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AUDIT OF THE INTER-COUNTRY TECHNOLOGY
TRANSFER PROJECT MANAGED BY THE
DYNAMIC CONSULTING COMPANY FOR SMALL BUSINESSES
AID/MEXICO PROJECT NO. 598-0616

Audit Report No. 1-598-89-30-N
March 29, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT

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

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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

March 29, 1989

MEMORANDUM

TO : AID/Mexico Representative, Samuel Taylor

FROM : RIG/A/T, ^{for} Coinage N. Gothard, Jr. *Twittie B. (Cw)*

SUBJECT: Audit Report No. 1-598-89-30-N, "Audit of the Inter-Country Technology Transfer Project Managed by the Dynamic Consulting Company for Small Businesses"

This report presents the results of a non-Federal financial audit requested by your Mission of the Inter-Country Technology Transfer Project, AID/Mexico Project No. 598-0616, managed by the Dynamic Consulting Company for Small Businesses (Asesoria Dinamica a Microempresas, A.C.-ADMIC). The certified public accounting firm of Price Waterhouse prepared the report, which is dated March 1, 1989.

The purpose of this audit was to report on (1) the fairness of the fund accountability statement for the period July 15, 1985 to September 30, 1988, (2) the system of internal control, and (3) compliance by ADMIC with applicable laws, regulations, and agreement terms.

In the opinion of Price Waterhouse, the fund accountability statement presents fairly the funds received from AID/Mexico and the related project disbursements for the period July 15, 1985 to September 30, 1988. Price Waterhouse's study and evaluation of internal accounting control revealed the following weaknesses: (1) actual expenditures were not periodically compared to authorized budgeted figures, (2) the EDP system did not accumulate all project related expenditures due to deficiencies in the system, (3) some payrolls and bank reconciliations were not approved by an authorized official, and (4) payrolls were prepared in pencil rather than being typed or prepared in ink. In the opinion of Price Waterhouse, ADMIC complied with applicable laws, regulations, and agreement terms, except that (1) periodic comparisons were not made between actual expenditures and budget and (2) reserves for Christmas bonuses to be paid in December 1988 were included in expenditures without written authorization from AID/Mexico. Nothing came to their attention to indicate non-compliance with items not tested.

As a result of the Price Waterhouse report, we are including the following recommendation in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that AID/Mexico:

- a. assure that the six recommendations on internal control contained in the Price Waterhouse report dated March 1, 1989 are implemented; and
- b. require the Dynamic Consulting Company for Small Businesses (Asesoria Dinamica a Microempresas, A.C.) to request written authorization from AID/Mexico for including in expenditures the reserves for Christmas bonuses to be paid in December 1988.

ADMIC generally agreed with the six recommendations made in the report on internal control and had already requested written authorization from AID/Mexico for including in expenditures the reserves for Christmas bonuses to be paid in December 1988. We consider the recommendation resolved upon issuance of the audit report.

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

AUDIT OF THE
INTER-COUNTRY TECHNOLOGY TRANSFER PROJECT
MANAGED BY ASESORIA DINAMICA A MICROEMPRESAS, A. C.
AID/MEXICO PROJECT NO. 598-0616
JULY 15, 1985 TO SEPTEMBER 30, 1988

REPORT OUTLINE

AUDIT OF THE
INTER-COUNTRY TECHNOLOGY TRANSFER PROJECT
MANAGED BY ASESORIA DINAMICA A MICROEMPRESAS, A. C.
AID/MEXICO PROJECT No. 598-0616
JULY 15, 1985 TO SEPTEMBER 30, 1988

TABLE OF CONTENTS

	<u>Page</u>
Transmittal letter and summary:	
Background	1
Audit objectives and scope	3
Results of audit	5
Management comments	8
Fund accountability statement:	
Auditor's opinion	12
Fund accountability statement	13
Notes to the fund accountability statement	14
Internal accounting controls:	
Auditor's opinion	18
Findings	19
Compliance with laws, regulations, and agreement terms:	
Auditor's opinion	23
Findings	23

Price Waterhouse



Monterrey, N. L., March 1, 1989

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

Dear Mr. Gothard:

This report presents the results of the audit of the Inter-country Technology Transfer Project managed by Asesoría Dinámica a Microempresas, A. C. in Monterrey, Mexico from July 15, 1985 to September 30, 1988.

BACKGROUND

Asesoría Dinámica a Microempresas, A. C. (ADMIC) is a private, nonprofit organization created under the laws of Mexico in September 1980 and headquartered in Monterrey, Mexico. ADMIC's purpose is to provide technical and financial assistance to micro-entrepreneurs in the low-income sector who do not receive assistance from public or private institutions. To assist ADMIC in complying with its objectives, financial assistance from the Agency for International Development in Mexico (AID/MEXICO), was provided under Project No. 598-0616 which started in July 1985 and is scheduled to be finished in December 1988.



The original project has had three extensions, as shown by the following :

<u>Reference</u>	<u>Period</u>	<u>Budgeted amounts in U.S. dollars</u>	<u>Main objectives</u>
598-0616-523-02 (original project)	July 15, 1985 to July 15, 1986	\$350,000	- Generating employment in the lowest income groups - Providing micro-enterprises with access to credit - Giving technical support through specifically designed courses
598-0616-12	May 15, 1986 to Feb. 15, 1987	100,000	- Creating 25 new micro-enterprises - Generating approximately 125 new employment situations
598-0616-523-57	Oct. 1, 198 to Dec. 31, 1987	29,615	- Same as the original project (598-0616-523-02)
598-0616-523-16	May. 16, 1988 to Dec. 14, 1988 (For purposes of this report a cut-off was made at September 30, 1988)	90,000 (\$37,318 was provided through September 30, 1988)	- We were orally informed that objectives were as in the original project. (598-0616-523-02)



Although agreements were signed and budgeted in U.S. currency, ADMIC received these funds in Mexican pesos (Ps) through the American Embassy - Mexico City.

ADMIC is a legal Mexican entity which existed prior to involvement in the AID/MEXICO project. For several years ADMIC has been promoting micro-economic entities. When the funds from A.I.D. were received, ADMIC already had the infrastructure and experience necessary to achieve the objectives. To comply with the terms of the agreement, ADMIC segregated and identified within its accounting records the funds and disbursements related to A.I.D. operations. Our examination was concerned with the accounting records assigned by ADMIC to control the AID/MEXICO project.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit were to report on:

- The fund accountability statement of the project, including disclosure of questionable expenditures.
- The adequacy of the internal accounting controls of ADMIC, together with our evaluations of significant internal accounting controls, such as: budget, grants to micro-entrepreneurs, purchases, payroll and related benefits, etc.



- Compliance with applicable laws, regulations and agreement terms.

The examination of the project 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" (1988 Revision) and consequently included the examination of the accounting records and other auditing procedures which we considered necessary in the circumstances to determine that all transactions were adequately documented and controlled, and used for authorized purposes. In general terms, we encountered no scope limitations during our work.

The scope of our work consisted of the following:

1. Study and evaluation of the internal accounting controls, including compliance and substantive tests as considered necessary in the circumstances to determine whether disbursements were properly allocated and adequately supported.
2. Review of agreements under which the funds were provided.
3. Reconciliation of the amounts recorded by ADMIC as funds received from AID/MEXICO with those reported to AID/MEXICO as disbursed.
4. Review of the reconciliations of the bank account controlling the funds provided to ADMIC.
5. Physical inspection of major fixed assets acquired by ADMIC during the period of examination.
6. Determination of whether ADMIC paid fair and reasonable



prices for goods and services and sound commercial practices were used.

7. Determination of whether ADMIC has complied with the terms and conditions of applicable laws, regulations and agreements which may have an affect on the fund accountability statement.
8. Selective confirmation from the micro-entrepreneurs receiving funds from ADMIC.

RESULTS OF AUDIT

Fund accountability statement

As indicated in our report presented on page 12, in our opinion the fund accountability statement of ADMIC presents fairly the funds received from AID/MEXICO and the related disbursements corresponding to the project, for the period from July 15, 1985 to September 30, 1988. As a result of our audit, we detected the following deviations which, although in our opinion do not affect the fairness of the fund accountability statement taken as a whole, must be considered:

1. Due to the overlapping of the four project extension periods, it was not possible to determine an excess or shortage in cash for each individual segment. Consequently, the difference between funds received and disbursements made was determined on an overall-project basis.
2. "Salaries and Benefits" includes Ps3,632,000 representing Christmas bonuses to be paid during December 1988; however, this amount has already been reported as disbursed and expensed and transferred to another ADMIC bank account.



3. Total disbursements shown in the fund accountability statement amount to Ps563,752,000 representing the full amount of actual disbursements for the project. This amount is Ps6,458,000 in excess of the disbursements reported by ADMIC to AID/MEXICO from 1985 to 1988.
4. The fund accountability statement shows an excess of Ps2,562,000 in funds received over disbursements for the period; this amount exceeds the actual final balance of cash in the bank account by Ps1,719,000.

The differences described in points 3 and 4 above were discussed and agreed upon with ADMIC officials. We were informed that such differences will be clarified.

INTERNAL ACCOUNTING CONTROL

Due to the small size of the entity and the peculiarities of the project, there were no clear operating cycles to facilitate the evaluation of the internal control structure. In view of this we focused our evaluation on the following operations:

- Cash in banks
- Purchases/disbursements
- Payroll and related expenses

Our study and evaluation of the internal accounting control systems revealed the following weaknesses:

1. Control of disbursements against budget was not maintained for each segment of the project; instead disbursements were controlled on an overall-project basis.



2. Accumulation of expenditures in the EDP system has several deficiencies, giving rise to the need for complementary information prepared manually. The differences described in Note 3 to the fund accountability statement appear to be due to these deficiencies.
3. In some cases the payrolls are not authorized by a proper official and in one instance a bank reconciliation was not authorized by a proper official.
4. The payrolls are prepared in pencil, which facilitates the possibility of improper alterations.
5. We found that three employees have no individual work contract. ADMIC's payroll comprised 21 employees at September 30, 1988.
6. The bimonthly Social Security return for the second two-month period of 1987 was not found.

Despite the above-mentioned weaknesses, we were able to satisfy ourselves through substantive tests, as to the reasonableness of the fund accountability statement for the period subject to audit.

COMPLIANCE WITH APPLICABLE LAWS,
REGULATIONS AND AGREEMENT TERMS

Our study of the applicable agreements and regulations that could have an effect on the fund accountability statement of ADMIC disclosed that it complied with the tested terms of such agreements, except for the following matters:

1. ADMIC had no evidence of written authorization from AID/MEXICO regarding deviations of actual expenditures from budgeted amounts.

11



2. ADMIC has not obtained a written authorization from AID/MEXICO with respect to the Christmas bonuses amounting to Ps3,632,000 mentioned in Note 2 of the fund accountability statement.

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

MANAGEMENT COMMENTS

In a meeting held on February 22, 1989 the contents of this report were discussed among the following persons: Mr. Benito Cabello (ADMIC's General Director) and his staff, Messrs. Carlos Urrutia and Enrique Reinoso (United States Embassy, Guatemala and Mexico, respectively) and Price Waterhouse representatives.

ADMIC's comments on the contents follow:

FUND ACCOUNTABILITY STATEMENT

1. Overlapping of extension periods for the four projects

RESPONSE:

Though the overlapping of the four periods did exist, reports submitted to AID were made by project, in overall form and accumulated.

2. Christmas bonuses to be paid during December 1988, amounting to Ps3,632,000

RESPONSE:

The project arrangement included such amount for the period from February 1 to May 15, 1988.

121



On this matter the problem was whether or not to pay those Christmas bonuses in a proportional way, but only to personnel assigned to the project (70% of all) and not to the rest, who were not assigned to the project, perhaps creating problems. This was discussed with Enrique Reinoso and Carlos Urrutia from USAID, so that they could authorize to keep that amount in reserve to be paid in the proper time, according to ADMIC's policies, and they did authorize in a verbal way.

3. Ps6,458,000 in excess of disbursements reported by ADMIC to AID/MEXICO from 1985 to 1988.

RESPONSE:

The existing difference of Ps6,458,000 on the reported disbursements is due to the investments in computer equipment amounting to Ps5,447,000 and some other assets amounting to Ps1,511,000.

4. The fund accountability statement shows an excess of Ps2,562,000, in funds received over disbursements for the period; this amount exceeds the actual final balance of cash in the bank account by Ps1,719,000

RESPONSE:

The Ps1,719,000 difference is accounted for in balance accounts.



INTERNAL ACCOUNTING CONTROL

1. Control of disbursements against budget was not maintained for each segment of the project.

RESPONSE:

Quarterly reports were sent to AID, showing expenditures for each month and in an accumulated way against scheduled expenditures for each project, allowing to get, with the final report, an overall figure of expenditures against budgeted items, in each project.

2. Accumulation of expenditures in the EDP system has several deficiencies.

RESPONSE:

We will proceed to take adequate means to solve it.

3. In some cases the payrolls are not authorized by a proper official and in one instance a bank reconciliation was not authorized by a proper official.

RESPONSE:

We'll take into count this auditor's comment.

4. The payrolls are prepared in pencil, which facilitates the possibility of improper alterations.

RESPONSE:

They've been prepared in ink since October 1988.

Mr. Coinage N. Gothard
March 1, 1989
Page 11



5. We found that three employees have no individual work contract. ADMIC's payroll comprised 21 employees at September 30, 1988.

RESPONSE:

We'll take into count this comment, too.

6. The bimonthly Social Security return for the second two-month period of 1987 was not found.

RESPONSE:

We have located, already, that Social Security return form.

COMPLIANCE WITH APPLICABLE LAWS,
REGULATIONS AND AGREEMENT TERMS

1. ADMIC had no evidence of written authorization from AID/MEXICO regarding deviations of actual expenditures from budgeted amounts.
2. ADMIC has not obtained a written authorization from AID/MEXICO with respect to the Christmas bonuses amounting to Ps3,632,000.

RESPONSE TO BOTH:

Although those quantities are minimum, arising not to 1% of the project, the written authorizations have been solicited already from the American Embassy in Mexico.

* * * * *

Yours very truly,

PRICE WATERHOUSE



Mario Bautista

15'

- 12 -

Price Waterhouse



INTER-COUNTRY TECHNOLOGY TRANSFER PROJECT
MANAGED BY ASESORIA DINAMICA A MICROEMPRESAS, A. C. (ADMIC)
AGENCY FOR INTERNATIONAL DEVELOPMENT (AID)

REPORT ON FUND ACCOUNTABILITY STATEMENT

AUDITOR'S OPINION

Monterrey, N. L., October 25, 1988

We have examined the fund accountability statement of AID/MEXICO Project number 598-0616 with ADMIC for the period from July 15, 1985 to September 30, 1988. Our examination was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1988 Revision) and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying fund accountability statement which was prepared based on the records examined by us, presents fairly the funds received and disbursements made by ADMIC in connection with the AID/MEXICO Project number 598-1016, for the period from July 15, 1985 to September 30, 1988, in conformity with the basis of accounting explained in Note 1.

Price Waterhouse

Mario Bautista

16

INTER-COUNTRY TECHNOLOGY TRANSFER PROJECT
 MANAGED BY ASESORIA DINAMICA A MICROEMPRESAS, A. C.
 (A MEXICAN NON-PROFIT ORGANIZATION)

FUND ACCOUNTABILITY STATEMENT FOR PROJECT NO. 598-0616
 WITH THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID)

			U.S. dollars			
<u>Project</u>					Variation (under) over	Actual in thousands of Mexican pesos
<u>Reference</u>	<u>Period</u>	<u>Concepts</u>	<u>Budget</u>	<u>Actual</u>		
<u>Funds received from AID:</u>						
598-0616-523-02	July 15, 1985 to July 15, 1986		\$350,000	\$349,905	\$ (95)	Ps266,206
598-0616-12	May 15, 1986 to February 15, 1987		100,000	100,000	-	165,465
598-0616-523-57	October 1, 1987 to December 31, 1987		29,615	28,830	(785)	49,184
598-0616-523-16	May 16, 1988 to September 30, 1988		<u>90,000</u>	<u>37,318</u>	<u>(52,682)</u>	<u>85,459</u>
			\$569,615	\$516,053	(\$53,562)	566,314
			=====	=====	=====	=====
<u>Disbursements</u>						
598-0616-523-02	July 15, 1985 to July 15, 1986	Salaries and benefits	\$ 86,835	\$147,523	\$60,688	112,234
		Equipment	33,728	11,668	(22,060)	8,877
		Travel	27,727	7,936	(19,791)	6,038
		Support material	24,091	16,488	(7,603)	12,544
		Other	44,619	65,448	20,829	49,793
		Micro-enterprises	58,000	44,399	(13,601)	33,778
		Training center	<u>75,000</u>	<u>2,299</u>	<u>(72,701)</u>	<u>1,749</u>
			<u>350,000</u>	<u>295,761</u>	<u>(54,239)</u>	<u>225,013</u>
598-0616-12	May 15, 1986 to February 15, 1987	Salaries and benefits	-	50,243	50,243	63,972
		Other	-	10,424	10,424	17,247
		Micro-enterprises	<u>100,000</u>	<u>60,772</u>	<u>(34,228)</u>	<u>100,556</u>
			<u>100,000</u>	<u>121,439</u>	<u>21,439</u>	<u>181,775</u>
598-0616-523-57	October 1, 1987 to December 31, 1987	Salaries and benefits	-	48,701	48,701	60,143
		Other	-	3,903	3,903	6,659
		Support material	-	496	496	846
		Training center	<u>29,615</u>	-	<u>(29,615)</u>	
			<u>29,615</u>	<u>53,100</u>	<u>23,485</u>	<u>67,648</u>
598-0616-523-16	May 16, 1988 to September 30, 1988	Salaries and benefits	76,076	35,618	(40,458)	73,815
		Other	<u>13,924</u>	<u>6,769</u>	<u>(7,155)</u>	<u>15,501</u>
			<u>90,000</u>	<u>42,387</u>	<u>(47,613)</u>	<u>89,316</u>
			\$569,615	\$512,687	(\$56,928)	563,752
			=====	=====	=====	=====

The accompanying three notes are an integral part of this statement.

INTER-COUNTRY TECHNOLOGY TRANSFER PROJECT
MANAGED BY ASESORIA DINAMICA A MICROEMPRESAS, A. C. (ADMIC)
(A MEXICAN NON-PROFIT ORGANIZATION)

FUND ACCOUNTABILITY STATEMENT FOR PROJECT No. 598-0616
WITH THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID)

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Asesoría Dinámica a Microempresas, A. C. (ADMIC) is a private nonprofit organization created under laws of Mexico in September 1980 and headquartered in Monterrey, Mexico. ADMIC's purpose is to provide technical and financial assistance to micro-entrepreneurs in the low-income sector who do not receive assistance from public or private institutions. To comply with its objectives, ADMIC receives funds principally from local and foreign institutions.

a. Accounting records

The accounting records are kept in Mexican pesos (Ps). In accordance with the terms of the agreement signed with AID/ MEXICO, the budgeted amounts to be received by ADMIC were denominated in U.S. dollars; however, the funds were received in Mexican pesos. All transactions were recorded in the latter currency in ADMIC's books.

b. Foreign currency situation

For purposes of comparison with the budget, the fund accountability statement shows the actual figures received or disbursed in local currency, converted to U.S. dollars; local currency figures were converted at an average exchange rate.

13'

The foreign exchange system existing in Mexico permits the parallel existence of a controlled market and a free market handled through exchange brokerage houses. The controlled rate is set by Banco de México based on the supply and demand for foreign currencies in the controlled market, levels of international reserves, internal and external inflation and other factors. The free rate is set by supply and demand.

The free exchange rate prevailing on key dates during project periods were as follows:

July 31 and December 31, 1985 - Ps347 and Ps450
July 31 and December 31, 1986 - Ps650 and Ps910
July 31 and December 31, 1987 - Ps1,410 and Ps2,200
September 30, 1988 - Ps2,330

At October 25, 1988, date of issuance of the independent auditor's report, the free exchange rate was similar to that of September 30, 1988.

NOTE 2 - ANALYSIS OF DISBURSMENTS

As explained in Note 1, the terms of the agreement between AID/MEXICO and ADMIC stipulate budgeted funds and expenses denominated in U.S. currency. However, all funds involved in the projects were handled in Mexican pesos. Following is an analysis of captions of actual disbursements in excess of Ps50.0 million:

Thousands of Mexican pesos

December 31, 1985	Ps27,928	
December 31, 1986	67,941	
August 31, 1987	<u>94,448</u>	Ps190,317
May 31, 1988		76,235
December 31, 1987		66,605
September 30, 1988		<u>89,802</u>
		422,959
Micro-entrepreneurs		<u>134,335</u>
Total reported by ADMIC to AID/MEXICO		557,294
Difference pending investigation		<u>6,458</u>
Total disbursed as per ADMIC accounting records and fund accountability statement		Ps563,752 =====

b. Cash on hand at end of projects has a difference as follows:

	<u>Thousands of Mexican pesos</u>
Cash received during the period	Ps566,314
Less - disbursements reported by ADMIC (see point a. above)	<u>563,752</u>
Expected cash on hand at end of the period	2,562
Difference pending investigation	<u>(1,719)</u>
Cash in bank as per bank statement	Ps 843 =====

c. The fund accountability statement shows disbursements on a cash basis. However, the salaries and benefits caption includes Ps3,632,000 corresponding to Christmas bonuses to be paid during December 1988; this amount has been transferred to another ADMIC bank account.

- 18 -

Price Waterhouse



INTER-COUNTRY TECHNOLOGY TRANSFER PROJECT
MANAGED BY ASESORIA DINAMICA A MICROEMPRESAS, A. C. (ADMIC)

AGENCY FOR INTERNATIONAL DEVELOPMENT (AID)

REPORT ON INTERNAL ACCOUNTING CONTROL SYSTEM

AUDITOR'S OPINION

Monterrey, N. L., October 25, 1988

We have performed a financial and compliance audit of the fund accountability statement of the Inter-country Technology Transfer Project managed by ADMIC for AID/MEXICO during the period from July 15, 1985 to September 30, 1988, and have issued our report thereon, dated October 25, 1988. Our examination was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1988 Revision). In connection with our examination we made a study and evaluation of internal accounting controls of ADMIC. Due to the small size of the entity and the peculiarities of the project, the study and evaluation were focused on certain operations related to funds received from AID/MEXICO, mainly cash in banks, purchases/disbursements and payroll and related expenses; accordingly, we do not express an opinion on ADMIC's system of internal accounting control taken as a whole. Our evaluation, made in accordance with the standards mentioned above, would not necessarily disclose all material weaknesses in the system of internal accounting control. However, our examination disclosed the conditions described in the accompanying findings, No. 1 through 6.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the fund accountability statement of the project for the period from July 15, 1985 to September 30, 1988. In our opinion, the weaknesses in the system of internal accounting control do not affect our report on the fund accountability statement, dated October 25, 1988.

This report is intended solely for the use of ADMIC's management and AID/MEXICO. However, this restriction is not intended to limit the distribution of the report which upon acceptance by the office of the Inspector General is a matter of public record.

Mario Bautista

22

INTER-COUNTRY TECHNOLOGY TRANSFER PROJECT
MANAGED BY ASESORIA DINAMICA A MICROEMPRESAS, A. C. (ADMIC)

AGENCY FOR INTERNATIONAL DEVELOPMENT (AID)

REPORT ON INTERNAL ACCOUNTING CONTROL SYSTEM

AUDIT FINDINGS

1. PERIODIC COMPARISONS ARE NOT MADE BETWEEN
ACTUAL EXPENSES AND BUDGET

Condition:

ADMIC does not make comparisons of actual expenditures and costs incurred against authorized budgeted figures.

Criteria:

ADMIC's management should make periodic comparisons of actual disbursements with budget.

Cause:

Disbursements of funds are controlled on an overall-project basis.

Effect:

The lack of the above-mentioned comparisons might make it harder to identify disbursements in excess of budgeted amounts.

Recommendation:

ADMIC should make periodic comparisons of actual and budgeted expenses to verify whether they are exceeding budgeted figures, and to assure compliance with terms of the agreement.

2. THERE ARE CERTAIN PROBLEMS IN THE COMPUTERIZED (EDP)
ACCUMULATION SYSTEM FOR COSTS AND EXPENSES

Condition:

ADMIC has problems with its EDP system in accumulating all expenditures related to the project.

Criteria:

The EDP programs should be adequate to cope with information needs, basically the correct accumulation of costs and expenses incurred.

Cause:

Due to EDP limitations several disbursements are included in the accounting system manually. The resulting figures are used for AID/MEXICO reporting purposes. However, there is no reconciliation between accumulated figures obtained through EDP and the figures reported to AID/MEXICO.

Effect:

There is no reconciliation between the figures reported to AID/MEXICO and the accounting records.

Recommendation:

The EDP system should be modified so as to meet ADMIC's needs. The principal goal would be to ensure that figures reported to AID/MEXICO are obtained directly from the accounting records.

3. CERTAIN PAYROLL SHEETS AND A BANK RECONCILIATION HAD NO WRITTEN AUTHORIZATION

Condition:

Some payroll sheets and one bank reconciliation were not authorized by a proper official.

Criteria:

All payroll sheets and all bank reconciliations should be authorized in writing by a proper official.

Cause:

There were inadequate internal accounting controls over these specific authorizations.

Effect:

Lack of formal approval of payroll sheets and bank reconciliations weakens the internal control system.

Recommendation:

All source documentation supporting the charges and credits recorded in the accounting system should contain written evidence of approval.

24

4. PAYROLL SHEETS ARE PREPARED IN PENCIL

Condition:

The accounting department prepares the payroll sheets in pencil rather than in ink or on a typewriter.

Criteria:

The bimonthly payroll sheet should be typed or prepared in ink.

Cause:

The accounting department prepares the payroll sheets in pencil because it facilitates correction of errors or incorrect amounts.

Effect:

The use of pencil in payroll preparation could facilitate improper alterations.

Recommendation:

All payroll sheets should be typed or prepared in ink. The purpose of this is to prevent unauthorized alteration of data.

5. CERTAIN EMPLOYEES DO NOT HAVE AN INDIVIDUAL WORK CONTRACT

Condition:

In our payroll review we found that three employees do not have a work contract.

Criteria:

In order to establish terms and conditions of employment, all employees should sign an individual work contract.

Cause:

The three employees without a contract are those with the most seniority in ADMIC. When they were hired there was no policy requiring such contracts.

Effect:

Lack of these contracts weakens internal control over payrolls and could result in labor disputes.

Recommendation:

ADMIC should support all hiring with adequate documentation.

25-

6. ONE SOCIAL SECURITY RETURN COULD NOT BE FOUND

Condition:

We requested from the accounting department all bimonthly Social Security returns; the department could not locate the return corresponding to the second two-month period of 1987.

Criteria:

The accounting department should assure that all documentation related to Social Security returns is complete.

Cause:

Apparently this documentation was misplaced.

Effect:

The lack of this Social Security return makes it difficult to prove whether ADMIC has complied with this obligation. In case of an inquiry from Social Security authorities, ADMIC has no evidence of compliance for the second two-month period of 1987.

Recommendation:

Additional efforts should be made to locate this misplaced return or obtain written confirmation of the payment for this period from Social Security.

Price Waterhouse

- 23 -



INTER-COUNTRY TECHNOLOGY TRANSFER PROJECT
MANAGED BY ASESORIA DINAMICA A MICROEMPRESAS, A. C. (ADMIC)

AGENCY FOR INTERNATIONAL DEVELOPMENT (AID)

REPORT ON THE COMPLIANCE WITH APPLICABLE LAWS,
REGULATIONS AND AGREEMENT TERMS

AUDITOR'S OPINION AND FINDINGS

Monterrey, N. L., October 25, 1988

We have performed a financial and compliance audit of the fund accountability statement of the Inter-country Technology Transfer Project Number 598-0616 managed by ADMIC for AID/MEXICO during the period from July 15, 1985 to September 30, 1988, and have issued our report thereon, dated October 25, 1988. Our examination was made in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1988 Revision), which includes additional standards and requirements for the review of compliance with applicable laws, regulations and agreement terms.

We tested transactions and records to determine the compliance of ADMIC with the following:

1. Agreements signed for funds received from AID related to projects carried out from July 15, 1985 to September 30, 1988.
2. Tax and labor laws applicable in Mexico.

The results of our study indicate that, for the items tested, ADMIC complied with the applicable terms of the aforementioned laws and agreements, except for the matters described below:

- a. Periodic comparisons are not made between actual expenses and budget. Please refer to audit finding No. 1 of the report on the internal control system.
- b. There is no written authorization from AID/MEXICO with respect to Christmas bonuses. Please refer to Note 3 of the fund accountability statement.

21



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

This report is intended solely for the use of ADMIC's management and AID/MEXICO. However, this restriction is not intended to limit the distribution of the report which upon acceptance by the office of the Inspector General is a matter of public record.

Mario Bautista

INTER-COUNTRY TECHNOLOGY TRANSFER PROJECT
MANAGED BY ASESORIA DINAMICA A MICROEMPRESAS, A.C. (ADMIC)
A.I.D./MEXICO PROJECT NO. 598-0615

LIST OF REPORT RECOMMENDATIONS

Internal Accounting Control

Recommendation 1:

ADMIC should make periodic comparisons of actual and budgeted expenses to verify whether they are exceeding budgeted figures, and to assure compliance with terms of the agreement.

Recommendation 2:

The EDP system should be modified so as to meet ADMIC's needs. The principal goal would be to ensure that figures reported to A.I.D./Mexico are obtained directly from the accounting records.

Recommendation 3:

All source documentation supporting the charges and credits recorded in the accounting system should contain written evidence of approval.

Recommendation 4:

All payroll sheets should be typed or prepared in ink. The purpose of this is to prevent unauthorized alteration of data.

Recommendation 5:

ADMIC should support all hiring with adequate documentation.

Recommendation 6:

Additional efforts should be made to locate this misplaced return or obtain written confirmation of the payment for this period from Social Security.

APPENDIX 1

REPORT DISTRIBUTION

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