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Audit of the Fiscal Year 1987 PL 480
Title II Monetization Program Activities
Managed by Catholic Relief Services and
Caritas Boliviana

Audit Report 1-511-90-47-N
June 26, 1990

AGENCY FOR INTERNATIONAL DEVELOPMENT

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June 26, 1990

MEMORANDUM

TO: USAID/Bolivia Director, G. Reginald Van Raalte

FROM: RIG/A/T Acting, Lou Mundy *Lou Mundy*

SUBJECT: Audit of the Fiscal Year 1987 PL 480 Title II Monetization Program Activities Managed by Catholic Relief Services and Caritas Boliviana

This report presents the results of a non-Federal financial audit of USAID/Bolivia's Fiscal Year 1987 Public Law 480 Title II Monetization Program activities managed by Catholic Relief Services and Caritas Boliviana (CRS/Caritas) for the period July 19, 1988 to July 31, 1989. The accounting firm of Price Waterhouse in Bolivia prepared the report which is dated June 13, 1990.

CRS/Caritas was one of three entities implementing the Fiscal Year 1987 PL 480 Title II Monetization Program. In accordance with its agreement with USAID/Bolivia, CRS/Caritas used the proceeds from sales of PL 480 Title II furnished commodities for improvement of control and distribution of the commodities through the acquisition of computers and a truck and the construction of a warehouse.

The purpose of the audit was to determine whether: (1) the fund accountability statement of CRS/Caritas' activities under the program fairly presents its program receipts and disbursements, with disclosure of questionable costs, if any, (2) its internal control structure is adequate for program purposes, and (3) it has complied with agreement terms and applicable laws and regulations.

In the opinion of Price Waterhouse, except for unrecorded receipts and questionable costs amounting to a local currency equivalent of \$560 and \$4,510 respectively, the fund accountability statement of CRS/Caritas presents fairly its receipts and expenditures under the program. Regarding CRS/Caritas' internal control structure, the auditors did not note any material weaknesses. However, they noted that CRS/Caritas' accounting records did not provide separate accountability for program funds as well as other conditions needing correction. Lastly, with regard to compliance, the auditors noted that CRS/Caritas was not complying with certain Bolivian laws relating to the collection of value-added, complementary value-added, and transaction taxes.

The Price Waterhouse report contains 8 recommendations concerning accountability and control over program funds and compliance with agreement terms and applicable laws and regulations. We have summarized those recommendations for inclusion in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/Bolivia negotiate a settlement with Catholic Relief Services and Caritas Boliviana for the local currency equivalent of \$5,070 in unrecorded receipts and questioned costs identified by Price Waterhouse in its report dated June 13, 1990.

Recommendation No. 2

We recommend that USAID/Bolivia require Catholic Relief Services and Caritas Boliviana to maintain separate accountability for the funds resulting from the sale of A.I.D. supplied commodities. One aspect of this separate accountability should include the deposit of program funds in a separate interest bearing bank account.

Recommendation No. 3

We recommend that USAID/Bolivia require Catholic Relief Services and Caritas Boliviana to strengthen its internal controls by following formal procurement procedures which require preauthorization of all purchases and competitive bidding for purchases exceeding predetermined thresholds.

Recommendation No. 4

We recommend that USAID/Bolivia require Catholic Relief Services and Caritas Boliviana to: (1) provide documentary evidence from the Bolivian tax authorities of its exemption status with regard to value-added and transaction taxes on its sales of program commodities, and, if CRS/Caritas is determined not to be exempt from these taxes, require it to pay such taxes, (2) support its purchases of goods with fiscal invoices as proof that it has paid the associated value-added taxes, and (3) withhold and pay complementary value-added taxes and transaction taxes on payments for services not supported by fiscal invoices. These matters were included in the Price Waterhouse report of June 13, 1990. Further, USAID/Bolivia should periodically obtain proof that the entity continues to comply with these provisions of Bolivian tax law.

The draft report was discussed with CRS/Caritas on May 10, 1990 and, in general, the entity agreed with the matters raised in the report.

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

AUDIT OF THE
FISCAL YEAR 1987 PL480 TITLE II MONETIZATION PROGRAM
ACTIVITIES MANAGED BY
CATHOLIC RELIEF SERVICES AND CARITAS BOLIVIANA



AUDIT OF THE
FISCAL YEAR 1987 PI480 TITLE II MONETIZATION PROGRAM
ACTIVITIES MANAGED BY
CATHOLIC RELIEF SERVICES AND CARITAS BOLIVIANA

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Moreno Muñoz



June 13, 1990

Mr. Coinage N. Gothard, Jr.
Regional Inspector General for Audit
U.S. Agency for International Development
Tegucigalpa, Honduras, C.A.

Dear Mr. Gothard:

This report presents the results of our audit of the Fiscal Year 1987 PL480 Title II Monetization Program activities managed by Catholic Relief Services and Caritas Boliviana for the period July 19, 1988 to July 31, 1989.

BACKGROUND

The monetization of PL480 Title II agricultural commodities involves distributing such commodities to Private Voluntary Organizations (PVOs) which in turn sell the commodities in the local market for the best offer and use the local currency obtained to finance development projects and other authorized activities. The U.S. Agency for International Development mission to Bolivia (USAID/Bolivia) retains approval authority over the specific projects and activities to be financed with the monetization proceeds. However, USAID/Bolivia's general guidelines allow that the funds be used to: (1) transport, store, distribute or otherwise enhance the effectiveness of the use of the donated commodities, and (2) implement income generating, community development, health, nutrition, cooperative development, or agricultural programs or other development activities.

On January 16, 1987, USAID/Bolivia authorized for Fiscal Year 1987 the monetization of commodities provided under PL480 Title II to the Catholic Relief Services and Caritas Boliviana (CRS/Caritas) as follows:

	<u>Metric tons</u>	<u>Value</u> <u>US\$</u>
Wheat flour	953.5	123,000
Vegetable oil	69.3	47,800
Milk	<u>314.6</u>	<u>34,600</u>
	<u>1,337.4</u>	<u>205,400</u>

The value included in the monetization authorizations was denominated in United States dollars, although the proceeds of the sales were to be received in local currency (bolivianos).

Subsequently, USAID/Bolivia authorized amendments to the above mentioned monetization agreement, because vegetable oil and milk were not readily marketable in Bolivia at fair prices. Also, CRS/Caritas submitted an amended monetization plan which reduced the quantity of wheat flour to be monetized. The amended authorization and the amount of local currency generated for CRS was as follows:

	<u>Metric tons</u>	<u>Value</u> <u>Bs</u>
Wheat flour	<u>300</u>	<u>228,000</u>

In accordance with its agreement with USAID/Bolivia, CRS/Caritas was to use the above proceeds for the improvement of control and distribution of commodities through the acquisition of computers and a truck and the construction of a warehouse.

While the program subject to audit has now been completed, we understand that CRS/Caritas will be involved in implementing other PL480 Title II Programs. Therefore, in this report we include recommendations which we believe will assist USAID/Bolivia and CRS/Caritas in carrying out their responsibilities in this ongoing program.

AUDIT OBJECTIVES AND SCOPE

We performed a financial audit to specifically review the fund accountability statement of the Fiscal Year 1987 PL480 Title II Monetization Program activities managed by



CRS/Caritas for the period July 19, 1988 to July 31, 1989. The objectives of this audit were to determine whether:

1. The fund accountability statement of CRS/Caritas's activities under its FY 1987 PL480 Title II monetization agreement with USAID/Bolivia fairly presents its program receipts and expenditures in accordance with the terms of such agreement, identifying costs which were not fully supported with adequate records or which were not allowable under the terms of the agreement and applicable laws and regulations;
2. CRS/Caritas' internal control structure is adequate for program purposes; and
3. CRS/Caritas complied with agreement terms and applicable laws and regulations.

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 to determine if funds and/or commodities were being properly accounted for and used as required by the program agreement and other applicable laws and regulations.

The scope of our work included:

- Reviewing Office of Management and Budget (OMB) Circular Nos. A-122 and A-110, documentation approving and regulating the FY 1987 PL480 Title II Monetization Program in Bolivia, approved budgets, and other program related documentation.
- Studying and evaluating CRS/Caritas' internal control structure with regard to the program. This evaluation was carried out to determine the extent to which established procedures and controls were functioning as intended.
- Reviewing the procedures used to sell products in the local market and for the receipt of the funds.



- Reviewing and conducting tests of the expenditures charged by CRS/Caritas to the program to identify as questionable any costs which were not supported with adequate records or which were not reasonable or allowable under the agreement terms.
- Reviewing CRS/Caritas' compliance with agreement terms and applicable laws and regulations.

RESULTS OF AUDIT

Fund Accountability Statement

In our opinion, except for not including the receipts obtained from the sale of wheat bags amounting to Bs1,500 and including questionable costs amounting to Bs12,084, the fund accountability statement of CRS/Caritas' activities under the program for the period July 19, 1988 to July 31, 1989 presents fairly, in all material respects, its receipts and expenditures under the program.

Internal Control Structure

We studied and evaluated the internal control structure of CRS/Caritas and the control exercised by USAID/Bolivia over the program in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on CRS/Caritas' internal control structure. We noted the following findings that we consider to be reportable conditions under generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision).

1. Budget modifications were not always approved by USAID/Bolivia.
2. Funds of the program were not maintained in a separate bank account.
3. Cash generated from the sale of wheat bags was not included in the program.
4. Not all disbursements were supported by fiscal invoices.



5. Procurement of goods and services were not supported with quotations and purchase orders.
6. Program receipts were not invested pending their disbursement.

Because of the above weaknesses our audit was performed by extending our substantive testing rather than relying on the internal control structure of CRS/Caritas or the control exercised by USAID/Bolivia.

Compliance with Agreement Terms and Applicable Laws and Regulations

As a result of our review, we found the following instances of noncompliance with applicable laws and regulations:

1. Tax liabilities may arise from the sale of commodities.
2. Tax was not retained on payments for services not supported by fiscal invoices.

Except for the above instances of non compliance, and unrecorded receipts and questionable costs included in note 7 to the fund accountability statement, the results of our tests indicate that with respect to the items tested CRS/Caritas complied, in all material respects, with the terms of the agreement and applicable laws and regulations. With respect to the items not tested, nothing came to our attention that caused us to believe that CRS/Caritas had not complied, in all material respects, with those provisions.

MANAGEMENT COMMENTS

This report was discussed with management personnel of Catholic Relief Service and Caritas on May 10, 1990. In general the PVO agreed with the matters raised in this report. Their detailed comments on each reportable item are included as appendix I to this report.

Price Waterhouse



Moreno Muñoz



FISCAL YEAR 1987 PL480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY CATHOLIC RELIEF SERVICES AND
CARITAS BOLIVIANA

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the PL480 Title II Monetization Program activities managed by Catholic Relief Services and Caritas Boliviana for the period July 19, 1988 to July 31, 1989. This fund accountability statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this 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 1, 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 7, certain revenues amounting to Bs1,500 were not recorded in program accounts and consequently, were not included in the accompanying fund accountability statement. Additionally there were certain questionable expenditures amounting to Bs12,084.

In our opinion except for the effects of not including certain receipts as program funds and certain questionable costs 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 Fiscal Year 1987 PL480 Title II Monetization Program activities managed by Catholic Relief Services and Caritas Boliviana for the period July 10, 1988 to July 31, 1989, on the basis of accounting described in paragraph 3.

This report is intended solely for the information of the Catholic Relief Services, Caritas Boliviana 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.

Price Waterhouse

September 20, 1989



FISCAL YEAR 1987 PL480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY CATHOLIC RELIEF SERVICES AND
CARITAS BOLIVIANA

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 19, 1988 TO JULY 31, 1989

	<u>Budget</u>	<u>Actual</u>	<u>Auditor's Findings Questionable Costs (Note 7)</u>
RECEIPTS			
Sale of wheat flour	Ps 228,000	Bs 228,000	Bs 1,500
Other income	-	356	-
	<u>228,000</u>	<u>228,356</u>	<u>1,500</u>
DISBURSEMENTS			
Construction of ware- house - Trinidad	100,800	101,216	4,314
Purchase of vehicles	84,000	83,923	7,770
Purchase of computers	43,200	43,052	-
	<u>228,000</u>	<u>228,191</u>	<u>12,084</u>
Balance as of July 31, 1989	<u>Bs -</u>	<u>Bs 165</u>	

The accompanying notes form an integral part of this statement.

FISCAL YEAR 1987 PL480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY CATHOLIC RELIEF SERVICES AND
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NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JULY 19, 1988 TO JULY 31, 1989

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Accounting basis - The organization's policy is to prepare the fund accountability statement of the program 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 present the financial information in accordance with generally accepted accounting principles.

The proceeds of the sale of commodities were deposited in the general bank account of the organization, together with the other funds. Consequently, there are no independent records for the program and therefore the fund accountability statement has been prepared from the accounting records of the organization on the basis of the amounts obtained from the sales and of the payments charged to the program, which have been approved by the USAID/Bolivia.

The operations were carried out in bolivianos the local currency of Bolivia expressed with the symbol Bs in the fund accountability statement.

NOTE 2 - EXCHANGE RATES

During the period of the program the Bolivian currency devalued against the United States dollar from Bs2.39 per US\$ 1 in July 1988 to Bs2.68 per US\$ 1 in July 1989.

NOTE 3 - THE MONETIZATION PROGRAM

On January 16, 1987, USAID/Bolivia authorized the monetization program. Under such program, wheat flour, vegetable oil and milk, available under Public Law 480 Title II for Fiscal Year 1987, were to be provided to certain Private Voluntary Organizations (PVOs) in Bolivia for resale. The proceeds from such sales were to be used to fund activities approved by USAID/Bolivia. Catholic Relief Services and Caritas Boliviana received 300 metric tons of wheat flour under the program.

NOTE 4 - CONSTRUCTION OF WAREHOUSE IN TRINIDAD - BENI BOLIVIA

Caritas Boliviana gave financial support for the construction of a warehouse in Trinidad, Bolivia. This support amounted to approximately 15 percent of the total cost of the warehouse. The funds were used for:

Fees to contractor	Bs 53,619
Purchase of materials	44,425
Study and investigation	2,454
Other	718
	<hr/>
	Bs 101,216
	<hr/>

NOTE 5 - PURCHASE OF VEHICLES

Program funds were used for vehicle purchases and related expenses for the Caritas Boliviana office in Camiri as follows:

Volkswagen Truck Model 14-140-1988	Bs 59,453
Toyota Pick-up - Hilux, model 1988 (25% of total cost)	12,480
Insurance Volkswagen truck	3,726
Taxes on truck	7,770
Other	494
	<hr/>
	Bs 83,923
	<hr/>

NOTE 6 - PURCHASE OF COMPUTERS

Funds were used for the acquisition of computers for the Caritas Boliviana offices in Guayaramerín, Coroico, Chiquitos, Camiri and Aiquile as follows:

5 Computers Multiteck - Acer Model ACER 500 plus	Bs 33,870
Consultant and installation fees	4,640
Travel and per diem allowances	2,856
Other	1,686
	<hr/>
	Bs 43,052
	<hr/>

NOTE 7 - UNRECORDED RECEIPTS AND QUESTIONABLE COSTS (AUDITORS NOTE)

Unrecorded receipts are as follows:

Catholic Relief Services received Bs1,500 from the sale of empty wheat flour bags which it did not include in the program funds. This income should have been included in the program.

Questionable costs are as follows:

		Not Appropriate for <u>Reimbursement</u>	<u>Suspended</u>	<u>Total</u>
Value-added and other taxes paid in customs on vehicles acquired	(1)	Bs 7,770	-	Bs 7,770
Items for which no documentation could be located	(2)	<u>-</u>	<u>Bs 4,314</u>	<u>4,314</u>
		<u>Bs 7,770</u>	<u>Bs 4,314</u>	<u>Bs 12,084</u>

- (1) These taxes were paid on importing the vehicle free of import duties. In the case of purchases made within Bolivia these taxes plus import duties would be included as part of the cost of the vehicle.
- (2) The specific items are detailed in Finding No. 4 of our Report on the Internal Control Structure Section of this report.

Moreno Muñoz



FISCAL YEAR 1987 PL480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY CATHOLIC RELIEF SERVICES AND
CARITAS BOLIVIANA

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Fiscal Year 1987 PL480 Title II Monetization Program activities managed by Catholic Relief Services and Caritas Boliviana for the period July 1^o, 1988 to July 31, 1989, and have issued our report thereon dated September 20, 1989.

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 Fiscal Year 1987 PL480 Title II Monetization Program activities managed by Catholic Relief Services and Caritas Boliviana for the period July 1^o, 1988 to July 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 Catholic Relief Services and Caritas Boliviana 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,
- Budget control,
- Purchases,
- Disbursements, and
- Procedures for the sale of commodities.

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 6.

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 none of the reportable conditions included in our attached report is a material weakness.

This report is intended for the information of the management of Catholic Relief Services, Caritas Boliviana and the United States 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.

Price Waterhouse

September 20, 1989



Moreno Muñoz



FISCAL YEAR 1987 PL480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY CATHOLIC RELIEF SERVICES AND
CARITAS BOLIVIANA

REPORT ON THE INTERNAL CONTROL STRUCTURE

FINDINGS

1. Budget Modifications were not Always Approved by
USAID/Bolivia

Condition:

Catholic Relief Services (CRS) presented a budget to USAID/Bolivia for the FY 1987 monetization program on March 30, 1988 which USAID/Bolivia approved. Subsequently CRS modified this budget reducing estimated income and expenditures from US\$108,000 to US\$95,000 (Bs228,000). However, there was no evidence that USAID/Bolivia reviewed and approved this modification.

Criteria:

The budgets approved by USAID/Bolivia are required to be followed. Any changes to the approved budgets need to be formally agreed to by USAID/Bolivia and documented in writing.

Cause:

There are no formal procedures regarding the approval of budgets and subsequent requests for changes. CRS/Caritas informed us that USAID/Bolivia sometimes agreed to budget modifications verbally, which appears to be the case in this instance.

Effect:

Failure to document the approval of budget changes may lead to disagreement between the implementing entity and

A.I.D. as to what income and expenditure levels were agreed upon and the extent of program activities to be pursued.

Recommendation:

USAID/Bolivia should specify formal procedures for the approval of program budgets and modifications, which procedures should require that the approved budget and changes be documented in writing.

2. Funds of the Program were not Maintained in a Separate Bank Account

Condition:

The proceeds from the sale of the wheat flour under the program were not deposited in a separate bank account but were commingled with the other funds of Catholic Relief Services and Caritas Boliviana.

Criteria:

To maintain proper accountability the funds should have been deposited in a separate bank account which should be used only for the monetization program. In this regard, USAID/Bolivia advised CRS/Caritas in June 1987 that the proceeds should be deposited in a separate bank account.

Cause:

CRS/Caritas did not comply with USAID/Bolivia's direction and USAID/Bolivia did not carry out follow-up procedures to verify compliance with this requirement.

Effect:

As a result of the failure to maintain the proceeds of the monetization program separate from the other funds of the institutions, proper separation of the use of these funds did not exist and accountability would have been inadequate except for the fact that the approved budget items were precisely defined and could be verified through supporting documentation. Furthermore since CRS/Caritas did not keep track of the amounts of program



funds that it had on hand, it did not invest the funds to protect them against devaluation and inflation.

Recommendation:

USAID/Bolivia should obtain evidence that PL480 Title II program funds provided to Catholic Relief Services and Caritas Poliviana (CPS/Caritas) are being managed through separate bank accounts so that there is no commingling of these funds between program years or with other funds available to the entities. Additionally, for any future or ongoing support that they receive from USAID/Bolivia, CPS/Caritas should establish separate accountability for the A.I.D. funds within their respective accounting records.

3. Cash Generated from the Sale of Wheat Bags was not Included in the Program

Condition:

Bs1,500 was generated from the sale of the empty wheat flour bags. This amount was not included in the monetization program.

Criteria:

All funds generated from the sale of the program's commodities should be included in the program.

Cause:

We were informed that these funds were not included because the management of Caritas was unaware that they should be.

Effect:

As a result of the failure to include the proceeds of the sale of the bags in the program, income was understated and it is possible that such income might be used for non-program purposes.



Recommendation:

USAID/Bolivia should require Catholic Relief Services and Caritas Boliviana to include within the program's funds the income generated from the sale of the bags within which the commodities were shipped.

4. Not all Disbursements were Supported by Fiscal Invoices

Condition:

Not all disbursements were supported by legal fiscal invoices, that is, company invoices numerically controlled by the tax authorities to ensure the collection of value-added taxes. The following are examples of payments not supported by fiscal invoices.

<u>Voucher No.</u>	<u>Type of expense</u>	<u>Bs</u>
21717/80018	Purchase of 5 computers	33,870
21716	Purchase of Pick-up truck (25% of the value)	12,480
200008	Purchase of construction material	814
200016	Purchase of 140 bags of cement	1,680
000046 A	Purchase of 10 window frames	1,820

In the case of the last three items no proper alternative documentation existed to support these payments and therefore we consider them to be questionable costs.

Criteria:

To ensure the payment of value-added taxes to the Government of Bolivia, all disbursements need to be supported by legal fiscal invoices. Further, U.S. Government cost principles require that expenses be supported with adequate documentation to be reimbursable.

Cause:

Suppliers sometimes reduce their prices if official tax invoices are not used. This benefits the organization, and, because current tax enforcement regulations are not directed towards those that receive goods on which the



required taxes have not been paid, no potential tax contingency is incurred.

Effect:

The failure to purchase goods under invoices controlled by tax authorities to ensure the collection of value-added taxes could mean that such taxes are not paid in contravention to Bolivian tax law. While the buying entity may not be subject to legal action under current tax enforcement procedures, we believe that A.I.D. would not want to be associated with such practices. Further, for those purchases not supported with alternative documentation, A.I.D. has no assurance that the goods were actually received. Since such expenditures are not supported with adequate documentation, they should be considered to be questionable costs.

Recommendation:

USAID/Bolivia should require that Catholic Relief Services and Caritas Boliviana support all of their payments with legal fiscal invoices to ensure the payment of value-added taxes levied by the Government of Bolivia.

5. Procurements of Goods and Services were not Supported with Quotations and Purchase Orders

Condition:

Caritas Boliviana did not obtain price quotes for its goods and services purchases nor were purchase orders used. Approvals were made only when the purchases were paid for.

Criteria:

Typical procurement practice requires that at least three price quotations be obtained for purchases over a predetermined minimum amount. Also it is normal practice to issue purchase orders approved by responsible officials prior to the acquisition of the goods and services. These practices assure that only approved purchases are made and that competitive prices are paid.



Cause:

Caritas Boliviana did not use formal purchasing procedures during the period audited and USAID/Bolivia did not provide guidelines for procurement.

Effect:

The failure to obtain written quotations and to authorize purchases prior to making a purchase commitment could result in unauthorized or overpriced purchases.

Recommendation:

USAID/Bolivia should require Caritas Boliviana to develop formal procurement procedures which establish thresholds for seeking competitive bids and require preauthorization of all purchases. Such procurement procedures should be submitted to USAID/Bolivia for approval.

6. Program Receipts were not Invested Pending their Disbursement

Condition:

The funds from the sale of the wheat flour were received by Catholic Relief Services in July, August and September 1988, but the disbursements were made by Caritas Boliviana over the longer time period from August 1988 through July 1989. During this period, the funds, deposited in bolivianos, were commingled in the general bank accounts of Catholic Relief Services and Caritas Boliviana and did not earn interest.

Criteria:

To generate additional revenue and to preserve their value in a devaluation environment, program funds should be invested pending their use for program purposes.

Cause:

The funds obtained were commingled with the general funds of Catholic Relief Services and Caritas Boliviana and were considered part of the working capital available to



the organizations. Since the funds were not separately identified, no consideration was given to investing them.

Effect:

The program did not receive interest on idle funds and a loss of purchasing power due to inflation and devaluation occurred. During the period of the program the Bolivian currency, in which the funds were held, devalued 12 percent against the United States dollar (from Bs2.39 to Bs2.68 per US\$ 1) and inflation as measured by the retail price index was 8.4 percent.

Recommendation:

USAID/Bolivia should require that all idle program funds be invested to earn interest so as to minimize losses from inflation and devaluation.



Moreno Muñoz



FISCAL YEAR 1987 PL480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY CATHOLIC RELIEF SERVICES
AND CARITAS BOLIVIANA

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Fiscal Year 1987 PL480 Title II Monetization Program activities managed by Catholic Relief Services and Caritas Boliviana for the period July 19, 1988 to July 31, 1989 and have issued our report thereon dated September 20, 1989.

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 and laws and regulations applicable to the monetization program carried out by Catholic Relief Services and Caritas Boliviana is the responsibility of Catholic Relief Services and Caritas Boliviana managements. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of Catholic Relief Services and Caritas Boliviana 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.

As described in the following pages as findings Nos. 1 and 2 Catholic Relief Services and Caritas Boliviana did

not collect value-added and transaction taxes amounting to about Bs25,200 on its sales of program commodities or withhold about Bs6,200 of complementary value-added and transaction taxes from its payments for services which were not supported by fiscal invoices.

In our opinion, except for the noncompliance with laws related to value-added, complementary value-added, and transaction taxes as described in the preceding paragraph, with respect to the items tested, Catholic Relief Services and Caritas Boliviana 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 Catholic Relief Services and Caritas Boliviana had not complied, in all material respects, with those terms and provisions.

This report is intended for the information of the managements of Catholic Relief Services, Caritas Boliviana 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.

Price Waterhouse

September 20, 1989



Moreno Muñoz



FISCAL YEAR 1987 PI.480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY CATHOLIC RELIEF SERVICES AND
CARITAS BOLIVIANA

REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

FINDINGS

1. Tax Liabilities May Arise from the Sale of Commodities

Condition:

The tax authorities could claim that the sale of commodities is subject to the value-added tax of ten percent and the transaction tax of one percent. The tax law states that all sales and income within Bolivian territory are subject to these taxes. Catholic Relief Services and Caritas Boliviana do not have a specific exemption from these taxes.

Criteria:

The Bolivian tax law No. 843 states that all sales of goods and services within Bolivian territory are subject to a value-added tax, and that this tax is payable by all entities or persons who habitually sell goods. The tax rate is ten percent. The same law states that all entities or persons are subject to a transaction tax calculated at the rate of one percent of gross income. There is no exemption in the law for non-profit organizations. Unless they are determined to be exempt from value-added and transaction taxes, CRS/Caritas is required to comply with the applicable legal provisions.

Cause:

Catholic Relief Services and Caritas Boliviana because they are non-profit charities believe that their transactions under the program are exempted from these taxes.

Effect:

A significant tax liability (about Bs25,200 plus interest and fines) could arise for the organization if these sales were considered to be taxable by the authorities.

Recommendation:

USAID/Bolivia should request Catholic Relief Services and Caritas Boliviana to clarify their exemption status with regard to value-added and transaction taxes with the Bolivian tax authorities.

2. Tax was not Retained on Payments for Services not Supported by Fiscal Invoices

Condition:

Caritas Boliviana did not withhold the legally required ten percent complementary value-added tax or the one percent transaction tax from payments of services, especially contracted labor, which were not supported by fiscal invoices, that is, company invoices numerically controlled by the tax authorities to ensure the collection of value-added taxes.

Criteria:

In accordance with the tax reform law No. 843, all income paid to individuals is subject to complementary value added taxes. Income is defined as payments for rents, interest, dividends, fees, royalties, salaries, wages, per diem allowances, etc. Article 11 of the Supreme Decree No. 21531 requires the paying entity to withhold a tax amount of 11 percent (ten percent complementary value-added tax and one percent transaction tax) from all payments made for these concepts which are not supported by a legal fiscal invoice.

Cause:

The organization was unaware that it was required to withhold these taxes.



Effect:

In the case of an inspection by the tax authorities the organization would be required to pay the taxes not withheld (estimated to be about Bs6,200) together with fines and interest.

Recommendation:

USAID/Bolivia should ensure that Caritas Boliviana complies with the Bolivian tax law regarding the withholding of taxes on payments for services to persons who do not present fiscal invoices and that it pays over to the tax authorities the amounts withheld.



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FISCAL YEAR 1987 PL480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY CATHOLIC RELIEF SERVICES AND
CARITAS BOLIVIANA

LIST OF REPORT RECOMMENDATIONS

Internal Control Structure

Recommendation 1:

USAID/Bolivia should specify formal procedures for the approval of program budgets and modifications, which procedures should require that the approved budget and changes be documented in writing.

Recommendation 2:

USAID/Bolivia should obtain evidence that PL480 Title II program funds provided to Catholic Relief Services and Caritas Boliviana (CRS/Caritas) are being managed through separate bank accounts so that there is no commingling of these funds between program years or with other funds available to the entities. Additionally, for any future or ongoing support that they receive from USAID/Bolivia, CRS/Caritas should establish separate accountability for the A.I.D. funds within their respective accounting records.

Recommendation 3:

USAID/Bolivia should require Catholic Relief Services and Caritas Boliviana to include within the program's funds the income generated from the sale of the bags within which the commodities were shipped.

Recommendation 4:

USAID/Bolivia should require that Catholic Relief Services and Caritas Boliviana support all of their

payments with legal fiscal invoices to ensure the payment of value-added taxes levied by the Government of Bolivia.

Recommendation 5:

USAID/Bolivia should require Caritas Boliviana to develop formal procurement procedures which establish thresholds for seeking competitive bids and require preauthorization of all purchases. Such procurement procedures should be submitted to USAID/Bolivia for approval.

Recommendation 6:

USAID/Bolivia should require that all idle program funds be invested to earn interest so as to minimize losses from inflation and devaluation.

Compliance with Agreement Terms and Applicable Laws and Regulations

Recommendation 1:

USAID/Bolivia should request Catholic Relief Services and Caritas Boliviana to clarify their exemption status with regard to value-added and transaction taxes with the Bolivian tax authorities.

Recommendation 2:

USAID/Bolivia should ensure that Caritas Boliviana complies with the Bolivian tax law regarding the withholding of taxes on payments for services to persons who do not present fiscal invoices and that it pays over to the tax authorities the amounts withheld.





BOLIVIA PROGRAM
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Appendix I
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La Paz, May 18, 1990

Mr. Andrew J. E. Page
Moreno Muñoz y Cía.
Edificio Hansa , Piso 18°
La Paz.

RE: Audit of Monetization Program
Title II Fiscal Year 1988

Dear Mr. Page:

We have received copy of your audit report from the USAID Comptroller on the sale of 300 Metric Tons of wheat flour in 1988. In a meeting with you, representatives of USAID, and Caritas the past week, we agreed to answer the recommendations made in this audit that apply to CRS/Caritas. We can reply as follows:

1. List of Report Recommendations

- a. Recommendation # 1 - USAID/Bolivia should specify formal procedures for the approval of the program budgets and modifications, which procedures should require that the approved budget and changes be documented in writing.

CRS/Bolivia was very careful to document all phases of the monetization of 300 metric tons of wheat flour principally because it was a new effort. The original plan to monetize larger quantities of food including powdered milk and vegetable oil, was discarded in favor of the monetization of 300 metric tons of wheat flour to cover the cutback in our AID/Washington Outreach Grant that was terminated in 1988. If some budget changes or modifications were not put in writing it was due to an oversight as we did advise USAID/Bolivia at least orally of any such changes.

- b. Recommendation # 2 - USAID/Bolivia should obtain evidence that PL 480 Title II program funds provided to Catholic Relief Services and Caritas Boliviana (CRS/Caritas) are being managed through separate bank accounts so that there is no commingling of these funds between program years or with other funds available to the entities. Additionally, for any future or ongoing support that

they receive from USAID/Bolivia, CRS/Caritas should establish separate accountability for the A.I.D. funds within their respective accounting records.

It is true that CRS did not open a special bank account for monetization funds due principally to the fact that the funds were destined for specific projects in Caritas and the income from the sale of the wheat flour was made in 3 payments. We will in our FY 1990 Monetization Program and in the future open a separate local currency bank account. CRS does, however, maintain separate ledgers for all U.S. Government funds as well as a separate dollar account for U.S. Government grant monies.

- c. Recommendation # 3 - USAID/Bolivia should require Catholic Relief Services and Caritas Boliviana to include within the program's funds the income from the sale of the bags within which the commodities were shipped.

The income from the sale of empty containers is used to cover the storage and transport of the Title II Foods including the monetization program. Due to the fact that this was the first monetization project of CRS/Caritas, these funds - 1,500 Bolivianos were included in the regular program income of Caritas La Paz to cover such expenses.

- d. Recommendation # 4 - USAID/Bolivia should require that Catholic Relief Services and Caritas Boliviana support all of its payments with legal fiscal invoices to ensure the payment of value-added taxes levied by the Government of Bolivia.

This will be done in the future. Caritas Boliviana made some purchases which did not include taxes. They did this to save money on purchases, and as there were no set rules from USAID on this point they did make such tax free payments.

- e. Recommendation # 5 - USAID/Bolivia should require Caritas Boliviana to develop formal procurement procedures which establish thresholds for seeking competitive bids and require preauthorization of all purchases. Such procurement procedures should be submitted to USAID/Bolivia for approval.

In the future this will be done and especially now that there is a Monetization Committee to regulate such purchases as well as an Accounting Manual adopted by this Committee that controls such purchases. USAID/Bolivia is aware of these measures that will be undertaken in future monetization proposals.

- f. Recommendation # 6 - USAID/Bolivia should require that all idle program funds be invested to earn interest so as to minimize losses from inflation and devaluation.

When this program was initiated in 1988, it was not to our knowledge permissible to put U.S. Government funds in interest bearing accounts. Now that the USAID/Bolivia Mission approves these transactions, in the future we will invest such funds so as they are not idle.

2. Report on the Compliance with Agreement Terms and Applicable Laws and Regulations

- a. Recommendation # 1 - USAID/Bolivia should request Catholic Relief Services and Caritas Boliviana to clarify their exemption status with regard to value-added and transaction taxes with the Bolivian tax authorities.

In this particular project, CRS passed funds to Caritas Boliviana to make purchases. Caritas was exempt from taxes up until 1985 when a new tax law - Ley 843 - eliminated this exemption. In the future Caritas will ensure that all required tax obligations are met.

- b. Recommendation # 2 - USAID/Bolivia should ensure that Caritas Boliviana complies with the Bolivian tax law regarding the withholding of taxes on payments for services to persons who do not present fiscal invoices and that it pays over to the tax authorities the amount withheld.

In the future Caritas Boliviana will comply with the withholding of taxes on payment for services to persons who do not present fiscal invoices and will forward payment to the tax authorities.

Please advise if you need more information on these recommendations.

Sincerely yours


John P. Conroy
ASSOCIATE DIRECTOR

JPC:pac.

cc: Mr. John Davison - USAID
Fernando Moreno - USAID

APPENDIX II

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