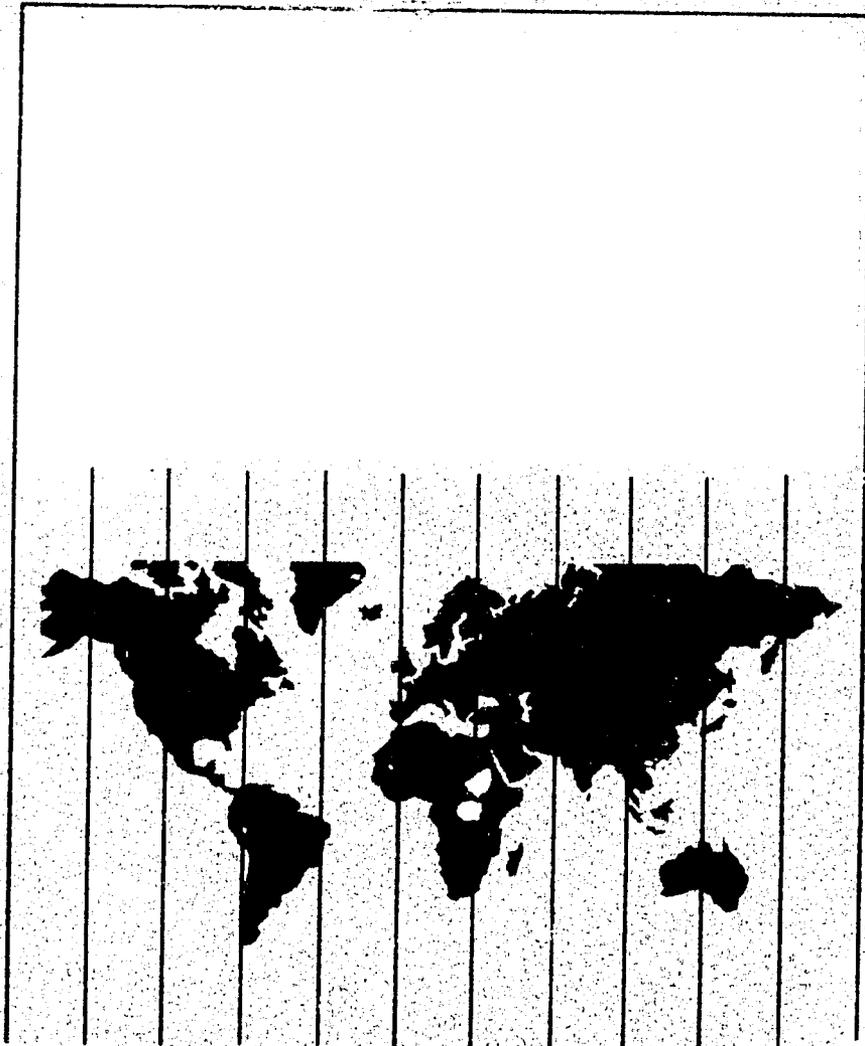


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
TEGUCIGALPA

PD-ABC-460
ISA 70346

**Audit of the
Immunization and Oral Rehydration
Therapy Services for
Child Survival Project
in Guatemala**

**Audit Report No. 1-520-90-56-N
July 31, 1990**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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July 31, 1990

MEMORANDUM

TO: USAID/Guatemala Acting Director, Stephen Wingert

**FROM: *BR Howard*
RIG/A/T, Reginafd Howard**

SUBJECT: Audit of the Immunization and Oral Rehydration Therapy Services for Child Survival Project in Guatemala

This report presents the results of a financial audit of the Immunization and Oral Rehydration Therapy Services for Child Survival Project, USAID/Guatemala Project No. 520-0339, managed by the Ministry of Health's Applied Programs Implementing Unit (the Unit) for the period October 1, 1987 to June 30, 1989. The Mission requested this audit based upon our recommendation from an earlier non-Federal financial audit of this project (Audit Report No. 1-520-89-28-N) covering the period October 1, 1986 through September 30, 1987 in which indications of irregular transactions were found. The accounting firm of Price Waterhouse prepared the report which is dated July 12, 1990.

The purpose of the project is to provide protection against six immunopreventable diseases (polio, diphtheria, tetanus, tuberculosis, measles, and pertussis). Implementation of the project is through a national immunization program directed to the population at risk.

The purpose of the audit was to determine whether: (1) the project's fund accountability statement for the period audited fairly presents project receipts and expenditures, (2) the internal control structure of the Unit is adequate for project purposes, and (3) the Ministry has complied with agreement terms and applicable laws and regulations.

Due to severe scope limitations and an inadequate internal control structure, Price Waterhouse disclaimed an opinion on the fund accountability statement and questioned all costs. Although the auditors could not verify the figure, the Unit's records indicated that it received project funds amounting to Q6,945,736 during the audit period (equivalent to US\$2,498,466). The auditors found that the records

established by the Unit and the Ministry were not complete and organized to permit preparation of a fund accountability statement or reconciliation of amounts confirmed by USAID/Guatemala as allocated to the project. The filing system was such that only 25 of 200 disbursements selected for detailed testing of the supporting documentation could be located for examination. Also, it was noted that a Q39,875 (US\$14,140) disbursement made in cash by the Mission had not been recorded in the Unit's records nor deposited in the project's bank account.

Regarding the entity's internal control structure, Price Waterhouse found that little progress has been made in implementing the 19 internal control recommendations from the earlier audit and that 13 recommendations are still valid and should be implemented. Additionally, the auditors included as new deficiencies: (1) inadequate segregation of functions among the recording of transactions, preparation of reimbursement requests, and reconciliation of bank accounts, (2) lack of adequate records and procedures to control inventories, (3) inadequate records and controls for fixed assets, and (4) lack of adequate control procedures over personnel costs.

Lastly, the auditors disclaimed an opinion on the Ministry's compliance with agreement terms and applicable laws and regulations. This was due mainly to the scope limitations and internal control weaknesses already noted; however, the auditors did report four significant noncompliance situations.

After being informed of the preliminary results of the audit, the Mission suspended further project disbursements on March 16, 1990 and began negotiations with the Ministry on how to resolve the problems. In June 1990, the Mission contracted Price Waterhouse to do a 100 percent review of expenditures from the beginning of the audit period to the date of project suspension. Copies of the final draft report were provided to the Mission and the auditee on June 7, 1990, but at the request of the Mission no exit conference was held. The Ministry did not comment on the report while the Mission highlighted the actions that it had already taken.

The Price Waterhouse report contains 11 new recommendations in addition to reissuing the unimplemented recommendations from the earlier audit. Considering the entity's continuing lack of accountability, deficient internal control structure, and history of irregular transactions, we believe the Mission should not continue with this implementing entity unless there is high assurance that the problems have been fully resolved. This should include the removal of personnel found to be associated with the irregular transactions. Also there should be strong indications that the internal control environment has changed fundamentally, that is, it should be evident to A.I.D. and the entity's employees that the implementing entity's management will not tolerate recurrence of the old practices. 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 determine the exact amount of project funds given to the Ministry of Health during the period from October 1, 1987 to June 30, 1989. The audit did not verify the amount of those funds, however, the informal records of the Ministry's Applied Programs Implementing Unit indicated that Q6,945,736 (equivalent to US\$2,498,466) was received. After determining the amounts provided, the Mission should require the Government of Guatemala (GOG) to refund to A.I.D. that portion of the total amount for which the GOG cannot provide detailed evidence supporting the allowability, allocability, and reasonableness of expenditures charged to the project.

Recommendation No. 2

We recommend that USAID/Guatemala require the Ministry of Health to correct the project related internal control weaknesses noted by Price Waterhouse in its report dated July 12, 1990 and by the predecessor auditor, Peat Marwick, its report dated January 26, 1989. Rather than accept statements from the Ministry that the deficiencies have been corrected, the Mission should verify implementation actions to assure they are achieving the desired effect and have been institutionalized, that is, that the implementing entity accepts and will continue the control procedures without continued oversight by A.I.D.

Recommendation No. 3

We recommend that before USAID/Guatemala provides further funding to the Ministry of Health for project activities, the Mission require the Applied Programs Implementing Unit of the Ministry of Health to adopt an accounting system adequate for recording and controlling all project disbursements funded by USAID/Guatemala, the Government of Guatemala, or other sponsors. Further, the Mission should verify that the system proposed by the Unit is adequate for project purposes.

Recommendation No. 4

We recommend that if the project is restarted, USAID/Guatemala closely monitor the financial administration of the project by the Applied Programs Implementing Unit of the Ministry of Health to prevent a recurrence of the types of problems noted in this and the prior non-Federal audit.

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

AUDIT OF THE IMMUNIZATION AND ORAL REHYDRATION THERAPY
SERVICES FOR CHILD SURVIVAL PROJECT
USAID/GUATEMALA PROJECT No. 520-0339

AUDIT OF THE IMMUNIZATION AND ORAL REHYDRATION THERAPY
SERVICES FOR CHILD SURVIVAL PROJECT
USAID/GUATEMALA PROJECT No. 520-0339

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Price Waterhouse



July 12, 1990

Mr. Coinage N. Gothard, Jr.
Regional Inspector General for Audit
Tegucigalpa, Honduras, C. A.

Dear Mr. Gothard:

This report presents the results of our financial audit of the Immunization and Oral Rehydration Therapy Services for Child Survival Project, USAID/Guatemala Project No. 520-0339, managed by the Ministry of Health for the period October 1, 1987 to June 30, 1989.

BACKGROUND -

On August 27, 1985, the Government of Guatemala through its General Secretariat of the Council of Economic Planning and the Ministry of Health (the Ministry) and the US Agency for International Development Mission to Guatemala (USAID/Guatemala) signed grant agreement No. 520-0339-G-00-5356-00 to fund the Immunization and Oral Rehydration Therapy Services for Child Survival Project, USAID/Guatemala Project No. 520-0339. The initial grant agreement provided US\$6,700,000 for a three-year project from August 31, 1985 to August 31, 1988. By amendments in July 1986 and August 1987, the grant amount was increased to US\$16,418,000 and the project completion date was extended to December 31, 1991. In addition to the grant funds, the Government of Guatemala agreed to contribute an equivalent of US\$8,482,607 in counterpart funds and US\$2,057,000 were to be received from other donors.

The Applied Programs Implementing Unit (Unidad Ejecutora de Programas Aplicativos) of the Ministry of Health was charged with the responsibility for the implementation of the project.

The project is specifically targeted towards providing protection against six immunopreventable diseases (polio, diphtheria, tetanus, tuberculosis, measles and pertussis) for infants under five years of age and protection against neonatal tetanus in pregnant women. The project goals were to be achieved via a national immunization program that

would strengthen the existing health infrastructure, involve volunteer community participation, and focus on the population at risk.

AUDIT OBJECTIVES AND SCOPE -

The objectives of our audit were to determine whether:

- a) The project's fund accountability statement fairly presents both receipts and expenditures for the period from October 1, 1987 to June 30, 1989, and costs reported as incurred are in fact allowable, allocable and reasonable per agreement terms and applicable laws and regulations, and to identify questionable costs, if any.
- b) The internal control structure of the Applied Programs Implementing Unit within the Ministry of Health is adequate to manage the project as required by USAID/Guatemala, including the review of the actual status of the recommendations made for improving the internal control structure included in a previous audit report.
- c) The Ministry of Health has complied with agreement terms and applicable laws and regulations which may affect the project's fund accountability statement.

Our audit was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision) and consequently included such tests of the accounting records to determine whether project funds were duly accounted for and used per agreement terms, and applicable laws and regulations.

The accounting records of the Applied Programs Implementing Unit (the Unit) do not provide periodic financial information nor do they allow for the preparation of a fund accountability statement.

Our test of disbursements, aimed at obtaining satisfaction regarding their allowability and reasonableness was based on a sample, selected at random, of 200 checks together with their supporting documentation. However, because of the inadequacy of the documentation filing and control system and the fact that a portion of this documentation was reportedly handed down to a third party for investigation purposes, we were able to examine only 25 checks, which constitutes a serious audit scope limitation.

Because of the scope limitations explained in the two preceding paragraphs, our work consisted of:

1. Reviewing the global cash flow for the period of our audit on the basis of the pertinent accounting records (banks ledger), where both receipts and disbursements for the period are entered.
2. Evaluating the control structure and administrative procedures of the Unit in the following areas considered by us of significance to the project:
 - procurement practices,
 - receipt and issue procedures for commodities,
 - record keeping procedures,
 - payrolls, and
 - financial reporting and budgetary control systems.
3. Determining whether the Unit was in compliance with agreement terms, amendments, project implementation letters, and applicable laws and regulations.

In performing our work we were alert to situations or transactions that could be indicative of fraud, abuse or illegal expenditures and acts.

RESULTS OF AUDIT -

Fund Accountability Statement -

The accounting system maintained by the Applied Programs Implementing Unit (the Unit) did not allow for the preparation of a fund accountability statement for the period covered by our audit, October 1, 1987 to June 30, 1989, and consequently we were not able to determine the reasonableness and allocation of the project disbursements accumulated during the period under review. Also, the Unit was not in a position to reconcile with its accounting records the amounts reported by USAID/Guatemala as allocated to the project.

Due to the lack of accountability over project funding we question all costs paid for with USAID/Guatemala funding during the period October 1, 1987 to June 30, 1989. Although we were unable to verify the exact amount of funds provided by USAID/Guatemala during this period, the informal records of the Unit indicated that it had received Q6,945,736.

As a result of the limitations mentioned above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the project's fund accountability statement for the period October 1, 1987 to June 30, 1989.

Internal Control Structure -

Our study and evaluation of the Applied Programs Implementing Unit's internal control structure disclosed the following deficiencies which in our opinion significantly affect its ability to record, process, summarize and report financial information on the project's execution:

1. There was a deficient segregation of functions over the control and preparation of bank reconciliations.
2. There was a lack of adequate control procedures and records over inventories.
3. There were inadequate records and controls over fixed assets.
4. The project lacked adequate control procedures over personnel costs.

Compliance with Agreement Terms, and Applicable Laws and Regulations -

Due to significant scope limitations in performing our work, as explained before, we are not in a position to provide any assurances regarding compliance with tested and untested items. However, our review disclosed the following cases of noncompliance with agreement terms and applicable laws and regulations:

1. There were inadequate controls over the payment of per diem allowances.
2. The records of the Applied Programs Implementing Unit provided no evidence regarding counterpart contributions.
3. Social security withholdings were not made from employee payrolls paid with project funds.
4. Services have been procured without full compliance with applicable regulations.

Also, Section B.2 of the grant agreement standard provisions (Annex II), which states that the project should be undertaken with due care and efficiency, in line with effective technical, financial and administrative procedures, may not have been complied with.

Follow Up On Recommendations Submitted by Predecessor Auditors -

We noted little progress on the implementation of recommendations to improve the internal control structure and com-

pliance with agreement terms and applicable laws and regulations submitted by predecessor auditors in connection with their review as of September 30, 1987. Only six out of 19 recommendations submitted have been implemented. The remaining 13 recommendations are still considered applicable and are therefore resubmitted, in the pertinent section of this report, under the same number assigned to them by the predecessor auditors.

MANAGEMENT COMMENTS -

On June 7, 1990, Ministry of Health and project officials were furnished with a copy of our draft final report; however as of this date we have not received any comments thereon.

USAID/Guatemala officials related to the project have read the draft audit report and have expressed that they do not have comments on the report at this time, other than after suspending further disbursements of project funds after March 16, 1990 USAID/Guatemala has contracted with Price Waterhouse a financial review to perform a 100% certification of all expenditures made by the project with USAID supplied funds from October 1, 1987 through March 16, 1990.

Under the circumstances as explained above, a decision was made not to hold an exit conference and to issue the final report.

Price Waterhouse

Price Waterhouse



IMMUNIZATION AND ORAL
REHYDRATION THERAPY SERVICES FOR CHILD SURVIVAL PROJECT
USAID/GUATEMALA PROJECT No. 520-0339

FUND ACCOUNTABILITY STATEMENT
OCTOBER 1, 1987 TO JUNE 30, 1989

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit the fund accountability statement of the Immunization and Oral Rehydration Therapy Services for Child Survival Project, USAID/Guatemala Project No. 520-0339, managed by the Ministry of Health (the Ministry) through its Applied Programs Implementing Unit (Unidad Ejecutora de Programas Aplicativos) (the Unit) for the period October 1, 1987 to June 30, 1989. This statement, containing financial information on the project's execution, is the responsibility of the Ministry.

The records established by the Unit and the Ministry did not allow for the preparation of a fund accountability statement or for the reconciliation of amounts confirmed by USAID/Guatemala as allocated to the project for the period under review and the filing system was such that only 13 percent of the disbursements selected for detailed testing of the supporting documentation could be located for examination. The Unit lacked records for maintaining appropriate control over inventories and fixed assets or to document the counterpart contributions of the Government of Guatemala.

Because of the lack of overall accountability for project income and expenditures, all of the unaccounted for funds provided by USAID/Guatemala during the period October 1, 1987 to June 30, 1989 are considered to be questionable costs. While we were unable to verify the exact amount provided by USAID/Guatemala during this period, the Unit's, informal records indicated that it received Q6,945,736. Findings No. 1 and 2 in the pages that follow detail our observations on the lack of an accounting system and records and the shortcomings in the Unit's organization which contributed to this overall lack of accountability. Additionally, notwithstanding the lack of adequate accounting records, our examination revealed the situation described under finding No. 3.

Since the Ministry did not prepare a fund accountability statement for the period from October 1, 1987 to June 30, 1989 and because of the limitations imposed by the lack of adequate accounting records, as explained in the preceding two paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on

the accountability for the project's funds disbursed during the period from October 1, 1987 to June 30, 1989.

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

Pree Waterhouse

March 15, 1990

IMMUNIZATION AND ORAL
REHYDRATION THERAPY SERVICES FOR CHILD SURVIVAL PROJECT
USAID/GUATEMALA PROJECT No. 520-0339

REPORT ON THE FUND ACCOUNTABILITY STATEMENT

FINDINGS

1. The Applied Programs Implementing Unit Did Not Maintain Adequate Records to Account for Project Execution

Condition:

The Applied Programs Implementing Unit did not have a defined accounting system with the required conditions to capture financial data in accordance with generally accepted accounting principles. The system consisted mainly of a banks ledger designed to control the cash availability and not to show, without limitation, the receipts and uses of cash under the project. As a result, the Unit was unable to prepare the fund accountability statement.

Criteria:

The guidelines originally agreed upon require that the Unit adopt and maintain an accounting system capable of capturing, processing and summarizing financial data in conformity with generally accepted accounting principles.

Cause:

It appears that the Unit was not provided with a well defined accounting system nor was it required to prepare fund accountability statements for the project, necessary to report in detail and by component all disbursements made.

Effect:

Because of the accounting system and related procedures in place, the Ministry was not in a position to prepare a fund accountability statement covering all disbursements. Additionally, management was not able to determine the reasonableness and allocation of the project disbursements accumulated during the period under review. As a result, we consider all of the unaccounted for funds provided by USAID/Guatemala during the period October 1, 1987 to June 30, 1989 to be questionable costs. While we could not verify the exact amount of funds provided by USAID/Guatemala during the period, the Unit's informal records indicated that it received Q6,945,736.

Recommendation:

USAID/Guatemala should determine the exact amount of project funds given to the Ministry of Health during the period from October 1, 1987 to June 30, 1989 and thereafter it should require the Government of Guatemala (GOG) to refund to A.I.D. that portion of the total amount of A.I.D. funds provided to the project during that period for which the GOG cannot provide detailed evidence supporting the allowability, allocability and reasonableness of expenditures charged to the project. Additionally, before the project is allowed to continue, USAID/Guatemala should require that the Applied Programs Implementing Unit of the Ministry of Health adopt an accounting system adequate for recording and controlling all project disbursements funded by either USAID/Guatemala or by the Government of Guatemala.

2. The Applied Programs Implementing Unit Lacks a Well Defined and Functional Organizational Structure

Condition:

During the life of the project, and especially during the period under review, the management of the Applied Programs Implementing Unit has experienced too many changes, including a high rotation of staff, which have created a general lack of proper knowledge with respect to responsibilities for each position, general objectives, operating policies and procedures, job descriptions, etc.

Criteria:

Section B.4 of the agreement establishes that the Unit must have an adequate organizational structure to carry out efficiently all activities related to the administration of the project.

Cause:

High staff turnover is considered as the main reason for the current lack of a well defined organization to effectively assist the Unit's management in the administration of the project.

Effect:

The Unit has not been able to establish adequate systems for project execution, nor has it been able to produce timely and reliable financial reports for its management.

Recommendation:

USAID/Guatemala should require the Ministry of Health to provide the Applied Programs Implementing Unit with an

adequate organizational structure and job descriptions to effectively assist the Unit's management in the administration of the project.

3. At Least Once the Applied Programs Implementing Unit Failed to Record as a Receipt Cash Reimbursed by USAID/Guatemala

Condition:

Voucher No. 520-81026 of December 24, 1987 in the amount of Q39,875, reimbursed by USAID/Guatemala in cash out of its emergency fund had not been entered into the Applied Programs Implementing Unit's banks ledger or deposited in the project's bank account.

Criteria:

All cash receipts should be immediately deposited and recorded to maintain proper accountability over project transactions and cash balances.

Cause:

We were not able to determine the circumstances surrounding this individual transaction, but in general we noted that there was a lack of appropriate controls to ensure that errors or omissions of this nature would be detected within a timely period by employees in the normal course of performing their assigned functions.

Effect:

Cash belonging to the project may have been used for unauthorized transactions. Unreconcilable differences between records and cash on hand should be considered questionable costs, based on a detailed analysis of all cash movements.

Recommendation:

USAID/Guatemala should require the Ministry of Health to reimburse the Q39,875 amount mentioned in this finding to A.I.D. and to organize the Applied Programs Implementing Unit's records to determine if other project funding has not been entered in the Unit's records. Additionally, if future funding is to be provided for this project, the records of the Unit and USAID/Guatemala should be reconciled monthly to assure that the total amount of A.I.D funds provided to the project are included in the Unit's records.

Price Waterhouse



IMMUNIZATION AND ORAL
REHYDRATION THERAPY SERVICES FOR CHILD SURVIVAL PROJECT
USAID/GUATEMALA PROJECT No. 520-0339

REPORT ON INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit the fund accountability statement of the Immunization and Oral Rehydration Therapy Services for Child Survival Project, USAID/Guatemala Project No. 520-0339, managed by the Ministry of Health through its Applied Programs Implementing Unit (Unidad Ejecutora de Programas Aplicativos) (the Unit), for the period from October 1, 1987 to June 30, 1989, and have issued our report dated March 15, 1990, in which we have disclaimed our opinion because of significant audit scope limitations.

In planning and performing our financial related audit of the Immunization and Oral Rehydration Therapy Services for Child Survival Project, USAID/Guatemala Project No. 520-0339, managed by the Ministry of Health (the Ministry) during the period from October 1, 1987 to June 30, 1989, we considered the Unit's internal control structure related to the project in order to determine our auditing procedures for the purposes of our engagement and not to provide assurance on the effectiveness of their internal control structure. Our evaluation was limited to a preliminary review of the internal control structure to obtain an understanding of the control environment in areas of significance to the project and the flow of transactions through the accounting system.

The Ministry of Health is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and

recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: 1) procurement practices; 2) receipt and issue procedures for commodities; 3) record keeping procedures; 4) payrolls; and 5) financial reporting and budgetary control systems.

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

Our evaluation of the Unit's internal control structure, as it relates to project operations, disclosed certain matters involving the project's execution, as described in the accompanying findings 1 to 4, 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 the Ministry's ability to record, process, summarize, and report financial information on the project's financial data.

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, finding Nos. 1 to 4 are deemed to be material weaknesses.

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

Free Waterhouse

March 15, 1990

IMMUNIZATION AND ORAL
REHYDRATION THERAPY SERVICES FOR CHILD SURVIVAL PROJECT
USAID/GUATEMALA PROJECT No. 520-0339

REPORT ON INTERNAL CONTROL STRUCTURE

FINDINGS

1. There was a Deficient Segregation of Functions over the Control and Preparation of Bank Reconciliations

Condition:

The bank reconciliations were prepared by the clerk charged with the responsibility for maintaining the banks ledger, making budget comparisons and preparing expense voucher liquidations for USAID/Guatemala. Furthermore, the bank reconciliations showed no evidence of the following:

- a. Name and signature of the officials charged with review and authorization responsibilities.
- b. Date when the bank reconciliation was prepared.

Criteria:

Bank reconciliations, to constitute effective control procedures, should be prepared by someone independent of the employee maintaining the banks ledger. Moreover, such reconciliations should show written evidence of their review and authorization by someone independent of their preparer, as well as the date of preparation.

Cause:

The Applied Programs Implementing Unit did not have a specific accounting department. Consequently, the pertinent functions were performed by the budget control department, thus precluding an adequate segregation of functions.

Effect:

Errors and/or irregularities could occur and not be promptly detected.

Recommendation:

USAID/Guatemala should require the Applied Programs Implementing Unit of the Ministry of Health to:

- a. Maintain an adequate segregation of functions between its accounting and budget control departments, including the employees charged with keeping the accounting records and preparing the bank reconciliations, and

- b. Ensure that the bank reconciliations show written evidence of review and approval by someone independent of their preparer.
2. There Was a Lack of Adequate Control Procedures and Records Over Inventories

Condition:

The Applied Programs Implementing Unit lacked adequate controls over the commodities on hand. Our evaluation disclosed that the Unit did not maintain, at all times, direct control over the different commodities stored in its warehouse. We noted that:

- a) physical inventories of the commodities stored at the central warehouse had not been taken;
- b) appropriate controls or listings with proper identification of slow-moving or obsolete inventories did not exist; and
- c) the employees working at the central warehouse had not received proper training or instruction regarding their responsibilities for properly handling perishable products or commodities.

Criteria:

The Unit's responsibilities include maintaining proper accountability and control over all the commodities of the project.

Cause:

The Unit's management did not appear to recognize the importance that adequate inventory controls have in the proper administration of the project.

Effect:

The lack of appropriate controls over project inventories leaves open the possibility of losses in commodities that would not be detected. Also, perishable products and commodities could be wasted by failure to use them before their respective expiration dates.

Recommendation:

USAID/Guatemala should require the Applied Programs Implementing Unit of the Ministry of Health to implement adequate controls and procedures for the handling of project inventories. Such controls and procedures should include:

- a) Taking periodic physical inventory counts. To begin with, a 100 percent physical count should be taken of all items kept at the warehouse to determine the actual inventories on hand. Subsequently, the physical counts should be performed on a selective and rotating basis.
- b) Documenting and retaining all physical counts of inventories in separate sheets as support for the adjustments made to the kardex system.
- c) Reconciling inventory counts with the kardex maintained at the warehouse. The kardex files should be adjusted to the amounts verified by physical counts.
- d) Preparing, at least every six months, a listing of all short life items and slow-moving non-perishable items and using such listing to manage those items to avoid losses from products reaching their expiration dates or becoming obsolete.
- e) Improving the physical security at the central warehouse which due to its isolation from the administrative offices offers greater possibility of break-ins occurring.
- f) Making the project warehouse staff fully aware of their responsibilities and providing training to all project staff handling commodities or other inventories so that the related items are properly stored and maintained in good condition at all times.

3. There Were Inadequate Records and Controls Over Fixed Assets

Condition:

The Applied Programs Implementing Unit did not maintain adequate subsidiary records or accounting controls over fixed assets acquired during the period under review. The Unit uses an official record called "inventories ledger" which includes a detailed list of all assets purchased, but this record was not updated and did not provide for an adequate segregation of project fixed assets. Moreover, to the present date, no physical counts of fixed assets have been taken.

Criteria:

The project fixed assets should be adequately controlled through the inventories ledger, which should be kept current. Also, physical counts of all assets should be taken at least once a year.

Cause:

The project lacked sufficient and capable staff to adequately control and register the assets acquired with project funds.

Effect:

From the records and information on hand it was not possible to establish the location and/or existence of all assets acquired with project funds.

Recommendation:

USAID/Guatemala should request the Applied Programs Implementing Unit of the Ministry of Health to update its "inventories ledger" by performing a complete physical count of all fixed assets, and then, by referring to the supporting documentation on each asset purchase, determine and identify which assets were purchased with project funds. Thereafter, separate controls should be established for those assets purchased with project funds so as to ensure their full accountability.

4. The Project Lacked Adequate Control Procedures Over Personnel Costs

Condition:

The Applied Programs Implementing Unit's control procedures over personnel costs were inadequate because:

- a) Procedures for hiring project staff were not adequately defined.
- b) The personnel files were not kept current and in most cases lacked documentation evidencing vacation, absences, salary changes, terminations, etc.
- c) Certain checks were withdrawn and payrolls signed by other than their intended payees, with no adequate justification in support thereof.

Criteria:

Proper control procedures over personnel costs require that personnel files be maintained on a current basis and that all personnel related transactions be properly authorized and documented.

Cause:

The Unit did not maintain adequate control over its personnel costs.

Effect:

Inadequate supervision over personnel costs may lead to payments to strawmen or to persons who do not work for the project.

Recommendation:

USAID/Guatemala should require the Applied Programs Implementing Unit of the Ministry of Health to:

- a) clearly define and document the procedures for hiring project personnel;
- b) update all project personnel files and assure that all documentation evidencing vacation, absences, salary changes and other personnel actions is contained therein; and
- c) adequately support all payroll payments, with appropriate written justifications in those cases in which the checks were paid and payrolls signed by other than the intended beneficiary.

Price Waterhouse



**IMMUNIZATION AND ORAL
REHYDRATION THERAPY SERVICES FOR CHILD SURVIVAL PROJECT
USAID/GUATEMALA PROJECT No. 520-0339**

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

INDEPENDENT AUDITOR'S OPINION

We were engaged to audit the fund accountability statement of the Immunization and Oral Rehydration Therapy Services for Child Survival Project, USAID/Guatemala Project No. 520-0339, managed by the Ministry of Health through its Applied Programs Implementing Unit (Unidad Ejecutora de Programas Aplicativos) (the Unit) for the period from October 1, 1987 to June 30, 1989, and have issued our report dated March 15, 1990 in which we have disclaimed an opinion because of significant audit scope limitations.

The Ministry of Health (the Ministry) is responsible for compliance with the terms of its agreement with A.I.D. and with applicable laws and regulations. For purposes of this report we selected and tested transactions and records to determine the Ministry's compliance with agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our evaluation and testing disclosed the instances of non-compliance with agreement terms, explained under finding Nos. 1 to 4 in the following pages and finding No. 1 described in the fund accountability statement section of this report. Because of the significant audit scope limitations described in the fund accountability statement section of this report, we are not in a position to provide any assurance on compliance either with respect to items tested or to items not tested.

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

Price Waterhouse
March 15, 1990

IMMUNIZATION AND ORAL
REHYDRATION THERAPY SERVICES FOR CHILD SURVIVAL PROJECT
USAID/GUATEMALA PROJECT No. 520-0339

REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

FINDINGS

1. There Were Inadequate Controls Over the Payment of Per Diem Allowances

Condition:

Our review of check No. 229111, covering payment of certain per diem allowances, disclosed the following:

- a) No written appointment of the "area chief" who has responsibility for authorizing per diems was found.
- b) It was not possible to determine whether the allowances assigned were commensurate with the pertinent salaries as no data in this respect was kept by the Applied Programs Implementing Unit.
- c) For a seminar in the department of San Marcos, advances of per diem were liquidated five months after the event was held.

Criteria:

Each project employee is entitled to receive per diem allowances commensurate with his or her salary. Also ministry regulations in force require the written appointment of an "area chief" with the responsibility for authorizing per diem allowance advances which should be liquidated promptly.

Cause:

The Unit was not aware of the requirement to appoint "area chiefs", and it lacked information on the salaries and corresponding per diem allowances for each participant in the project. Further, inadequate accounting records and related controls did not permit the timely detection of unliquidated per diem allowances advances.

Effect:

Per diem allowances were not properly authorized, and it was not possible to determine whether such allowances were assigned according to the pertinent salary levels of the employees involved.

Recommendation:

USAID/Guatemala should require the Applied Programs Implementing Unit of the Ministry of Health to ensure that all per diem allowances are authorized by a responsible official and assigned according to the Ministry's regulations governing such allowances. Also, the Unit should see that the allowances are paid and liquidated on a timely basis.

2. The Records of the Applied Programs Implementing Unit Provided no Evidence Regarding Counterpart Contributions

Condition:

The accounting records kept by the Applied Programs Implementing Unit of the Ministry of Health did not provide evidence that the Government of Guatemala (GOG) had made its counterpart contributions to the project.

Criteria:

Section 3.2 b) of the Grant Agreement required the GOG to contribute as counterpart funds the local currency equivalent of US\$8,482,607. Applicable agreement terms require that the Ministry maintain full accountability over project funds, which would include the counterpart contributions.

Cause:

The Unit was not furnished with information regarding budget allocations made by the Ministry to comply with its counterpart obligations.

Effect:

The records of the Unit could not be used as a basis to audit the counterpart contribution. It is possible that less than the required contribution amounts have been made to the project.

Recommendation:

USAID/Guatemala should require the Ministry of Health to provide all the detailed information on how, in what form, and when required counterpart funds have been assigned and used to pay for project activities. Any shortfall in the required contribution should be made up at the earliest possible date. Also, the Ministry should be required to keep and maintain adequate records, within the Applied Programs Implementing Unit, of the counterpart funds assigned to the project.

3. Social Security Withholdings Were Not Made from Employee Payrolls Paid with Project Funds

Condition:

Payroll withholdings for social security contributions were not made. In addition, the salaries ledger required by law (Labor Code) was not maintained.

Criteria:

The Applied Programs Implementing Unit is required to comply with the withholding and reporting obligations dictated by law.

Cause:

The Unit overlooked compliance with these obligations applicable to salaries.

Effect:

Since no social security contributions were made based on employee salaries, the employees concerned were not covered by the social security regime, nor were they qualified to participate in Government of Guatemala established pension programs.

Recommendation:

USAID/Guatemala should require the Applied Programs Implementing Unit within the Ministry of Health to withhold social security contributions from its project payrolls and maintain a salaries ledger as required by the Guatemalan Labor Code.

4. Services Have Been Procured Without Full Compliance With Applicable Regulations

Condition:

Regarding advertising services paid for with checks No. 228524 and 228522 for Q247,139 and Q669,614 respectively, the Applied Programs Implementing Unit did not comply with the applicable Guatemalan law which requires, based on the value of the purchases, the application of public bidding procedures.

Criteria:

The Guatemalan law governing purchases made by the public sector requires, for purchases in excess of Q150,000, the application of competitive public bidding procedures.

Cause:

To simplify the administrative procedures relative to purchases and acquisitions, to speed up the advertising campaign for the project and in its view to minimize costs, the Unit elected to contract services based exclusively on bids requested from three suppliers.

Effect:

The contracting of these services did not comply with legal requirements and, consequently, services may have been obtained at prices or conditions less favorable to the project.

Recommendation:

USAID/Guatemala should require the Applied Programs Implementing Unit of the Ministry of Health to comply in all cases with the public bidding procurement procedures established by Guatemalan law.

IMMUNIZATION AND ORAL
REHYDRATION THERAPY SERVICES FOR CHILD SURVIVAL PROJECT
USAID/GUATEMALA PROJECT No. 520-0339

FOLLOW-UP ON RECOMMENDATIONS MADE BY PREDECESSOR AUDITOR

We were engaged to perform an audit of the fund accountability statement of the Immunization and Oral Rehydration Therapy Services for Child Survival Project, USAID/Guatemala Project No. 520-0339, implemented by the Ministry of Health for the period from October 1, 1987 through June 30, 1989. The scope of our work included a follow-up on recommendations to improve the project's internal control structure presented by the accounting firm of Peat Marwick in their report dated January 26, 1989 covering the period October 1, 1986 through September 30, 1987, and a review of actions subsequently taken by the Ministry of Health and/or USAID/Guatemala to implement the recommendations.

Based upon our review, we conclude that little progress has been made in implementing the recommendations submitted by the predecessor auditors. Out of the 19 recommendations that they submitted, only six have been implemented. We consider that the remaining 13 recommendations are still applicable and are therefore submitting them below as they were originally presented.

Internal Accounting Controls

Recommendation 1:

The Applied Program Unit of the Ministry of Health's accounting department should prepare a fund accountability statement on a monthly basis as a tool for easier control of the financial situation of the Project. This statement should include operations directly performed both by the Project and USAID/Guatemala.

Recommendation 2:

USAID/Guatemala should require the Applied Program Unit of the Ministry of Health to perform monthly reconciliations of the accounting records and Voucher Control Record with the budget execution record, bank account balances, reports to USAID/Guatemala, and to any other financial information generated by the Project. Reconciliations should be reviewed by a responsible official not performing the reconciliations.

Recommendation 3:

USAID/Guatemala should require the Applied Program Unit of the Ministry of Health:

- b. To require bank reconciliations to be reviewed by the accountant and approved by the chief financial officer. This procedure should be documented in writing.

Recommendation 8:

USAID/Guatemala should require the Applied Program Unit of the Ministry of Health to:

- a. Perform a complete physical inventory as a base for establishing subsidiary records.
- b. Implement a kardex system to control inventory units in the warehouse. A subsidiary record both in units and values should also be established in the accounting department.
- c. Perform selective periodic surprise physical counts and a complete annual inventory to ensure control over the inventories in the warehouse. Such physical inventories must be compared and reconciled to warehouse kardex and subsidiary records maintained in the accounting department. Differences, if any, must be timely investigated and cleared.

Recommendation 9:

USAID/Guatemala should require the Applied Program Unit of the Ministry of Health to use receiving documents which describe the quantity and quality of materials and supplies ordered in order to control receipt of materials and supplies. These documents should include evidence (signatures) of the persons who requested, approved, and received the order.

Recommendation 10:

USAID/Guatemala should require the Applied Program Unit of the Ministry of Health to establish written procedures for the management of the warehouse and to implement the use of forms for the control of deliveries of materials and supplies. These documents should have evidence (signatures) of request, review and approval by authorized officials.

Recommendation 11:

USAID/Guatemala should require the Applied Program Unit of the Ministry of Health to improve the warehouse facilities and instruct the personnel in charge on the handling of materials that they should be stored in a proper place and conveniently packed for preservation.

Recommendation 12:

USAID/Guatemala should require the management of the Applied Program Unit of the Ministry of Health to program the purchase of

materials and supplies based on reorder points established for the different commodities stored in the warehouse based on perpetual inventory records.

Recommendation 13:

USAID/Guatemala should require the Applied Program Unit of Ministry of Health to improve warehouse security for safeguarding of materials and supplies to prevent theft and misuse.

Recommendation 16:

USAID/Guatemala should require the Applied Program Unit of Ministry of Health to ensure that the area coordinator returns the lists documenting per diem payments duly signed by each beneficiary as evidence of receipt and on a selective basis assigns a responsible Project employee to perform surprise visits to inspect the payments of per diem.

Recommendation 17:

USAID/Guatemala should require the Applied Program Unit of Ministry of Health to keep the documentation supporting each expenditure filed in numerical or chronological order in a secure place, under the responsibility of a project employee.

IMMUNIZATION AND ORAL
REHYDRATION THERAPY SERVICES FOR CHILD SURVIVAL PROJECT
USAID/GUATEMALA PROJECT No. 520-0339

LIST OF REPORT RECOMMENDATIONS

Fund Accountability Statement

Recommendation 1:

USAID/Guatemala should determine the exact amount of project funds given to the Ministry of Health during the period from October 1, 1987 to June 30, 1989 and thereafter it should require the Government of Guatemala (GOG) to refund to A.I.D. that portion of the total amount of A.I.D. funds provided to the project during that period for which the GOG cannot provide detailed evidence supporting the allowability, allocability and reasonableness of expenditures charged to the project. Additionally, before the project is allowed to continue, USAID/Guatemala should require that the Applied Programs Implementing Unit of the Ministry of Health adopt an accounting system adequate for recording and controlling all project disbursements funded by either USAID/Guatemala or by the Government of Guatemala.

Recommendation 2:

USAID/Guatemala should require the Ministry of Health to provide the Applied Programs Implementing Unit with an adequate organizational structure and job descriptions to effectively assist the Unit's management in the administration of the project.

Recommendation 3:

USAID/Guatemala should require the Ministry of Health to reimburse the Q39,875 amount mentioned in this finding to A.I.D. and to organize the Applied Programs Implementing Unit's records to determine if other project funding has not been entered in the Unit's records. Additionally, if future funding is to be provided for this project, the records of the Unit and USAID/Guatemala should be reconciled monthly to assure that the total amount of A.I.D funds provided to the project are included in the Unit's records.

Internal Control Structure

Recommendation 1:

USAID/Guatemala should require the Applied Programs Implementing Unit of the Ministry of Health to:

- a. Maintain an adequate segregation of functions between its accounting and budget control departments, including the employees charged with keeping the accounting records and preparing the bank reconciliations, and
- b. Ensure that the bank reconciliations show written evidence of review and approval by someone independent of their preparer.

Recommendation 2:

USAID/Guatemala should require the Applied Programs Implementing Unit of the Ministry of Health to implement adequate controls and procedures for the handling of project inventories. Such controls and procedures should include:

- a) Taking periodic physical inventory counts. To begin with, a 100 percent physical count should be taken of all items kept at the warehouse to determine the actual inventories on hand. Subsequently, the physical counts should be performed on a selective and rotating basis.
- b) Documenting and retaining all physical counts of inventories in separate sheets as support for the adjustments made to the kardex system.
- c) Reconciling inventory counts with the kardex maintained at the warehouse. The kardex files should be adjusted to the amounts verified by physical counts.
- d) Preparing, at least every six months, a listing of all short life items and slow-moving non-perishable items and using such listing to manage those items to avoid losses from products reaching their expiration dates or becoming obsolete.
- e) Improving the physical security at the central warehouse which due to its isolation from the administrative offices offers greater possibility of break-ins occurring.
- f) Making the project warehouse staff fully aware of their responsibilities and providing training to all project staff handling commodities or other inventories so that the related items are properly stored and maintained in good condition at all times.

Recommendation 3:

USAID/Guatemala should request the Applied Programs Implementing Unit of the Ministry of Health to update its "inventories ledger" by performing a complete physical count of all fixed assets, and then, by referring to the supporting documentation on each asset purchase, determine and identify which assets were purchased with project funds. Thereafter, separate controls should be established for those assets purchased with project funds so as to ensure their full accountability.

Recommendation 4:

USAID/Guatemala should require the Applied Programs Implementing Unit of the Ministry of Health to:

- a) clearly define and document the procedures for hiring project personnel;
- b) update all project personnel files and assure that all documentation evidencing vacation, absences, salary changes and other personnel actions is contained therein; and
- c) adequately support all payroll payments, with appropriate written justifications in those cases in which the checks were paid and payrolls signed by other than the intended beneficiary.

Compliance with agreement terms and applicable laws and regulations

Recommendation 1:

USAID/Guatemala should require the Applied Programs Implementing Unit of the Ministry of Health to ensure that all per diem allowances are authorized by a responsible official and assigned according to the Ministry's regulations governing such allowances. Also, the Unit should see that the allowances are paid and liquidated on a timely basis

Recommendation 2:

USAID/Guatemala should require the Ministry of Health to provide all the detailed information on how, in what form, and when required counterpart funds have been assigned and used to pay for project activities. Any shortfall in the required contribution should be made up at the earliest possible date. Also, the Ministry should be required to keep and maintain adequate records, within the Applied Programs Implementing Unit, of the counterpart funds assigned to the project.

Recommendation 3:

USAID/Guatemala should require the Applied Programs Implementing Unit within the Ministry of Health to withhold social security contributions from its project payrolls and maintain a salaries ledger as required by the Guatemalan Labor Code.

Recommendation 4:

USAID/Guatemala should require the Applied Programs Implementing Unit of the Ministry of Health to comply in all cases with the public bidding procurement procedures established by Guatemalan law.