

PD-ABB-979

ISN 68741

**AUDIT OF  
THE SMALL FARMER DIVERSIFICATION  
SYSTEMS PROJECT COMPONENT WITH THE  
TECHNICAL ASSISTANCE TEAM**

**Audit Report No. 1-520-89-53-N  
September 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

September 18, 1989

**MEMORANDUM**

TO: USAID/Guatemala Director, Anthony J. Cauterucci

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

SUBJECT: Audit Report No. 1-520-89-53-N, "Audit of the Small Farmer Diversification Systems Project Component with the Technical Assistance Team"

This report presents the results of a non-Federal financial audit requested by your Mission of the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255, component implemented by the Technical Assistance Team (Equipo de Asistencia - EAT). The audit covered the period from the start of EAT's project operations on April 10, 1984 through June 30, 1987. It did not cover the remainder of the project period which ended on March 31, 1989. The accounting firm Touche Ross in Guatemala prepared the report which is dated August 21, 1989.

The project's major goal is to strengthen the Guatemalan agricultural sector's livestock and to stimulate small farm diversification from basic grains to higher value diversified crops of greater labor intensity. EAT is a group of professionals with extensive agricultural experience which was organized to coordinate some technical assistance to the other implementing institutions on the project. EAT received about US\$61,000 in project funds during the audit period.

The purpose of this audit was to determine whether: (1) the fund accountability statement for the project component fairly presents project receipts and disbursements for the period with disclosure of questionable expenditures, if any, (2) EAT's internal control system is adequate to manage the project

component's funds, and (3) EAT has complied with agreement terms and applicable laws and regulations.

Touche Ross disclaimed expressing an opinion on the fund accountability statement for the project component because the funds received by EAT were not reconciled with those disbursed by USAID/Guatemala and the auditors were unable to apply alternative procedures to assure themselves as to the accountability for the project's funds due to the inadequacy of EAT's records. Touche Ross' study and evaluation of the system of internal control over the project component revealed weaknesses which, in its opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the project component's fund accountability statement may occur and not be detected within a timely period. Internal control deficiencies were noted with regard to vehicle use and fuel consumption, fixed asset accountability, and payment procedures. Touche Ross disclaimed expressing an opinion on EAT's compliance with agreement terms and applicable laws and regulations because of the above mentioned lack of accountability for A.I.D. funds and internal control weaknesses plus the fact that required audits were not performed, and EAT sometimes used other than the correct funds to temporarily finance project expenses. Touche Ross identified Q.19,350 (US\$7,167) in questionable costs which involved using project funds for paying counterpart designated expenses, paying unallowable taxes, and paying expenses which were not chargeable to EAT.

The Touche Ross report contains 7 recommendations regarding improvements needed in EAT's accountability for A.I.D. funds, internal controls, and compliance with the agreement terms and applicable laws and regulations. Although the project ended on March 31, 1989, we noted that USAID/Guatemala continues to work with EAT on a similar follow-on project, the Highlands Agricultural Development Project, USAID/Guatemala Project No.520-0274 phase II. We believe that the conditions noted during this audit will likely be applicable in this new project and therefore, USAID/Guatemala should require implementation of all the Touche Ross recommendations to the extent they would be appropriate in settling matters related to the audited project or useful in promoting better accountability over the new project. In this regard, we consider those findings related to the lack of accountability for A.I.D. funds, inadequate internal

controls over vehicle use and fuel consumption, and the questionable costs to be particularly significant. Also, we believe that a final close-out audit is needed for the project component since the audit found a lack of full accountability over A.I.D. funds and material internal control weaknesses.

We are making the following recommendations 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 negotiate a settlement with the Technical Assistance Team (EAT) concerning the disposition of the Q.19,350 (US\$7,167) of costs considered questionable by the Touche Ross report dated August 21, 1989.

Recommendation No. 2

We recommend that USAID/Guatemala require the Technical Assistance Team to implement the use of detailed vehicle logs that report each vehicle trip, the kilometers traveled, and fuel consumption; with periodic reviews by EAT management to evaluate whether the vehicles have been used only for project purposes and that fuel consumption was reasonable considering the specific locations to which the vehicles traveled.

Recommendation No. 3

We recommend that USAID/Guatemala conduct a final audit of the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255, component implemented by the Technical Assistance Team. This should include a regular financial audit covering the period July 1, 1987 to March 31, 1989 with additional steps included to determine the amounts of A.I.D. funds provided for this component during the project's life.

The Touche Ross report was discussed with representatives from EAT and USAID/Guatemala on July 6, 1989 and their comments were considered in modifying this final report.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations above.

*Lara & González, CPA*  
Member Firm  
*Touche Ross International*

AUDIT OF THE SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM  
USAID/GUATEMALA PROJECT No. 520-0255

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM  
USAID/GUATEMALA PROJECT No. 520-0255

TABLE OF CONTENTS

	<u>Page</u>
Transmittal Letter and Summary	
Background	i
Audit objectives and scope	iii
Results of audit	iii
Management comments	v
Fund Accountability Statement	
Auditor's opinion	1
Fund accountability statement	3
Notes to the fund accountability statement	4
Findings	6
Internal Controls	
Auditor's opinion	8
Findings	10
Compliance with Applicable Laws, Regulations and Agreement Terms	
Auditor's opinion	13
Findings	15
List of Report Recommendations	18
Management Comments	Annex 1

*Lara & González, CPA*  
Member Firm  
*Touche Ross International*

August 21, 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 audit of the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255, component implemented by the Technical Assistance Team (Equipo de Asistencia - EAT), from April 10, 1984 to June 30, 1987.

BACKGROUND

On August 28 and September 24, 1981, the Government of Guatemala (GOG), through the Ministry of Public Finances (Ministerio de Finanzas Públicas - MPF), the Ministry of Agriculture, Livestock, and Food (Ministerio de Agricultura, Ganadería y Alimentación - MAGA), and the National Board of Economic Planning (Consejo Nacional de Planificación Económica - CNPE), signed grant agreement No. 520-0255 for US\$3,696,000 and loan agreement No. 520-T-034 for US\$5,500,000 with the U.S. Agency for International Development in Guatemala (USAID/Guatemala) for the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255. The funds committed by USAID/Guatemala were for the purpose of financing the acquisition of the goods and services necessary to carry out the project. In addition to these funds, the GOG committed a minimum of US\$6,700,000 in counterpart funds to finance administrative expenses and other direct and indirect costs related to the project. The completion date of the project, originally scheduled for March 31, 1987, was later extended to March 31, 1989.

The project's major goal is to strengthen the agricultural sector's livestock and to stimulate small farm diversification from basic grains to higher value diversified crops of greater labor intensity. The project activities are: a) applied research and technology adaptation, b) extension and promotion,

c) loans and social cost payments (contributions), d) in-service training, e) project coordination, and f) nutritional impact evaluation.

The project was to be implemented through six Guatemalan Government institutions: one provided technical assistance, one was a coordinating unit, and four implemented various components. The Technical Assistance Team (Equipo de Asistencia Técnica - EAT) was responsible for assisting the implementing institutions of the project. The team started with five specialists transferred by the U. S. Department of Agriculture to collaborate with the U. S. Agency for International Development in the implementation of the project. Additionally, six local specialists were hired by USAID/Guatemala and included in the project.

The Coordinating Unit for the Agricultural Diversification Program (Unidad Coordinadora del Programa de Agricultura - UCPRODA) was formed specifically to coordinate project activities. This coordination included receiving reimbursement requests from the implementing institutions, obtaining the reimbursements from USAID/Guatemala and distributing them back to the implementing institutions, and preparing consolidated financial information for the project based on fund accountability statements or other financial statements received from each implementing institution.

The remaining four institutions of the Government's agricultural sector participating in the project were:

- . the Institute of Agricultural Science and Technology (Instituto de Ciencia y Tecnología Agrícola - ICTA) was primarily responsible for the implementation of the applied research and the technology adaptation component;
- . the General Directorate for Livestock Services (Dirección General de Servicios Pecuarios - DIGESEPE) was responsible for the livestock extension activities, focusing primarily on improving management practices related to disease, parasite control, and nutrition/feed supply;
- . the National Bank for Agricultural Development (Banco Nacional de Desarrollo Agrícola - BANDESA) was responsible for the administration of the trust fund created under the project to provide loans and grants to small and medium-sized farmers; and
- . the General Directorate for Agricultural Services (Dirección General de Servicios Agrícolas - DIGESA) was responsible for project activities involving the transfer of agricultural technology for crop production.

## AUDIT OBJECTIVES AND SCOPE

The general objective was to perform a financial and compliance audit of the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255, component implemented by the Technical Assistance Team (EAT), for the period from April 10, 1984 to June 30, 1987. Our review was made in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision). Accordingly, we included such tests of the accounting records and such other audit procedures as we considered necessary under the circumstances. Our examination was made to determine whether:

1. The fund accountability statement of the project component implemented by EAT fairly presents the project receipts and disbursements for the period from April 10, 1984 to June 30, 1987, with disclosure of questionable costs, if any.
2. EAT's internal accounting control system is adequate to manage the project funds as required by USAID/Guatemala. In this regard, our study included the controls over the following project areas: vehicles, fixed assets, and technical transfer mechanisms.
3. EAT has complied with applicable laws, regulations, agreement terms, and implementation letters which may have a material effect on the fund accountability statement.

The scope of our work consisted of:

Reviewing EAT's fund accountability statement for the project for the period from April 10, 1984 to June 30, 1987.

2. Conducting a study and evaluation of EAT's internal accounting controls, including controls over vehicles, fixed assets, and technical transfer mechanisms.
3. Determining whether EAT was complying with agreement terms, amendments, project implementation letters, and applicable laws and regulations.

## RESULTS OF AUDIT

### Fund Accountability Statement

Due to the lack of reconciliation between funds received by EAT with those provided by USAID/Guatemala and inadequate accounting records, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the fund accountability statement of EAT for the period from April 10,

1984 to June 30, 1987. Additionally, our examination disclosed questionable costs of Q.19,350.

### Internal Controls

Our study and evaluation of the internal controls disclosed conditions that we believe result in more than a relatively low risk that errors or irregularities, in amounts that would be material in relation to the fund accountability statement of the project component, may occur and not be detected within a timely period. These conditions were the following:

1. There was lack of control over fixed assets.
2. Payment procedures were inadequate.
3. Control over vehicles and fuel consumption was inadequate.

As set forth in the scope of work, our study and evaluation of EAT's internal controls included the following major areas with the following results:

- A. Vehicles, Spare Parts, Fuel and Lubricants Controls. Controls in this area were inadequate because of the lack of administrative procedures implemented to control these areas.
- B. Fixed Asset Controls. Fixed asset controls were inadequate. There was lack of administrative control procedures and subsidiary records had not been established.
- C. Technical Transfer Mechanisms and Controls. Our evaluation of the technical transfer mechanisms and controls did not disclose any material weakness.

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

The lack of adequate internal controls, the lack of reconciliation between the funds received by EAT with those provided by USAID/Guatemala, and the inadequacy of EAT's accounting records prevent us from expressing, and we do not express positive or negative assurance on compliance with applicable laws, regulations, and agreement terms that could have an effect on the fund accountability statement. Nevertheless, our study and evaluation revealed the following noncompliance findings:

- . Annual audits were not performed.
- . Grant funds were temporarily used to pay expenses which pertained to the loan agreement.
- . Costs which were not allowable were paid.

MANAGEMENT COMMENTS

A draft copy of the report was provided to EAT and on July 6, 1989 we discussed it with them. EAT provided further information and documentation regarding the report issues and provided written comments (Annex 1) which we considered in modifying the report.

EAT comments indicated that it viewed itself as having done a commendable job in accomplishing its mission despite having to deal with an unresponsive and sometimes incompetent bureaucracy. It said that A.I.D. and the Coordinating Unit for the Agricultural Diversification Program (UCPRODA) were heavily sequestered by an incompetent Ministry of Agriculture, Livestock and Food (MAGA) and that it was clear that UCPRODA and A.I.D. did not do their job to facilitate a smooth flow of money. EAT therefore took matters into its own hands and got the job done by doing what had to be done with whatever funds were available. EAT stated it survived by creative accounting which balanced donation and loan funds against actual expenditures. It stated that at any one month, EAT's accounting showed the actual situation and that it knew where it was with its money based on complete receipts. Regarding the reconciliation of A.I.D. funds for the project, it was EAT's opinion that neither A.I.D. nor UCPRODA have the capacity nor will to accomplish reconciliation of the money for the project.

EAT thought that some of the internal controls recommended by the audit were unnecessary, a waste of time or impractical and implied a lack of trust. It stated that all EAT personnel are honest.

We have no reason to doubt that EAT thought it was doing a commendable job under the circumstances that it faced. However the general aim of our review was to assure and promote accountability over A.I.D. funds and compliance with agreement terms and applicable laws and regulations. Unfortunately, since EAT's records were not reconciled with the funds provided by A.I.D., there was no way for us to determine whether A.I.D. funds were fully accounted for. Regarding the internal controls that we recommend, these are rather standard in nature and are not meant to imply the dishonesty of EAT personnel. Internal controls are designed to lessen the opportunity for irregularities and to lead to the discovery of both errors and irregularities in the normal course of business if they happen. We continue to believe our recommendations in this area are appropriate. Lastly, it was not our position to condone EAT's noncompliance with the terms of the agreement even though EAT thinks it took the right course of action. In this regard we make note of comments made by EAT representatives during our discussions of the draft report that EAT is continuing to use other than the correct funds to finance its activities under its

*Lara & González, CPA*  
Member Firm  
*Touche Ross International*

new project with A.I.D.

TOUCHE ROSS & CO.  
  
Lic. Rolando Lara Leiva

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM  
USAID/GUATEMALA PROJECT No. 520-0255  
REPORT ON FUND ACCOUNTABILITY STATEMENT

AUDITOR'S OPINION

We have performed a financial and compliance audit of the fund accountability statement of the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255, component implemented by the Technical Assistance Team (Equipo de Asistencia Técnica - EAT), for the period from April 10, 1984 to June 30, 1987. Except as explained in the following paragraph, our examination was made in accordance with generally accepted auditing standards and with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and, accordingly, included such tests of the accounting records and such other audit procedures as we considered necessary under the circumstances.

As described in the accompanying finding No. 1, there was lack of reconciliation between funds received by EAT with those provided by USAID/Guatemala and we were unable to apply alternative procedures to satisfy ourselves as to the funds provided by USAID/Guatemala and received by EAT, due to the inadequacy of EAT's records.

As described in note C to the fund accountability statement, we consider that costs in the amount of Q.19,350 were questionable because they were not in compliance with agreement terms.

As described in Note A, EAT's policy is to prepare its fund accountability statement on a cash basis. Consequently, revenues and the related assets are recognized when received, rather than when earned; and expenses are recognized when paid, rather than when the liabilities are incurred. Accordingly the accompanying fund accountability statement is not intended to present the financial information in conformity with generally accepted accounting principles.

*Lara & González, CPA*

*Member Firm*

*Touche Ross International*

Due to the limitations mentioned in the second paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the fund accountability statement referred to above.

*Touche Ross & Co.*

June 27, 1988  
Guatemala.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
 COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM

USAID/GUATEMALA PROJECT No. 520-0255

FUND ACCOUNTABILITY STATEMENT

From April 10, 1984 to June 30, 1987

(Quetzales)

<u>Budget Categories</u>	<u>Budget According to USAID Implementation Letters</u>	<u>Actual</u>	<u>Questionable Costs (Note C)</u>
Income:			
Funds received from USAID/Guatemala:			
Loan No. 520-T-034	Q.141,482	Q. 99,227	
Grant No. 520-0255	<u>458,797</u>	<u>64,847</u>	
	Q.600,279	<u>164,074</u>	
	=====		
Expenditures:			
Materials and supplies	141,482	100,751	Q.19,350
National technical assistance	211,812		
Technical assistance support	<u>246,985</u>	<u>57,156</u>	
	Q.600,279	<u>157,907</u>	Q.19,350
	=====		=====
Cash in banks, as of June 30, 1987		Q. 6,167	
		=====	

Enclosed notes are an integral part of this financial report.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM

USAID/GUATEMALA PROJECT No. 520-0255

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

From April 10, 1984 to June 30, 1987

A. Summary of Significant Accounting Policies

The fund accountability statement of the project is reported on a cash basis in which revenues and the related assets are recognized when received, rather than when earned; and expenses are recognized when paid, rather than when the liabilities are incurred.

B. Grant and Loan Agreements

On August 28 and September 24, 1981, the Government of Guatemala (GOG), through the Ministry of Public Finances (Ministerio de Finanzas Públicas - MPF); the Ministry of Agriculture, Livestock, and Food (Ministerio de Agricultura, Ganadería y Alimentación - MAGA); and the National Board of Economic Planning (Consejo Nacional de Planificación Económica - CNPE), signed grant agreement No. 520-0255 for US\$3,696,000 and loan agreement No. 520-T-034 for US\$5,500,000 with the U.S. Agency for International Development in Guatemala (USAID/Guatemala). The completion date of the project, originally scheduled for March 31, 1987, was extended to March 31, 1989.

The agreements were signed to carry out the Small Farmer Diversification Systems Project to be implemented through six Guatemalan Government institutions. The project's major goal was to strengthen the agricultural sector's livestock and to stimulate small farmer diversification from basic grains to higher value diversified crops of greater labor intensity. The project activities were: a) applied research and technology adaptation, b) extension and promotion, c) loans and social cost payments (contributions), d) in-service training, e) project coordination, and f) nutritional impact evaluation.

EAT, one of the Government implementing institutions, started its operations with five specialists from the United States Department of Agriculture (USDA) and six local technicians to train the other participating implementing institutions in establishing parameters for the following areas: pathology, fruit and vegetable grading and standards, operating procedure studies, pasture propagation, and domestic and international marketing.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM

USAID/GUATEMALA PROJECT No. 520-0255

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

From April 10, 1984 to June 30, 1987

C. Questionable Costs

A summary of costs questioned during the audit because they were not in compliance with agreement terms is as follows:

- . Wages and salaries for administrative personnel, which should have been provided from counterpart funds were paid during fiscal years 1984 (Q.6,944) and 1985 (Q.9,446) Q.16,390
  
  - . Value-added tax was paid during fiscal year 1985, 1986, and the six months ended June 30, 1987. These costs are unallowable under the Standard Provisions. 2,790
  
  - . Vehicle repairs and spare parts costs whose supporting documentation is under the name of the Coordinating Unit for the Agricultural Diversification Program (UCPRODA). 170
- Q.19,350  
=====

D. Monetary Unit

EAT's fund accountability statement is stated in Quetzales (Q.), the monetary unit of Guatemala. Foreign currency transactions must be realized through the banking system in which three different exchange rates have been established as follows: the official market rate (Q.1:US\$1) to pay the public debt and those private liabilities registered prior to June 6, 1986; the regulated market rate to pay for imports and liquidate exports; and the banking market rate for those transactions not included in the above mentioned markets. As of June 30, 1987, the regulated market rate was Q.2.50:US\$1 and the banking rate was of Q.2.60:US\$1. On June 23, 1988, the exchange rate applied in the regulated and banking markets was unified at Q.2.70:US\$1.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
 COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM  
 USAID/GUATEMALA PROJECT No. 520-0255  
REPORT ON THE FUND ACCOUNTABILITY STATEMENT

FINDINGS

1. There Was a Lack of Reconciliation of Funds

Condition:

- A. The fund accountability statement for EAT was not reconciled with the funds disbursed by USAID/Guatemala. Also, financial information prepared by the Coordinating Unit for the Agricultural Diversification Program (UCPRODA), which was supposed to reflect EAT information, did not agree with EAT information, as follows:

Technical Assistance Team Project Funded Expenditures  
 From April 10, 1984 to June 30, 1987

<u>Budgetary Items</u>	<u>EAT's Records</u>	<u>Reported by UCPRODA to USAID</u>	<u>Difference</u>
Material and supplies	Q.100,751	Q.102,554	Q. 1,803
Technical assistance support	<u>57,156</u>	<u>25,545</u>	<u>(31,611)</u>
	Q.157,907	Q.128,099	Q.(29,808)
	=====	=====	=====

- B. EAT has not recorded item purchases made directly by USAID/Guatemala on EAT's behalf such as: furniture, personal computers, typewriters, photocopiers, desks, accesories, etc.

Criteria:

As part of the internal control system over project funds, the fund accountability statement prepared by EAT should be reconciled on a monthly basis with its general ledger, subsidiary records and other financial reports, with reports submitted by UCPRODA to USAID/Guatemala, and with USAID/Guatemala records.

Cause:

There was a lack of supervision over the overall process and a lack of communication between the institutions. EAT told us that UCPRODA was unable to coordinate the relationship between the Ministry of Agriculture, Livestock and Food and A.I.D. and that

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM

USAID/GUATEMALA PROJECT No. 520-0255

REPORT ON THE FUND ACCOUNTABILITY STATEMENT

FINDINGS

UCPRODA information was chronically late and inaccurate. EAT apparently felt it did the best it could under circumstances.

Effect:

The financial information prepared and provided by EAT and UCPRODA was not reliable. Errors or irregularities could occur and not be opportunely detected.

Recommendation:

USAID/Guatemala should require the Technical Assistance Team (EAT) to:

- A. Reconcile, on a monthly basis, its fund accountability statement with reports prepared by the Coordinating Unit for the Agricultural Diversification Program (UCPRODA) and delivered to USAID/Guatemala.
- B. Reconcile, on a monthly basis, the funds received from USAID/Guatemala with EAT's expenditures and its outstanding bank account balance.
- C. Determine and record the expenditures paid directly by USAID/Guatemala on EAT's behalf. These expenditures should be identified as having been paid directly by USAID/Guatemala.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM  
USAID/GUATEMALA PROJECT No. 520-0255

REPORT ON INTERNAL CONTROLS

AUDITOR'S OPINION

We have performed a financial and compliance audit of the fund accountability statement of the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255, component implemented by the Technical Assistance Team (EAT) for the period from April 10, 1984 to June 30, 1987, and have issued our report thereon dated June 27, 1988. As part of our examination, we performed a study and evaluation of EAT's system of internal accounting and administrative controls to the extent that we considered necessary to determine the nature, timing, and extent of our audit procedures necessary for expressing an opinion on the entity's fund accountability statement. Our study and evaluation, made in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision), was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and included a review of the significant internal controls over vehicles, fixed assets, and technology transfer.

The management of EAT is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of an internal control system 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 financial information in accordance with generally accepted accounting principles and/or on a comprehensive accounting basis. Because

*Lara & González, CPA*

*Member Firm*

*Touche Ross International*

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

Our study and evaluation, made with the limited purpose as described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal control of EAT taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed the conditions described in the accompanying findings No. 1 to 3, and in the finding No. 1 of the report on the fund accountability statement, that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the project may occur and not be detected within a timely period.

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

*Touche Ross & Co*

June 27, 1988  
Guatemala.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM  
USAID/GUATEMALA PROJECT No. 520-0255

REPORT ON INTERNAL CONTROLS

FINDINGS

1. There Was Lack of Control over Fixed Assets

Condition:

- A. There were no fixed assets subsidiary records. EAT had inventory lists but the fixed assets were not assigned identification numbers, the source of the funds used in the purchase was not shown, and the items on the list were not valued.
- B. A jeep vehicle which cost Q.11,450 was destroyed in an accident in July 1987. The car carried liability but not collision insurance. At the time of our audit, damages had not been recovered and the matter remained unresolved.

Criteria:

A proper control of fixed assets must include the use of subsidiary records and adequate policies on the use and safeguarding of such assets.

Cause:

There was a lack of administrative procedures regarding the control of fixed assets.

Effect:

It was not possible to determine the fixed assets procured with A.I.D. funds. Some assets could be misused or disposed of improperly without detection. The vehicle destroyed above is a case in point.

Recommendation:

USAID/Guatemala should require the Technical Assistance Team to introduce adequate policies regarding the control, use, and disposal of fixed assets. Subsidiary records which provide a separate identification number and show the value and source of funds should be established for better control of fixed assets. Also, it should be determined who has the responsibility to pay for the destroyed vehicle.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM

USAID/GUATEMALA PROJECT No. 520-0255

REPORT ON INTERNAL CONTROLS

FINDINGS

2. Payment Procedures Were Inadequate

Condition:

Dual signatures were not required on checks and there was no independent review of supporting documentation before signing checks. EAT's administrative director and its foreign advisor each sign checks individually.

Criteria:

Effective control over cash disbursements includes the use of dual signatures on checks and independent review of supporting documentation prior to approval of payments.

Cause:

EAT management did not consider that such controls were necessary.

Effect:

Without adequate controls it is possible that errors or irregularities could occur without being detected.

Recommendation:

USAID/Guatemala should require the Technical Assistance Team to establish proper control procedures over disbursements, including the use of dual signatures on checks and review of supporting documentation prior to approval and payment. There should be evidence in writing that the supporting documentation was reviewed and that the payments were approved by responsible officials.

3. Control over Vehicles and Fuel Consumption Was Inadequate

Condition:

EAT had not implemented the use of vehicle logs in order to control the kilometers traveled and fuel consumption.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM

USAID/GUATEMALA PROJECT No. 520-0255

REPORT ON INTERNAL CONTROLS

FINDINGS

Criteria:

In order to effectively control vehicle usage and fuel consumption, the internal control system must have the necessary means to detect, correct, and prevent misuse of resources.

Cause:

The management of EAT stated that they had started to implement the use of vehicle log books in the past but had not followed through to institutionalize such a system.

Effect:

It is possible that misuse of vehicles and fuel or misappropriation of fuel could occur and not be detected. Also, the use of vehicles for non project purposes could hinder the achievement of project activities.

Recommendation:

The Technical Assistance Team should implement the use of detailed vehicle logs that report each vehicle trip, the kilometers traveled, and fuel consumption. These logs should be reviewed periodically to determine that the vehicles have been used only for project purposes and that fuel consumption was reasonable considering the specific locations to which the vehicle traveled.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM  
USAID/GUATEMALA PROJECT No. 520-0255

REPORT ON COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS,  
AND AGREEMENT TERMS  
AUDITOR'S OPINION

We have performed a financial and compliance audit of the fund accountability statement of the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255, component implemented by the Technical Assistance Team (EAT) for the period from April 10, 1984 to June 30, 1987. Our study and evaluation was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision), which includes requirements for the review of compliance with applicable laws, regulations, and agreement terms. Accordingly, our examination included such tests of the accounting records and such other audit procedures as we considered necessary under the circumstances. The laws, regulations, and agreement terms reviewed for compliance included:

1. Grant agreement No. 520-0255 and loan agreement No. 520-T-034, their amendments and project implementation letters.
2. A.I.D. Handbook 11, Chapter 4.
3. A.I.D. procurement regulations.
4. The purchasing and contracting law of the Government of Guatemala.
5. The Guatemalan Social Security Law.

The deficiencies detected as indicated in finding No. 1 of the report on the fund accountability statement, findings No. 1 to 3

*Lara & González, CPA*

*Member Firm*

*Touché Ross International*

of the report on internal controls, and the accompanying findings No. 1 to 3 prevent us from expressing, and we do not express positive assurance on those items tested for compliance with applicable laws, regulations, and agreement terms or negative assurance on those items not tested.

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

*Touché Ross & Co.*

June 27, 1988  
Guatemala

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM

USAID/GUATEMALA PROJECT No. 520-0255

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

FINDINGS

1. Annual Audits Were not Performed

Condition:

Periodic audits of the project were not made.

Criteria:

Section B.5, Annex II, of the loan and grant agreements establishes the requirements for inspections and periodic audits in accordance with generally accepted auditing standards.

Cause:

USAID/Guatemala authorized the Office of the Comptroller General of Guatemala to perform periodic project audits. However, these reviews were limited to voucher examinations. They were not audits made in accordance with generally accepted auditing standards and the government auditing standards of the United States Comptroller General.

Effect:

The problems noted during our audit have existed for several years without being raised as issues to EAT and USAID/Guatemala.

Recommendation:

USAID/Guatemala should require the Technical Assistance Team to have periodic project audits performed in accordance with generally accepted auditing standards and the government auditing standards specified by the U. S. Comptroller General. They should be done by either the Guatemalan Comptroller General or external audit firms.

2. Grant Funds Were Temporarily Used to Pay Expenses Which  
Pertained to the Loan Agreement

Condition:

Without authorization, EAT temporarily used funds from Grant No. 520-0255 to finance purchases that should have been made with

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM

USAID/GUATEMALA PROJECT No. 520-0255

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

FINDINGS

funds from Loan No. 520-T-034. As of May 31, 1988, these purchases amounted to Q.20,859. Subsequently, these expenditures were reimbursed to the grant funds.

Criteria:

The loan and grant agreements with USAID/Guatemala detailed a project budget which EAT was required to follow. Any changes required formal A.I.D. approval.

Cause:

EAT began activities which required formal A.I.D. approval before A.I.D. formally approved the changes through project implementation letters.

Effect:

Funds were used for activities not yet authorized. Had A.I.D. failed to formally approve the project changes after the fact the Government of Guatemala would have been liable for repaying funds spent.

Recommendation:

USAID/Guatemala should require the Technical Assistance Team to plan its activities within the loan and grant agreement terms, taking into consideration the time required by both A.I.D. and Government of Guatemala to approve them.

3. Costs Which Were not Allowable Were Paid

Condition:

Local wages and salaries which were not authorized or included in the budget agreement were paid; value-added taxes which are unallowable expenditures were disbursed; and payments for repairs and spare parts for vehicles supported by documentation under the name of the Coordinating Unit for the Agricultural Diversification Program (UCPRODA) were made. These categories amounted to Q.19,350. (See note C to the fund accountability statement.)

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM

USAID/GUATEMALA PROJECT No. 520-0255

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

FINDINGS

Criteria:

According to the terms of the agreements, local wage and salaries should be paid with counterpart funds. As stated in the Standard Provisions, taxes are not reimbursable by A.I.D. Also, expenses of other implementing agencies should be included in those agencies' reimbursements.

Cause:

The Government of Guatemala (GOG) did not provide counterpart contribution for EAT, and there were improper administrative procedures.

Effect:

Project funds were diverted for purposes not authorized by agreement terms.

Recommendation:

USAID/Guatemala should request the Government of Guatemala to reimburse the expenditures found by our audit to be unallowable, unauthorized or unsupported.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM  
USAID/GUATEMALA PROJECT No. 520-0255

LIST OF REPORT RECOMMENDATIONS

FUND ACCOUNTABILITY STATEMENT

1. USAID/Guatemala should require the Technical Assistance Team (EAT) to:
  - A. Reconcile, on a monthly basis, its fund accountability statement with reports prepared by the Coordinating Unit for the Agricultural Diversification Program (UCPRODA) and delivered to USAID/Guatemala.
  - B. Reconcile, on a monthly basis, the funds received from USAID/Guatemala with EAT's expenditures and its outstanding bank account balance.
  - C. Determine and record the expenditures paid directly by USAID/Guatemala on EAT's behalf. These expenditures should be identified as having been paid directly by USAID/Guatemala.

INTERNAL CONTROLS

1. USAID/Guatemala should require the Technical Assistance Team to introduce adequate policies regarding the control, use, and disposal of fixed assets. Subsidiary records which provide a separate identification number and show the value and source of funds should be established for better control of fixed assets. Also, it should be determined who has the responsibility to pay for the destroyed vehicle.
2. USAID/Guatemala should require the Technical Assistance Team to establish proper control procedures over disbursements, including the use of dual signatures on checks and review of supporting documentation prior to approval and payment. There should be evidence in writing that the supporting documentation was reviewed and that the payments were approved by responsible officials.
3. The Technical Assistance Team should implement the use of detailed vehicle logs that report each vehicle trip, the kilometers traveled, and fuel consumption. These logs should be reviewed periodically to determine that the vehicles have been used only for project purposes and that fuel consumption was reasonable considering the specific locations to which the vehicle traveled.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
COMPONENT WITH THE TECHNICAL ASSISTANCE TEAM  
USAID/GUATEMALA PROJECT No. 520-0255

LIST OF REPORT RECOMMENDATIONS

COMPLIANCE WITH APPLICABLE LAWS, REGULATIONS, AND AGREEMENT TERMS

1. USAID/Guatemala should require the Technical Assistance Team to have periodic project audits performed in accordance with generally accepted auditing standards and the government auditing standards specified by the U. S. Comptroller General. They should be done by either the Guatemalan Comptroller General or external audit firms.
2. USAID/Guatemala should require the Technical Assistance Team to plan its activities within the loan and grant agreement terms, taking into consideration the time required by both A.I.D. and Government of Guatemala to approve them.
3. USAID/Guatemala should request the Government of Guatemala to reimburse the expenditures found by our audit to be unallowable, unauthorized or unsupported.



PROYECTO AID 520-0274

**UCR**

UNIDAD DE COORDINACION REGIONAL-PDA  
(Temporal)



Ministerio de Agricultura,  
Ganadería y Alimentación

Julio 10, 1989  
UCR-138-89

Señores  
Lara & Gonzalez  
7 Av. 7-11, Zona 9  
Edificio CASA, 4o. Nivel  
Guatemala

Señores:

Adjunto sirvense encontrar los comentarios del Dr. Wayne Williams,  
y P.C. Luis Pérez-EAT con respecto a la auditoría practicada a  
las oficinas del Equipo de Asistencia Técnica.

Sin otro particular.

Dr. Wayne Williams  
Asesor en Frutales-UCR

JUNE 19. 1989

## REVIEW OF EAT AUDIT

By Dr. Wayne T. Williams  
EAT Team Leader  
Sept. 1988 - March 1989



## OVERVIEW

I have carefully reviewed the audit of EAT by Lara and Gonzalez sent to me on 19 June, 1989, for the period 10 April, 1984 through 30 June, 1987. My tenure of EAT Team Leader was from 1 Sept., 1988 through March, 1989. Since that time I have continued on in the same office with the same staff and almost the same financing arrangements as Acting Regional Secretary of Region 6 under HADS II.

Since I was not in charge of EAT during the Audit period, but since I was intimately involved in EAT activities since Feb. of 1986, I can objectively review the audit and comment accordingly.

My impression is that the auditors were possibly not briefed sufficiently by ORD/USAID, UCPRODA, nor by the EAT Team Leaders at that time as to how we operate. It is apparent that Lara and Gonzalez really didn't understand how EAT operated. Unfortunately, it is my impression that the auditors weren't really interested in helping EAT auditing process, but rather belonged to that group of auditors whose holy mission is to cast blame even though no blame was to be cast and function simply to put auditors in some upper caste of do gooders whose result is to cause trouble and not solve problems. Proof of this is their insistence on too frequent audits as a primary recommendation, i.e. make work; not solve problems.

In reality, EAT operated very successfully in a complex situation. No money was spent wrongly. All money is accountable. We met our objectives and the project is considered to be one of the most successful in USAID history.

There were several worthy comments, however by Lara and Gonzalez and these are commented on the text of my comments. These are to have 1 more final audit from 1 July, 1987 through 30 March, 1989, with a recommended time of 31 December, 1989, which will give ORD and UCPRODA time to catch up in their accounting difficulties, and the other is to restart the travel log books of each vehicle.

## RESULTS OF AUDIT

This review of the Lara and González CPA audit is meant to comment objectively on criticisms aimed at EAT accounting practices. Since Lara and González submitted their report without pagination, I have numbered as Tables I-VI each of their titled statements and paginated the report.

## p5 - Fund Accountability Statement

The USAID/GOG accounting system is considered by Lara and Gonzalez such a "mess" because of Loan/Donation discrepancies caused by late payments of UCPRODA. Because Loan/Donation accounts were not in parallel the auditors could not figure out anything. EAT survived by creative accounting which balanced donation and loan funds against actual expenditures. At any one month, EAT's accounting showed the actual situation and we knew where we were with the money based on complete receipts.

p6

(A)

Vehicles - all receipts were controlled.

(B)

Fixed assets - We have all inventories.  
Compliance - There were good accounting records.  
Prices on AID furniture were never given to us at EAT.

(a)

Guatemala Income Tax and Social Security.  
We had no employees. All members were contractors to AID.

(b)

Annual Audits  
-Under my tutelage quarterly statements are included in the quarterly reports.

(c)

Grant -> Loan - UCPRODA was completely out of phase because they never could get the money on time and ORD did not help solve the problem. Therefore EAT, in order to survive, used FAAS donation money to pay operating costs on the premise that UCPRODA would pay us back.

(d)

Unallowable costs? -- Which ones?

## PART II

I do not believe the records (accounting) are inadequate from Sept. 1988-March, 1989 nor for that matter, at all!

Table I - Fund accountability statement.

22

## Note C

(1)

It is clear that UCPRODA and ORD did not do their job to facilitate a smooth flow of money and the EAT team leaders correctly took matters into their own hands and got the job done by hiring people who had to be hired on a part time basis to accomplish our goals.

(2)

IVA - ORD/UCPRODA did not help us to get the funds needed. Everytime a technician needed to buy something it was bought and the job got done, (we paid IVA) so what?

(3)

Translation services were authorized as being integral to the program at the deference of the team leader acting correctly to get the job done.

(4)

Vehicle repairs under UCPRODA. Again, my opinion of UCPRODA is that they were not doing their job under Lic. Arjona. If an expenditure was made it was legitimate to get the job done.

## Table II

## Fund Accountability Statement

(A)

UCPRODA could not coordinate the relationship between MAGA and AID and was therefore essentially useless.

EAT's records are based on actual purchases and activities with proof of receipts. UCPRODA was chronically late, inaccurate and insincere.

(B)

All of our item purchases are listed in our inventories. The responsibility for such records lies with USAID/Guatemala and not EAT.

Criteria. We do a monthly accounting. You criticize us by saying we should do something that we already are doing.

Cause. We are trying to communicate! See our history of memos from Billy Ross onward!

We resent your implication that "errors or irregularities could occur". You yourself say that you do not express an opinion" Therefore do not express inuendos of something that might have happened but in reality didn't.

## Lack of Supervision

-Not since September, 1988.

-Reconciliation of records has been repeatedly made between EAT and the others (UCPRODA/ORD), but only from the direction of EAT.

4.

We disagree completely with your sentence 3 of p 6, Table II and it should be deleted from the report.

A, B and C are all being done, and I suspect that they always were done.

TABLE III

Report on Internal Controls

Auditors Opinion

"We do not express an opinion on the system of internal controls of EAT!"

There is:

("More than a relatively low risk that errors or irregularities in amounts that would be material in relation to the project may occur and not be detected within a timely period").

-What is "more than a relatively low risk"?

This is completely arbitrary. Is a low risk .00001 % or is it 1%? The auditors commit their own worst crime of being so nebulous as to be slanderous.

The most important thing is - were there any irregularities of significance? And the only correct ansere is NO, not on the part of EAT.

TABLE IV - Report on Internal Controls

p 19

(A)

False - All of our fixed assets were either purchased and have receipts, or were transferred to EAT by USAID as surplus equipment where no purchase occurred. All EAT equipment has an audit number and is listed on our inventory. All equipment loaned is on a temporary basis and specific actas cover all transactions.

We reject #A as being without foundation. Besides, no assets were misused or disposed of improperly. The case of the vehicle is not applicable. In terms of your recommendation, all the above was in place at the time of the audit. Re. the vehicle, we are waiting for ORD and MAGA to make up their minds after many inquiries.

(B) Wrecked Jeep

EAT was not permitted to have collision insurance in spite of numerous requests. The legal steps to recover damages are not the responsibility of EAT. Delete references to no action being taken.

24

5.

p 20

(2) Payment Procedures

(1) Your suggestion of dual signatures does not work in an efficient group. Perhaps if no one were honest it would be necessary but EAT personnel are all honest. 5 years without a problem is proof. I do not think that developed countries could have developed with the lack of trust being implied by the auditors. Reject as stupid and unnecessary premises based on mistrust. This is one reason why Guatemala remains in the III World. It is our obligation to trust trust worthy and honest employees and to set an example of how a successful enterprise is to be run.

p 21

(3) Control over vehicles

Repeated requests were made for logs on vehicle use but it was determined to be impracticable. All gasoline costs are reimbursed monthly. All travelers are required to write justifications for travel. If consumption appears to be excessive, personnel are warned to reduce consumption. Some misuse has occurred and steps were made to correct it. At present, fuel consumption costs are high but reasonable, travel logs are made and included for each travel voucher submitted.

\*EAT was aware of control procedures.

Table V

p 24

(1) Compliance with laws, regulations, agreement terms.

(A)

Income tax withholding to III parties for professional services.

-I do not know anything about this - isn't it the obligation of the professional to declare the income and pay the taxes on short term no benefit contracts? These are not employees, they are contractors.

(B)

These withholdings are the responsibility of AID, not EAT. Some of the payments are to contractors and not to employees.

These 3 suggestions are worthwhile.

It is highly doubtful if anyone would fine EAT nor subject it to interest since EAT is an official government office of the USA. It is a mute point anyway, but proof of the insincerity of Lara and Gonzalez by not asking about the situation and only criticizing!

25

6.

(2) Annual Audits

since Sept. 1989, monthly audits (internal) have been made.

A final audit would be warranted for the period 1 July, 1987 through March of 1989.

(3) Using Grant Funds to Pay Operating Costs

AID and UCPRODA were heavily sequestered by an incompetent MAGA bureaucracy which would have prevented the execution of the wishes of the US and Guatemalan governments.

Therefore in order to get the job done correctly, and to the credit of all parties, the past chiefs of party ordered that whatever monies were available should be spent to complete the project. Without this proper administrative action on part of the 4 team leaders, the project would have failed. Therefore the criticism must be aimed at those to blame: USAID-ORD and UCPRODA. Both mentioned parties are still swimming in their morass of bureaucracy which is keeping the final open accounts from being closed properly. Put the blame where it belongs and do not create a scape goat.

Verbal authorization was always granted for these procedures by ORD personnel.

EAT was obligated to complete its Operative Plan and contractual aims and did so. The project was written with a very broad brush for accounting which lead to the success of the project. Such strick adherence to a budget in such a complex project would have caused the failure of the project. All the money available was spent for said purpose. No money was stolen nor unaccounted for and most problems of accounting which were caused by ORD and UCPRODA are now almost solved.

p 27

4

(A)

All activities of EAT were within the loan and grant agreement terms! The real time world requires flexibility. Technical Assistance at times can only come from hiring temporary people.

Local wages and salaries were agreed upon at least orally by ORD and EAT. So this criticism is without foundation.

(B)

As usual I suspect that UCPRODA wasn't functioning correctly and EAT. bailed them out for vehicle repair.

UCPRODA couldn't function under Lic. Arjona but the farmers and MAGA were helped anyhow. That means EAT was doing its job within the project objectives.

Yes-UCPRODA should reimburse EAT.

#### TABLE VI

List of Report Recommendations

Final Accountability Statement

p 19

1

(A)

Monthly accountability has been done and submitted to the Embassy on a monthly basis from at least Sept. 1988.

(B)

Reconciliation can only occur with cooperation from AID and UCPRODA. After all too many months of verbal requests, written solicitudes, innumerable 8 hour trips to the capital and formal complaints to Washington, the accounting problems criticized by the auditors are still not resolved because it is my opinion that neither AID nor UCPRODA have the capacity nor the will to straighten the matter out. Thank God no one took any money or equipment from EAT. That was due to a system of control within EAT which was sufficiently strict, and to the honesty of the staff.

(C)

EAT has kept careful records during its 5 years.

#### Internal Controls

p 29

(1)

All recommendations have been or are either now being followed or are being implemented.

(2)

Dual signatures are unnecessary and a waste of time and trust. NO! All supporting documentation has been reviewed regularly by the EAT accountant and team leader.

(3)

this is valid, has been repeatedly requested but not inforced. We will implement the log books again. It is realized that the private use of GOG vehicles by practically all GOG employees is a macho expression of their position. Numerous requests were made to keep the logs, but only 1 person in EAT faithfully kept the logs (John Diehl).

Several individuals were warned and punished about improper use of the vehicles, and that seemed to work better than anything. I

21

do not think logs work. What works is to have more personal responsibility, and respect for government property; a difficult task to say the least, but it can be done by proper administration.

Compliance with applicable laws, etc.

p 30

(1)

I have been operating under the impression that casual labor was similar to that of a private contractor, i.e. it is the responsibility of the person offering services to declare all income and to pay whatever tax obligations there are. There were never any instructions nor advice given as to these obligations to at least the last 2 EAT team leaders, and I doubt also to the first 2. We hired whom we needed on a short term basis to complete the project. Besides, during the audit period none of this applied since EAT had no "employees".

(C)

EAT is an official part of ORD and therefore as an office of the USAID Mission may be exempt from several statutes.

Clarification is requested.

(2)

See comments on Table V, point 2.

(3)

EAT always operated within the broad concepts of its Annual Operating Plans.

(4)

Yes, GOG should reimburse the expenditures so that the small farmer can benefit.

APPENDIX 1

REPORT DISTRIBUTION

	<u>No. of Copies</u>
Director, USAID/Guatemala	5
AA/LAC	2
LAC/CAP/G	1
AA/M	2
GC	1
LAC/CONT	1
LAC/DP	1
LAC/DR	1
LAC/GC	1
AA/XA	2
LEG	1
M/FM/ASD	2
XA/PR	1
PPC/CDIE	3
IG	1
AIG/A	1
IG/PPO	2
IG/LC	1
IG/ADM/C&R	12
IG/I	1
RIG/I/T	1
Other RIG/As	1