

PD-ABC-490

AUDIT OF USAID/BOLIVIA'S  
CHAPARE REGIONAL DEVELOPMENT PROJECT  
ACTIVITIES MANAGED BY THE NATIONAL  
DIRECTORATE FOR AGRICULTURAL  
RECONVERSION  
FOR THE YEAR ENDED DECEMBER 31, 1989

Audit Report No. 1-511-91-19-N  
January 30, 1991

AGENCY FOR INTERNATIONAL DEVELOPMENT

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January 30, 1991

MEMORANDUM

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

FROM: RIG/A/T, Reginald Howard *R. Howard*

SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project, Activities Managed by the National Directorate for Agricultural Reconversion for the Year Ended December 31, 1989

This report presents the results of a non-Federal financial audit of the National Directorate for Agricultural Reconversion (Directorate), 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 Directorate's main function is to implement the Government of Bolivia's Triennial Plan for Reduction of Coca Plantings by making compensation payments to the peasant farmers of Bolivia who voluntarily reduce their coca plantings. The audit coverage included \$8,629 from sales of project vehicles and \$3,958,892 provided by the Government of Bolivia during the year ended December 31, 1989. The audit did not include direct payments made by the United States' Narcotic Assistance Unit for their procurement of technical assistance, equipment, and supplies on behalf of the

Directorate. These direct payments totaled approximately \$1,137,923 for 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 Directorate, (2) the adequacy of the Directorate's internal control structure, and (3) the Directorate's compliance with the terms of the Project Agreement and applicable laws and regulations.

Price Waterhouse found that the fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the Directorate.

With respect to the internal control structure of the Directorate, Price Waterhouse identified material weaknesses concerning: (1) delays in the payment of monetary compensation to project beneficiaries, (2) the lack of controls over important documents, and (3) verification of reductions in coca plantings by farmers receiving Project payments.

In its report on compliance with the agreement terms and applicable laws and regulations, Price Waterhouse found that the Directorate complied in all material respects except for: (1) reaching the objective set by the Bolivian government of reducing 5,000 hectares of coca planting during 1989, (2) using its "Certificate of Reduction" forms in an improper manner, and (3) not complying with certain Bolivian laws dealing with labor relations and withholding for social security and tax payments.

The report was discussed with management of the Directorate 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, in conjunction with the Government of Bolivia and the National Directorate for Agricultural Reconversion, develop and implement a plan for implementing the mandated quotas for annual reduction in coca crops, making timely payments to participant farmers, controlling documents related to coca eradication payments, and verifying that cultivation of coca has been discontinued at plantations where coca eradication payments have been made.

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 NATIONAL DIRECTORATE FOR  
AGRICULTURAL RECONVERSION (DIRECO)  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989



AUDIT OF THE  
CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES  
MANAGED BY THE NATIONAL DIRECTORATE FOR  
AGRICULTURAL RECONVERSION (DIRECO)  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

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*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 activities managed by the National Directorate for Agricultural Reconversion (Dirección Nacional de Reconversión Agrícola - DIRECO) under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, 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 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 the 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 components to support medium and long-term activities. The current 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 who 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 |



| <u>Phase</u>  | <u>Administrative Unit</u>  |
|---|---|
|   | Desarrollo Alternativo y Sustitución de Cultivos de Coca - SUBDESAL)  |
| 2. Technical assistance to 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 (Dirección Nacional de Reversión Agrícola-DIRECO)                            |
| 6. Development of productive and transport infrastructure through the maintenance of roads  | National Service of Roads (Servicio Nacional de Caminos - SNC)  |

This report deals with the compensation to coca growers phase, which is implemented by the National Directorate for Agriculture Reconversion (DIRECO), a Cochabamba-based institution that reports to the Subsecretariat for Alternative Development and Coca Crop Substitution (SUBDESAL).

DIRECO's main function is to implement the GOB's Triennial Plan for Reduction of Coca Plantings through compensation payments of US\$ 2,000 per hectare to the



peasant farmers who voluntarily reduce their coca plantings. The governmental plan states the following expectations regarding planting reduction and cost-of-compensation:

| <u>Year</u> | <u>Hectares to be reduced</u> | <u>Amount</u><br><u>US\$</u> |
|-------------|-------------------------------|------------------------------|
| 1989        | 5,000                         | 10,000,000                   |
| 1990        | 6,000                         | 12,000,000                   |
| 1991        | 6,000                         | 12,000,000                   |
| 1992        | 7,000                         | 14,000,000                   |
| 1993        | 8,000                         | 16,000,000                   |

This unit has been carrying out its operations principally in the regions of Chapare (areas: Ivirgarzama, Villa Tunari and Yapacaní) and Los Yungas (areas: La Asunta and Chulumani).

DIRECO's operating costs, including salaries to personnel, materials and supplies, and resources for logistic and administrative support, are paid directly by the United States Narcotic Assistance Unit. Funds for the compensation payments for reduction of coca plantings are now provided by the Government of Bolivia through the National Treasury.

#### 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 performed by each administrative unit under the loan and grant agreement 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 I, a



fund accountability statement of the project accumulated costs 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 that we considered necessary in the circumstances to determine whether:

1. The fund accountability statement of the activities managed by the National Directorate for Agricultural Reconversion (DIRECO) 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 terms of the agreement, project implementation letters, and applicable laws and regulations;
2. DIRECO's internal control structure is adequate for project purposes; and
3. DIRECO 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 DIRECO to record the receipt of funds.
- Reviewing the supporting documentation for receipt of funds and its relation with the corresponding bank statements.
- Understanding the control environment, accounting system, and control procedures used by DIRECO to account for funds. For this purpose we evaluated the following significant categories: cash receipt and disbursement, budgeting controls, bank accounts



and funds controls, and compensatory payments for reductions of coca plantings.

- Reviewing the supporting documentation for compensations paid. This test covered 75% of the amount paid during the year.
- Making on-site visits to the farmers' parcels in order to verify and to visualize on a test basis the reduction of coca plantings and to obtain direct confirmation from the farmers regarding:
  - . amount received as payment for reduction of coca plantings; and
  - . the farmers' compliance with requirements for receiving payment for reduction of coca plantings.

This procedure was applied during our visits to 151 farmers who reduced their coca plantings in the Chapare and Los Yungas regions.

- Obtaining direct confirmation of DIRECO's bank accounts as of December 31, 1989, and reviewing the corresponding bank reconciliation.
- Reviewing and evaluating DIRECO's compliance with agreement terms, implementation letters, and applicable laws and regulations.

#### RESULT OF AUDIT

##### Fund Accountability Statement

The National Directorate for Agricultural Reconversion (DIRECO) 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.

In our opinion, the fund accountability statement audited by us presents fairly, in all material respects the cash



receipts and disbursements of the activities managed by DIRECO for the year ended December 31, 1989, under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, on the basis of accounting described in the preceding paragraph.

#### Internal control structure

We have considered the internal control structure of DIRECO 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 DIRECO 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. Delays in the disbursement of funds by the National Treasury caused further delays in the payment of monetary compensation.
2. There were approximately 800 certificates of reduction issued in previous months pending delivery.
3. DIRECO had inadequate controls over the custody and use of documents.
4. DIRECO did not supervise on an integral basis the definite discontinuance of the cultivation of coca plantations in the areas where the reduction of these plantations was made.

We also noted other matters involving the internal control structure and its operations that we have reported to the management of DIRECO 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, DIRECO 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 DIRECO had not complied, in all material respects, with those terms and provisions.

1. DIRECO did not reach the objective of reducing 5,000 hectares of coca planting during 1989.
2. DIRECO improperly used its "Certificate of Reduction" forms.
3. DIRECO did not comply with certain Bolivian Laws.

MANAGEMENT COMMENTS

In its written response to this report, see Appendix I, the management of the National Directorate for Agricultural Reconversion (DIRECO) expressed overall agreement with all but one of the findings, and stated it has taken action to correct some of the problems reported. Although in agreement with all but one of the findings, DIRECO management emphasized the fact that in some cases DIRECO does not have the human or operative resources to follow up on all the areas that have been reduced (Finding No. 4, Internal Control section), and that some of the problems are due to factors external to DIRECO, such as the case of the 5,000 hectares goal that was not achieved due to a change in the price of coca leaves, inadequate interdiction efforts, and deficient controls on the marketing of coca leaves, (Finding No. 1, compliance section). In regard to DIRECO's non compliance with Bolivian Labor, Social Security and tax laws (Finding No. 3 of the Compliance Section), DIRECO stated it does not administer the funds provided by NAU (Therefore implying DIRECO was not responsible for this issue).



Auditor's response:

Finding No. 3. Compliance. The personnel are employed by DIRECO and therefore, even though the funds are provided by the Narcotic Assistance Unit, under Bolivian Labor Law DIRECO will be held responsible for complying with labor, social security and tax regulations.

*Ricardo Dinterkoma*



*Moreno Muñoz*



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES  
MANAGED BY THE NATIONAL DIRECTORATE FOR  
AGRICULTURAL RECONVERSION (DIRECO)  
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 managed by the National Directorate for Agricultural Reconversion (Dirección Nacional de Reconversión Agrícola - DIRECO), under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, for the year ended December 31, 1989. The fund accountability statement is the responsibility of DIRECO'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.

In our opinion, the fund accountability statement audited by us presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the National Directorate for Agricultural Reconversion (DIRECO) for the year ended December 31, 1989, under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, on the basis of accounting described in paragraph 3.

This report is intended for the information of the National Directorate for Agricultural Reconversion (DIRECO) and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

February 12, 1990

*Alice Waterhouse*



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES  
MANAGED BY THE NATIONAL DIRECTORATE FOR AGRICULTURAL RECONVERSION (DIRECO)  
USAID/BOLIVIA PROJECT No. 511-0543

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

|  | Funds as of<br>December 31,<br>1988<br><u>Bs</u> | Funds<br>received<br>during<br>1989<br><u>Bs</u> | Funds<br>available<br><u>Bs</u> | 1989<br>Disbursements<br><u>Bs</u> | Funds<br>balance as of<br>December 31,<br>1989<br><u>Bs</u> |
|--|--|--|---------------------------------|------------------------------------|---|
| <u>BALANCES AS OF DECEMBER 31, 1988</u>                        |  |  |                                 |                                    |   |
| Bolivian National Treasury                                     | 1,838,176  |  | 1,838,176                       |                                    | 1,838,176   |
| United States Government's<br>Narcotic Assistance Unit (NAU)   | 393,161  |  | 393,161                         |                                    | 393,161   |
| <u>RECEIPTS DURING 1989</u>                                    |  |  |                                 |                                    |   |
| NAU:   |  |  |                                 |                                    |   |
| 1988 Budget for reduction                                      |  | 411,386  | 411,386                         |                                    | 411,386   |
| Bolivian National Treasury:                                    |  |  |                                 |                                    |   |
| 1988 Budget  |  | 3,059,000  | 3,059,000                       |                                    | 3,059,000   |
| 1989 Budget  |  | 6,400,000  | 6,400,000                       |                                    | 6,400,000   |
| Loan from Ministry of Rural and Agricultural<br>Matters (MACA) |  | 996,610  | 996,610                         |                                    | 996,610   |
| Compulsory reduction in Yapacaní                               |  | 22,000   | 22,000                          |                                    | 22,000  |
| Loan from SUBDESAL for compulsory reduction<br>in Yapacaní     |  | 22,000   | 22,000                          |                                    | 22,000  |
| Income from sales at<br>Vehicle auction                        |  | 22,695   | 22,695                          |                                    | 22,695  |
| <u>DISBURSEMENTS</u>   |  |  |                                 |                                    |   |
| Bolivian National Treasury:                                    |  |  |                                 |                                    |   |
| Compensation payments  |  |  |                                 | 12,229,586                         | ( 12,229,586)   |
| Interest on MACA loan and bank expenses                        |  |  |                                 | 78,240                             | ( 78,240)   |
| Labor for compulsory reduction in Yapacaní                     |  |  |                                 | 30,898                             | ( 30,898)   |
| Narcotic Assistance Unit:                                      |  |  |                                 |                                    |   |
| Operating costs  |  |  |                                 | 143,245                            | ( 143,245)  |
| Reimbursements to NAU  |  |  |                                 | 249,341                            | ( 249,341)  |
| Income from vehicle sales:                                     |  |  |                                 |                                    |   |
| Operating costs  |  |  |                                 | 22,669                             | ( 22,669)   |
|  | <u>2,231,337</u>                                 | <u>10,933,691</u>                                | <u>13,165,028</u>               | <u>12,753,979</u>                  | <u>411,049</u>  |

CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES  
MANAGED BY THE NATIONAL DIRECTORATE FOR  
AGRICULTURAL RECONVERSION (DIRECO)  
USAID/BOLIVIA PROJECT No. 511-0543

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 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 the 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 components to support medium and long-term activities. The current 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<br>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> |

The National Directorate for Agricultural Reconversion (DIRECO) is in charge of making compensatory payments to farmers who reduce their coca plantings. It depends from and reports to the Subsecretariat for Alternative Development and Coca Crop Substitution (SUBDESAL).

DIRECO started its operations in March, 1987 paying US\$ 350 per hectare of coca plantations reduced. Since September 1987, it pays US\$ 2,000 per hectare reduced, through Bolivian Government funding in accordance with the terms of Law No. 1008, the Integral Development and Substitution Plan (PIDYS), and the Supreme Decree No. 21666.

Currently DIRECO carries out its activities in the following regions: i) Los Yungas, in La Paz department (with regional offices in Chulumani and La Asunta), ii) Carrasco, Tiraque and Chapare in Cochabamba department (with regional offices in Villa Tunari and Ivirgarzama), and iii) Ichilo in Santa Cruz department (with offices in Yapacaní).

Law No. 1008 defines and limits the following three coca production zones in the country:

a) Traditional production zone

Areas where historically, coca has been planted for traditional uses, in the volumes necessary to attend licit uses and consumption. This zone comprises small rural properties situated in La Paz department (part of the North Yungas, South Yungas, Murillo, Muñecas, Franz Tamayo, and Inquisivi provinces) and the Cochabamba department (part of the Tiraque and Carrasco provinces).

b) Exceeding production and transition zone

Areas where coca planting generates excess production which is also partially used to satisfy demand for illegal uses.

This zone is subject to annual plans for reduction and substitution through the Integral Development and Substitution Program, which foresees reductions from 5,000 annual hectares until achieving the goal of 8,000 annual hectares. Attaining these goals will depend on availability of financial resources from the National Treasury as well as bilateral and multilateral cooperation for alternative development.

This zone comprises some areas of La Paz department (provinces of Saavedra, Larecaja, Loayza, and colonized regions of Los Yungas) and the Cochabamba department (Chapare, Carrasco, Tiraque, and Arani provinces). DIRECO along with SUBDESAL are in charge of limiting these areas.

c) Illicit production zone

Areas where coca planting is prohibited. It comprises the whole Bolivian territory except for the zones defined in preceding sections a) and b). All coca plantations in this zone will be subject to compulsory eradication with no economic compensation.

DIRECO implements the governmental policy designed to assist rural development and eradication of coca plantings.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

The National Directorate for Agricultural Reconversion's policy is to prepare 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 includes only the income and expenditures related to the special account, which includes only the funding provided to DIRECO and does not include the direct payments made by the Government of Bolivia or the

United States' Narcotic Assistance Unit (NAU) on behalf of the project, such as expenditure for technical assistance and procurement of equipment and supplies.

NOTE 3 - EXCHANGE RATES

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

NOTE 4 - UNAUDITED ACCUMULATED FUND ACCOUNTABILITY STATEMENT THROUGH DECEMBER 31, 1989

The project activities managed by DIRECO have been funded by the Government of Bolivia through the National Treasury and the U.S. Government through NAU. As of December 31, 1989 the operating costs included:

- a) Compensation payments for reduction of coca plantings, made by DIRECO with funds provided by the National Treasury (also called reduction funds).
- b) Disbursements made directly by the Narcotic Assistance Unit (NAU). These disbursements only include the monthly allotment for DIRECO's personnel and the cost of some materials and supplies. In consequence they do not include all disbursements which on behalf of the project may have been paid directly the United States government.
- c) Disbursements made by DIRECO with proceedings from the sale of vehicles.

As of December 31, 1989, the total accumulated funds spent were as follows:

|                 | <u>Source of Funding</u> |                   |               | <u>Total</u>      |
|-----------------|--------------------------|-------------------|---------------|-------------------|
|                 | <u>United States</u>     | <u>Bolivian</u>   | <u>Others</u> |                   |
|                 | <u>Government</u>        | <u>Government</u> |               |                   |
|                 | <u>US\$</u>              | <u>US\$</u>       | <u>US\$</u>   | <u>US\$</u>       |
| Special account | 774,805                  | 8,569,298         |               | 9,344,103         |
| Direct account  | 2,668,654                | -                 | -             | 2,668,654         |
| Others          | -                        | -                 | 8,620         | 8,620             |
|                 | <u>3,443,459</u>         | <u>8,569,298</u>  | <u>8,620</u>  | <u>12,021,377</u> |

The accumulated fund accountability statement for the period from the beginning of the management of funds by DIRECO through December 31, 1989 (expressed in United States Dollars), taking into account the restriction mentioned in the preceding paragraph b), is included for the information of the reader in the following pages. This statement has been prepared on the basis of cash receipts and disbursements. Transaction are accounted for in Bolivianos; figures have been converted to U.S. dollars using the exchange rate current at the time the transfer of the funds used to pay for the expense was received, and using the first-in first-out basis.

NOTE 5 - FUNDS BALANCE

The funds balance as of December 31, 1989 consists of:

|                                      | <u>Amount</u>  |                |
|--------------------------------------|----------------|----------------|
|                                      | <u>Bs</u>      | <u>US\$</u>    |
| <u>National Treasury Funds</u>       |                |                |
| Cash - Central Office                | 13,102         | 4,442          |
| Banco de Cochabamba                  | 807            | 275            |
| Banco Industrial y Ganadero del Beni | 362,435        | 123,277        |
| Banco del Estado - Chulumani         | <u>34,104</u>  | <u>11,600</u>  |
|                                      | <u>410,448</u> | <u>139,594</u> |
| <u>Rotating Funds</u>                |                |                |
| Banco del Estado                     | 575            | 195            |
| <u>Income from sale of vehicles</u>  |                |                |
| Banco del Estado                     | <u>26</u>      | <u>9</u>       |
|                                      | <u>411,049</u> | <u>139,798</u> |

CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES  
MANAGED BY THE NATIONAL DIRECTORATE FOR AGRICULTURAL RECONVERSION (DIRECO)  
USAID/BOLIVIA PROJECT No. 511-0543

ACCUMULATED FUND ACCOUNTABILITY STATEMENT AS OF DECEMBER 31, 1989 (UNAUDITED)

|   | <u>Budget for</u><br><u>1989</u><br><u>US\$</u> | <u>Accumulated</u><br><u>as of</u><br><u>12-31-88</u><br><u>US\$</u> | <u>Actual 1989</u><br><u>US\$</u> | <u>Accumulated</u><br><u>as of</u><br><u>12-31-89</u><br><u>US\$</u> | <u>Excess (deficit)</u><br><u>over 1989 budget</u><br><u>US\$</u> |
|---|---|--|-----------------------------------|--|---|
| <u>RECEIPTS</u>                         |   |  |                                   |  |   |
| <u>Special account</u>                  |   |  |                                   |  |   |
| Bolivian National Treasury              |   |  |                                   |  |   |
| Compensation funds                      |   | 4,750,000  | 3,447,374                         | 8,197,374  |   |
| Loan from Ministry of                   |   |  |                                   |  |   |
| Agriculture (MACA)                      |   |  | 338,983                           | 338,983  |   |
| Compulsory reduction funds              |   |  | 7,458                             | 7,458  |   |
| Compulsory reduction funds - SUBDESAL   |   |  | 7,458                             | 7,458  |   |
| Compensation Funds U.S.G.               |   |  | 157,619                           | 157,619  |   |
|   |   | 4,750,000  | 3,958,892                         | 8,708,892  |   |
| Narcotic Assistance Unit (NAU)          |   |  |                                   |  |   |
| Compensation funds                      |   | 775,000  |                                   | 775,000  |   |
| Income from sales at vehicles auction   |   | -  | 8,629                             | 8,629  |   |
| Subtotal                                |   | 5,525,000  | 3,967,521                         | 9,492,521  |   |
| <u>Direct Account</u>                   |   |  |                                   |  |   |
| Direct contribution from NAU            |   | 1,530,731  | 1,137,923                         | 2,668,654  |   |
| Total receipts                          |   | 7,055,731  | 5,105,444                         | 12,161,175   |   |
| <u>DISBURSEMENTS</u>                    |   |  |                                   |  |   |
| <u>Special Account</u>                  |   |  |                                   |  |   |
| Bolivian National Treasury              |   |  |                                   |  |   |
| Compensation payments                   | 10,000,000                                      | 3,943,406  | 4,535,162                         | 8,478,568  | (5,464,838)   |
| Interest on MACA loan and bank expenses |   | 643  | 29,152                            | 29,795   | 29,152  |
| Labor costs for compulsory reduction    |   |  |                                   |  |   |
| in Yapacaní                             |   |  | 10,474                            | 10,474   | 10,474  |
| Loan to SUBDESAL                        |   | 50,461   |                                   | 50,461   |   |
| Carried forward                         | 10,000,000                                      | 3,994,510  | 4,574,788                         | 8,569,298  | (5,425,212)   |

CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES  
MANAGED BY THE NATIONAL DIRECTORATE FOR AGRICULTURAL RECONVERSION (DIRECO)  
USAID/BOLIVIA PROJECT No. 511-0543

ACCUMULATED FUND ACCOUNTABILITY STATEMENT AS OF DECEMBER 31, 1989 (UNAUDITED)

|   | <u>Budget for</u><br><u>1989</u><br><u>US\$</u> | <u>Accumulated</u><br><u>as of</u><br><u>12-31-88</u><br><u>US\$</u> | <u>Actual 1989</u><br><u>US\$</u> | <u>Accumulated</u><br><u>as of</u><br><u>12-31-89</u><br><u>US\$</u> | <u>Excess (deficit)</u><br><u>over 1989 budget</u><br><u>US\$</u> |
|---|---|--|-----------------------------------|--|---|
| <u>DISBURSEMENTS (Cont.)</u>                            |   |  |                                   |  |   |
| Brought forward   | <u>10,000,000</u>                               | <u>3,994,510</u>   | <u>4,574,788</u>                  | <u>8,569,298</u>   | <u>(5,425,212)</u>  |
| Narcotic Assistance Unit (NAU)                          |   |  |                                   |  |   |
| Operating cost  |   | 629,784  | 65,798                            | 695,582  | 65,798  |
| Less: advances, pending liquidation                     |   | <u>18,601</u>  | <u>( 3,574)</u>                   | <u>15,027</u>  | <u>( 3,574)</u>   |
| Net operating cost                                      |   | <u>611,183</u>   | <u>69,372</u>                     | <u>680,555</u>   | <u>69,372</u>   |
| Reimbursement to NAU                                    |   |  | <u>94,250</u>                     | <u>94,250</u>  | <u>94,250</u>   |
| Subtotal  |   | <u>611,183</u>   | <u>163,622</u>                    | <u>774,805</u>   | <u>163,622</u>  |
| Operating costs paid from income<br>from vehicles sales |   |  | <u>8,620</u>                      | <u>8,620</u>   | <u>8,620</u>  |
| Subtotal Special account                                | <u>10,000,000</u>                               | <u>4,605,693</u>   | <u>4,747,030</u>                  | <u>9,352,723</u>   | <u>(5,252,970)</u>  |
| <u>Direct Payments</u>                                  |   |  |                                   |  |   |
| Narcotic Assistance Unit:                               |   |  |                                   |  |   |
| Operating costs   |   | 1,206,441  | 865,854                           | 2,072,295  | 865,854   |
| Materials   |   | 40,333   | 54,782                            | 95,115   | 54,782  |
| Fixed assets  |   | <u>283,957</u>   | <u>217,287</u>                    | <u>501,244</u>   | <u>217,287</u>  |
| Subtotal direct payments                                |   | <u>1,530,731</u>   | <u>1,137,923</u>                  | <u>2,668,654</u>   | <u>1,137,923</u>  |
| Total disbursements                                     | <u>10,000,000</u>                               | <u>6,136,424</u>   | <u>5,884,953</u>                  | <u>12,021,377</u>  | <u>(4,115,047)</u>  |
|   |   |  |                                   |  |   |
|   |   | <u>Summary</u>   |                                   |  |   |
| Total receipts  |   | 7,055,731  | 5,105,444                         | 12,161,175   |   |
| Less: total disbursements                               |   | <u>6,136,424</u>   | <u>5,884,953</u>                  | <u>12,021,377</u>  |   |
| Cash on hand  |   | <u>919,307</u>   | <u>( 779,509)</u>                 | <u>139,798</u>   |   |

*Moreno Muñoz*



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES  
MANAGED BY THE NATIONAL DIRECTORATE FOR  
AGRICULTURAL RECONVERSION (DIRECO)  
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 managed by the National Directorate for Agricultural Reconversion (DIRECO) under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, 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 managed by the National Directorate for Agricultural Reconversion (DIRECO) 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 National Directorate for Agricultural Reconversion (DIRECO) 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 controls,
- banks accounts and funds controls,
- compensation payments for reductions of coca plantings.

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. We believe all of the reportable conditions included in our attached report are material weaknesses.

This report is intended for the information of the management of National Directorate for Agricultural Reconversion (DIRECO) 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

*Eric Waterhouse*



*Moreno Muñoz*



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES  
MANAGED BY THE NATIONAL DIRECTORATE FOR  
AGRICULTURAL RECONVERSION (DIRECO)  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

INTERNAL CONTROL STRUCTURE

FINDINGS

1. Delays in the Disbursement of Funds by the National Treasury Caused Further Delays in the Payment of Monetary Compensation

Condition:

During the first semester of 1989 there were successive delays in the disbursement of funds made by the National Treasury, which at the same time cause delays in the payments for reduction of coca plantations.

Criteria:

A timely availability of funds is necessary for the efficient implementation of the coca reduction compensation program.

Cause:

According to DIRECO all the requests for the disbursements of funds have been made on time; however, the National Treasury did not make the disbursements soon after they were requested.

Effect:

This situation originated delays in the payments made to the peasant farmers who reduced their coca plantations. Moreover, because of these delays the peasant farmers do not completely trust the coca reduction and substitution programs, thus affecting the objectives of the project.

Recommendation:

DIRECO should coordinate with USAID/Bolivia and the National Treasury for the timely disbursement of funds.

2. There Were Approximately 800 Certificates of Reduction Issued in Previous Months Pending Delivery

Condition:

At the time of our audit, DIRECO had approximately 800 certificates of reduction issued in previous months, but still not delivered to the beneficiary. These and other important documents and forms were not properly safeguarded.

Criteria:

Good management would require that reduction certificates be delivered not too long after issuance. Certificates not collected timely by the beneficiary should be cancelled and recorded as such.

Cause:

DIRECO issued reduction certificates for each of the farmers who had a coca reduction in their land. Some of the farmers were not interested in the crop substitution program or stopped their efforts to obtain agricultural loans from the program and therefore, did not collect the certificates.

Effect:

Expiration of the certificates' term, risk of loss and danger of being used by people other than the beneficiaries.

Recommendation:

DIRECO should establish procedures to ensure that reduction certificates are issued only for those beneficiaries who expressly request them, and to ensure that certificates not claimed by the farmers within a reasonable period are officially cancelled.



3. DIRECO had Inadequate Controls Over the Custody and Use of Documents

Condition:

DIRECO had inadequate controls over the custody and use of important forms and documents. Example:

- a) No DIRECO official or employee in the Chapare Office had been assigned responsibility for the use and safekeeping of the "Certificate of Reduction" forms.
- b) Some blank voucher forms had already been signed as prepared, reviewed and authorized (voucher forms Nos. 6294 through 6299) or as reviewed and authorized (voucher forms Nos. 6300 through 6305).

Criteria:

All documents should be adequately safeguarded, and blank forms should not be signed before being used.

Effect:

This lack of control could result in the loss and/or misuse of documents.

Recommendation:

DIRECO should redesign and improve procedures to assign responsibilities for the proper use and safekeeping of forms and documents.

4. DIRECO did not Supervise, on an Integral Basis, the Definite Discontinuance of the Cultivation of Coca Plantations in the Areas Where the Reduction of These Plantations was Made

Condition:

After compensatory payment is given to the farmer, DIRECO did not follow up or supervise the definite discontinuance of the cultivation of coca plantations in the agricultural properties where a reduction was made.



**Criteria:**

According to DIRECO's procedures manual, there should be a supervision of the definite discontinuance of the cultivation of coca plantations in the affected areas after a reduction of these plantations has been made, in order to fulfil its global objectives.

**Cause:**

Due to lack of personnel, DIRECO could not organize the control brigades needed. DIRECO management stated selective supervision and follow up was made; however, there is no concrete evidence of such a function.

**Effect:**

The lack of supervision could originate failure to fulfill DIRECO's global objectives and adversely affect the project.

**Recommendation:**

DIRECO should implement the control brigades that will supervise the definite discontinuance of the cultivation of coca plantations in those areas where a reduction of coca has been made.



*Moreno Muñoz*



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES  
MANAGED BY THE NATIONAL DIRECTORE FOR  
AGRICULTURAL RECONVERSION (DIRECO)  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

REPORT ON THE 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 managed by the National Directorate for Agricultural Reconversion (Dirección Nacional de Reconversión Agrícola - DIRECO) under 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 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 National Directorate for Agricultural Reconversion management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of National Directore for Agricultural Reconversion 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.

The results of our tests of compliance disclosed the following findings of noncompliance:

1. DIRECO did not reach the objective of reducing 5,000 hectares of coca planting by December 31, 1989.
2. DIRECO improperly used its "Certificate of Reduction" forms.
3. DIRECO did not comply with certain Bolivian Laws.

In our opinion, except for the noncompliance with some agreement terms and applicable laws and regulations as described in the preceding findings Nos. 1 to 3, with respect to the items tested, the National Directorate for Agricultural Reconversion complied in all material respects with the terms and provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the National Directorate for Agricultural Reconversion had not complied, in all material respects, with those terms and provisions.

This report is intended for the information of the management of the National Directorate for Agricultural Reconversion and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

February 12, 1990

*Price Waterhouse*



*Moreno Muñoz*



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES  
MANAGED BY THE NATIONAL DIRECTORATE FOR  
AGRICULTURAL RECONVERSION (DIRECO)  
USAID/BOLIVIA PROJECT NO. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

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

FINDINGS

1. DIRECO did not Reach the Objective of Reducing 5,000 Hectares of Coca Planting during 1989

Condition:

DIRECO did not reach the objective set by the Bolivian Government of reducing 5,000 hectares of coca crops during 1989. Instead, it only reduced coca crops in 2,439 hectares, therefore only achieving 49 percent of the objectives.

Criteria:

The Law N° 1008, covering the control of the Coca and Controlled Substances defines zones where there is a transitory excess production and which are subject to annual reduction substitution and development plans through the GOB's Integral Development and Substitution Program (PIDYS); beginning with an annual reduction of 5,000 hectares and increasing until achieving an annual reduction of 8,000 hectares in 1993. The achieving of these objectives is conditioned to the availability of financial resources in the National Budget, and the commitment and disbursement of the technical cooperation and the bilateral and multilateral financing in order to sustain the alternative development.

According to chapter IV of the GOB's Integral Development and Substitution Program (PIDYS), during the year 1989 DIRECO should reduce coca plantations in 5,000 hectares of land.

Cause:

Farmers' lack of interest in the execution of this voluntary reduction program. DIRECO advised us that the most important factor which influenced the farmers to reduce their coca plantations is the price of the coca in the market. This aspect, because of its external nature, cannot be controlled by the Institution.

Effect:

Noncompliance with the objectives of the reduction program could affect the execution of the alternative development project.

Recommendation:

DIRECO, in conjunction with other implementing agencies such as IBTA/Chapare should develop and implement a plan to make the farmers aware of the benefits of the program.

2. DIRECO Improperly used its "Certificate of Reduction" forms

Condition:

In 1989 DIRECO used its "Certificate of Reduction" forms to certify that some farmers did not have coca plantations. These certificates were later used for requesting loans from the PL-480 Executive Secretariat under the Chapare Regional Development Project. (Note: loans given to these beneficiaries are questioned in our audit report of the PL-480 Executive Secretariat).

Criteria:

Certificates of Reduction should be given only to the farmers who make reductions in their coca plantations.



**Cause:**

According to documentation made available to us, the Subsecretariat for Alternative Development and Coca Crop Substitution (SUBDESAL), which manages the whole project, ordered DIRECO to use the forms to also allow access to the program to those farmers that did not grow coca.

**Effect:**

DIRECO actions allowed other implementing institutions to make loans to beneficiaries ineligible under the project.

**Recommendation:**

DIRECO should issue guidelines indicating that certificates of reduction of coca plantations must only be issued to farmers who make such a reduction.

**3. DIRECO did not Comply with Certain Bolivian Laws.**

**Condition:**

Persons providing their personal services to perform activities related to DIRECO's coca reduction program do so under a verbal work contract with DIRECO, thus are DIRECO employees.

There is no evidence that DIRECO has paid salaries to its employees since it started operations in September 1987. The only compensation given to the employees for their services is a monthly allowance from funds provided by an office of the United States Embassy in Bolivia, supposedly to cover travel expenses (per diem). Moreover, the amount of this allowance is the same for all employees regardless of the employee's category or duties performed (for example, the monthly allowance report for December 1989 shows that an amount of Bsl,172 was paid to staff working as agronomist, topographer, guard, carpenter, asistant, transportation chief and driver).

Also, DIRECO has not registered its personnel to the Social Security System, therefore has not made the corresponding employee and employer contributions to the system.



Furthermore, DIRECO has neither withheld taxes from its employees' allowances, nor has any knowledge whether its employees have declared and paid the corresponding taxes (complementary value-added tax --ten percent--, and transaction tax --one percent) on the amounts received.

Criteria:

According to the General Labor legislation, all employees are entitled to a salary; and according to the Social Security System and the tax legislation, all employers are required to withhold social security contributions and taxes, respectively.

Cause:

According to DIRECO management, the institution only pays the per diem allowance because it has no budget for salaries (either from the Bolivian National Treasury or the U.S. Embassy).

Effect:

Non compliance with the labor, Social Security or Tax Legislations could result in fines and other sanctions to DIRECO. In addition, the lack of a salary structure could cause employee dissatisfaction, and could result in DIRECO's inability to properly implement the coca eradication program, thus affecting the timely implementation of activities under the Chapare Regional Development Project.

Recommendation:

DIRECO should:

- a) Design and implement a salary structure that adequately compensates its employees according to their position and/or duties performed; and
- b) design and implement procedures to properly comply with the General Labor Law, the Social Security System, and the Tax Laws.



*Moreno Muñoz*



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES  
MANAGED BY THE NATIONAL DIRECTORATE FOR  
AGRICULTURAL RECONVERSION (DIRECO)  
USAID/BOLIVIA PROJECT No. 511-0543  
FOR THE YEAR ENDED DECEMBER 31, 1989

LIST OF REPORT RECOMMENDATIONS

INTERNAL CONTROL STRUCTURE:

Recommendation 1:

DIRECO should coordinate with USAID/Bolivia and the National Treasury for the timely disbursement of funds.

Recommendation 2:

DIRECO should establish procedures to ensure that reduction certificates are issued only for those beneficiaries who expressly request them, and to ensure that certificates not claimed by the farmers within a reasonable period are officially cancelled.

Recommendation 3:

DIRECO should redesign and improve procedures to assign responsibilities for the proper use and safekeeping of forms and documents.

Recommendation 4:

DIRECO should implement the control brigades that will supervise the definite discontinuance of the cultivation of coca plantations in those areas where a reduction of coca has been made.

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

Recommendation 1:

DIRECO, in conjunction with other implementing agencies such as IBTA/Chapare should develop and implement a plan to make the farmers aware of the benefits of the program.

Recommendation 2:

DIRECO should issue guidelines indicating that certificates of reduction of coca plantations must only be issued to farmers who make such a reduction.

Recommendation 3:

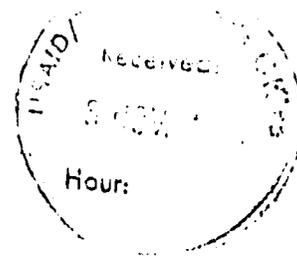
DIRECO should:

- a) Design and implement a salary structure that adequately compensates its employees according to their position and/or duties performed; and
- b) design and implement procedures to properly comply with the General Labor Law, the Social Security System, and the Tax Laws.



Cochabamba, Noviembre 7, 1990  
DIR 440/90

Señor  
John Davison  
**CONTRALOR USAID**  
La Paz



Señor Davison:

A pesar de haberle hecho conocer anteriormente, algunas observaciones que Direco tiene, respecto al informe de Auditoría efectuado por la Empresa Moreno Muñoz & Cia., podemos observar en el último borrador, que algunas de ellas persisten y daremos en ésta oportunidad algunas aclaraciones que puedan subsanar o modificar los hallazgos que la Empresa Auditora efectuó.

Informe sobre la estructura de control interno.-

- 1.- La Subsecretaría de Desarrollo Alternativo y los diferentes Ministerios que tienen que ver con la programación de desembolsos a efectuarse a las diferentes Instituciones, como Planeamiento, Finanzas y Maca, siempre han contado con un plan de pagos proporcionado por Direco y en muchos casos se elaboraron planes conjuntamente las Instituciones antes mencionadas, a fin de que el dinero para la compensación por reducción de cultivos de coca pueda estar a disposición nuestra en los plazos fijados de acuerdo a los cronogramas establecidos.
- 2.- Respecto a los cerca de 800 certificados de reducción que aún permanecían en poder de Direco, queremos aclarar que se mantenían únicamente con la finalidad de no perjudicar al agricultor que redujo, efectuando en ese momento la revalidación de fecha con el objeto de darle vigencia a ese certificado. Adoptando las recomendaciones que nos hace Moreno Muñoz, dichos certificados ya fueron anulados a fin de evitar posteriores observaciones.
- 3.- Direco rediseñó e implantó procedimientos adecuados de control y custodia de documentos en general, responsabilizando a los funcionarios que tienen a su cargo el manejo de dichos documentos.
- 4.- La Institución no tiene la capacidad suficiente, en cuanto a recursos, ya sean humanos u operativos, para llevar a cabo un seguimiento permanente de todas aquellas áreas que han sido

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reducidas. Sin embargo, se ha hecho y se hace un seguimiento parcial de parte nuestra, cuando los agricultores solicitan la certificación respectiva, también la NAS efectúa una verificación de las reducciones en forma completamente independiente, proporcionándole mensualmente una fotocopia de los planos y recibos de pago.

Informe sobre el cumplimiento de los términos del convenio, cartas de implementación y Leyes y reglamentos aplicables.-

1.- Sobre el cumplimiento de la reducción de 5.000 hectáreas para la gestión de 1989, podemos indicar que Direco **NO PUDO** cumplir con esta meta, por diversos factores externos a la Institución, como precio de la hoja de coca, inadecuada interdicción, deficiente control en la comercialización de éste producto y que por más esfuerzos que se realice a todo nivel para lograr el cumplimiento de las metas establecidas, éstos factores externos, no son controlables, quedando fuera del dominio que pueda ejercer la Institución.

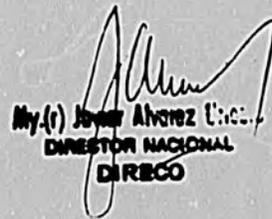
2.- Al respecto podemos indicar, como la misma observación del informe precisa, que Direco actuó por instrucciones de la SUBDESAL, habiéndose extendido un total de 101 certificados hasta el 30 de Junio de 1989, a agricultores que no tenían cultivos de coca. En forma posterior, no se expidió ningún otro certificado. Como se podrá observar, ésta recomendación fué solucionada a medidados del mismo año.

3.- Sobre éste punto podemos indicar, que Direco **no administra** los recursos que le asigna la NAS y se limita a solicitarlos para cumplir con sus planes y objetivos, dependiendo del ente financiero, su aprobación y posterior ejecución.

Con éste particular motivo, saludo a usted atentamente,

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My. (r) Javier Alvarez U. C.  
DIRECTOR NACIONAL  
DIRECO