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**AUDIT OF
PRIVATE SECTOR DEVELOPMENT
ACTIVITIES MANAGED BY
THE TECHNOLOGICAL FOUNDATION
USAID/GUATEMALA PROJECT NO. 520-0337**

**Audit Report No. 1-520-90-05-N
November 6, 1989**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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November 6, 1989

MEMORANDUM

TO: D/USAID/Guatemala, Anthony J. Cauterucci
FROM: RIG/A/T, *Coinage N. Gothard* Coinage N. Gothard, Jr.
SUBJECT: Audit Report No. 1-520-90-05-N, "Audit of the Private Sector Development Coordination Project, USAID/Guatemala Project No. 520-0337, Activities Managed by the Technological Foundation (FUNTEC) in Guatemala"

This report presents the results of a non-Federal audit of the Private Sector Development Coordination Project, USAID/Guatemala Project No. 520-0337, activities managed by the Technological Foundation (FUNTEC). The accounting firm of Price Waterhouse/Guatemala prepared the report, which is dated October 16, 1989.

The purpose of the project activities was to develop and evaluate educational centers and activities for transferring technology and training; to expand technical and scientific research tending to contribute to development; to modernize Guatemalan exports; and provide up-to-date information to private sector executives. The project activities, although originally scheduled to be implemented during a three-year period ending March 27, 1988, were extended to March 27, 1990. CAEM, a non-profit, autonomous organization comprised of chambers and associations of the private sector of Guatemala, was the project's supervisory body and an implementing unit. FUNTEC, a private nonprofit organization created on January 22, 1985, managed, together with the International Executive Service Corps. (IESC), those activities within the project's technical assistance and training for private sector productivity component which were not managed by CAEM. The audit period was from the date of initiation of the project on March 27, 1985 to June 30, 1988 and included coverage of the equivalent of \$122,064 (Q329,574) in funds provided to FUNTEC.

The purpose of the audit was to report on (1) the fairness of the fund accountability statements for the portions of the project managed by FUNTEC and IESC; (2) FUNTEC's and IESC's internal control structures with respect to project activities; (3) compliance by FUNTEC and IESC with agreement

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terms and applicable laws and regulations; and (4) IESC's financial and management capabilities as required by the project.

Price Waterhouse disclaimed an opinion on the fund accountability statement for project activities managed by FUNTEC, due to the following scope limitations: (1) the internal control structure did not provide for an adequate segregation of functions which resulted in some weaknesses affecting the reliability of the fund accountability statement; (2) data on cash received by FUNTEC was not reconciled with funds reported as delivered by USAID/Guatemala; and (3) the accounting records were inadequate for reliance on the resulting financial data. In addition, questionable costs were identified in the amount of \$58,980 (Q159,246). Price Waterhouse's study and evaluation of FUNTEC's internal control structure revealed material weaknesses consisting of (1) inadequate accounting and budget control systems; (2) inadequate control over cash transactions; (3) inadequate accountability and control over assets acquired with project funds; and (4) submission of untimely and inaccurate financial information. Price Waterhouse disclaimed an opinion on FUNTEC's compliance with agreement terms and applicable laws and regulations due to the scope limitations mentioned previously. However, instances of noncompliance were observed and consisted of (1) failure to implement A.I.D. approved procedures for the acquisition of goods and services and for personnel recruitment, selection, and hiring; (2) commingling of grant and other funds in various bank accounts; (3) failure to maintain files supporting certain in-kind counterpart contributions in the amount of \$52,961 (Q143,000); (4) failure to coordinate certain technical assistance activities with IESC; (5) failure to comply with standards of conduct in connection with the selection, award and administration of contracts in which A.I.D. funds were used; (6) failure to prepare a final budget with respect to technical assistance that IESC was required to render; and (7) failure to comply with Guatemalan income tax laws. Because project funds for those activities handled by IESC were accounted for by its headquarters office in Stamford, Connecticut, Price Waterhouse/Guatemala did not audit those project activities and relied on an audit report on IESC, dated April 21, 1989, issued by Price Waterhouse's office in Stamford, Connecticut to conclude that IESC has the ability to manage projects by securing experienced volunteers for overseas assignments.

The draft report was discussed with both USAID/Guatemala and FUNTEC. Price Waterhouse incorporated appropriate modifications to the report based on additional explanations and supporting documentation with respect to certain findings.

The Price Waterhouse report contains five recommendations on internal controls and one recommendation on compliance. We have summarized the most significant findings and related recommendations for inclusion in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Guatemala negotiate a settlement with the Technological Foundation (FUNTEC) for \$58,980 (Q159,246) in questionable costs included in the Price Waterhouse report, dated October 16, 1989.

Recommendation No. 2

We recommend that USAID/Guatemala require the Technological Foundation (FUNTEC) to improve its internal controls and compliance by:

- a. implementing the accounting and budget control systems required by agreement with A.I.D.;
- b. instituting internal controls over cash and providing a complete accounting of grant funds received;
- c. implementing the approved accounting system provisions relating to accountability and controls of assets and the approved procedures for the acquisition of goods and services;
- d. following A.I.D. approved procedures for personnel recruitment, selection and hiring;
- e. instituting controls to assure that the financial data reported to A.I.D. is reliable and timely submitted;
- f. depositing and maintaining only A.I.D. grant funds in separate bank accounts established for the project; and
- g. requiring adequate documentation for in-kind counterpart contributions in the amount of \$52,961 (Q143,000).

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

PRIVATE SECTOR DEVELOPMENT COORDINATION PROJECT
ACTIVITIES MANAGED BY
THE TECHNOLOGICAL FOUNDATION
USAID/GUATEMALA PROJECT NO. 520-0337

PRIVATE SECTOR DEVELOPMENT COORDINATION PROJECT
ACTIVITIES MANAGED BY
THE TECHNOLOGICAL FOUNDATION
USAID/GUATEMALA PROJECT NO. 520-0337

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Price Waterhouse



October 16, 1989

Mr. Coinage N. Gothard, Jr.
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 financial audit of the Private Sector Development Coordination Project, USAID/Guatemala Project No. 520-0337, activities managed by the Technological Foundation (Fundación Tecnológica - FUNTEC) from March 27, 1985 to June 30, 1988.

BACKGROUND

The United States Agency for International Development in Guatemala (USAID/Guatemala), and the Enterprise Chamber of Guatemala (Cámara Empresarial de Guatemala - CAEM) signed Grant Agreement No. 520-0337-G-00-5115-00 for \$1,500,000 on March 27, 1985. The purpose of this grant was to increase the participation of the private sector in non-traditional development programs and to promote Caribbean Basin Initiative (CBI) activities. The project, originally scheduled to be implemented during a three-year period ending March 27, 1988, was extended to March 27, 1990.

The project included three components: Private Sector Development Sub-Projects, Technical Assistance and Training for Private Sector Productivity, and Project Coordination.

CAEM, a nonprofit, autonomous organization comprised of chambers and associations of the private sector of Guatemala, was the project's supervisory body and an implementing unit. In its supervisory role it managed the Project Coordination component and in its implementing role it managed certain activities within the Project's Technical Assistance and Training for Private Sector Productivity component.

The other implementing units were the Technological Foundation (Fundación Tecnológica - FUNTEC), the International Executive Service Corps (IESC), and the Foundation for the Integral Development of Socio-economic Programs (Fundación para el Desarrollo Integral de Programas Socio-económicos - FUNDAP).

FUNTEC, a private nonprofit organization created on January 22, 1985, managed, together with the International Executive Service Corps (IESC), those activities within the project's Technical Assistance and Training for Private Sector Productivity component which were not managed by CAEM. FUNTEC's main objectives are the development and evaluation of educational centers and activities for transferring technology; training; expanding technical and scientific research tending to contribute to the development of Guatemala; modernizing Guatemalan exports; and providing up-to-date information to private sector executives.

IESC was organized in the United States in 1964 by a group of american businessmen to strengthen private enterprise and speed up economic growth in the developing countries of the world. It is a nonprofit organization independently managed by private businessmen and its main offices are located in Stamford, Connecticut. Guatemala's chapter of IESC started operations in the country on November 8, 1966, and was granted legal status on July 20, 1967.

FUNDAP, also a nonprofit organization, managed the project's Private Sector Development Sub-projects component.

AUDIT OBJECTIVES AND SCOPE

The specific objectives of our audit were to determine whether:

1. The fund accountability statements for the portions of the project managed by FUNTEC and by IESC fairly present the project's receipts and expenditures from March 27, 1985 through June 30, 1988, identifying any costs which were not fully supported with adequate records or which were not allowable under the terms of the agreement;
2. FUNTEC's and IESC's internal control structures were adequate for project purposes;
3. FUNTEC and IESC complied with agreement terms and applicable laws and regulations; and
4. IESC had the financial and management capabilities required by the project.

The 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 agreement and applicable laws and regulations.

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

RESULTS OF AUDIT

I. FUNTEC -

Fund Accountability Statement

Our examination of the fund accountability statement for the portions of the project managed by FUNTEC for the period March 27, 1985 through June 30, 1988 was limited, as described below: a) As more fully explained in note 3 to the fund accountability statement, costs of Q159,246 were not supported with adequate documentation or disregarded applicable standard provisions; b) data covering receipts derived by FUNTEC was not properly reconciled with funds reported as delivered by USAID/Guatemala; and c) the entity's filing system was such that we could not determine whether the advance and liquidation forms submitted for our review were all those actually existing.

Because of the scope limitations described above, our examination was not sufficient to enable us to express, and we do not express, an opinion on the fund accountability statement identified above. However, our work identified certain costs amounting to Q159,246 that we consider to be questionable.

Internal Control Structure

As more fully explained in the pertinent section of this report, we believe that FUNTEC's internal control structure is not adequate for USAID/Guatemala purposes, because of:

- inadequate accounting records,
- an improper budgetary control system,
- lack of segregation of project operations from those of the entity, and
- lack of proper integration of the accounting and budget systems.

Compliance with Agreement Terms and Applicable Laws and Regulations

The system of accounting followed and the lack of an adequate internal control structure for the project activities managed by FUNTEC did not make it possible for us to determine if all the project transactions were in compliance with agreement terms and applicable laws and regulations. Our review, however, disclosed the cases of non-compliance described under Finding No. 1 in the corresponding section of this report.

II. IESC -

Our audit work disclosed the following:

1. The Guatemalan branch maintains records that account for local expenditures and counterpart contributions only. The majority of project expenditures were incurred abroad and are accounted for by IESC's headquarters offices in Stamford, Connecticut.
2. The local branch of IESC operates with very limited human resources that take care of administrative tasks, only. The project was financed with funds supplied by headquarters and project activities were handled by foreign staff brought temporarily into the country.
3. Project funds for those activities handled by IESC were delivered by USAID/Guatemala directly to IESC headquarters in Stamford, Connecticut.

Based on the foregoing, we were of the opinion that the review of supporting documents, as well as determination of compliance with agreement terms and of financial and management capabilities could better be performed in Stamford, Connecticut, a conclusion that is shared by IESC's representative in Guatemala.

We have obtained audited comparative financial statements of IESC for the years 1988 and 1987 which show that IESC has received grants from A.I.D. in excess of US\$8 million in both 1988 and 1987 and that it has the ability to manage projects by securing experienced volunteers for overseas assignments (See Exhibit I).

Management Comments

In an exit conference held on October 13, 1989, at which Messrs. Alejandro Pontaza of USAID/Guatemala and José Ramón Fernández of the Office of the Regional Inspector General for Audit in Tegucigalpa, Honduras were present, FUNTEC's officials provided comments and/or explanations to most of the audit findings. Where appropriate, our audit findings, as presented in our final report, have been changed or otherwise modified based on additional evidence or explanations obtained.

As a result of the discussions held during the meeting FUNTEC's officials expressed their general agreement with the auditor's conclusions and findings.

Price Waterhouse



PRIVATE SECTOR DEVELOPMENT COORDINATION PROJECT
ACTIVITIES MANAGED BY
THE TECHNOLOGICAL FOUNDATION
USAID/GUATEMALA PROJECT NO. 520-0337

FUND ACCOUNTABILITY STATEMENT

AUDITOR'S OPINION

We have audited the accompanying fund accountability statement of the Private Sector Development Coordination Project, USAID/Guatemala Project No. 520-0337, activities managed by the Technological Foundation (Fundación Tecnológica - FUNTEC) for the period March 27, 1985 through June 30, 1988. The fund accountability statement is the responsibility of FUNTEC. As explained in the following paragraphs, we could not perform all the auditing tests that we considered necessary to comply with generally accepted auditing standards and the U. S. Comptroller General's "Government Auditing Standards" (1988 revision).

1. The internal control structure does not provide for an adequate segregation of functions, resulting in some weaknesses which affect the reliability of the fund accountability statement. Other weaknesses, although not significantly affecting the reliability of financial information, affect management's control over operations.
2. Data on cash received by FUNTEC were not reconciled with funds reported as delivered by USAID/Guatemala.
3. The accounting records are inadequate for reliance on the resulting data. The fund accountability statement was prepared on the basis of advances, reimbursements and expense liquidation reports and adjusted to include Q97,004.13 (equivalent to \$32,595.00 at the rates of exchange prevailing when the transactions took place) reported by USAID/Guatemala as direct payments although they were disbursed by FUNTEC but had not been originally included in the fund accountability statement submitted for our review.
4. There was no basis to determine whether the advance and expense liquidation forms were all the ones existing, because of the disorderly condition of the related accounting files.

Because we were unable to apply adequate auditing procedures regarding the Private Sector Development Coordination Project activities managed by FUNTEC, as noted 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 accompanying fund accountability statement for the period from March 27, 1985 through June 30, 1988. Our work, however, identified questionable costs amounting to Q159,246 (Note 3).

This report is intended solely for the use of the Technological Foundation (FUNTEC), the Enterprise Chamber of Guatemala (CAEM) and the U.S. Agency for International Development (A.I.D.). 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.

A handwritten signature in cursive script, appearing to read "Price Waterhouse".

March 31, 1989

PRIVATE SECTOR DEVELOPMENT COORDINATION PROJECT
ACTIVITIES MANAGED BY
THE TECHNOLOGICAL FOUNDATION
USAID/GUATEMALA PROJECT NO. 520-0337

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD MARCH 27, 1985 THROUGH JUNE 30, 1988
(expressed in Quetzales)

	<u>Actual</u>	Questionable Costs <u>(Note 3)</u>
Receipts	<u>Q 329,574</u>	
Disbursements:		
Administration	93,765	Q 32,685
Seamstresses project	50,507	40,689
Machinery and equipment	107,286	84,657
Administration seminar	<u>1,826</u>	<u>1,215</u>
	<u>Q 253,384</u>	<u>Q 159,246</u>
Cash on hand	<u>Q 76,190</u>	

See accompanying Notes 1 to 3

PRIVATE SECTOR DEVELOPMENT COORDINATION PROJECT
ACTIVITIES MANAGED BY
THE TECHNOLOGICAL FOUNDATION
USAID/GUATEMALA PROJECT NO. 520-0337

NOTES TO FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD MARCH 27, 1985 TO JUNE 30, 1988

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES

On March 27, 1985 the Enterprise Chamber of Guatemala (CAEM) and the United States Agency for International Development in Guatemala (USAID/Guatemala) signed Grant Agreement No. 520-0337-G-00-5115-00 for the Private Sector Development Coordination Project. The general purpose of this agreement was to promote the participation of the private sector in non-traditional development activities and to promote Caribbean Basin Initiative (CBI) activities.

The project is to be implemented during a period ending March 27, 1990, and consists of three components. The responsibility for implementing one of the components, the Technical Assistance and Training for Private Sector Productivity component, was split between the Technological Foundation (FUNTEC) and CAEM.

FUNTEC is a private nonprofit organization created on January 22, 1985. Its main objectives are the development and evaluation of educational centers and activities for transferring technology; training; expanding technical and scientific research tending to contribute to development; modernizing Guatemalan exports; and providing up-to-date information to private sector executives.

The Technical Assistance and Training for Private Sector Productivity component includes five activities, two of which, as described below were assigned to FUNTEC:

1. Technical Assistance - FUNTEC would coordinate with the International Executive Service Corps (IESC) to provide technical assistance to small and medium-size Guatemalan businesses in such fields as product design, industrial engineering, accounting and marketing.
2. Small Enterprises Development Sub-projects - FUNTEC would furnish technical assistance or other inputs to small and medium-size enterprises.

Accounting Records and Basis of Accounting

The records of FUNTEC are maintained in Quetzales, denoted by the symbol Q.

FUNTEC's fund accountability statement was prepared on a cash basis, and consequently receipts and the related assets are recognized when collected rather than when accrued, and expenditures are recognized when paid rather than when the obligation is incurred.

The liquidations submitted by FUNTEC to USAID/Guatemala were prepared at the exchange rates established by A.I.D.

NOTE 2 - FOREIGN CURRENCY REGULATIONS:

Effective June 6, 1986 the Government of Guatemala established temporary regulations with respect to the parity of the Quetzal (Guatemala's currency) with the US dollar and over international monetary transactions. On June 23, 1988, existing regulations were modified establishing for all practical purposes a rate of exchange of Q2.70 = US\$1.00.

NOTE 3 - QUESTIONABLE COSTS:

A summary of questionable program costs follows:

<u>Project subactivity</u>	<u>PIL(1) No.</u>	<u>Suspended(2)</u>	<u>Explanation</u>
Administration	4,6,7,16, 25,49,60,62	Q 12,667	Excess director salary over budget
	60,62	466	Excess Christmas bonus over budget
	60,62	148	Excess severance compensation
	4,6,7,16,25, 49,60,62	1,973	Excess administrative expense over budget
		53	IVA taxes charged to the project
	49,60,62	2,385	Nature of expense at variance with item recorded
	49,60,62	745	Xerox maintenance paid
	60,62	65	Excess total over supporting voucher
	4,6,7,16,25	1,038	Lack of supporting documentation
	49	250	Salary payment not budgeted

Explanation for (1) and (2) on page 11

<u>Project subactivity</u>	<u>PIL(1) No.</u>	<u>Suspended(2)</u>	<u>Explanation</u>
	4,6,7,16,25	1,067	Excess secretary salary over budget
	4,6,7,16,25	237	Excess messenger salary over budget
	4,6,7,16,25	750	Excess fees over budget
	4,6,7,16,25	1,226	Excess miscellaneous expense over budget
	4,6,7,16,25	<u>9,615</u>	Excess administrative or not well documented expenses
	49,60,62	<u>32,685</u>	
Seamstresses Project	4,8,	2,445	Excess salaries over budget
	4,8	452	Electricity payment lacking supporting documentation
	4,8	3,805	Excess administrative expense over budget
	52,62	3,805	Nature of expense at variance with item recorded
	4,8	23,471	Machinery purchase not well documented
	52,62	3,907	Overtime paid well over expected reality
	52,62	1,250	Rent paid to other than intended payee
	52,62	494	Lack of supporting documentation
	52,62	<u>1,060</u>	Excess payments over budget
		<u>40,689</u>	
Machinery and equipment	25	52,310	Purchase of industrial sewing machines from a company owned by one of FUNTEC's directors with USAID/Guatemala prior oral approval

Explanation for (1) and (2) on page 11

<u>Project subactivity</u>	<u>PIL(1) No.</u>	<u>Suspended(2)</u>	<u>Explanation</u>
	38	3,500	Whereabouts of button-maker machine unknown and no standard provisions followed; also Q600 disbursed over budget
	38	3,200	Overlock machine acquired lacking documentation and without regard to standard provisions
	38	2,800	Button-hole machine acquired without regard to standard provisions; also Q200 disbursed over budget
	38	445	Local transportation lacking supporting documentation
	14,29,53	19,600	Standard provisions applicable to the acquisition were not followed; also, disbursements exceeded budget by Q2,180
	14,29,53	1,654	Petty cash disbursements
	14,29,53	<u>1,148</u>	Tools acquired with no evidence that standard provisions were followed
		<u>84,657</u>	
Administration seminar	14,29,53	<u>1,215</u>	Furniture acquired from a carpenter disregarding PIL 14 requirements
Total questionable costs		<u>0 159,246</u>	

(1) Project implementation letter

(2) Suspended costs represent disbursements whose acceptability for reimbursement is subject to final determination. Costs normally included in this category are disbursements exceeding the original budget amounts; those not previously approved or authorized in writing; and those which at the time of the audit were not adequately supported by appropriate documentation.

Price Waterhouse



PRIVATE SECTOR DEVELOPMENT COORDINATION PROJECT
ACTIVITIES MANAGED BY
THE TECHNOLOGICAL FOUNDATION
USAID/GUATEMALA PROJECT NO. 520-0337
REPORT ON INTERNAL CONTROL STRUCTURE
AUDITOR'S OPINION

In planning and performing our audit of the fund accountability statement of the Private Sector Development Coordination Project, USAID/Guatemala Project No. 520-0337, activities managed by the Technological Foundation (Fundación Tecnológica - FUNTEC) for the period from March 27, 1985 to June 30, 1988, we considered FUNTEC's internal control structure 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 the internal control structure. Our evaluation was limited to a preliminary review of the internal control structure to obtain an understanding of the control environment and the flow of transactions through the accounting system. For the purpose of this report, we have classified the significant internal controls in, and have evaluated, the following categories: 1) budget execution, 2) cash, 3) procurement system, 4) personnel, recruitment selection and hiring and 5) information system.

Our evaluation of FUNTEC's internal control structure disclosed certain matters involving the project's execution that we consider to be reportable conditions in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). 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 opinion, could adversely affect FUNTEC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

In accordance with U.S. Comptroller General and AICPA standards, auditors are required to identify material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. In this connection, all findings presented, Nos. 1 through 5, are deemed to be material weaknesses.

This report is intended solely for the use of the Technological Foundation (Fundación Tecnológica - FUNTEC), the Enterprise Chamber of Guatemala (CAEM) and the U. S. Agency for International Development (A.I.D.). 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.



March 31, 1989

PRIVATE SECTOR DEVELOPMENT COORDINATION PROJECT
ACTIVITIES MANAGED BY
THE TECHNOLOGICAL FOUNDATION
USAID/GUATEMALA PROJECT NO. 520-0337
REPORT ON INTERNAL CONTROL STRUCTURE

FINDINGS

1. **The Accounting and Budget Control Systems are not Adequate for A.I.D. Purposes**

Condition:

The following deficiencies in the project's accounting and budget control systems were noted:

- The accounting and budget manual approved by A.I.D. for the project was not implemented by FUNTEC and the accounting system in use did not include appropriate budgetary controls;
- There was lack of sufficient and appropriate subsidiary ledgers to integrate in detail the project balances;
- Financial statements were not consistently prepared on a monthly basis.

Criteria:

The grant agreement provided that the accounting and budget control systems approved by A.I.D. were to be used for the project. Authorization for any changes considered necessary should have been obtained from A.I.D.

Cause:

The accountant continued to use the accounting system used by FUNTEC in the past because he was unaware of the requirement to follow the A.I.D. approved system.

Effect:

There was non-compliance with agreement terms on this area; inappropriate presentation of project data in the financial statements, and difficulty in preparing the fund accountability statement, as some project operations were not included therein.

Recommendation:

USAID/Guatemala should require the Technological Foundation (FUNTEC) to implement for the project the accounting and budget control system called for by the agreement. FUNTEC should be informed that any deviations from established procedures require prior A.I.D. approval.

2. The Internal Control Structure Surrounding Cash Transactions was not Adequate

Condition:

The project's cash transactions were not adequately controlled as attested to by the following deficiencies:

- The balance of grant funds received from A.I.D. to pay for equipment acquisitions (Q10,972) were disbursed with a delay of at least 3.5 months;
- The subsidiary ledgers were not adequate to properly control both cash receipts and disbursements since daily balances were not shown;
- Daily cash availability reports were not prepared;
- There was no separate bank account for grant funds. Instead, grant and other funds were deposited in the same accounts without controls to prevent the grant funds from being used for non grant purposes.

Criteria:

The internal control procedures included in the accounting system approved by A.I.D. for CAEM and the project should have been used by FUNTEC to provide assurance on the reasonableness of both cash receipts and disbursements.

Cause:

The accounting system approved by A.I.D. for the project was not made known to FUNTEC's accountant.

Effect:

There was non-compliance with agreement terms (PIL's Nos. 3 and 4); uncertainty as to whether grant receipts and disbursements were fully accounted for; and possibly a temporary deviation of grant funds to non grant purposes.

Recommendation:

USAID/Guatemala should require the Technological Foundation (FUNTEC) to institute internal controls over cash to correct the conditions mentioned in this finding, and provide a complete accounting of grant funds received and disbursed.

3. Approved Procedures for the Acquisition of Goods and Services were not Followed, and Accountability and Control over the Related Assets was Inadequate

Condition:

FUNTEC acquired goods and services under criteria at variance with the A.I.D. approved procedures, and controls over assets acquired with grant funds were not consistently maintained. The following deficiencies were noted:

- Goods and services were acquired from a company owned by one of FUNTEC's directors;
- Goods and services acquired with grant funds were not separately accounted for from those acquired with other funds;
- No periodic physical inventories of assets were made;
- No personal accountability cards were issued for assets given in custody to employees, to enable others to keep track of such assets.
- The control procedures recommended by USAID were not implemented.

Criteria:

The agreement required the implementation of appropriate accountability and control procedures in this area. Also, the standards of conduct requirements in the agreement's standard provisions expressly prohibit the participation of any employee or officer in the selection, award or administration of a contract in which A.I.D. funds are used, where, he or his immediate family has a financial interest.

Cause:

The board of directors and the accountant were apparently unaware of the requirement to follow the A.I.D. approved accounting system and the contents of the standard provisions.

Effect:

There was a lack of control over fixed assets and uncertainty as to whether they were properly accounted for.

Recommendation:

USAID/Guatemala should require the Technological Foundation (FUNTEC) to implement the approved accounting system provisions relating to accountability and control of assets and the approved procedures for the acquisition of goods and services, and to comply with the standard provisions to the agreement.

4. A.I.D. Approved Procedures for Personnel Recruitment, Selection and Hiring Were not Followed

Condition:

FUNTEC did not follow approved procedures regarding personnel recruitment, selection and hiring. We noted the following control weaknesses and deficiencies regarding the procedures that were followed:

- Personnel files were not adequate;
- Social security taxes were not withheld from employee salaries, and the employer's portion was not paid to the social security authorities;
- On at least one occasion the executive director's salary was paid to him twice;
- No income tax was withheld on fees paid;

Criteria:

The A.I.D. approved procedures on personnel matters were to be used for the project. Changes, if any, considered necessary should have been authorized by A.I.D.

Cause:

We attribute FUNTEC's failure to follow A.I.D. procedures in the personnel area to a lack of supervision by FUNTEC's management.

Effect:

There was non-compliance with agreement terms and Guatemalan income tax and social security laws giving rise to questionable costs in the salaries area, possible tax contingencies, and inadequate controls in the areas of personnel pay and salary administration.

Recommendation:

USAID/Guatemala should require the Technological Foundation (FUNTEC) to follow the procedures for personnel recruitment, selection and hiring approved by A.I.D. in the grant agreement, to correct the internal control weaknesses evidenced by the conditions noted in this finding, and to withhold and pay income and social security taxes as required by Guatemalan law.

5. Financial Information Submitted was not Accurate and Timely

Condition:

We noted several weaknesses with regard to FUNTEC's submissions to A.I.D. of project financial data as follows:

- Delays in the submission of reports;
- Report files which were in disarray;
- Incomplete explanations on some expenses included in the liquidations submitted to A.I.D. (petty cash reimbursements, for example); and
- Data contained in the annexes to the liquidations submitted to A.I.D. that had not been reviewed, and which consequently included unallowable costs and expenses.

Criteria:

Adequate controls need to be in place to assure that reports to A.I.D. are accurate, submitted timely and retained in an orderly fashion to facilitate further analysis and review.

Cause:

We attribute the above conditions to a failure on the part of FUNTEC management to assure that its employees that prepare these reports are aware of A.I.D.'s needs for timely and accurate financial information and the regulations concerning the allowability of costs and required documentary support for all costs claimed.

Effect:

Neither FUNTEC's management nor A.I.D. had the benefit of reliable and timely information in their management of the project.

Recommendation:

USAID/Guatemala should require the Technological Foundation (FUNTEC) to institute the controls necessary to assure that the financial data reported to A.I.D. is reliable and timely submitted. The procedures to be instituted should include training for those employees that prepare such financial information to assure that they have a working knowledge of U.S. Government regulations concerning the allowability of costs and required documentary support for all costs claimed.

Price Waterhouse



PRIVATE SECTOR DEVELOPMENT COORDINATION PROJECT
ACTIVITIES MANAGED BY
THE TECHNOLOGICAL FOUNDATION
USAID/GUATEMALA PROJECT NO. 520-0337

REPORT ON COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS

AUDITOR'S OPINION

We have audited the fund accountability statement of the Private Sector Development Coordination Project, USAID/Guatemala Project No. 520-0337, activities managed by the Technological Foundation (Fundación Tecnológica - FUNTEC) for the period from March 27, 1985 to June 30, 1988, and have issued our report thereon dated March 31, 1989. We conducted our audit in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to FUNTEC is the responsibility of FUNTEC's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of FUNTEC's compliance with certain provisions of the agreement and applicable laws and regulations. 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 for us to determine if the transactions selected for audit were in compliance with agreement terms and applicable laws and regulations. The results of our evaluation, however, disclosed instances of noncompliance with agreement terms, laws, and regulations, as explained in finding No. 1 in the following pages of this report.

Because of the matter described in paragraph 3 above, the scope of our audit work was not sufficient to enable us to express, and we do not express, an opinion on compliance with agreement terms, and applicable laws and regulations by FUNTEC for the period from March 27, 1985 to June 30, 1988.

This report is intended solely for the use of the Technological Foundation (FUNTEC), the Enterprise Chamber of Guatemala (CAEM), and the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

A handwritten signature in cursive script, appearing to read "Rice Waterhouse".

March 31, 1989

PRIVATE SECTOR DEVELOPMENT COORDINATION PROJECT
ACTIVITIES MANAGED BY
THE TECHNOLOGICAL FOUNDATION
USAID/GUATEMALA PROJECT NO. 520-0337

REPORT ON COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS

FINDINGS

1. **The Entity Did not Comply With All Agreement Terms and Applicable Laws and Regulations**

Condition:

We noted the following noncompliance situations during our review:

- A.I.D. approved procedures for the acquisition goods and services, and for personnel, recruitment selection and hiring were not implemented. (See findings No. 3 and 4 of our report on the internal control structure.)
- The bank accounts opened to handle grant funds were also used for other funds in contravention with the standard provisions.
- The files required by Annex 1, page 6 to the agreement to support the counterpart contribution for Q143,000, were not kept as such contribution was mostly given in-kind.
- Annual evaluation reports, required by Annex I, page 3, and Annex 5 to the agreement, were not presented;
- Although rendered, FUNTEC did not coordinate with the International Executive Service Corps (IESC) the technical assistance that should have been rendered to small and medium enterprises on industrial engineering, accounting and marketing, nor did it promote the services available from IESC, as required by Annex 2, page 6, to the agreement;
- At least once FUNTEC did not comply with the standards of conduct requirements of the agreement's standard provisions. (See finding No. 3 of our report on the internal control structure.)
- No evidence was found that FUNTEC had prepared a final budget covering the technical assistance that IESC was going to render, according to Annex 2, page 7 to the agreement;
- FUNTEC did not comply with the tax laws requiring income tax and social security withholdings from employee salaries, and their payment to the tax offices. (See finding No. 4 of our report on the internal control structure.)

The salaries book required by the Guatemala Labor Code was not kept.

Criteria:

FUNTEC was required to comply with all agreement terms and applicable laws and regulations.

Cause:

In general, we believe FUNTEC did not adequately communicate the terms of the agreement and applicable regulations to its employees. However, for certain of the above reported conditions the disregard of agreement terms and applicable laws and regulations appears to have been a conscious decision on the part of FUNTEC management.

Effect:

The above instances of noncompliance had multiple effects as stated in previous findings of this report and indicated below:

- Lack of control over fixed assets.
- Uncertainty as to whether fixed assets were properly accounted for.
- Non-compliance with Guatemala income tax and social security laws leading to possible tax contingencies.
- Inadequate controls in the areas of personnel pay and administration.
- Lack of control to prevent grant funds from being used to temporarily finance non grant activities.
- A claimed counterpart contribution that was not adequately supported.
- Financial reports needed for management oversight which were not prepared or not prepared timely.
- Costs claimed for reimbursement that were questioned.

Recommendation:

USAID/Guatemala should require the Technological Foundation (FUNTEC) to correct the non-compliance conditions noted in this finding and require FUNTEC to establish procedures to periodically verify and document continued compliance with all agreement terms and applicable laws and regulations. Concerning the claimed counterpart contributions of Q143,000 made in-kind to the project, USAID/Guatemala should require adequate documentation.

PRIVATE SECTOR DEVELOPMENT COORDINATION PROJECT
ACTIVITIES MANAGED BY
THE TECHNOLOGICAL FOUNDATION
USAID/GUATEMALA PROJECT NO. 520-0337

LIST OF RECOMMENDATIONS

Report on Internal Control Structure

Recommendation 1:

USAID/Guatemala should require the Technological Foundation (FUNTEC) to implement for the project the accounting and budget control system called for by the agreement. FUNTEC should be informed that any deviations from established procedures require prior A.I.D. approval.

Recommendation 2:

USAID/Guatemala should require the Technological Foundation (FUNTEC) to institute internal controls over cash to correct the conditions mentioned in this finding, and provide a complete accounting of grant funds received and disbursed.

Recommendation 3:

USAID/Guatemala should require the Technological Foundation (FUNTEC) to implement the approved accounting system provisions relating to accountability and control of assets and the approved procedures for the acquisition of goods and services, and to comply with the standard provisions to the agreement.

Recommendation 4:

USAID/Guatemala should require the Technological Foundation (FUNTEC) to follow the procedures for personnel recruitment, selection and hiring approved by A.I.D. in the grant agreement, to correct the internal control weaknesses evidenced by the conditions noted in this finding, and to withhold and pay income and social security taxes as required by Guatemalan law.

Recommendation 5:

USAID/Guatemala should require the Technological Foundation (FUNTEC) to institute the controls necessary to assure that the financial data reported to A.I.D. is reliable and timely submitted. The procedures to be instituted should include training for those employees that prepare such financial information to assure that they have a working knowledge of U.S. Government regulations concerning the allowability of costs and required documentary support for all costs claimed.

**Report on Compliance with Agreement Terms
and Applicable Laws and Regulations**

Recommendation 1:

USAID/Guatemala should require the Technological Foundation (FUNTEC) to correct the non-compliance conditions noted in this finding and require FUNTEC to establish procedures to periodically verify and document continued compliance with all agreement terms and applicable laws and regulations. Concerning the claimed counterpart contributions of Q143,000 made in-kind to the project, USAID/Guatemala should require adequate documentation.

Price Waterhouse



April 21, 1989

To the Board of Directors of
International Executive Services Corps

Report of Independent Accountants

In our opinion, the accompanying balance sheet and the related statements of support, revenue and expenses, of changes in fund balances and of changes in financial position present fairly, in all material respects, the financial position of International Executive Service Corps at December 31, 1988 and 1987, and the results of its operations and the changes in its fund balances and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the organization's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the over-all financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of detailed expenses for the years ended December 31, 1988 and 1987 is presented for additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Price Waterhouse

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INTERNATIONAL EXECUTIVE SERVICE CORPS

BALANCE SHEET

	<u>December 31,</u>	
	<u>1988</u>	<u>1987</u>
<u>A s s e t s</u>		
Cash:-		
Headquarters:		
Operating accounts	\$ 857,978	\$ 594,850
Certificates of deposit		100,000
Foreign countries (Note 2)	<u>1,057,745</u>	<u>1,367,962</u>
	<u>1,915,723</u>	<u>2,062,812</u>
Receivables:		
Accounts receivable from the Agency for International Development (Note 3)	558,359	1,231,529
Accounts receivable from projects	121,836	220,949
Expense advances and other receivables	<u>716,143</u>	<u>190,156</u>
	<u>1,396,338</u>	<u>1,642,634</u>
Prepayments and deposits	<u>196,978</u>	<u>220,605</u>
Fixed assets, net (Note 4)	<u>691,426</u>	<u>740,663</u>
	<u>\$4,200,465</u>	<u>\$4,666,714</u>
<u>Liabilities and fund balances</u>		
Liabilities:		
Accounts payable	\$ 690,849	\$ 330,126
Other accrued liabilities	191,571	295,583
Advance payments from projects	452,015	491,366
Deferred income	256,540	301,834
Reserve for vacation and termination benefits	<u>205,345</u>	<u>203,338</u>
	1,796,320	1,622,247
Fund balances:		
Operating fund	2,373,523	3,002,568
Fixed asset fund	<u>30,622</u>	<u>41,899</u>
	<u>\$4,200,465</u>	<u>\$4,666,714</u>

See accompanying notes to financial statements.

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INTERNATIONAL EXECUTIVE SERVICE CORPS
STATEMENT OF SUPPORT, REVENUE AND EXPENSES
OPERATING FUND

	For the year ended December 31,	
	1988	1987
Support and revenue:		
Value of donated services	\$20,105,348	\$19,284,000
Revenue from projects	4,677,123	4,951,922
Grants from Agency for International Development (Note 3)	8,145,329	8,156,196
Contributions from the U.S. private sector	477,239	478,866
Contributions and grants from overseas sponsors	41,597	70,212
Other income	286,720	243,891
	<u>33,733,356</u>	<u>33,185,087</u>
Expenses:-		
Project expenses:		
Executive volunteers (including donated services of \$17,900,348 in 1988 and \$17,034,000 in 1987)	25,538,469	24,023,683
Country directors (including donated services of \$2,205,000 in 1988 and \$2,250,000 in 1987)	6,534,840	6,513,169
	<u>32,073,309</u>	<u>30,536,852</u>
Administrative expenses	2,289,092	2,238,728
	<u>34,362,401</u>	<u>32,775,580</u>
(Deficit) excess of support and revenue over expenses - operating fund	<u>(\$ 629,045)</u>	<u>\$ 409,507</u>

See accompanying notes to financial statements.

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INTERNATIONAL EXECUTIVE SERVICE CORPS
STATEMENT OF CHANGES IN FUND BALANCES

	For the year ended December 31,	
	<u>1988</u>	<u>1987</u>
Operating fund:		
Beginning of year	\$3,002,568	\$2,593,061
(Deficit) excess of support and revenue over expenses	<u>(629,045)</u>	<u>409,507</u>
End of year	<u>\$2,373,523</u>	<u>\$3,002,568</u>
Fixed asset fund:		
Beginning of year	\$ 41,899	\$ 61,258
Dispositions during the year, net of accumulated depreciation	(1,160)	
Depreciation	<u>(10,117)</u>	<u>(19,359)</u>
End of year	<u>\$ 30,622</u>	<u>\$ 41,899</u>

See accompanying notes to financial statements.

INTERNATIONAL EXECUTIVE SERVICE CORPS
STATEMENT OF CHANGES IN FINANCIAL POSITION
OPERATING FUND

	For the year ended December 31,	
	<u>1988</u>	<u>1987</u>
Cash was provided by:-		
(Deficit) excess of support and revenue over expenses	(\$ 629,045)	\$ 409,507
<u>Add - Items not affecting cash during the year:</u>		
Depreciation and amortization	247,640	253,944
Gain on sale of fixed assets	(3,706)	(45,170)
Amortization of prepaid prior service cost	24,070	30,000
<u>Other items -</u>		
(Increase) decrease in accounts receiv- able from the Agency for International Development	673,170	(388,650)
(Increase) decrease in accounts receiv- able from projects	99,113	(110,006)
(Increase) in expense advances and other receivables	(525,987)	(11,470)
(Increase) decrease in prepayments and deposits, excluding prepaid prior service cost	(443)	196,093
Increase in accounts payable	360,723	33,418
Increase (decrease) in other accrued liabilities	(104,012)	47,505
(Decrease) in advance payments from projects	(39,351)	(6,408)
(Decrease) in deferred income	(45,294)	(251,851)
Increase in reserve for vacation and termination benefits	<u>2,007</u>	<u>15,934</u>
Cash provided from operations for the year	58,885	172,846
Cash was provided by (used for):		
Additions to fixed assets	(217,250)	(133,534)
Proceeds from sales of fixed assets	<u>11,276</u>	<u>54,643</u>
Increase (decrease) in cash balance	(147,089)	93,955
Cash balance at beginning of year	<u>2,062,812</u>	<u>1,968,857</u>
Cash balance at end of year	<u>\$1,915,723</u>	<u>\$2,062,812</u>

See accompanying notes to financial statements.

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INTERNATIONAL EXECUTIVE SERVICE CORPS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - OPERATIONS AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES:-

Operations:

International Executive Service Corps (IESC) is a not-for-profit corporation which provides locally owned private enterprises, government entities, educational, health and other organizations in less developed nations with executive, managerial and technical skills. Volunteer business executives are assigned on a short-term basis to projects with organizations requesting assistance.

The following is a summary of significant accounting policies.

Grants from Agency for International
Development:

Grants received from the Agency for International Development are recognized as revenue under the terms of agreements between the agency and IESC (Note 3).

Revenue from projects:

Revenue from projects is recognized as earned over the period of service, as stipulated in agreements between the project clients and IESC.

Deferred income:

Nonproject revenue collected in advance of providing services is deferred until earned.

Contributions and grants:

Contributions and grants are recognized as revenue on receipt and are considered to be available for unrestricted use unless specifically restricted by the donor.

Donated services:

IESC's projects are performed by experienced volunteer executive advisors who receive no salary or other emoluments; only subsistence, travel and related expenses are provided. IESC records as revenue a value for the contributed services of its volunteer executives, with an equivalent amount recorded as an expense. Amounts are based upon an

estimated value to the recipient that is reviewed annually by management and adjusted as appropriate for inflation and other factors. In addition, the rate was adjusted in 1987 to more appropriately reflect the equivalent estimated value and related cost of providing such advisory services by independent consultants. The value used for 1988 was \$157,500 per annum (\$150,000 in 1987) for each volunteer executive. In 1988 these executives spent approximately 1,236 man-months (1,236 man-months in 1987) on overseas assignments and approximately 128 man-months (127 man-months in 1987) in the recruitment of volunteer executives for overseas assignments. Country directors administer the operations of IESC's foreign offices. Certain country directors receive subsistence expenses only; others receive salary. Donated services relating to country directors were initially recorded in 1986 due to the increased number of nonsalaried country directors. Amounts for such country director donated services were not material prior to 1986.

Fixed assets:

Fixed assets are recorded at cost in the operating fund and are being depreciated on a straight-line basis over their estimated useful lives of three to eight years.

Translation of foreign currencies
into United States (U.S.) dollars:

IESC records foreign currency transactions in accordance with Statement of Financial Accounting Standards No. 52, Foreign Currency Translation. IESC uses the U.S. dollar as the functional currency for reporting foreign exchange gains and losses.

Foreign exchange losses resulting from exchange rate fluctuations aggregated \$130,265 in 1988; in 1987 there was a \$21,636 gain.

Foreign affiliates:

In Brazil and Turkey IESC operates through its affiliates whose accounts have been included in the accompanying financial statements. In addition, IESC operates branch offices in approximately 31 other countries.

Pensions:

IESC accounts for the costs of the pension plan in accordance with Financial Accounting Standard No. 87, "Employers' Accounting for Pensions."

Income taxes:

As a not-for-profit organization, IESC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

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Vacation and termination benefits:

IESC provides a reserve for vacation and termination benefits. This reserve is calculated in accordance with company policy and local legislation within the countries in which IESC operates.

NOTE 2 - CASH:

At December 31, 1988 the cash balance in foreign countries includes approximately \$785,000 which cannot be repatriated to the United States and \$83,000 that requires local government approval before repatriation to the United States (\$972,000 and \$43,000, respectively, at December 31, 1987). The December 31, 1988 cash balance includes approximately \$241,000 (\$409,000 in 1987), principally in foreign countries, restricted for use in projects supported by the Agency for International Development.

NOTE 3 - AGENCY FOR INTERNATIONAL DEVELOPMENT:

Under various grant agreements with the Agency for International Development (AID), IESC is to be reimbursed for its allowable project costs up to the maximum provided by the agreements.

Grants from AID are comprised of the following for the year ended:

	<u>December 31,</u>	
	<u>1988</u>	<u>1987</u>
Core program	\$5,000,000	\$5,560,000
U.S. AID overseas missions	2,668,652	2,249,628
Trade and Investment Services	392,561	164,870
Joint Venture Feasibility Fund	84,116	181,698
	<u>\$8,145,329</u>	<u>\$8,156,196</u>

NOTE 4 - FIXED ASSETS:

Fixed assets are comprised of the following at:

	<u>December 31,</u>	
	<u>1988</u>	<u>1987</u>
Headquarters:		
Furniture, fixtures and equipment	\$ 757,057	\$ 693,029
Leasehold improvements	537,400	474,373
Equipment under capital lease	100,796	100,796
	<u>1,395,253</u>	<u>1,268,198</u>
<u>Less - Accumulated depreciation and amortization</u>	<u>953,123</u>	<u>813,456</u>
Total headquarters	<u>442,130</u>	<u>454,742</u>

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	<u>December 31,</u>	
	<u>1988</u>	<u>1987</u>
Foreign countries:		
Furniture, fixtures and equipment	307,130	296,654
Automobiles	<u>354,261</u>	<u>390,742</u>
	661,391	687,396
<u>Less - Accumulated depreciation</u>	<u>412,095</u>	<u>401,475</u>
Total foreign countries	<u>249,296</u>	<u>285,921</u>
Total headquarters and foreign countries	<u>\$ 691,426</u>	<u>\$ 740,663</u>

Effective January 1, 1983, IESC began to account for fixed assets as discussed in Note 1. Depreciation expense on assets acquired in 1983 and thereafter has been reflected in the statement of support, revenue and expenses and totaled \$247,640 and \$253,944 in 1988 and 1987, respectively. Depreciation on pre-1983 additions is charged directly to the fixed asset fund. Such charges totaled \$10,117 in 1988 and \$19,359 in 1987.

NOTE 5 - PENSION PLAN:

IESC has a noncontributory defined benefit pension plan covering full-time domestic employees. The benefits are based on years of service and the employee's compensation. IESC generally funds pension costs as accrued. The funds are invested in insurance annuity contracts.

IESC adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" effective January 1, 1986. Pension costs (including amortization of prior service cost) were \$49,368 in 1988 (\$54,260 in 1987) which includes \$24,070 (\$30,000 in 1987) representing amortization of prefunded prior service cost of \$292,582 over approximately 10 years.

The net periodic pension cost for the plan includes the following components for the year ended:

	<u>December 31,</u>	
	<u>1988</u>	<u>1987</u>
Service cost-benefits earned during the period	\$ 88,627	\$ 88,740
Interest cost on projected benefit obligation	92,227	94,745
Return on plan assets	(131,410)	(135,080)
Net amortization and deferral	<u>(24,146)</u>	<u>(24,145)</u>
Net periodic pension cost	<u>\$ 25,298</u>	<u>\$ 24,260</u>

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The following is a summary of the funded status of the pension plan and the related amounts that are recognized in the balance sheet at:

	<u>December 31,</u>	
	<u>1988</u>	<u>1987</u>
Actuarial present value of benefit obligations:		
Vested	\$1,017,569	\$1,115,685
Nonvested	<u>231,115</u>	<u>74,821</u>
Accumulated benefit obligation	<u>\$1,248,684</u>	<u>\$1,190,506</u>
Projected benefit obligation	(\$1,314,002)	(\$1,330,517)
Plan assets available for benefits at fair value	<u>1,754,340</u>	<u>1,662,109</u>
Plan assets in excess of projected benefit obligation	440,338	331,592
Unrecognized net gain from actuarial experience	(79,314)	(46,396)
Unrecognized net asset at transition	<u>(386,322)</u>	<u>(410,468)</u>
Accrued pension cost	<u>(\$ 25,298)</u>	<u>(\$ 125,272)</u>

Assumptions used in the accounting were:

	<u>December 31,</u>	
	<u>1988</u>	<u>1987</u>
Discount rates	8.0%	8.0%
Rates of increase in compensation levels	7.0%	7.0%
Expected long-term rate of return on assets	8.0%	8.0%

NOTE 6 - OBLIGATIONS UNDER LEASES:

IESC leases office space and computer equipment under operating leases expiring January 30, 1992 and April 27, 1991, respectively.

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Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of December 31, 1988 are:

<u>Year ending</u> <u>December 31,</u>	
1989	\$ 467,530
1990	467,530
1991	385,443
1992	<u>28,700</u>
Total minimum future rental payments	<u>\$1,349,203</u>

Rent expense totaled \$740,241 for the year ended December 31, 1988.

APPENDIX II

REPORT DISTRIBUTION

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