	110	60
TOTAL	157	225	70	169	226	75	188	324	58

Accomplishments were well below what was planned. The project built or rehabilitated 157 ponds or 70 percent of the planned 225 ponds for 1984, 169 ponds or 75 percent of the planned 226 ponds for 1985, and only 188 ponds or 58 percent of the planned 324 ponds for 1986.

Criterion:

Planning for the number of ponds to be rehabilitated and built should be as realistic as possible and, to a certain degree, conservative, so that the proposed goals are achievable. Goals should be formally revised when circumstances alter the likelihood of accomplishment.

Cause:

Planning may have been too optimistic making the achievement of goals possible only in very favorable circumstances, and the goals were not formally revised and approved by USAID/GUATEMALA.

Effect:

Established goals for the number of ponds to be built and rehabilitated were not reliable targets for the extension workers to follow.

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON MANAGEMENT CAPABILITIES

Recommendation:

CARE/GUATEMALA should establish the most realistic goals possible for the project, formally revise them as circumstances require, and obtain formal approval from USAID/GUATEMALA for any goal revisions.

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON MANAGEMENT CAPABILITIES

2. Timeliness of Monthly Reports

Condition:

Some project sites did not deliver their monthly reports on time. As of July 21, 1986, 132 monthly reports should have been delivered but only 92 had been received (30% short). The period covered was from January to June 1986. Some reports had not been delivered since January.

Criterion:

The monthly report is a report to control the performance of each site and must be prepared on time and sent without delay. The extension workers are under obligation to send this report monthly from each of the sites. This report contains information on:

Ponds built or rehabilitated,
Fish harvested,
Stock supplied,
Monthly samples, and
Demonstrations or courses.

Cause:

According to CARE/GUATEMALA, this problem resulted when the reports were lost in the mail and that their information system is now current.

Effect:

If monthly reports are not received on time, it is not possible to accurately monitor the progress of the project, especially when the reports are more than three months late. Therefore, statistics on the achievement of planned goals were not accurate and could not be used as a reliable measure of project success.

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON MANAGEMENT CAPABILITIES

Recommendation:

This problem appears to be an exception to CARE's normal reporting practices.

We have included this finding only to acknowledge a problem that we found during the audit. Since it is an exception and has been corrected, we do not include a recommendation on it.

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON MANAGEMENT CAPABILITIES

3. Timeliness in Preparing Reports Sent to New York

Condition:

The Planning, Implementation and Evaluation Reports (P.I.E. Reports) prepared for each of the projects were not being sent to CARE/NEW YORK on a timely basis.

Criterion:

Every four months, Planning, Implementation and Evaluation Reports (P.I.E. Reports) should be prepared for each of the projects and sent to CARE/NEW YORK to determine project's progress. The dates on which these reports are to be prepared are indicated in the operations manual. These documents must be prepared and sent on time in order to have the information available for making necessary decisions.

Cause:

CARE/GUATEMALA did not follow its procedures for the submission of these reports to NEW YORK in a timely manner.

Effect:

When needed documents and information were not obtained on time, there was a risk of making the wrong decisions.

Recommendation:

A program should be prepared requiring reports to be sent to New York on time.

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON PROPOSED COSTS

AUDITOR'S OPINION

We have examined the Proposed Costs of the Integrated Aquaculture Extension Project presented by CARE/GUATEMALA to the Agency for International Development (A.I.D.). Our examination only included the period from July 1, 1986 to June 30, 1987 (FY 1987), because CARE/GUATEMALA had no support for its proposed costs for FY's 1988 and 1989 as discussed in finding No. 1. Our study was carried out according to the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and with guidelines specified by A.I.D.

The proposed costs were prepared mainly on the basis of the experience of the CARE/GUATEMALA employee in charge of carrying out other similar projects. The wages, salaries, and social benefits budget included costs for all personnel directly or indirectly participating in the execution of the project. For example, the budget included 61% of the salary of the Project Head on the basis of the time devoted to the project, 33% in fringe benefits for international personnel, and 30% in fringe benefits for participating national personnel.

As a result of our study, we determined that the proposed costs for materials, instruments and equipment used in the manufacture and maintenance of ponds should be revised because it did not adequately contemplate the price increases that those products might undergo during the performance period, since the proposed costs of those products were based on the last months' purchase price plus only a 10% increment.

CARE/GUATEMALA, as mentioned in the first paragraph, had no support for how its proposed costs were determined for 1988 and 1989. This made it impossible to apply the procedures to satisfy the reasonableness of the proposed costs. Therefore, since we were unable to apply adequate procedures with regard to those costs, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the mentioned proposed costs.

Peat, Marwick, Mitchell & Co.

October 28, 1986

CARE/GUATEMALA

INTEGRATED AQUACULTURE EXTENSION

Project USAID/Guatemala No. 520-0351

Proposed Costs for the Period of
Three Years ending on June 30, 1989
(Expressed in US Dollars)

	1987					1988					1989					TOTAL				
	CARE	LIGESEPE	AID	Peace Corps	Total	CARE	LIGESEPE	AID	Peace Corps	Total	CARE	LIGESEPE	AID	Peace Corps	Total	CARE	LIGESEPE	AID	PEACE CORPS	TOTAL
Income:																				
Cash	$ 25,000	$ 20,000	$ 173,944	-	$ 218,944	$ 25,000	$ 20,000	$ 164,407	-	$ 209,407	$ 25,000	$ 20,000	$ 161,649	-	$ 206,649	$ 75,000	$ 60,000	$ 500,000	-	$ [illegible]
Operating Expenses:																				
(1) Materials and equipment	7,000	10,000	61,720	-	78,720	8,000	-	62,250	-	70,250	8,000	-	59,881	-	67,881	23,000	10,000	183,851	-	216,851
(2) Personnel and operations	15,749	10,000	85,924	-	111,673	17,000	20,000	70,750	-	107,750	17,000	20,000	70,620	-	107,620	49,749	50,000	227,294	-	327,043
Training costs	2,251	-	10,000	-	12,251	-	-	16,000	-	16,000	-	-	16,000	-	16,000	2,251	-	42,000	-	44,251
	25,000	20,000	157,644	-	202,644	25,000	20,000	149,000	-	194,000	25,000	20,000	146,501	-	191,501	75,000	60,000	453,145	-	588,145
Administrative Expenses:																				
(3) Overhead 10.34%	-	-	16,300	-	16,300	-	-	15,407	-	15,407	-	-	15,148	-	15,148	-	-	46,855	-	46,855
Total operating expenses	25,000	20,000	173,944	-	218,944	25,000	20,000	164,407	-	209,407	25,000	20,000	161,649	-	206,649	75,000	60,000	500,000	-	635,000
(4) In-kind constributions	-	56,544	-	200,000	256,544	-	94,776	-	200,000	294,776	-	[illegible]	-	200,000	305,864	-	[illegible]	-	[illegible]	[illegible]
Total investment	$ 25,000	$ 76,544	$ 173,944	$ 200,000	$ 475,488	$ 25,000	$ 114,776	$ 164,407	$ 200,000	$ 504,183	$ 25,000	$ [illegible]	$ 161,649	$ 200,000	$ 512,513	$ 75,000	$ 317,184	$ 500,000	$ [illegible]	$ 1,492,184

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

NOTES TO STATEMENTS OF PROPOSED COSTS

1. Materials and Equipment

The materials, equipment and instruments included in the budget are those considered necessary for the maintenance, rehabilitation and building of fish ponds. The projections made for the quantity of materials to be used were based, principally, on the projected goal of building 700 ponds of 125 square meters each during the next three years. At present there is no average cost for building a pond of this size as costs varies depending on many factors, such as location of the pond, utilization of natural materials, cost of materials, type of terrain, etc.

Regarding the cost budgeted for materials, equipment and instruments, the budget execution for the previous year plus 10% was used. This estimate was conservative, taking into account the price increases which have occurred in Guatemala.

2. Personnel and Operations

a) Wages and Salaries

Wages and salaries were budgeted for all personnel directly and indirectly participating in the implementation and execution of the project, including fringe benefits of 33% for international personnel and 30% for national personnel. A housing subsidy for international personnel of 30% was also included in the budget.

b) Vehicle Maintenance and Repairs

Vehicle maintenance and repair costs budgeted are for vehicles owned by DIGESEPE. CARE/GUATEMALA considered it more convenient to maintain those vehicles in good condition rather than buy new ones, considering present costs.

3. Indirect Costs

Indirect costs are budgeted at 10.34% of direct costs (materials and

equipment, personnel and operations and training costs) per a negotiated indirect cost rate agreement between CARE/NEW YORK and AID/WASHINGTON. Direct costs to which the rate was applied in the proposed cost budget are described in notes 1 and 2, respectively, for materials and equipment and personnel and operations. The agreement between CARE/NEW YORK and AID/WASHINGTON states that direct costs to which the indirect cost rate is to be applied should exclude the value of agricultural commodities, in-kind contributions, and ocean freight costs.

4. In Kind Contributions

This item is made up of contributions to be made by DIGESEPE and the Peace Corps, consisting of technical personnel and support for the execution of the project. The personnel are basically supervisors, extension workers, promoters and technical specialists. The amount shown on the financial plan is in accordance with the agreements reached between CARE/GUATEMALA and the other two institutions.

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON PROPOSED COSTS

1. Insufficient Cost Support for Budget

Condition:

Although CARE/GUATEMALA has support for its 1987 cost proposal, it does not have support for its proposed costs for FY's 1988 and 1989.

Criterion:

AID regulations require that proposed costs should be reasonable and reasonableness can only be determined with adequate cost support.

Cause:

CARE/GUATEMALA thought that a detailed budget for the first year (FY 1987) would be sufficient and that its proposed costs for FY's 1988 and 1989 could be more general estimates.

Effect:

The proposed costs for FY's 1988 and 1989 may not be reasonable.

Recommendation:

CARE/GUATEMALA should provide AID with budgetary support for its proposed costs for FY's 1988 and 1989.

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON FINANCIAL CAPABILITIES

AUDITOR'S OPINION

We have evaluated the financial capabilities of CARE/GUATEMALA to carry out the proposed work for the approximate two month period required by AID for reimbursement of the expenses which the Integrated Aquaculture Extension Project will incur during the period from July 1, 1986 to June 30, 1989. We also evaluated whether CARE/GUATEMALA has had any significant reduction in operating funds in the previous three-year period. The study was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

As mentioned in Finding No. 1, CARE/GUATEMALA has not implemented controls over the collection of counterpart contributions established by the agreement. CARE/GUATEMALA depends on the financial support of CARE/NEW YORK and CARE/CANADA which allows CARE/GUATEMALA to cover the expenses needed for the project.

In our opinion, except as indicated above, CARE/GUATEMALA has the financial capabilities necessary to absorb the expenses of the Integrated Aquaculture Extension Project until AID reimburses those expenses.

Peat, Marwick, Mitchell & Co.

October 28, 1986

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON FINANCIAL CAPABILITIES

1. Lack of Budgetary Control

Condition:

Due to the institution's ability to have its liquidity problems solved by CARE/NEW YORK and CARE/CANADA, strict controls had not been implemented in the planning of expenses and collections for counterpart contributions.

Criterion:

The agreement provides for counterpart contributions by DIGESEPE and the Peace Corps. Proper planning of expenses and collections for counterpart contributions are part of good project management.

Cause:

The institution depended on the financial support of CARE/NEW YORK and CARE/CANADA to cover its expenses, if necessary.

Effect:

CARE/GUATEMALA was not in compliance with regard to collections of counterpart contributions.

Recommendation:

CARE/GUATEMALA should implement controls over the collection of counterpart contributions. Fund flow procedures should be implemented that are as realistic as possible. Each project head should report the advance of funds required for the following month.

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON INTERNAL CONTROLS

AUDITOR'S OPINION

We have performed a study and evaluation of the accounting and internal control system of CARE/GUATEMALA which was in effect at September 30, 1986. Our survey included an evaluation of all controls which are a function of accounting including bank accounts, cash receipts, cash payments, cash on hand, movement of inventories, purchase cycles, accounts payable, general organization, general accounting and electronic data processing. Our study and evaluation was carried out in accordance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision). The Management of CARE/GUATEMALA is reponsible for establishing and maintaining an accounting and internal control system. To comply with this reponsibility, it is necessary that Management make certain appraisals and judgements to evaluate the anticipated benefits and costs related with the control procedures. The objectives of a system involve Management having a reasonable, but not absolute, certainty that assets are protected against losses resulting from unauthorized use or disposal, that transactions are executed in accordance with Management authorizations and that transactions are correctly recorded to permit the preparation of the financial statements in accordance with generally accepted accounting principles. We determined that management had established an adequate system for the above mentioned purposes.

Due to inherent limitations in any given accounting and internal control system, errors and irregularities that cannot be detected may occur. Also, the projection of any evaluation of the system to future periods is subject to the risk that the procedures can become inadequate due to changes in conditions, or that the degree of performance of procedures may deteriorate.

As described in finding No. 1, CARE/GUATEMALA did not have a separate bank account for the project. This is necessary if AID advances project funds to CARE. As described in finding No. 2. CARE/GUATEMALA did not have an adequate system for requesting reimbursements for expenditures from AID in a timely manner.

Peat, Marwick

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON INTERNAL CONTROLS

In our opinion, except as indicated above, the accounting and internal control system of CARE/GUATEMALA in effect as of September 30, 1986, considered as a whole, was sufficient to fulfill the objectives previously stated for the prevention or discovery of errors or irregularities in amounts that would be substantial in relation to the financial statements.

Peat, Marwick, Mitchell & Co.

October 28, 1986

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON INTERNAL CONTROLS

I. No Separate Bank Account for the Project

Condition:

CARE/GUATEMALA did not have a separate bank account for depositing the project funds even though CARE was considering seeking an advance for this project. The project reimbursements were deposited in its general bank account.

Criterion:

The project agreement requires a separate bank account for better control of project funds when AID advances funds.

Cause:

Because of CARE's reimbursement system, it had not been considered necessary to have a bank account for each project.

Effect:

The fact that there was no separate monetary account for the project made it difficult to immediately locate the expenses related to the project and control over project funds could be sacrificed.

Recommendation:

A separate bank account should be established for the project if CARE decides to seek AID advances for project funds.

THE INTEGRATED AQUACULTURE

EXTENSION PROJECT WITH CARE/GUATEMALA

REPORT ON INTERNAL CONTROLS

2. Requests for Reimbursement of Expenditures were Not Timely

Condition:

CARE/GUATEMALA accumulated expenditure documents for three months before preparing a reimbursement request to be sent to AID.

Criterion:

An expenditure report should be sent to AID monthly or bimonthly, regardless of the amount being requested for reimbursement.

Cause:

CARE/GUATEMALA did not have a system where expenditure documents were sent from the various project sites to its central office on a timely basis.

Effect:

Some expenditure reimbursements from AID were being received after considerable delay. The consequence could be that CARE/GUATEMALA might not have enough funds to meet project expenses.

Recommendation:

CARE/GUATEMALA should establish a policy of preparing reimbursement requests to be sent to AID no later than ten days following the end of each month.

3. Lack of Fidelity Bond

Condition:

CARE/GUATEMALA personnel hired in Guatemala having the responsibility for handling cash did not have a fidelity bond.

Criterion:

All personnel with the responsibility for handling cash should have a fidelity bond.

Cause:

CARE/GUATEMALA had not deemed it necessary to create this fidelity bond.

Effect:

In the case of theft, robbery or misuse of funds, CARE/GUATEMALA would have no way of recovering the loss.

Recommendation:

A fidelity bond should be contracted for all personnel responsible for handling or having custody of cash, so that CARE/GUATEMALA can cover this type of risk.

4. Lack of a Check Protector

Condition:

CARE/GUATEMALA had no check protector.

Criterion:

Having a check protector is one aspect of good controls.

Cause:

CARE/GUATEMALA had considered getting this type of machine but has had difficulties in obtaining one.

Effect:

Alterations could be made on the value of checks.

Recommendation:

CARE/GUATEMALA should obtain a check protector as soon as possible to protect itself against check alterations.

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5. Lack of Warehouse Entry Forms

Condition:

There was no separate receiving report being used for recording materials entering the warehouse. The document used for this purpose was the purchase order.

Criterion:

For better control of materials entering the warehouse, there should be a specific form to document and register receipt of materials.

Cause:

CARE/GUATEMALA had not considered it necessary to have such a form, because the purchase order was used as an entry document.

Effect:

When the information is entered into the computer, differences may occur since the purchase order may not always agree with the amount of material actually received.

Recommendation:

A special form, which is sequentially numbered, should be prepared for recording all warehouse entries.

The form should be used for recording entries for each project. This will facilitate registration on the kardex and in the computer.

This form should include at least the following information:

- Receipt date,
- Project name,
- Item description,
- Quantity of items,
- Observations, and
- Warehouse keeper's signature.

6. Expenditure Obligations Were Not Checked Against Budget Availability

Condition:

Project disbursements or obligations were not authorized against budgeted funds available.

Criterion:

Prior to making commitments to third parties, the system should promptly show whether a given project has funds budgeted for its use.

Cause:

The disbursement authorization procedure related to the project was not complied with.

Effect:

There was the possibility of authorizing obligations that did not have budgeted resources available.

Recommendation:

An internal mechanism should be created through the Comptroller's Department by which payments or obligations are not authorized without determining whether funds were available to cover expenses.

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7. <u>There Was No External Back-Up For Computer Programs And Data Files</u>

Condition:

The magnetic devices (tapes and diskettes) containing the back-up for the files and the computer programs were located in a desk at the facilities of CARE/GUATEMALA, and the last back up was performed in July 1986.

Criterion:

The back-up of the data and systems must be in an external place (such as bank safe deposit box) and must be constantly updated.

Cause:

There was no defined policy regarding the custody and updating of the back-up system.

Effect:

If a disaster occurred, there would be increased risk that the data and computer programs used by CARE/GUATEMALA for managing the projects might be lost.

Recommendation:

Subsequent to our field work, CARE/GUATEMALA started preparing back-up files which are stored at an external location so we are not providing a recommendation on this finding.

8. Access To Computer Programs And Data Was Not Restricted

Condition:

Any unauthorized employee could operate the computer and access programs and data in the fixed disk, and could have changed, removed or destroyed vital information.

Criterion:

Access to computer information should be protected by establishing access keys and user identifications.

Cause:

Policies restricting access to information contained in magnetic storage devices (disks) had not been established.

Effect:

There was a risk that unauthorized personnel could modify or destroy information considered important for the technical and financial development of the projects.

Recommendation:

Subsequent to our field work, CARE/GUATEMALA developed a security access system for their financial program so we are not including a recommendation on this finding.

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9. Computer Programs and Program Changes Were Not Being Documented

Condition:

Computer Programs developed internally did not have back-up documentation and changes were carried out without documenting the modifications.

Criterion:

Computer Programs and program changes should be documented in order to prevent the possibility of having to rely on the memories of the persons who created them. System documentation enhances the understanding of the system and provides a base that new personnel can use.

Cause:

There was no policy for documenting new and existing computer programs.

Effect:

It was necessary to rely on employees that were familiar with the system in order to understand it. Therefore, there was increased risk of having to rely on the knowledge of persons that might not be available due to resignation or dismissal.

Recommendation:

We recommend that existing computer programs be documented, and that policies for documenting future programs and modifications be established.

APPENDIX I

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