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**AUDIT OF
THE INTEGRATED NON-FORMAL
EDUCATION PROJECT IMPLEMENTED BY
THE NATIONAL BOARD OF NON-FORMAL
EDUCATION (JNEE) IN GUATEMALA**

**Audit Report No. 1-520-90-02-N
October 18, 1989**

U S MAILING ADDRESS :
RIG / T
APO MIAMI 34022

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL

AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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

October 18, 1989

MEMORANDUM

TO : D/USAID/Guatemala, Anthony J. Cauterucci
FROM : RIG/AT, *Coinage N. Gothard* Coinage N. Gothard, Jr.
SUBJECT: Audit Report No. 1-520-90-02-N, "Audit of the Integrated Non-Formal Education Project Implemented by the National Board of non-Formal Education (JNEE) in Guatemala"

This report presents the results of a non-Federal financial audit requested by your Mission of the Integrated Non-Formal Education Project, USAID/Guatemala Project No. 520-0281, implemented by the National Board of Non-Formal Education (JNEE). The accounting firm of Price Waterhouse prepared the report, which is dated October 12, 1989.

The purpose of the project was to improve the quality and quantity of the coverage of non-formal education services that public and private institutions in charge of rural development provide to groups that are socially and economically disadvantaged. The audit period was from November 1, 1986 to the completion of the project on March 31, 1988. The audit included coverage of the equivalent of \$618,114 (Q1,668,909) in A.I.D. funds provided to JNEE and \$918,718 (Q2,480,539) in counterpart contributions provided by the Government of Guatemala.

The purpose of the audit was to report on (1) the fairness of the fund accountability statement; (2) the adequacy of JNEE's internal control structure for project purposes; (3) compliance by JNEE with agreement terms and applicable laws and regulations; and (4) compliance by JNEE with recommendations made by predecessor auditors in an audit covering the period June 21, 1984 to October 31, 1986, to improve its internal controls.

Price Waterhouse disclaimed an opinion on the fund accountability statement due to a scope limitation caused by inadequate accounting records, which did not agree with the fund accountability statement prepared by JNEE; unreconciled amounts allocated to the project as confirmed by USAID/Guatemala; an unreliable internal control structure; and a lack of physical inventories. Price Waterhouse's study and evaluation of JNEE's internal control structure revealed inadequate internal controls. The material weaknesses observed were (1) an inadequate accounting system; (2) inadequate controls over inventories - no physical inventories were taken and the kardex system was not kept up-to-date; (3) lack of a budgetary control system for comparison of actual expenditures with budgeted

amounts; and (4) the manuals and procedures to control project operations, which were prepared with the assistance of USAID/Guatemala, had never been implemented. Price Waterhouse disclaimed an opinion on items tested for compliance as well as untested items due to the scope limitations mentioned previously. Price Waterhouse determined that JNEE had not made any progress in implementing the recommendations made by the predecessor auditors to improve its internal controls.

The Price Waterhouse report was discussed with JNEE and USAID/Guatemala. JNEE's management was in general agreement with the audit findings and stated in writing that the details of the recommendations made by the predecessor auditors to improve its internal controls had never been presented to them in writing.

The Price Waterhouse report contains only one general recommendation on improvements needed in the internal control structure of JNEE. Since the audited project has been completed, we are making the following recommendation which will be included in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Guatemala not enter into any future project agreements with the Government of Guatemala to be implemented by the National Board of non-Formal Education (JNEE) until JNEE can demonstrate the adequacy of its accounting system, internal control structure, budgetary control system, inventory control system, and management procedures to control project operations.

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

AUDIT OF THE INTEGRATED NON-FORMAL EDUCATION PROJECT
MANAGED BY THE NATIONAL BOARD OF NON-FORMAL EDUCATION
USAID/GUATEMALA PROJECT NO. 520-0281

AUDIT OF THE INTEGRATED NON-FORMAL EDUCATION PROJECT
MANAGED BY THE NATIONAL BOARD OF NON-FORMAL EDUCATION
USAID/GUATEMALA PROJECT NO. 520-0281

MARCH 31, 1988

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Price Waterhouse



October 12, 1989

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

Dear Mr. Gothard:

This report presents the results of our financial audit of the Integrated Non-Formal Education Project, USAID/Guatemala Project No. 520-0281, managed by the National Board of Non-Formal Education (Junta Nacional de Educación Extraescolar, JNEE), from November 1, 1986 to March 31, 1988.

BACKGROUND

The Integrated Non-Formal Education Project, USAID/Guatemala Project No. 520-0281, was to be implemented by the National Board of Non-Formal Education (Junta Nacional de Educación Extraescolar, JNEE). The project lasted more than 5 years beginning in August 1982 and extending through March 31, 1988. Its funding was through USAID/Guatemala loan No. 520-V-035 for US\$2,000,000, USAID/Guatemala grant No. 520-0281 for US\$850,000 and an agreed Government of Guatemala counterpart contribution of Q2,344,252 (valued at US\$2,344,262 using the 1 to 1 exchange rate which existed at the inception of the project).

The borrower and grantee is the Government of Guatemala (GOG) represented by the Ministries of Education and Finance. The implementing unit (JNEE), created through GOG Decree No. 5 dated February 12, 1975, is comprised of public sector institutions developing non-formal education activities. It has three regional offices which cover twelve departments of Guatemala in the Central, Highlands and North-Central regions of the country.

The general objective of the project was to improve the quality of life of the needy rural population through improvements on the delivery of services by the Government and private institutions in charge of rural development. The purpose of the project was to improve the quality and quantity of the coverage of non-formal education services that the public and private institutions in

charge of rural development provide to groups that are socially and economically disadvantaged. The non-formal education services are mainly in the areas of agriculture, health and education in community development.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit were to determine whether:

- a. The fund accountability statement of the project managed by JNEE fairly presents the project's receipts and expenditures from November 1, 1986 to March 31, 1988 in accordance with the terms of the agreements with USAID/Guatemala, identifying any costs which were not fully supported with adequate records or which were not allowable under the terms of the agreements;
- b. JNEE's internal control structure was adequate for project purposes;
- c. JNEE complied with the terms of the agreements and with applicable laws and regulations; and
- d. JNEE had implemented the recommendations to improve its internal control structure proposed by Arthur Andersen & Co. (predecessor auditors) in their report on the project dated October 29, 1987 which covered the period from June 21, 1984 to October 31, 1986.

Our audit was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision) and accordingly included such tests of the accounting records to determine if funds and commodities were properly accounted for and used as intended by the agreements and applicable laws and regulations.

RESULTS OF AUDIT

Fund Accountability Statement

All project disbursements were made against a general revolving fund (the fund) administered by the National Treasury Office (NTO). USAID/Guatemala funds were channeled to the project by direct reimbursement to NTO for all disbursements made by said office on behalf of JNEE on the basis of the supporting documentation submitted. However, JNEE's auxiliary records to control project operations were not adequate, as they are not integrated into a centralized accounting system and consequently we were not able to determine the reasonableness and allocation of the project disbursements accumulated during the period under review. Also, management was not in a position to reconcile with the accounting records the amounts reported by USAID/Guatemala as allocated to the project.

It is worth mentioning that JNEE submitted for our review two significantly different fund accountability statements, which were both presumptively based on the entity's own records. Since these records basically consist of informal auxiliary cards, which are not numerically pre-printed nor otherwise independently controlled, it is not possible to determine whether all cards on record were taken into account for preparation of the fund accountability statements presented.

As a result of the scope limitations mentioned in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the project's fund accountability statement for the period November 1, 1986 to March 31, 1988.

Internal Control Structure

In our opinion JNEE's internal control structure is not adequate. Our study and evaluation of JNEE's internal control structure as it related to project activities disclosed significant deficiencies which in our opinion could adversely affect JNEE's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement.

- a. The subsidiary records consist of budget control cards, kept in a very general manner and not integrated into a centralized accounting system.
- b. The figures shown in the fund accountability statement are budget figures rather than expenditures, as JNEE considers all budget sums to be expenditures and/or committed items, although not necessarily paid for.
- c. No cost accounting procedures exist to properly determine the consumption of materials and the expected number of units produced.
- d. No physical inventories are taken by JNEE to adjust stocks and fixed assets on hand and the related subsidiary cards are kept well in arrears (no postings thereon have been made subsequent to June 1986).

Compliance with the Terms of the Agreements, and Applicable Laws and Regulations

Due to the scope limitations mentioned previously, we can not give either positive or negative assurance on compliance. However, our review disclosed that although in some instances JNEE exceeded established goals, for certain items tested the entity did not comply with laws, regulations, and terms of the agreements.

Follow up on Recommendations Made by the Predecessor Auditor

No progress was made in implementing the internal control recommendations made by the predecessor auditors as at October 31, 1986. JNEE management represented to us in writing that the details of the predecessor auditor's recommendations had never been presented to them in writing.

MANAGEMENT COMMENTS

During the exit conference held on October 12, 1989, at which Messrs. Gilberto Méndez of USAID/Guatemala and José Ramón Fernández of the Office of the Regional Inspector General for Audit in Tegucigalpa were present, JNEE's officials expressed their general agreement with the audit conclusions and findings.

Piero Matamoros

Price Waterhouse



AUDIT OF THE INTEGRATED NON-FORMAL EDUCATION PROJECT
MANAGED BY THE NATIONAL BOARD OF NON-FORMAL EDUCATION
USAID/GUATEMALA PROJECT NO. 520-0281

FUND ACCOUNTABILITY STATEMENT

NOVEMBER 1, 1986 TO MARCH 31, 1988

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit have audited the accompanying fund accountability statement of the Integrated Non-Formal Education Project implemented by the National Board of Non-Formal Education (Junta Nacional de Educación Extraescolar JNEE), USAID/Guatemala Project No. 520-0281, for the period November 1, 1986 to March 31, 1988. The fund accountability statement is the responsibility of JNEE. Our responsibility is to express an opinion on this financial statement based on our audit.

In conducting our audit, we applied generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). However, we were unable to perform all of the necessary tests of the accounting records to determine if funds and commodities were properly accounted for and used as intended by loan agreement terms and applicable laws and regulations because of the reasons discussed in the following paragraphs.

1. As described in Note 1 to the fund accountability statement, JNEE's policy is to prepare its financial information on the basis of cash receipts and disbursements. Consequently, certain receipts and the related assets are recognized when collected rather than when the accrual criteria is met, and certain expenditures are recognized when paid rather than when the obligation is incurred.
2. JNEE's subsidiary records are kept in a general manner with no details to allow for a proper classification of expenditures. This lack of detail does not permit their integration into the central accounting system, as they are used for budgetary control purposes, only.

3. JNEE's internal control structure has significant deficiencies which, as more fully described in the corresponding section of this report, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement.
4. Due to the condition of the accounting records, management declined to reconcile the amounts confirmed by USAID/Guatemala as allocated for the overall project and to the period under review.
5. The fund accountability statement prepared by JNEE could not be correlated with its accounting records because, due to the condition of the records, it was not possible to determine whether the statement was based on all records on hand.
6. No physical inventories are taken by JNEE to adjust stocks and fixed assets on hand and the related subsidiary cards are kept well in arrears.

Because of the above limitations, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying fund accountability statement for the period November 1, 1986 to March 31, 1988.

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



May 12, 1989

**AUDIT OF THE INTEGRATED NON-FORMAL EDUCATION PROJECT
MANAGED BY THE NATIONAL BOARD OF NON-FORMAL EDUCATION
USAID/GUATEMALA PROJECT NO. 520-0281**

FUND ACCOUNTABILITY STATEMENT
(expressed in Quetzales)

NOVEMBER 1, 1986 TO MARCH 31, 1988

	<u>USAID/Guatemala</u>			<u>Government of Guatemala</u>		
	<u>Accumulated</u>	<u>November 1,</u>	<u>Total</u>	<u>Accumulated</u>	<u>November 1,</u>	<u>Total</u>
	<u>through</u>	<u>1986 to</u>	<u>USAID/</u>	<u>through</u>	<u>1986 to</u>	<u>GOG</u>
	<u>October 31,</u>	<u>March 31,</u>	<u>Guatemala</u>	<u>October 31,</u>	<u>March 31,</u>	<u>GOG</u>
	<u>1986 (*)</u>	<u>1988</u>	<u>Guatemala</u>	<u>1986 (*)</u>	<u>1988</u>	<u>GOG</u>
Receipts:						
A.I.D. project funds	Q1,345,810	Q1,668,909	Q3,014,719			
Government of Guatemala				Q 547,588	Q2,480,539	Q3,028,127
	<u>Q1,345,810</u>	<u>Q1,668,909</u>	<u>Q3,014,719</u>	<u>Q 547,588</u>	<u>Q2,480,539</u>	<u>Q3,028,127</u>
Disbursements:						
Personal services	Q 93,031	Q 5,402	Q 98,433	Q 204,308	Q1,889,069	Q2,093,377
Non-personal services	352,645	(316,445)	36,200	86,892	(17,531)	69,361
Materials and supplies	228,442	143,581	372,023	77,999	125,033	203,032
Machinery and equipment	303,368	246,784	550,152	27,365	6,170	33,535
Specific expenditures	<u>368,324</u>	<u>1,589,587</u>	<u>1,957,911</u>	<u>151,024</u>	<u>477,798</u>	<u>628,822</u>
	<u>Q1,345,810</u>	<u>Q1,668,909</u>	<u>Q3,014,719</u>	<u>Q 547,588</u>	<u>Q2,480,539</u>	<u>Q3,028,127</u>

(*) Audited by predecessor auditors, Arthur Andersen & Co.

See accompanying notes 1 to 3

AUDIT OF THE INTEGRATED NON-FORMAL EDUCATION PROJECT
MANAGED BY THE NATIONAL BOARD OF NON-FORMAL EDUCATION
USAID/GUATEMALA PROJECT NO. 520-0281

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOVEMBER 1, 1986 TO MARCH 31, 1988

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The significant accounting policies adopted by JNEE are summarized below and do not necessarily reflect the application of generally accepted accounting principles in the United States of America.

Basis of accounting

Expenditures are recognized when paid rather than when the obligation is incurred and receipts are generally recorded when collected rather than when the accrual criteria is met.

Inventories

Inventories consist of expendable supplies held for consumption.

Fixed assets

Fixed asset acquisitions are charged directly to the project at cost, and no depreciation is taken.

NOTE 2 - HISTORY AND OPERATIONS

The National Board of Non-Formal Education (Junta Nacional de Educación Extraescolar, JNEE) is an agency of the Ministry of Education of Guatemala, created by Government decree on February 12, 1975, and comprises public sector institutions developing non-formal education activities. The U.S. Agency for International Development in Guatemala (USAID/Guatemala) assisted in the Integrated Non-Formal Education Project, USAID/Guatemala Project No. 520-0281, which was implemented by JNEE.

The general objective of the project was to improve the quality of life of the needy rural population through improvements in the delivery of services by the Government and private institutions in charge of rural development.

The project lasted more than 5 years, from August 1982 to March 31, 1988, and was funded through USAID/Guatemala loan No. 520-V-035 for US\$2 million, USAID/Guatemala grant No. 520-0281 for US\$850,000, and Government of Guatemala counterpart contributions of about Q3 million. USAID/Guatemala's

funding was received by JNEE in Quetzales, although for internal purposes the related sums were controlled by the former in U.S. dollars, at varying exchange rates from Q2.63 to US\$1.00 to Q3.00 to US\$1.00.

NOTE 3 - EXCHANGE

The accounting records of JNEE are maintained in Quetzales, local currency of the Republic of Guatemala. During 1988, the Government introduced exchange control regulations which established an exchange rate of Q2.70 to US\$1.00 for the majority of international transactions.

Price Waterhouse



AUDIT OF THE INTEGRATED NON-FORMAL EDUCATION PROJECT
MANAGED BY THE NATIONAL BOARD OF NON-FORMAL EDUCATION
USAID/GUATEMALA PROJECT NO. 520-0281

REPORT ON INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit the fund accountability statement of the Integrated Non-Formal Education Project, USAID/Guatemala Project No. 520-0281, implemented by the National Board of Non-Formal Education (Junta Nacional de Educación Extraescolar - JNEE), for the period November 1, 1986 to March 31, 1988, and have issued our report thereon dated May 12, 1989, in which we disclaimed our opinion due to limitations in the scope of our work.

Except for the limitations in the scope of our work mentioned in our report dated May 12, 1989 on JNEE's fund accountability statement, our examination was conducted in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision). Solely to assist us in planning and performing the audit, we considered JNEE's internal control structure to manage project activities in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement, and not to provide assurance on JNEE's internal control structure.

The management of JNEE is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.

Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal controls in, and have evaluated, the following categories: 1) accounting records and budgetary control; 2) procurement system; 3) control over project equipment; and 4) administration of inventories.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect JNEE's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

Reportable conditions are described in finding No. 1 in the following pages of this report and include: lack of an appropriate internal control environment for project purposes; inadequacy of the accounting system used to control the project's operations; and lack of control procedures surrounding fixed assets and materials and supplies acquired with project funding.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that all of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control structure and its operations that we have included in this report in the section related to the follow-up on recommendations made by predecessor auditors.

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

Vic Watsonhouse

May 12, 1989

AUDIT OF THE INTEGRATED NON-FORMAL EDUCATION PROJECT
MANAGED BY THE NATIONAL BOARD OF NON-FORMAL EDUCATION
USAID/GUATEMALA PROJECT NO. 520-0281

REPORT ON INTERNAL CONTROL STRUCTURE

FINDINGS

1. The Internal Control Structure had Significant Deficiencies which Adversely Affected the Organization's Ability to Record, Process, Summarize and Report Financial Data Pertaining to the Project.

Condition:

Significant deficiencies, some of which were also noted by the accounting firm of Arthur Andersen & Co. during their review of the fund accountability statement covering the period August 1982 through October 31, 1986, can be summarized as follows:

- JNEE did not have an adequate accounting system for program purposes. Data to produce the entity's financial statement "Summary of Budget Execution" (Resumen de Ejecución Presupuestal) was abstracted from the subsidiary records, consisting of budget control cards kept in a very general manner and not integrated into the entity's central accounting system.
- No physical inventories of stocks and fixed assets on hand were taken, and the kardex system to control them was kept in arrears (to the date of this report, the kardex had not been updated since June 1986).
- Actual expenditures were not accumulated per expense account, which makes it extremely difficult to determine whether a budget allocation covering a given expense item was executed for said item.
- The bank ledger did not specify the accounting distribution of checks issued so that the expenditure could be traced to the corresponding budget item; and there was no cross-reference between the checks issued and the corresponding invoices.
- The internal audit function was not discharged as expected. Apart from reviewing the documentation supporting payments with USAID/Guatemala funds, no other work was performed.
- Radio station equipment (Radio Educativa ZAMANEB) acquired for approximately Q520,000 had not been recorded in the inventory records of JNEE, because it had not been formally delivered by the Ministry of Finance, due to internal paper work. Also, no detailed subsidiary records were kept to

control all equipment items, and through May 1989 no physical inventories of its components had been taken.

- Manuals and procedures to control the project operations, prepared with USAID/Guatemala assistance, had not been implemented through the end of the project. Such manuals and procedures included the following:
 - Fixed assets control
 - Budget procedures
 - Implementation of the budget control section
 - Warehouse control procedures
 - Procurement procedures
 - Transportation and vehicle maintenance procedures
 - Equipment maintenance procedures

Criteria:

A complete accounting system is necessary for JNEE to account for USAID/Guatemala funds, costs and operations. Additionally, GOG law (Congress Decree 106-71) applicable to all GOG agencies requires that sound accounting practices be followed to account for Government funds.

Cause:

Although JNEE management was made aware of the findings and recommendations of the predecessor auditor, it claimed that it did not take the recommended actions because the details of such recommendations were never presented in writing and its staff responsible for the project did not know enough about the project's operations to take appropriate actions. With regard to other controls and procedures that it was supposed to implement as part of the project agreement (e.g. manuals and procedures), it appears that management ignored the agreement provisions and USAID/Guatemala did not force JNEE to take the required actions.

Effect:

The lack of an adequate accounting system prevented JNEE from being able to prepare and submit complete and appropriate project financial information. Also, failure to implement approved manuals and procedures resulted in attempts by employees to apply their own criteria to the project operations, with no uniform methods being followed. Such a situation could allow the misuse of project resources, without timely detection.

Recommendation:

In any future projects with the National Board of Non-Formal Education (JNEE) USAID/Guatemala should closely monitor JNEE's compliance with agreement requirements in the area of accountability for USAID/Guatemala funds and suspend the project

if significant noncompliance is noted. Also, the results of this audit and any future A.I.D. funded audits should be formally communicated to JNEE and its parent organizations with USAID/Guatemala follow-up to ensure that the recommendations are implemented.

Price Waterhouse



**AUDIT OF THE INTEGRATED NON-FORMAL EDUCATION PROJECT
MANAGED BY THE NATIONAL BOARD OF NON-FORMAL EDUCATION
USAID/GUATEMALA PROJECT NO. 520-0281**

**REPORT ON COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS**

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit the fund accountability statement of the Integrated Non-Formal Education Project, USAID/Guatemala Project No. 520-0281, implemented by the National Board of Non-Formal Education (Junta Nacional de Educación Extraescolar - JNEE), for the period November 1, 1986 to March 31, 1988, and have issued our report thereon dated May 12, 1989.

Except as stated in our report dated May 12, 1989 on JNEE's fund accountability statement, our audit was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision), which includes additional standards and requirements for the review of compliance with the terms of the loan agreement and applicable laws and regulations.

Compliance with laws, regulations and terms of the agreements applicable to JNEE is the responsibility of JNEE's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of JNEE's compliance with certain provisions of laws, regulations and terms of the agreements. However, our objective was not to provide an opinion on overall compliance with such provisions.

Due to the condition of the accounting records and supporting documentation, and lack of adequate internal controls it was not possible to determine if the project transactions were in compliance with laws, regulations and terms of the agreements.

Accordingly, we do not express an opinion on JNEE's compliance of tested or untested items with applicable laws, regulations and terms of the agreements for the period November 1, 1986 to March 31, 1988.

This report is intended solely for the use of JNEE and the U. S. 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.

Eric Wadsworth

May 12, 1989

AUDIT OF THE INTEGRATED NON-FORMAL EDUCATION PROJECT
MANAGED BY THE NATIONAL BOARD OF NON-FORMAL EDUCATION
USAID/GUATEMALA PROJECT NO. 520-0281

FOLLOW-UP ON RECOMMENDATIONS MADE BY PREDECESSOR AUDITOR

We were engaged to perform an audit of the fund accountability statement of the Integrated Non-formal Education Project, USAID/Guatemala Project No. 520-0281, implemented by the National Board of Non-Formal Education (Junta Nacional de Educación Extraescolar - JNEE), for the period November 1, 1986 through March 31, 1988. The scope of our work included a follow-up on the recommendations to improve the internal accounting controls presented by the accounting firm of Arthur Andersen & Co. in their report dated October 29, 1987 on the project covering the period August 1982 through October 31, 1986, and to review what actions were subsequently taken by JNEE and/or USAID/Guatemala to provide adequate documentation and settle the questionable costs of Q329,000 identified in such audit report, with the proviso that as auditors our work was not intended to go beyond a review of events and/or documents made available subsequent to the date of Arthur Andersen's audit report.

The following is a summary of our follow-up work:

1. Recommendations to Improve Internal Accounting Controls

Arthur Andersen's proposed recommendations highlighted the following:

- Lack of an accounting system adequate for USAID/Guatemala purposes.
- No physical inventories of stocks and fixed assets on hand were taken.
- The manuals prepared with USAID/Guatemala to control project operations had not been implemented.

Implementation status of recommendations:

- To the date of our report no progress had been made to implement the recommendations submitted by the predecessor auditors because, as it was represented to us in writing, management was unaware of the details of such recommendations (see Annex I), and JNEE staff responsible of its administration and supervision was not familiar with the project needs.

2. Disposition of Questionable Costs for Q329,000 Reported by Arthur Andersen

Questionable costs were classified in the following asset categories:

Machinery and Equipment	Q	23,000
Materials and supplies		<u>306,000</u>
	Q	<u>329,000</u>

The above costs were questioned because the auditors were unable to locate them, or their final use could not be satisfactorily determined because of inadequate controls.

Following is a summary of our findings on the above questionable costs:

A. Machinery and Equipment Q 23,000

Arthur Andersen supplied us with a listing of the items reportedly missing, most of which consist of office equipment which we physically test inspected either at the regional office in Salamá or at the central offices in Guatemala.

B. Materials and Supplies Q 306,000

The above items were acquired with project funds as follows:

USAID/Guatemala	Q	228,442
Counterpart contribution		<u>77,558</u>
	Q	<u>306,000</u>

According to the Arthur Andersen report as of October 31, 1986, the auditors questioned the disbursements because due to the lack of controls they were not able to reconcile what they termed inventory differences with JNEE's subsidiary records. Our follow up on the matter disclosed that the presumed differences noted by Arthur Andersen represent 100% of the materials and supplies or Q306,441 acquired since the project inception through October 31, 1986. JNEE's management has represented to us that they (a) do not regularly take physical inventories as a control measure over stocks on hand; (b) that the inventories regarding which the differences were noted were taken by the auditors themselves, with no participation of JNEE personnel; and (c) that the inventory records (kardex) were in arrears at the date of such physicals and consequently there was not a proper basis for comparison in arriving at the differences reported (copies of the representation letters by management on the matter are attached as Annexes I and II).

AUDIT OF THE INTEGRATED NON-FORMAL EDUCATION PROJECT
MANAGED BY THE NATIONAL BOARD OF NON-FORMAL EDUCATION
USAID/GUATEMALA PROJECT NO. 520-0281

REPORT RECOMMENDATION

Internal Control Structure:

Recommendation 1:

In any future projects with the National Board of Non-Formal Education (JNEE) USAID/Guatemala should closely monitor JNEE's compliance with agreement requirements in the area of accountability for A.I.D. funds and suspend the project if significant noncompliance is noted. Also, the results of this audit and any future A.I.D. funded audits should be formally communicated to JNEE and its parent organizations with A.I.D. follow-up to ensure that the recommendations are implemented.

Rep 4



JUNTA NACIONAL DE
EDUCACION EXTRAESCOLAR

Guatemala, C. A.

SECRETARIA DE COORDINACION

2a. Calle 32-88, Zona 7
Teléfono: 914869

Of. No. SC-052-

Ref.RVRA/.SS...

Al contestar sírvase mención
número y referencia de este

Marzo 7 de 1989

Señores
Price Waterhouse & Co.
Ciudad

Atención: Lic. E. Carrillo

Estimados Señores:

Deseamos confirmar por la presente, la información que les diéramos en forma verbal respecto a los siguientes asuntos:

- 1.- Costos cuestionables reportados por la firma Arthur Andersen & Co. en su informe sobre el Proyecto de Apoyo, Dotación y Mejoramiento de la Educación Extraescolar, Proyecto USAID Guatemala No. 520-0281, del 29 de octubre de 1987, sobre el período del 21 de junio de 1984 al 31 de octubre de 1986 (28 meses).

Los costos cuestionables en mención suman como sigue:

Maquinaria y equipo	Q. 23,000
Materiales y suministros	<u>Q. 306,000</u>
	<u>Q. 329,000</u>
	=====

No sabemos a qué se refieren los costos en mención y desconocemos su composición, ya que no nos fue posible durante la auditoría de ustedes, ni aún con nuestros análisis a la presente fecha determinar el origen o la composición de las cifras arriba mencionadas, en vista que la firma auditora proporcionó cifras globales únicamente, sin ningún detalle adicional que nos permitiera localizar la documentación del caso para revisión por parte de ustedes.

.../

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Rep 5

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2.- Las recomendaciones de control interno presentadas por Arthur Andersen & Co. no llegaron a nuestro conocimiento, sino hasta la fecha en que ustedes las discutieron con nosotros. Por lo tanto es impráctico pretender que tales recomendaciones hubieran sido adoptadas, ya que las desconocíamos y por lo tanto las situaciones - descritas por los auditores siguen sin cambio.

Atentamente,


Dr. Raúl V. Ralón Afre
Secretario de Coordinación

C.C. - Dr. Gilberto Mendez (AID)
- Archivo

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SECRETARIA DE COORDINACION

2a. Calle 32-88, Zona 7

Teléfono: 914869

Of. No. ...JAE-023-89...

Ref. ...JCAG/ss.....

Al contestar sírvase mencionar el número y referencia de esta nota



JUNTA NACIONAL DE
EDUCACION EXTRAESCOLAR

Guatemala, C. A.

Mayo 12 de 1989

Señores
Price Waterhouse y Co.
6a. Calle 6-38 Zona 9
Ciudad de Guatemala

Estimados Señores:

A continuación les confirmamos la información y opiniones que expresamos a ustedes en el curso de su auditoría financiera y de cumplimiento realizada sobre las actividades de la Junta Nacional de Educación Extraescolar (JNEE), relacionadas con el convenio de donación No. 520-0281 Proyecto de Apoyo a la Extensión, Dotación y Mejoramiento de Educación Extraescolar (PAEDOMEX), suscrito por el Gobierno de Guatemala con la Agencia para el Desarrollo Internacional A.I.D.. Esta auditoría tuvo como objetivos la revisión del Estado de Rendición de Cuentas del Proyecto mencionado por el período comprendido entre el 1 de noviembre de 1986 al 31 de marzo de 1988, la evaluación de la estructura de control interno utilizada durante la ejecución del Proyecto y el cumplimiento con los términos del Convenio y leyes aplicables al respecto.

- 1.- Reconocemos que la responsabilidad por la razonable presentación del Estado de Rendición de Cuentas correspondiente a las operaciones del Proyecto No. 520-0281 mencionado en el párrafo introductorio de esta carta es de la Secretaría de Coordinación de la Junta Nacional de Educación Extraescolar.
- 2.- Todos los registros contables y financieros y cualquier información relacionada con el Proyecto fueron puestas a su disposición. No tenemos conocimiento de ninguna cuenta, transacción o compromiso importante que no haya sido razonablemente descrito y debidamente operado en los registros contables y en las liquidaciones de fondos presentadas a la A.I.D., que sirvieron de base para la preparación de nuestro Estado de Rendición de Cuentas al 31 de marzo de 1988.

.../

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3.- No tenemos conocimiento de:

- a) Ninguna irregularidad que involucre a la dirección o empleados que desempeñaron un papel importante en relación con la estructura de control interno que aplicamos en el registro y control de las operaciones del Proyecto No. 520-0281, o de cualquier otra irregularidad que involucrara a otros empleados y que pudiera tener un efecto material sobre el Estado de Rendición de Cuentas que les presentamos.
- b) Ninguna violación o posible violación de leyes o reglamentos, cuyos efectos debieran ser evaluados para determinar a necesidad de divulgarlos en el Estado de Rendición de Cuentas que -preparamos, o como base para registrar un pasivo contingente.

4.- No hemos tenido ninguna comunicación de agencias gubernamentales y otras que indiquen falta de cumplimiento oportuno con regulaciones a las que está sujeta la Secretaría de Coordinación de la Junta Nacional de Educación Extraescolar o deficiencias en la presentación de información financiera que pudieran tener un efecto significativo sobre el Estado de Rendición de Cuentas preparado hasta el 31 de marzo de 1988; situación que permanece hasta la fecha de esta carta.

La Secretaría de Coordinación de la Junta Nacional de Educación Extraescolar ha cumplido hasta la fecha oportunamente con todas las cláusulas contractuales que le corresponden, y que pudieran eventualmente tener un efecto material en caso de incumplimiento, sobre el Estado de Rendición de Cuentas preparado al 31 de marzo de 1988.

- 5.- El Estado de Rendición de Cuentas, preparado al 31 de marzo de 1988, incluye todos los otros bienes y activos propios de la Secretaría de Coordinación de la Junta Nacional de Educación Extraescolar y los adquiridos con los fondos de la donación del Proyecto No.520-0281, de los que tenemos conocimiento.
- 6.- El Estado de Rendición de Cuentas que les proporcionamos, fue preparado con base en los datos contenidos en las tarjetas Presupuestarias. al 31 de marzo de 1988.
- 7.- La Secretaría de Coordinación de la Junta Nacional de Educación Extraescolar, no toma inventarios físicos periódicos como medida de control para verificar la corrección de sus registros auxiliares (Kardex).
- 8.- Ciertamente, la Secretaría de Coordinación de la Junta Nacional de Educación Extraescolar no tomó inventario físico de materiales y suministros ni al 31 de octubre de 1986 ni a ninguna otra fecha, excepto el 31 de marzo de 1988, sin comparar sus resultados con los registros del caso. Por lo tanto, se desconoce cómo se pudieron integrar



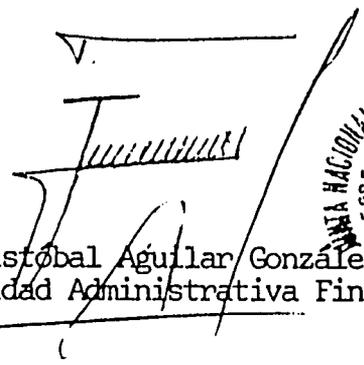
4

los presuntos faltantes de inventarios y existencias reportados por la firma de auditoría Arévalo Pérez y Asociados (Arthur Andersen & Co.) en la página 27 de su informe del 29 de octubre de 1987.

- 9.- Es posible, sin embargo, que los registros de inventarios (Kardex) no hayan estado actualizados a la fecha en que representantes de la firma auditora tomaron los inventarios físicos por su cuenta (sin participación de personal de bodegas o de contabilidad de la JNEE.)
- 10.- Reiteramos que la condición de los registros auxiliares de inventarios y de la contabilidad de la Junta Nacional de Educación Extraescolar no permite aclarar satisfactoriamente la disposición de los faltantes reportados ni confirmar su procedencia al 31 de octubre de 1986.

A la fecha de esta carta no tenemos conocimiento de que haya ocurrido ningún suceso o acontecimientos que afecten materialmente, el Estado de Rendición de Cuentas o divulgaciones relacionadas con la Junta Nacional de Educación Extraescolar al 31 de marzo de 1988 o que aun cuando no hayan afectado al proyecto, haya originado, o es posible que origine, algún cambio de importancia, adverso o de otra naturaleza, en la posición financiera mostrada en el Estado de la referencia.

Atentamente,



P.C. Jesús Cristóbal Aguilar González
Jefe de la Unidad Administrativa Financiera



Vo.Bo.



Prof. Raúl V. Ralón Afre
Secretario de Coordinación

APPENDIX III

REPORT DISTRIBUTION

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