

PD-ABC-487

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AUDIT OF USAID/BOLIVIA'S  
CHAPARE REGIONAL DEVELOPMENT PROJECT  
ACTIVITIES MANAGED BY THE  
PL-480 EXECUTIVE SECRETARIAT  
FOR THE YEAR ENDED DECEMBER 31, 1989

Audit Report No. 1-511-91-16-N  
January 22, 1991

U. S. MAILING ADDRESS :  
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**AGENCY FOR INTERNATIONAL DEVELOPMENT**

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
**AMERICAN EMBASSY**  
TEGUCIGALPA - HONDURAS

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January 22, 1991

MEMORANDUM

TO: D/USAID/Bolivia, Carl H. Leonard

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

SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project, Activities Managed by the PL-480 Executive Secretariat for the Year Ended December 31, 1989

This report presents the results of a non-Federal financial audit of the PL-480 Executive Secretariat (Secretariat) for the year ended December 31, 1989. The audit was part of a series of six audits performed to evaluate entities receiving funding under the Chapare Regional Development Project (Project), USAID/Bolivia Project No. 511-0543. The accounting firm of Price Waterhouse prepared the report which is dated November 30, 1990.

The Project was initiated in 1983 as a part of the Government of Bolivia's program to reduce coca plantings. The Project focuses on the development of the Chapare region-Bolivia's principal illicit coca growing area. In this regard the Project is concentrated in four major areas designed to develop: (1) agricultural and forestry production, (2) rural industry and marketing, (3) a production and transport infrastructure, and (4) a Project investment fund. The life-of-project budget as of December 1989, was over \$61.0 million. USAID/Bolivia grant and loan funds totaled \$26.5 million with the balance provided by the Government of Bolivia through its PL-480 Program and through direct funding. The Government of Bolivia has also developed a separate but related program whereby it makes compensation payments of \$2,000 per hectare, from its own resources, to peasant farmers who voluntarily reduce their coca plantings.

The principal activity of the Secretariat is providing loans to farmers participating in the coca eradication program, so they are able to plant alternative crops. The audit coverage included \$2,341,510 from collection of credits previously issued under the Project and \$992,651 generated by various Project activities during the year ended December 31, 1989.

The purpose of the audit was to report on: (1) the fairness of the fund accountability statement for Project activities managed by the Secretariat, (2) the adequacy of the Secretariat's internal control structure, and (3) the Secretariat's compliance with the terms of the Project Agreement and applicable laws and regulations.

Price Waterhouse found that, except for the inclusion of certain questionable costs amounting to \$295,960, the fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the Secretariat. The questionable costs were related to questionable loans made to peasant farmers by the Secretariat with Project funds.

With respect to the Secretariat's internal control structure, the auditors noted four material weaknesses concerning: (1) the lack of supervision over the use of loan proceeds, (2) the absence of a minimum required loan collateral value or an adequate procedure to evaluate the loan collateral, (3) the lack of periodic loan portfolio review, and (4) the lack of accounting and administration manuals for the Project's loan program.

In its report on compliance with agreement terms and applicable laws and regulations, Price Waterhouse found that the Secretariat complied in all material respects except for: (1) granting credits to unqualified farmers, (2) not providing a reserve for uncollectible loans, (3) not verifying that the recipient farmers had ceased cultivating coca, (4) failing to perform semester evaluations of the Credit Program, and (5) making loans to farmers who had failed to make the required contribution to the financed project.

The report was discussed with management of both the Secretariat and USAID/Bolivia who generally agreed with the findings on internal control and compliance. Management's comments are included in Appendix 1 to the report.

We are including the following recommendations in the office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Bolivia negotiate a recovery of \$295,960 in questioned costs included in the Price Waterhouse Report dated November 30, 1990 and related to loans made to farmers who did not meet loan agreement terms.

Recommendation No. 2

We recommend that USAID/Bolivia, in conjunction with the PL-480 Executive Secretariat, develop and implement a plan for designing procedures to ensure that loans are made only to eligible farmers, for assuring that farmers receiving loans comply with the terms of loan agreements, for designing procedures to ensure that program loans are sufficiently collateralized, for designing procedures to periodically review and identify potential collectibility problems in the loan portfolio, for designing procedures manuals to administer project loans, for establishing a reserve for uncollectible loans, and for performing periodic evaluations of the Credit Program's status.

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

AUDIT OF THE  
CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES  
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989



AUDIT OF THE  
CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES  
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

TABLE OF CONTENTS

	<u>Page</u>
Transmittal Letter and Summary	1
Background	1
Audit Objectives and Scope	5
Results of Audit	7
Management Comments	9
Fund Accountability Statement	10
Independent Auditor's Report	10
Fund Accountability Statement	12
Notes to the Fund Accountability Statement	13
Annex I - Accumulated Fund Accountability Statement	19
Internal Control Structure	20
Independent Auditor's Report	20
Findings	23
Compliance with Agreement Terms, Project Implementation Letters and Applicable Laws and Regulations	27
Independent Auditor's Report	27
Findings	29
List of Report Recommendations	35
Appendix I - Management Comments	38



## *Moreno Muñoz*



November 30, 1990

Mr. Reginald Howard  
Regional Inspector General for Audit  
U.S. Agency for International Development  
Tegucigalpa, Honduras, C.A.

Dear Mr. Howard:

This report presents the results of our audit of the Chapare Regional Development project, USAID/Bolivia Project No. 511-0543, activities managed by the PL-480 Executive Secretariat (Secretaría Ejecutiva PL-480), for the year ended December 31, 1989.

### BACKGROUND

On August 12, 1983, the Republic of Bolivia and the United States of America acting through the U.S. Agency for International Development Mission to Bolivia (USAID/Bolivia), signed a loan and grant agreement to implement the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, which consisted of an integrated package of financing and technical assistance for small farmer related production, agroindustry development/marketing and institutional development support activities to be carried out by Bolivian public and private institutions for development of the Chapare region and associated high valleys sub-regions.

The project is a complementary part of the Government of Bolivia (GOB)'s program to reduce the coca plantings in Bolivia, and includes different activities and sub-projects designed to focus development resources on Bolivia's principal illicit coca growing area, the Chapare region. Due to different causes, the implementation of project activities had to be delayed and the project itself was significantly modified. The amended project concentrates on four principal development areas: 1) agriculture and forestry production; 2) rural industry and marketing;

3) productive and transport infrastructure; and  
 4) a project investment fund. Each area includes activities of immediate impact and applied research activities to support medium and long-term activities. The project assistance completion date is August 31, 1991 and the life-of-project budget as modified in December 1989, expressed in US\$000's, includes the following:

	USAID/BOLIVIA		GOVERNMENT OF BOLIVIA		Total
	Grant	Loan	PL-480	GOB	
Technical assistance	\$ 7,671				\$ 7,671
Training	479	\$ 1,458	\$ 2,523		4,460
Constructions	100	1,149	3,246	\$ 1,600	6,095
Commodities	3,024	2,825	240		6,089
Operating costs	2,376	5,781	2,300	1,147	11,604
Evaluations	250	53			303
Other		889	22,831		23,720
Contingencies	100	345	860		1,305
	<u>\$ 14,000</u>	<u>\$ 12,500</u>	<u>\$ 32,000</u>	<u>\$ 2,747</u>	<u>\$ 61,247</u>

Additionally the Government of Bolivia has developed a program to reduce the cultivation of coca and make compensation payments of US\$ 2,000 per hectare from its own resources to the peasant farmers that voluntarily reduce their coca plantations. The plan foresaw the eradication of 5,000 hectares of coca plants in 1989, but in accordance with DIRECO's reports only 2,439 hectares were in fact eradicated.

USAID/Bolivia performs the overall supervision of the project, which consists of various phases carried out by different GOB administrative units, as indicated in the following summary:

<u>Phase</u>	<u>Administrative Unit</u>
1 Administration of the project and overall supervision and coordination of the Government or Bolivia's programs related to coca eradication	Subsecretariat for Alternative Development and Coca Planting Substitution (Subsecretaría de



Phase

Administrative

- |   |  |   |
|---|--|---|
|   | Desarrollo Alternativo y Sustitución de Cultivos de Coca-SUBDESAL)   |   |
| 2 | Technical assistance of farmers to allow access to financial services and development of community projects in Chapare and associated high valleys | Program of Alternative Development of Cochabamba (Programa de Desarrollo Alternativo de Cochabamba - PDAC)                      |
| 3 | Technical assistance in the development of alternative crops, and sale of genetic material for alternative crops                                   | Bolivian Institute of Agriculture and Cattle Technology/Chapare (Instituto Boliviano de Tecnología Agropecuaria - IBTA/Chapare) |
| 4 | Granting of loans to farmers to plant alternative crops  | PL-480 Executive Secretariat  |
| 5 | Compensation to coca growers to reduce coca cultivation  | National Directorate for Agricultural Reconversion Agrícola - DIRECO)   |
| 6 | Development of productive and transport infrastructure through the maintenance of roads  | National Service of Roads (Servicio Nacional de Caminos - SNC)  |

The PL-480 Executive Secretariat participates in the project funding of US\$ 32,000,000 which includes US\$ 17,500,000 for giving credits to peasant farmers and US\$ 14,500,000 to be implemented through other executing units as grants for operating costs and for costs to carry out basic community infrastructure work related to the Chapare Regional Alternative Development.

The grant funds are disbursed directly to the project's executing components. The main disbursements consist of support for operating costs of SUBDESAL and the office established in Cochabamba by the PL-480 Executive Secretariat. Moreover, the PL-480 Executive Secretariat



makes disbursements through the Program of Alternative Development of Cochabamba (PDAC).

PDAC uses these funds for carrying out community works and studies to generate alternative development under PDAC supervision. As of December 31, 1989 the accumulated disbursements of grant funds were US\$ 1,801,608 and the undistributed balance was US\$ 12,698,392.

With respect to the loan funds, the PL-480 Executive Secretariat established a Regional Office in Cochabamba to directly administer the agricultural credits and so does it while an intermediate credit institution (ICI) is contracted. In compliance with Project Implementation Letter (PIL) 112 dated December 19, 1989 the PL-480 Executive Secretariat will continue its direct administration of the distribution of agricultural credits to the peasant farmers for two additional years. As of December 31, 1989, US\$ 3,119,950 had been disbursed, US\$ 1,312 had been collected and US\$ 1,099,947 of committed loans were pending disbursement.

These credits are designed for agricultural purposes. The capital investment loans usually have a term of ten (10) years and may include a four (4) year repayment grace period. When the credits are designed for working capital the repayment period is two (2) years with no grace period. In both cases, the interest to be accrued is 13% and a loan agreement clause is provided to maintain the value of both, capital and interest.

The loans managed by this unit are intended to encourage peasant farmers living in the Chapare area to realize alternative agricultural development by encouraging legal agricultural production and cattle raising activities. Consequently, these credits have been given mainly to those peasant farmers who have reduced their coca crop planting in accordance with terms of the Bolivian Law No. 1008 and the agreement signed between the United States Agency for International Development Bolivian Mission (USAID/Bolivia) and the Government of Bolivia.

Consequently, the agricultural credit funds are administered directly by the PL-480 Executive Secretariat and the grant funds are managed through SUBDESAL and PDAC.



## AUDIT OBJECTIVES AND SCOPE

We were contracted by USAID/Bolivia, to conduct a financial audit of the Chapare Regional Development Project for the year ended December 31, 1989. The audit included the operations carried out by each administrative unit under the loan and grant agreements signed between the Government of Bolivia and USAID/Bolivia, and the fund accountability statement of the project taken as a whole.

The audit did not include the examination of the documentation and operations of prior periods nor transactions made directly by USAID/Bolivia and the Government of Bolivia through direct payments. However, for information purposes only, we include as annex 1, a fund accountability statement of project's accumulated receipts and disbursements as of December 31, 1989, including direct payments made by USAID/Bolivia and the Government of Bolivia. This statement is expressed in United States dollars.

Our audit was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision) and accordingly included such tests of the accounting records and documentation, evaluation of the internal control structure and other auditing procedures as we considered necessary in the circumstances to determine whether:

- 1 The fund accountability statement of the project's activities managed by PL-480 Executive Secretariat presents fairly in all material respects, the cash receipts and disbursements for the year ended December 31, 1989, identifying costs which were not fully supported with adequate records or which were not allowable, allocable, and reasonable under the agreement terms, project implementation letters, and applicable laws and regulations:
- 2 PL-480 Executive Secretariat internal control structure is adequate for project purposes: and
- 3 PL-480 Executive Secretariat complied in all material respects, with agreement terms, project implementation letters, and applicable laws and regulations.



The scope of our work included:

- Reviewing the accounting records and bank accounts used by the Executive Secretariat PL-480 to record the receipt of funds and obtaining direct confirmation from the banks.
- Reviewing the supporting documentation of the income earned by the project and corresponding bank statements.
- Evaluation of the procedures and controls applied to sub-projects and review of the reconciliations and supporting documentation of disbursements in favour of the executing units and their records.
- Evaluation of the procedures and controls applied for giving agricultural credits in accordance with the agreement terms.
- Reviewing the supporting documentation of agriculture credits disbursed during the year. This test covered 79% of disbursements and 75% of approved amounts.
- On-site visits to the farmers' properties in order to verify the information recorded in the credit files. This verification included direct confirmation with the peasant farmers as to the amount of loan, terms of repayment, interest rates, objectives of the loan, and compliance with previous requirements for obtaining credit (reduction of coca plantings). These procedures were used in our visits to 127 agricultural properties belonging to creditors.
- Reviewing the supporting documentation of the principal project's operating costs paid by the PL-480 Executive Secretariat. These test covered 74% of the amount spent during the year. The objective of these tests was to determine whether the expenses were properly supported with documentation, were made to achieve the objectives of the Program, were made in accordance with agreement terms, and the expenditure was properly recorded in the year the expense was incurred.
- Reviewing and evaluating PL-480's compliance with agreement terms and applicable laws and regulations.



## RESULT OF AUDIT

### Fund Accountability Statement

The PL-480 Executive Secretariat, in accordance with project requirements, has recorded its transactions on the basis of cash receipts and disbursements. Consequently, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. This is a comprehensive basis of accounting for cash transactions other than generally accepted accounting principles. Our audit disclosed questionable disbursements in the amount of Bs881.960 which are summarized in the fund accountability statement.

In our opinion, except for the inclusion of certain questionable disbursements amounting to Bs881.960, the fund accountability statement audited by us presents fairly, in all material respects the cash receipts and disbursements of the activities managed by the PL-480 Executive Secretariat, under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, for the year ended on December 31, 1989, on the basis of accounting described in the precedent paragraph.

### Internal Control Structure

We have considered the internal control structure of PL-480 Executive Secretariat in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement of the Chapare Regional Development Project, and not to provide assurance on the internal control structure of PL-480 Executive Secretariat taken as a whole.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we observed the following matters involving the internal control structure that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants:



- 1 Some loan recipients were not complying with loan agreement terms.
- 2 Collateral received for loans was not formally evaluated by specialists.
- 3 The loans in the loan portfolio were not periodically analyzed to determine the existence of conditions that could adversely impact on loan collectability.
- 4 The PL-480 Executive Secretariat did not have accounting and administration manuals for the project's loan program.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the PL-480 Executive Secretariat in a separate letter.

Compliance with Agreement Terms, Project Implementation Letters, and Applicable Laws and Regulations

In our opinion, except for the noncompliances mentioned below, with respect to the items tested, the PL-480 Executive Secretariat complied, in all material respects, with the terms and provisions of the agreement, project implementation letters, and applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that the PL-480 Executive Secretariat had not complied, in all material respects, with those terms and provisions.

- 1 Credits were granted to unqualified farmers.
- 2 The allowance for uncollectible loans is not recorded by the PL-480 Executive Secretariat.
- 3 The PL-480 Executive Secretariat did not ensure that the farmers receiving loans under the project no longer cultivated coca.
- 4 Semester evaluations of the accomplishments of the credit program were not performed.
- 5 There were loan made by the program in which the farmer did not comply with the minimum contribution of 20% to the project financed.



## MANAGEMENT COMMENTS

In its written response to this report, see Appendix I, the management of the PL-480 Executive Secretariat (the Secretariat) expressed overall agreement with most of the findings, and stated it is taking action on two of the recommendations. The Secretariat stated that although in agreement with Finding No. 1 of the Internal Control section and its associated recommendation, and despite having the procedures to ensure compliance with investment plans, such procedures do not produce the expected effect or results due to political reasons. The Secretariat objected to Finding No. 2 of the Internal Control section stating that the cost of using specialists would be too high, and that agricultural land collateral cannot be treated or evaluated as the auditors propose because this would result in the exclusion from the program of all the Chapare and Yapaani farmers. The Secretariat expressed agreement with the condition stated on Finding No. 1 of the Compliance section, but disagreed with the recommendation because the situation arose from a direct instruction by SUBDESAL and not from a lack of procedures to ensure compliance with the credit program norms.

### Auditor's response:

- 1 Finding No. 2. We believe that proper guarantees should be obtained in order to be able to recover the loans and that these guarantees properly cover the amount loaned. Furthermore the responsibility of the beneficiary in the compliance with the program will be increased if guarantees are obtained. At present the guarantees are theoretic rather than real, especially if they are unenforceable as stated in the Executive Secretariat's reply. If, however, it is decided that it is not desirable or practical to obtain guarantees, this matter should be discussed, approved and documented in the rules and regulations of the loan program and not left to the discretion of the employees.
  
- 2 Finding No. 1. Compliance Section. When fundamental changes are made in the credit program, all the parties involved including USAID should participate in the decision. This decision should be based on an analysis of the overall objectives of the program and whether the modification will enhance its effectiveness. The final decision should be properly documented and approved by all parties.

*Rice Waterhouse*



*Moreno Muñoz*



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES  
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities of the Chapare Regional Development Project USAID/Bolivia Project No. 511-0543, activities managed by the PL-480 Executive Secretariat (Secretaría Ejecutiva PL-480), for the year ended December 31, 1989. The fund accountability statement is the responsibility of the PL-480 Executive Secretariat's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles, and is not intended to be a presentation in conformity with generally accepted accounting principles.

As mentioned in Note 4, our audit disclosed certain questionable disbursements amounting to Bs881.960.

In our opinion, except for the inclusion of certain questionable disbursements as described in paragraph 4, the fund accountability statement audited by us presents fairly, in all material respects, the cash receipts and disbursements of the activities of the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, activities managed by the PL-480 Executive Secretariat for the year ended December 31, 1989, on the basis of accounting described in paragraph 3.

This report is intended solely for the information of the PL-480 Executive Secretariat and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance of the Office of the Inspector General, is a matter of public record.

February 12, 1990

*Paul Waterhouse*



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES  
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

FUND ACCOUNTABILITY STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 1989  
(Expressed in Bolivianos - Note 3)

	Funds balance at December 31, 1988	Funds received during 1989	Funds available	1989 Disbursements	Funds balance at December 31, 1989	Questionable disbursements (Note 4)
	<u>Bs</u>	<u>Bs</u>	<u>Bs</u>	<u>Bs</u>	<u>Bs</u>	<u>Bs</u>
Balances at December 31, 1988	5,104,302		5,104,302		5,104,302	
<b>RECEIPTS</b>						
Collection of credits from the Emergency Agricultural Program		6,326,462	6,326,462		6,326,462	
Sales of wheat		2,468,676	2,468,676		2,468,676	
Interest earned		280,611	280,611		280,611	
Exchange difference arising from adjustments made to maintain principal value		316,439	316,439		316,439	
Collection of credits		3,701	3,701		3,701	
Others		2,475	2,475		2,475	
<b>DISBURSEMENTS</b>						
Disbursement of credits				8,417,816	(8,417,816)	881,960
Operating costs				567,667	( 567,667)	
Disbursements for Sub-Secretariat for Alternative Development and Coca Crop Substitution (SUBDESAL)				1,298,910	(1,298,910)	
Disbursements for the Program of Alternative Development for Chochabamba (PDAC)				1,208,686	(1,208,686)	
	<u>5,104,302</u>	<u>9,398,364</u>	<u>14,502,666</u>	<u>11,493,079</u>	<u>3,009,587</u>	<u>881,960</u>

CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES  
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

NOTES TO THE FUND ACCOUNTABILITY STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 1989

NOTE 1 - DESCRIPTION OF THE PROGRAM AND NATURE OF OPERATIONS

On August 12, 1983 the Republic of Bolivia and the United States of America acting through the U.S. Agency for International Development Mission to Bolivia (USAID/Bolivia), signed a loan and grant agreement to implement the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, which consisted of an integrated package on financing and technical assistance for small farmer related production, agroindustry development/marketing and institutional development support activities to be carried out by Bolivian public and private institutions for development of the Chapare region and associated high valleys sub-regions.

The project is a complementary part of the Government of Bolivia (GOB)'s program to reduce the coca plantinos in Bolivia and includes different activities and sub-projects designed to focus development resources on Bolivia's principal illicit coca growing area, the Chapare region. Due to different causes, the implementation of project activities had to be delayed and the project itself was significantly modified. The amended project concentrates on four principal development areas: 1) agriculture and forestry production; 2) rural industry and marketing; 3) productive and transport infrastructure; and 4) a project investment fund. Each area includes activities of immediate impact and applied research activities to support medium and long-term activities. The project assistance completion date, currently is August 31, 1991 and the life-of-project budget as modified in December 1989, expressed in US\$000's, includes the following:

	USAID/BOLIVIA		GOVERNMENT OF BOLIVIA		Total
	Grant	Loan	PL-480	GOB	
Technical assistance	\$ 7,671				\$ 7,671
Training	479	\$ 1,458	\$ 2,523		4,460
Constructions	100	1,149	3,246	\$ 1,600	6,095
Commodities	3,024	2,825	240		6,089
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Evaluations	250	53			303
Other		889	22,831		23,720
Contingencies	100	345	860		1,305
	<u>\$ 14,000</u>	<u>\$ 12,500</u>	<u>\$ 32,000</u>	<u>\$ 2,747</u>	<u>\$ 61,247</u>

The PL-480 Executive Secretariat participates in the project funding of US\$ 32,000,000 which include US\$ 17,500,000 for giving credits to peasant farmers and US\$ 14,500,000 as grants for operating costs and costs of carrying out basic community infrastructure works related with the Chapare Regional Alternative Development.

The grant funds are disbursed directly to the project's implementing institutions or to the suppliers of goods and services. The main disbursements support operating costs of SUBDESAL and the office established in Cochabamba by the PL-480 Executive Secretariat. Moreover, the PL-480 Executive Secretariat makes disbursements through the Program of Alternative Development of Cochabamba (PDAC). PDAC uses these funds for carrying out community works and studies to generate alternative development under PDAC supervision. As of December 31, 1989 the accumulated disbursements of grant funds were US\$ 1,801,608 and the undistributed balance was US\$ 12,698,392.

With respect to the loan funds, the PL-480 Executive Secretariat established a Regional Office in Cochabamba to directly administrate the agricultural credits and so does it while an intermediate credit institution (ICI) is contracted. In compliance with Project Implementation Letter (PIL) 112 dated December 19, 1989 the PL-480 Executive Secretariat will continue its direct administration of the distribution of agricultural credits to the peasant farmers for two additional years. At December 31, 1989 US\$ 3,119,950 had been disbursed, US\$ 1,312 had been collected and US\$ 1,099,947 of committed loans were pending disbursement.

These credits are designed for agricultural purposes. The capital investment loans usually have a term of ten (10)

years and may include a four (4) year repayment grace period. When the credits are designed for working capital the repayment period is two (2) years with no grace period. In both cases, the interest to be accrued is 13% and a loan agreement clause is provided to maintain the value of both, capital and interest.

The loan managed by this unit are intended to encourage peasant farmers living in the Chapare area to realize alternative agricultural development by encouraging legal agricultural production and cattle raising activities. Consequently, these credits have been given mainly to those peasant farmers who have reduced their coca crop planting in accordance with terms of the Bolivian Law No. 1008 and the agreement signed between the United States Agency for International Development Bolivian Mission (USAID/Bolivia) and the Government of Bolivia.

Consequently, the agricultural credit funds are administered directly by the PL-480 Executive Secretariat and the grant funds are managed through SUBDESAL and PDAC.

#### NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

According to the project requirements the PL-480 Executive Secretariat prepared the fund accountability statement of the project on the basis of cash receipts and disbursements. Consequently, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. Therefore, the fund accountability statement does not pretend to present the financial information in accordance with generally accepted accounting principles.

The fund accountability statement shows the receipts and disbursements made through the PL-480 Executive Secretariat for the following two sources of funds:

a) Loan funds

Funds administered by the PL-480 Executive Secretariat for distributing credits to peasant farmers who had joined the program of coca crop substitution and alternative development.

b) Grant funds

Funds received and transferred through the PL-480 Executive Secretariat to SUBDESAL and PDAC for carrying out tasks established by the project. Consequently, these funds are administered through these units.

The fund accountability statement includes only the receipts and disbursements related to project funds and administered by the PL-480 Executive Secretariat and did not include operations and disbursements conducted by the PL-480 Executive Secretariat which were not related to the project.

NOTE 3 - EXCHANGE RATES

The fund accountability statement is presented in Bolivianos, the local currency of Bolivia. During 1989 the Bolivian currency was devalued against the United States dollar from Bs2.47 per US\$ 1 at January 1, 1989 to Bs2.98 at December 31, 1989.

NOTE 4 - QUESTIONABLE DISBURSEMENTS (AUDITOR'S NOTE)

The following credits disbursed by the Executive Secretariat PL-480 amounting to Bs881.960 (equivalent to US\$ 295.960) are considered to be questioned loans.

According to information provided to us by the implementing unit's officials, these disbursements were designed to motivate peasant farmers to not plant coca. These disbursements were expressly authorized by the Subsecretariat for Alternative Development and Coca Crop Substitution (SUBDESAL) during the period from January 1, 1989 through April 10, 1989.

Said disbursements are the following:

<u>No. of loan</u>	<u>Borrower</u>	<u>Approved</u>	<u>Questioned</u>
		<u>amount of loan</u>	<u>loans</u>
		<u>US\$</u>	<u>US\$</u>
11	Abraham Muñoz Escóbar	8,000	7,990
12	Demetrio Barrientos Adrián	8,000	8,000
21	Carlos León Terceros Camacho	7,500	2,510
38	Inocencio Tica Kolque Gonzáles	25,000	24,920
40	Mario Aguilar Siles	13,000	13,000
42	Mario Escalera Salvatierra	14,000	14,000
43	Federico Castellón Peredo	19,000	11,000
44	Alberto Castellón Peredo	10,500	7,400
45	Efraín Tejada Quiróz	12,000	12,000
46	Juan Espejo Ticona	15,000	15,000
47	Feliciano Galvís García	8,000	8,000
66	Felipe Medina Cruz	6,500	6,050
77	Serafín Castedo Herrera	8,000	4,500
79	Pastor Jaillita Choque	5,500	5,500
83	Prudencio Gómez Aguirre	9,800	6,300
85	Ramiro Marquez Coca	8,000	4,200
	Carried forward	177,800	150,370

No. of loan	Borrower	Approved	Questioned
		amount of loan <u>US\$</u>	loans <u>US\$</u>
Brought forward		177,800	150,370
86	Evelin S. v. de Agreda	8,000	7,300
99	Wilde Márquez Coronel	8,000	6,000
106	César Mayer Antezana C.	15,000	11,000
107	Omar Antezana Carrasco	15,000	12,000
108	Elmer Vasquez Carrasco	8,000	6,300
118	Carmen Valdivia Delgadillo	12,500	5,100
119	Abel Nogales Guzmán	8,000	6,200
120	Teófilo Aguilar Iriarte	15,000	11,990
122	Máximo Antezana Carrasco	12,000	9,400
126	Luis Sereviche Llanos	15,000	12,000
130	Francisco Tórrez Vilca	15,500	15,500
138	Alfredo Fuentes Mendizábal	18,500	10,800
141	Raúl Humberto Argote Pérez	10,700	8,100
153	Isidoro Pérez	15,000	15,000
25	Jorge Jiménez Antezana	7,500	6,200
577	German Rojas Alcócer	6,500	2,700
		<u>368,000</u>	<u>295,960</u>

NOTE 5 - ACCUMULATED FUND ACCOUNTABILITY STATEMENT THROUGH  
DECEMBER 31, 1989 EXPRESSED IN UNITED STATES DOLLARS  
(UNAUDITED)

The activities of the PL-480 Executive Secretariat related to the project are completely funded by the counterpart contribution. The budget consist of:

	<u>US\$</u>
Loan funds	17,500,000
Grant funds	<u>14,500,000</u>
	<u>32,000,000</u>

The accumulated fund accountability statement for the period from the commencement of the management of funds by the PL-480 Executive Secretariat through December 31, 1989 (expressed in United States dollars), is included for the information of the reader on the following page. This statement has been prepared on the basis of cash receipts and disbursements carried out in local currency (bolivianos) for credits and operating costs, and were translated into U.S. dollars at the exchange rate on the day the payment was made.

NOTE 6 - APPROVED CREDITS AT DECEMBER 31, 1989

The accumulated approved credits from the beginning of management by the PL-480 Executive Secretariat through December 31, 1989 were Bs12,575,293 (equivalent to US\$ 4,219,897), from which disbursements of Bs9,247,451 (equivalent to US\$ 3,119,950) were made and Bs3,277,842 (equivalent to US\$ 1,099,947) were pending disbursement.

NOTE 7 - BUDGET EXECUTION

At December 31, 1989 the accumulated execution of the budget was as follows:

	<u>Loan funds US\$</u>	<u>Grant funds US\$</u>	<u>Total US\$</u>
Budget	17,500,000	14,500,000	32,000,000
Less: Accumulated disbursements at December 31, 1989	<u>3,358,505</u>	<u>1,801,608</u>	<u>5,160,113</u>
Pending of execution	<u>14,141,495</u>	<u>12,698,392</u>	<u>26,839,887</u>

NOTE 8 - FUNDS BALANCE

The funds balance at December 31, 1989 consist of:

	<u>Amount</u>	
	<u>Bs</u>	<u>US\$</u>
Banco Central de Bolivia	183,982	61,739
Banco de Cochabamba - La Paz	429,334	144,201
Banco Mercantil - La Paz	1,575,601	528,596
Banco Boliviano Americano - La Paz	29,100	9,765
Banco de Cochabamba - Cochabamba	549,535	184,408
Banco Mercantil - Cochabamba	108,704	36,478
Banco Hipotecario Nacional - Cochabamba	<u>133,331</u>	<u>44,742</u>
	<u>3,009,587</u>	<u>1,009,929</u>

CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES  
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

ACCUMULATED FUND ACCOUNTABILITY STATEMENT AT DECEMBER 31, 1989  
(UNAUDITED)

	<u>Budget for</u> <u>1989</u> <u>US\$</u>	<u>Accumulated</u> <u>as of</u> <u>12-31-88</u> <u>US\$</u>	<u>Actual 1989</u> <u>US\$</u>	<u>Accumulated</u> <u>as of</u> <u>12-31-89</u> <u>US\$</u>	<u>Excess (defect)</u> <u>over 1989 budget</u> <u>US\$</u>
<b>RECEIPTS</b>					
Loan Fund					
Grant Fund - PDAC					
Grant Fund - SNC					
Operating Fund					
Collection of credits from the Emergency Agricultural Program		2,224,064	2,341,510	4,565,574	
Interest earned		177	98,757	98,934	
Collection of credits			1,312	1,312	
Sales of wheat		281,938	891,669	1,173,607	
Others		415	913	1,328	
		<u>2,506,594</u>	<u>3,334,161</u>	<u>5,840,755</u>	
<b>DISBURSEMENTS</b>					
Disbursements of credits	3,500,000	35,460	3,084,490	3,119,950	( 415,510)
Operating costs	192,408	122,677	209,630	332,307	17,222
Disbursements for PDAC	2,000,000		430,355	430,355	(1,569,645)
Disbursements for SNC	1,470,000				(1,470,000)
Disbursements for SUBDESAL		281,938	475,676	757,614	475,676
Exchange difference on local currency bank accounts			190,600	190,600	190,600
	<u>7,162,408</u>	<u>440,075</u>	<u>4,390,751</u>	<u>4,830,826</u>	<u>(2,771,657)</u>
Total receipts		2,506,594	3,334,161	5,840,755	
Less total disbursements		<u>440,075</u>	<u>4,390,751</u>	<u>4,830,826</u>	
Cash on hand		<u>2,066,519</u>	<u>(1,056,590)</u>	<u>1,009,929</u>	

*Moreno Muñoz*



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES  
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities of the Chapare Regional Development Project USAID/Bolivia, Project No. 511-0543, activities managed by the PL-480 Executive Secretariat relating to operations and disbursements made on behalf the Chapare Regional Development Project for the year ended December 31, 1989 and have issued our report thereon dated February 12, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free from material misstatement.

In planning and performing our audit of the fund accountability statement of the activities of the Chapare Regional Development Project, activities managed by the PL-480 Executive Secretariat for the year ended December 31, 1989, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of the PL-480 Executive Secretariat 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 proper preparation of the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified and evaluated the following significant internal control categories:

- cash receipts and disbursements
- budgeting control
- agricultural credits
- bank accounts and funds controls
- purchases
- disbursements

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement. The reportable conditions noted are included in the following pages as finding Nos. 1 through 4.

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



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

This report is intended for the information of the management of the PL-480 Executive Secretariat and the United States 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.

February 12, 1990

*Rice Hiltoburn*



*Moreno Muñoz*



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES  
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

INTERNAL CONTROL STRUCTURE

FINDINGS

1 Some Loan Recipients were not Complying with Loan Agreement Terms

Condition:

We observed during our on-site visits that loan recipients were not complying with the agreement cultivation targets and in one case was not using the funds as required by the loan agreement. The following are some of the cases noted:

<u>Loan No.</u>	<u>Name</u>	<u>Balance as of 12/31/89</u>	<u>Approved amount</u>	<u>Observation</u>
		<u>US\$</u>	<u>US\$</u>	
577	Germán Rojas Alcocer	2,700	6,500	The number of hectares under cultivation was less than provided for in the loan agreement.
118	Carmen Valdivia Delgadillo	5,100	12,500	The number of hectares under cultivation was less than provided for in the loan agreement.
337	Policarpio Martinez Nina	2,900	5,000	According to the farmer, he spent part of the loan to cure a relative's sickness.

Criteria:

The loan agreement requires the loan recipient cultivate a specific number of hectares and use the loan proceeds for cultivation related expenses only.

Cause:

Loan proceeds are being used for unauthorized purposes because the use of loan proceeds is not closely and continuously supervised by the PL-480 Executive Secretariat.

Effect:

- a) Possible non-recovery of the loan
- b) Non-compliance with the objectives of the project

Recommendation:

The PL-480 Executive Secretariat should implement procedures to ensure that loan proceeds are used in accordance with terms of the loan agreement.

2 Collateral Received for Loans was not Formally Evaluated by specialists

Condition:

The PL-480 Executive Secretariat was not formally evaluating, using specialists, the collateral submitted by loan recipients to guarantee the loans.

Criteria:

According to the loan agreement, sufficient collateral must be given by the loan recipient prior to receiving a loan under the project.

Cause:

The PL-480 Executive Secretariat has neither established a minimum value of collateral required nor implemented a process to evaluate the collateral submitted by loan recipients.



Effect:

The PL-480 Executive Secretariat cannot ensure that the loans given under the program are sufficiently collateralized, thereby exposing the project funds to higher risk of loss.

Recommendation:

The PL-480 Executive Secretariat should:

- a) establish a minimum value for the relationship collateral/loan required for loans given under the project,
  - b) design and implement control procedures to evaluate the sufficiency of collateral submitted by loan recipients.
- 3 The Loans in the Loan Portfolio were not Periodically Analyzed to Determine the Existence of Conditions that Could Adversely Impact on Loan Collectability

Condition:

The PL-480 Executive Secretariat did not analyze and review the loan portfolio of the Credit Program in order to opportunistically identify conditions that may adversely affect the collectability of the loans.

Criteria:

It is good business practice to periodically review all outstanding loans in order to determine if there are indications that there may be future problems in the collectability of specific loans.

Cause:

The PL-480 Executive Secretariat did not have standards or procedures to provide for the review of the loan portfolio.

Effect:

Loan losses may occur which could have been avoided if the loans had been reviewed on a periodic basis.



Recommendation:

The PL-480 Executive Secretariat should design and implement procedures to review the loan portfolio at least at the end of every year to identify any problems that may adversely affect the collectability of the loans.

- 4 The PL-480 Executive Secretariat did not have Accounting and Administration Manuals for the Project's Loan Program

Condition:

The PL-480 Executive Secretariat did not have manuals and written policies to regulate its accounting and administrative functions regarding the project's loan program.

Criteria:

Manuals describing proper procedures covering all aspects of the accounting and administrative operations are required to ensure control over all the entity's transactions.

Cause:

The PL-480 Executive Secretariat was managing the loan program on a temporary basis and therefore did not believe it was necessary to design and implement Accounting and Administrative manuals.

Effect:

The absence of procedures manuals for the PL-480 Executive Secretariat could reduce the efficiency of the implementing unit and increase the risk of loss and inefficiency of use of project assets.

Recommendation:

The PL-480 Executive Secretariat should study and define the applicability of its accounting and general administration manuals, in its office used to administer the agricultural loans given under the project.



*Moreno Muñoz*



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES  
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

COMPLIANCE WITH AGREEMENT TERMS, PROJECT  
IMPLEMENTATION LETTERS, AND APPLICABLE  
LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities of the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, activities managed by the PL-480 Executive Secretariat for the year ended December 31, 1989 and have issued our report thereon dated February 12, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms, project implementation letters, and laws and regulations applicable to this portion of the Chapare Regional Development Project is the responsibility of the PL-480 Executive Secretariat management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and agreement terms. However, our objective was not to provide an opinion on overall compliance with such terms and provisions.

Based on our study and evaluation described in the second paragraph of this report, we believe that the accompanying findings 1 to 5 indicate that the PL-480

Executive Secretariat did not comply with the terms and provisions tested. However, with respect to items not tested, nothing came to our attention that caused us to believe that the PL-480 Executive Secretariat had not complied, in all material respects, with those terms and provisions.

This report is intended for the information of the managements of the PL-480 Executive Secretariat and the Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance of the Office of the Inspector General, is a matter of public record.

February 12, 1990

*Price Waterhouse*



*Moreno Muñoz*



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES  
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

REPORT ON COMPLIANCE WITH AGREEMENT TERMS, PROJECT  
IMPLEMENTATION LETTERS, AND APPLICABLE  
LAWS AND REGULATIONS

FINDINGS

1 Credits were Granted to Unqualified Farmers

Condition:

During our visits to the borrowers' parcels of land, it was observed that some farmers do not maintain permanent residence in the affected area.

Examples:

<u>Number</u> <u>of loan</u>	<u>Name</u>	<u>Balance to</u> <u>12.31.89</u> <u>US\$</u>	<u>Approved</u> <u>amount</u> <u>US\$</u>
118	Carmen Valdivia Delgadillo	5,100	12,500
577	Germán Rojas Alcocer	2,700	6,500
25	Jorge Jimenez Antezana	6,200	7,500

Additionally, in order to receive a loan under the project the recipient farmer must submit a "certificate of reduction" indicating that he had reduced a specified number of his hectares that were cultivated with coca. Loans were granted to farmers who had been given a "certificate of reduction" even though they had never grown coca on their land. The cases that came to our attention are detailed in Note 4 to the Fund Accountability Statement labeled "Questionable Loans".

Criteria:

The loan agreement terms require that loans be granted only to farmers who reduce the number of coca plants that they have under cultivation. Furthermore, according to the Rules for the Administration of the Credit Program, as found in PIL 78, recipients of loans under the project must permanently reside in the affected areas and the implementing agency must verify his residence.

Cause:

Loans were given to farmers who did not live in the affected areas because the PL-480 Executive Secretariat did not adequately supervise and review the residency status of the recipients. In addition, according to the PL-480 Executive Secretariat, it had received instructions from the Subsecretary of Alternative Development and Coca Crop Substitution (SUBDESAL) to permit loans be given to farmers who had never grown coca.

Effect:

The funds of the project were being used for purposes which may not advance the objective of the project --the cultivation of alternative crops.

Recommendation:

The PL-480 Executive Secretariat should design and implement formal procedures to ensure that the loan qualifications specified in the Rules for the Administration of the Credit Program, specifically the residence and the reduction of coca cultivation requirements, are met by the loan recipients.

2 The Allowance for Uncollectible Loans is not Recorded by the PL-480 Executive Secretariat

Condition:

The PL-480 Executive Secretariat did not set aside funds to provide for a reserve for uncollectible loans.



Criteria:

The "Standards for the Administration of the Credit Program" as contained in Project Implementation Letter ("PIL") 78 requires that the implementing agency create a separate cash reserve of 2% of the interest earned on the loan portfolio in a separate bank account.

Cause:

The accountant of the PL-480 Executive Secretariat Credit Program had not received instructions from her management requiring her to establish the required loan loss reserve.

Effect:

The lack of an adequate cash reserve for loan losses could contribute to loan losses sustained by the project.

Recommendation:

The PL-480 Executive Secretariat should:

- a) establish a separate bank account with funds equaling 2% of the interest earned in the past on the loan portfolio and,
- b) establish procedures to ensure that contributions will be made on future interest earned.

3 The PL-480 Executive Secretariat did not Ensure that the Farmers Receiving Loans under the Project no Longer Cultivated Coca

Condition:

The PL-480 Executive Secretariat did not supervise and verify that the recipient farmers were not continuing to grow coca.

Criteria:

Clause six of the loan agreement requires that the loan recipient make a commitment to stop cultivating coca.

Cause:

The PL-480 Executive Secretariat had neither adequate procedures to monitor compliance with the terms of the loan agreement nor did it have, given the fact that under



the loan program there are approximately 750 loan recipients, sufficient employees to supervise the loan recipients to ensure that they comply with loan agreement terms. The Executive Secretariat PL-480 informed us that the supervision of the reduction of coca cultivation and compliance of the commitment to plant no more coca by the beneficiaries, is the responsibility of the organization in charge of carrying out the reduction of coca plantations (DIRECO).

**Effect:**

By not ensuring that loan recipients are ceasing to cultivate coca, as stipulated in the loan agreement, the farmer may use project resources to cultivate coca and may therefore limit the success of the project goals to reduce coca production.

**Recommendation:**

The PL-480 Executive Secretariat should coordinate with the organization in charge of carrying out the reduction of coca plantations to ensure that the loan recipient complies with all agreement terms.

4 Semester Evaluations of the Accomplishments of the Credit Program were not Performed

**Condition:**

Semester evaluation of the accomplishments of the credit program implemented by the PL-480 Executive Secretariat had not been conducted. Though disbursements had been made since approximately December of 1988 the first evaluation had not been made until February of 1990.

**Criteria:**

The "Standards of the Administration of the Credit Program" as provided in PIL 78, require that an evaluation be performed of the accomplishments of the Credit Program every six months. Further the evaluation is the responsibility of the Regional Coordination Committee which is formed by the Regional Coordinator Project of the PL-480 Executive Secretariat, the Credit Coordinator of the PDAC, the Director of IBTA/Chapare, the Director of DIRECO, and the Credit Adviser of USAID/Bolivia.



Cause:

The Regional Coordination Committee, of which the PL-480 Executive Secretariat is a member, did not adopt procedures to implement the required evaluation.

Effect:

The periodic evaluation may prevent the PL-480 Executive Secretariat management from discovering possible deficiencies in the Credit Program which may adversely affect the achievement of the overall project goals.

Recommendation:

The PL-480 Executive Secretariat should, through the Regional Coordination Committee, implement procedures to ensure that periodic evaluations be performed of the accomplishments of the Credit Program.

5 There were loan made by the Program in which the Farmer did not Comply with the Minimum Contribution of 20% to the Project Financed

Condition:

It was observed that there were projects which do not comply with the established minimum condition for the financial investment: 80% financed by the project, and 20% by the farmer (farmer's minimum contribution).

Examples:

Number of the loan	Name	Total approved investment	Farmer's minimum contribution	%	Loan granted	%
		US\$	US\$		US\$	
223	Corsino Bel-trán	6,100	1,100	18	5,000	82
264	Sinforiano Ferrufino	4,750	500	11	4,250	89
266	Luis Raúl Sejas	9,685	1,785	18	7,900	82
268	Angel Peredo	8,400	1,400	17	7,000	83
286	Ambrosio Yapura	8,350	1,250	15	7,100	85

Also there was no evidence that a verification and follow-up was performed on the farmer's counterpart contributions.



**Criteria:**

According to the loan agreement every farmer receiving a loan under the A.I.D. project must contribute at least 20% to the cost of the sub-project financed by the specific loan. A verification and follow-up of the farmer's contribution should be carried out to ensure compliance with agreement terms.

**Cause:**

The PL-480 Executive Secretariat does not have a formal procedure to follow-up to ensure that recipient farmers have made the required counterpart contribution to the sub-project.

**Effect:**

This deficiency could cause a problem in the recuperation of credits when the credit granted is more than 80%.

**Recommendation:**

The PL-480 Executive Secretariat should:

- a) design and implement a procedure to ensure that the loan and counterpart amounts are correctly computed in compliance with the project agreement and,
- b) design and implement a procedure to ensure that the recipient farmer makes the required counterpart contribution to the sub-project.



*Moreno Muñoz*



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES  
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

LIST OF REPORT RECOMMENDATIONS

INTERNAL CONTROL STRUCTURE:

Recommendation 1:

The PL-480 Executive Secretariat should implement procedures to ensure that loan proceeds are used in accordance with terms of the loan agreement.

Recommendation 2:

The PL-480 Executive Secretariat should:

- a) establish a minimum value for the relationship collateral/loan required for loans given under the project,
- b) design and implement control procedures to evaluate the sufficiency of collateral submitted by loan recipients.

Recommendation 3:

The PL-480 Executive Secretariat should design and implement procedures to review the loan portfolio at least at the end of every year to identify any problems that may adversely affect the collectability of the loans.

Recommendation 4:

The PL-480 Executive Secretariat should study and define the applicability of its accounting and general administration manuals, in its office used to administer the agricultural loans given under the project and include them in specific manuals for the development of project's loan program.

COMPLIANCE WITH AGREEMENT TERMS, PROJECT IMPLEMENTATION LETTERS AND APPLICABLE LAWS AND REGULATIONS:

Recommendation 1:

The PL-480 Executive Secretariat should design and implement formal procedures to ensure that the loan qualifications specified in the Rules for the Administration of the Credit Program, specifically the residence and the reduction of coca cultivation requirements, are met by the loan recipients.

Recommendation 2:

The PL-480 Executive Secretariat should:

- a) establish a separate bank account with funds equaling 2% of the interest earned in the past on the loan portfolio and,
- b) establish procedures to ensure that contributions will be made on future interest earned.

Recommendation 3:

The PL-480 Executive Secretariat should coordinate with the organization in charge of carrying out the reduction of coca plantations to ensure that the loan recipient complies with all agreement terms.

Recommendation 4:

The PL-480 Executive Secretariat should, through the Regional Coordination Committee, implement procedures to ensure that periodic evaluations be performed of the accomplishments of the Credit Program.

Recommendation 5:

The PL-480 Executive Secretariat should:

- a) design and implement a procedure to ensure that the loan and counterpart amounts are correctly computed in compliance with the project agreement and,

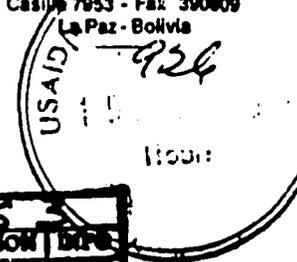


- b) design and implement a procedure to ensure that the recipient farmer makes the required counterpart contribution to the sub-project.





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La Paz - Bolivia



La Paz, Noviembre 13 de 1990  
P.L.-480 D.F. No. 2132/90



Señor  
John Davison  
CONTRALOR  
USAID/B  
Presente

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Señor:

En respuesta a su nota MC-90/766 de 23 de octubre del presente año, tenemos a bien enviar a usted nuestros comentarios al informe de Auditoria del Proyecto Desarrollo Regional del Chapare, elaborado por la Empresa Moreno Muñoz y Cia.

Con este motivo, saludamos a usted atentamente.

*Lic. Jorge Roda M.*  
GERENTE FINANCIERO  
P.L. - 480

*Dr. C. E. Beckmann*  
SECRETARIO EJECUTIVO  
P.L. - 480 TITULO III

PROYECTO DE DESARROLLO REGIONAL DEL CHAPARE  
COMENTARIOS AL INFORME DE AUDITORIA EXTERNA

INFORME SOBRE LA ESTRUCTURA DE CONTROL INTERNO

1. Algunos agricultores no estaban cumpliendo con los términos del contrato de préstamo

Debido a la elevada demanda de créditos existente en las regiones del Chapare y Ypacaní, las actividades del personal de campo de nuestra Oficina Regional estaban dedicadas principalmente a las labores de planeamiento, evaluación y aprobación de solicitudes de crédito, motivo por el cual, se tuvo que postergar temporalmente la supervisión de los créditos otorgados, a pesar de estar conscientes de la necesidad de efectuar oportunamente estas supervisiones. A este respecto, debemos indicar que, lamentablemente, las presiones existentes en la región del Chapare no permiten desarrollar las actividades crediticias de manera planificada.

Una vez disminuida la demanda de préstamos, se dió bastante énfasis al trabajo de supervisión, lo que permitió determinar que muchos agricultores no cumplieron con los planes de inversión, por lo que se les dió un plazo límite para este propósito y luego se procedió a la ejecución de los préstamos. Lamentablemente, debido al elevado número de agricultores que no cumplieron sus planes de inversión o abandonaron sus parcelas, en la actualidad existen muchas presiones para que se suspendan las acciones legales, aspecto que no se aceptó, solicitándose al mismo tiempo el apoyo del Comité Interinstitucional del Programa de Crédito.

Respecto a la recomendación de los auditores, debemos señalar que existen los procedimientos para asegurar que se cumplan con los planes de inversión, lamentablemente, por razones de tipo político, los mismos no tienen el efecto, ni alcanzan los resultados esperados.

2. Las garantías recibidas por los préstamos no eran formalmente evaluadas por especialistas

Efectivamente, la evaluación de las garantías se realiza directamente por nuestro personal de la oficina de Cochabamba, en razón a los altos costos que significaría contratar personal especializado. Asimismo, dada la naturaleza de estos créditos, no consideramos justificada la recomendación de los auditores externos, si tenemos en cuenta que en la mayoría de los casos las garantías constituyen las propiedades agrícolas, las cuales son inembargables, por lo tanto, sin importar su valor, no podrían rematarse. Esta misma consideración se aplica a la recomendación de exigir una relación mínima de garantía/préstamo.

El tratamiento de las garantías no puede ser enfocado ni evaluado desde el punto de vista planteado por los auditores externos, ya que ello implicaría marginar del Programa de Crédito a los agricultores del Chapare y Yapacaní.

- 3 No se efectuaron análisis periódicos de la cartera para detectar la existencia de condiciones que podrían afectar adversamente la recuperabilidad de los préstamos.

Debido a que la Secretaría Ejecutiva administra temporalmente el Programa de Crédito, no se consideró conveniente efectuar un gasto en la contratación de una consultora que elaborara un Manual de Procedimientos para Análisis de Cartera, aspecto que se efectúa en nuestra oficina regional, pero no de manera sistemática.

En razón a que aún no se tiene conocimiento de una posible transferencia de la administración del Programa de Crédito, se procederá a la elaboración del manual respectivo.

La Secretaría Ejecutiva PL-480 no contaba con manuales de contabilidad y de administración para el programa de créditos del proyecto

Por la misma razón señalada en el punto anterior, consideramos un gasto injustificado elaborar manuales para nuestra oficina regional, motivo por el cual, se instruyó la aplicación de los manuales disponibles en la Oficina Central de La Paz. En este sentido, sería conveniente que los auditores externos analicen la viabilidad de que los mismos sean utilizados en la regional y si es necesario efectuar algunos ajustes específicos.

INFORME SOBRE EL CUMPLIMIENTO CON LOS TERMINOS DEL CONVENIO, CARTAS DE IMPLEMENTACION Y LEYES Y REGLAMENTOS APLICABLES

1. Se otorgaron créditos a agricultores que no cumplían con los requisitos

Sobre este particular, estamos de acuerdo con la observación de los auditores externos, en sentido de que se han otorgado préstamos a agricultores que no tenían cultivos de coca, empero, no compartimos la recomendación de los auditores, ya que esta situación se presentó ante una instrucción de la Subsecretaría de Desarrollo Alternativo y no por efecto de la falta de procedimientos para asegurar el cumplimiento de las Normas del Programa de Crédito.

La previsión para préstamos incobrables no fue registrada por la Secretaría Ejecutiva PL-480

Efectivamente, no se ha conformado el Fondo para Préstamos Incobrables definido en las Normas del Programa de Crédito,

sin embargo, es necesario aclarar que dichas normas se elaboraron considerando la participación del Banco Agrícola de Bolivia y la Federación Nacional de Cooperativas de Ahorro y Crédito (FENACRE), instituciones que debían asumir el riesgo de la recuperación de los créditos y devolver a la Secretaría Ejecutiva los montos desembolsados para el Programa de Crédito. Al hacerse cargo la Secretaría Ejecutiva de este programa, ya no se justifica la formación del Fondo para Préstamos Incobrables, por lo que será necesario refrendar esta situación mediante una Resolución del Comité Interinstitucional del Programa de Créditos.

La Secretaría Ejecutiva PL-480 no se aseguró que los agricultores prestatarios del proyecto no efectúen nuevos cultivos de coca

Siguiendo la recomendación de los auditores sobre este punto, se solicitará periódicamente a DIRECO, la presentación de un listado de agricultores que estén incumpliendo con sus compromisos de no ampliar sus cultivos de coca.

Existían financiamientos del programa que no cumplían con el aporte mínimo del agricultor, equivalente al 20%

Se han presentado algunos casos en que efectivamente los agricultores no han podido aportar el porcentaje mínimo requerido por las normas del programa. Ante esta situación, se solicitará la disminución del porcentaje a un 10%, ya que resulta de alguna manera contardictorio que se le exija al agricultor eliminar sus cultivos de coca, con la consiguiente disminución de sus ingresos y se le obligue paralelamente a aportar un 20% de la inversión requerida para la implementación de sus cultivos alternativos.