

RD-ABC-496

Audit of the Fiscal Year 1987 PL 480
Title II Monetization Program Activities
Managed by Food for the Hungry
International in Bolivia

Audit Report 1-511-90-46-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 Food for the Hungry International in Bolivia

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 Food for the Hungry International (FHI) for the period August 15, 1987 to December 31, 1988. The accounting firm of Price Waterhouse in Bolivia prepared the report which is dated June 13, 1990.

FHI was one of three entities implementing the Fiscal Year 1987 PL 480 Title II Monetization Program. As authorized by USAID/Bolivia, FHI used the proceeds from sales of program furnished commodities to finance minor development projects in the areas of agricultural infrastructure, drinking water storage systems, and raising fish and rabbits. Additionally, it used the funds for the administrative and logistical support of the program. The purpose of the audit was to determine whether: (1) the fund accountability statement of FHI's activities under the program fairly presents its program receipts and disbursements, with disclosure of questionable costs, if any, (2) FHI's 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 not including sales receipts and for including questionable costs amounting to a local currency equivalent of \$1,337 and \$6,303 respectively, the fund accountability statement of FHI presents fairly its receipts and expenditures under the program. Regarding FHI's internal control structure, the auditors noted several areas needing improvement. For instance, funds were not used in accordance with the approved budget, the entity's accounting system provided no audit trail to

discriminate between program and nonprogram expenditures, program funds were not maintained in a separate interest bearing bank account, and there was no documentation of the receipt of materials by the program. Lastly, with regard to compliance, the auditors noted that FHI 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 9 recommendations concerning accountability and control over program funds and compliance with agreement terms and applicable laws and regulations which we have summarized 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 Food for the Hungry International for the local currency equivalent of \$7,640 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 Food for the Hungry International to maintain separate accountability for the funds resulting from the sale of A.I.D. supplied commodities. This separate accountability should include: (1) the maintenance of audit trails between expenditures and the benefitting project or activity and (2) the deposit of program funds in a separate interest bearing bank account.

Recommendation No. 3

We recommend that USAID/Bolivia require Food for the Hungry International to strengthen its internal controls over program funds by: (1) instituting budget control over program expenditures, (2) following formal procurement procedures which require preauthorization of all purchases and competitive bids for purchases exceeding predetermined thresholds, and (3) implementing the use of forms to support and document all material receipts.

Recommendation No. 4

We recommend that USAID/Bolivia require Food for the Hungry International (FHI) 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 FHI is determined not to be exempt from these

taxes, require it to pay such taxes, (2) withhold and pay complementary value-added taxes on per diem payments, where appropriate, 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 FHI on May 9, 1990. In general, the entity agreed with the matters raised in the report although it emphasized that the costs which we questioned had been used for program purposes.

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
FOOD FOR THE HUNGRY INTERNATIONAL



AUDIT OF THE
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TABLE OF CONTENTS

	<u>Page</u>
Transmittal Letter and Summary	1
Background	1
Audit Objectives and Scope	3
Results of Audit	4
Management Comments	6
Fund Accountability Statement	7
Independent Auditor's Report	7
Fund Accountability Statement	9
Notes to the Fund Accountability Statement	10
Internal Control Structure	13
Independent Auditor's Report	13
Findings	16
Compliance with Agreement Terms and Applicable Laws and Regulations	23
Independent Auditor's Report	23
Findings	25
List of Report Recommendations	29
Appendix I - Management Comments	32



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 Food for the Hungry International for the period August 15, 1987 to December 31, 1988.

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 Food for the Hungry International as follows:

	<u>Metric tons</u>	<u>Value</u> <u>US\$</u>
Wheat flour	190.3	24,500
Vegetable oil	14.2	9,700
Milk	<u>33.1</u>	<u>3,500</u>
	<u>237.6</u>	<u>37,700</u>

The value included in the monetization authorizations was denominated in United States dollars, although the proceeds of the sales were 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. The amended agreement provided for the following commodity amounts and values:

	<u>Metric tons</u>	<u>Value</u> <u>Bs</u>
Wheat flour	260.3	160,664
Vegetable oil	<u>1.7</u>	<u>3,040</u>
	<u>262.0</u>	<u>163,704</u>

In accordance with its agreement with USAID/Bolivia, Food for the Hungry International was to use the above proceeds for its projects related to technical assistance to improve agricultural infrastructure, drinking water storage systems, fish and rabbit projects, and for administrative and logistic support.

While the program subject to audit has now been completed, we understand that Food for the Hungry International 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 Food for the Hungry International 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 Food for the Hungry International for the period August 15, 1987 to December 31, 1988. The objectives of this audit were to determine whether:

1. The fund accountability statement of Food for the Hungry International 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. Food for the Hungry International's internal control structure is adequate for program purposes; and
3. Food for the Hungry International 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 Food for the Hungry International's 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 Food for the Hungry International 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 Food for the Hungry International's 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 Bs3,303 and including questionable costs amounting to Bs15,569, the fund accountability statement of Food for the Hungry International's activities under the program for the period August 15, 1987 to December 31, 1988 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 Food for the Hungry International 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 Food for the Hungry International's 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. Funds were not used in accordance with the approved budget.



2. It was not possible to verify that all the expenses charged to a project were actually incurred on such project.
3. Funds of the program were not maintained in a separate bank account.
4. Proceeds from the sale of wheat bags were not included in the program.
5. Procurements of goods and services were not supported with quotations and purchase orders.
6. Receipt forms were not issued to evidence the receipt of materials.

Because of these weaknesses our audit was performed by extending our substantive testing rather than relying on the internal control structure of Food for the Hungry International 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. Taxes were not withheld on per diem payments.
3. Tax was not retained on payments for services not supported by fiscal invoices.

Except for the above instances of noncompliance, and unrecorded receipts and questionable costs included in note 8 to the fund accountability statement, the results of our tests indicate that with respect to the items tested Food for the Hungry International 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 Food for the Hungry International had not complied, in all material respects, with those provisions.

MANAGEMENT COMMENTS

The report was discussed with management personnel of Food for the Hungry International on May 9, 1990. In general the PVO agreed with the matters raised in this report, although it emphasized that the questioned costs had been used for project purposes. Their detailed comments on each reportable item are included as Appendix I of this report.

Price Waterhouse



Moreno Muñoz



FISCAL YEAR 1987 PL480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY FOOD FOR THE HUNGRY INTERNATIONAL

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Fiscal Year 1987 PL480 Title II Monetization Program activities managed by Food for the Hungry International for the period August 15, 1987 to December 31, 1988. 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 8 certain revenues amounting to Bs3,303 were not recorded in project accounts and,

consequently, were not included in the accompanying fund accountability statement. Additionally, there were certain questionable costs amounting to B\$15,569.

In our opinion, except for the failure to include certain income as program funds and for the inclusion of certain questionable costs as program costs, as described in the fourth paragraph, 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 Food for the Hungry International for the period August 15, 1987 to December 31, 1988 on the basis of accounting described in the third paragraph.

This report is intended solely for the information of Food for the Hungry International 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 FOOD FOR THE HUNGRY INTERNATIONAL

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM AUGUST 15, 1987 TO DECEMBER 31, 1988

	<u>Budget (1)</u>	<u>Actual</u>	<u>Auditor's Findings Questionable Costs (Note 8)</u>
RECEIPTS			
Sale of wheat flour	Bs 160,664	Bs 160,664	Bs 3,303
Sale of vegetable oil	3,040	3,040	-
Interest earned	-	4,058	-
	<u>Bs 163,704</u>	<u>Bs 167,762</u>	<u>Bs 3,303</u>
DISBURSEMENTS			
Agricultural infrastruc- ture - Technical assis- tance	107,671	148,794	2,200
Drinking water storage system	4,340	5,618	3,818
Fish and rabbit projects	10,000	9,538	8,209
Administrative and logistic support	23,840	3,812	1,342
	<u>Bs 145,851</u>	<u>Bs 167,762</u>	<u>Bs 15,569</u>

- (1) The budget income of Bs163,704 arises from the last budget approval. However, no modification was made to the budgeted expenses which were based on the original estimates.

The accompanying notes form an integral part of this statement.

FISCAL YEAR 1987 PL480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY FOOD FOR THE HUNGRY INTERNATIONAL

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM AUGUST 15, 1987 TO DECEMBER 31, 1988

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 partially in a separate bank account which was used exclusively for the monetization program, and partially in the general bank account together with the other funds of the organization. Further, there are no independent records for the program, and program activities required the same general types of expenditures as did non-program activities. Since there is no audit trail maintained to differentiate between program and non-program charges, the accounting system is only adequate to support an accountability for A.I.D.'s fund when such funds are provided on a general support basis.

The fund accountability statement has been prepared from the accounting records of the organization on the basis of the amounts obtained from sales and of the payments charged to general program areas which have been approved by USAID/Bolivia.

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

NOTE 2 - EXCHANGE RATES

During the period of the program the Bolivian currency devalued against the United States dollar from Bs2.09 per US\$ 1 in August 1987 to Bs2.47 to US\$ 1 in December 1988.

NOTE 3 - THE MONETIZATION PROGRAM

On January 16, 1987, USAID/Bolivia authorized the monetization program to be financed from the sales of commodities under

Public Law 480 (PL480) Title II for Fiscal Year 1987. Food for the Hungry International (FHI) managed some of the activities under this program along with other Private Voluntary Organizations (PVOs). For its activities under the program, FHI was provided 260.3 metric tons of wheat flour and 1.7 metric tons of vegetable oil.

NOTE 4 - AGRICULTURAL INFRASTRUCTURE - TECHNICAL ASSISTANCE

The funds spent on this element consisted of:

Salaries of the technical head and consultants	Bs 29,183
Travel and per diem expenses of promoters	51,918
Fuel for vehicles	34,044
Improvement of training facilities	<u>33,649</u>
	<u>Bs 148,794</u>

NOTE 5 - DRINKING WATER STORAGE SYSTEM

The funds spent on a drinking water storage system in the locality of Pocoata, Bolivia consisted of:

Purchase of materials	Bs 3,818
Wages	<u>1,800</u>
	<u>Bs 5,618</u>

NOTE 6 - FISHING AND PARRIT PROJECTS

The funds spent on these projects consisted of:

Purchase of materials and spares	Bs 8,209
Payment of social security taxes	<u>1,329</u>
	<u>Bs 9,538</u>

NOTE 7 - ADMINISTRATIVE AND LOGISTIC SUPPORT

The funds spent in administrative and logistic support consisted of:

Purchase of materials	Bs 1,342
Salaries	891
Other	<u>1,579</u>
	<u>Bs 3,812</u>

NOTE 8 - UNRECORDED RECEIPTS AND QUESTIONABLE COSTS (AUDITOR'S NOTE)

Unrecorded receipts are as follows:

Food for the Hungry International received Bs3,303 from the sale of empty wheat flour bags which were not included in program funds. This income should have been included in the program.

Questionable costs are as follows:

	<u>Not Appropriate for Reimbursement</u>	<u>Suspended</u>	<u>Total</u>
Items for which no documentation could be located:			
Commission sale of wheat	-	Bs 1,000	Bs 1,000
Per diem	-	1,200	1,200
Material items which lacked documentation to show their receipt	<u>- (1)</u>	<u>13,369</u>	<u>13,369</u>
	<u>-</u>	<u>Bs 15,569</u>	<u>Bs 15,569</u>

(1) See finding No. 6 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 FOOD FOR THE HUNGRY INTERNATIONAL

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 Food for the Hungry International for the period August 15, 1987 to December 31, 1988 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 a 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 Food for the Hungry International for the period August 15, 1987 to December 31, 1988, 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 Food for the Hungry International 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 that finding No. 6 in the pages that follow is a material weakness.

This report is intended for the information of the management of Food for the Hungry International 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 FOOD FOR THE HUNGRY INTERNATIONAL

REPORT ON THE INTERNAL CONTROL STRUCTURE

FINDINGS

1. Funds were not Used in Accordance with the Approved Budget

Condition:

Food for the Hungry International (FHI) used funds obtained from the sale of the program's commodities for expenditures outside the scope of the budget approved by USAID/Bolivia. However, USAID/Bolivia retroactively approved the expenditures after the funds had been spent and the fund accountability statement presented.

Criteria:

Spending funds for purposes outside the approved budget results in questionable costs which may have to be reimbursed to A.I.D. Any request for deviations from the approved budget should be justified in writing and be submitted for USAID/Bolivia approval before the funds are spent.

Cause:

Since the expenditures in question furthered program objectives, although they were not of the type included in the approved budget, FHI believed they would be acceptable to USAID/Bolivia. Additionally, no procedure had been specified by USAID/Bolivia on how to go about requesting a change to the approved budget.

Effect:

Funds were spent for unauthorized purposes. Had USAID/Bolivia not subsequently approved the expenditures in

question, FHI would have had to reimburse these costs to A.I.D.

Recommendation:

USAID/Bolivia should provide guidance to Food for the Hungry International and other PVO's involved in monetization of PI480 commodities making clear the degree of latitude, if any, each PVO has in deviating from approved budgets and specifying the procedures to be followed in requesting USAID/Bolivia approval of changes to such budgets.

2. It was not Possible to Verify that all the Expenses Charged to a Project were Actually Incurred on such Project

Condition:

The organization did not have records to demonstrate that certain expenses charged to projects - especially payments for salaries, travel, per diem, and gasoline - were actually incurred on the projects receiving the charges.

Criteria:

Government cost principles require that any charges to the agreement be supported with adequate documentation. To the extent that charges are not supported with such documentation, the costs are considered to be questionable.

Cause:

The organization allocated some costs to projects on the basis of its knowledge of those projects, but no formal audit trail existed to permit verification.

Effect:

As a result of the lack of records, it was not possible to verify that costs, which would otherwise appear to be of an allowable nature, were actually incurred on the projects to which they were charged. Therefore the



accounting system in place is not adequate to support and accountability for A.I.D. funds on an individual project basis. If A.I.D. had required that its funds be spent in specific projects within the organization's universe of projects and activities, then we would have considered the total costs of the program to be questionable.

Recommendation:

USAID/Bolivia should consider requiring Food for the Hungry International (FHI) to improve its accounting system by establishing audit trails to enable verification that the costs charged to projects were actually incurred on such projects. In any case, A.I.D. should not provide any funds to FHI for which A.I.D. will require separate project accountability until such time that the entity has improved its accounting system so that it will be able to provide such separate accountability.

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

Condition:

Food for the Hungry International (FHI) received its commodities under the program in two shipments and consequently sold these commodities in two transactions. The proceeds from the first sale were deposited in a separate bank account and earned interest which was applied to the program. However, the proceeds from the second sale were not deposited in the separate bank account but were commingled with the other funds of the organization.

Criteria:

To properly manage the program's funds, the financial management system must track the source and application of the A.I.D. funds including their obligation and outlay status. The simplest way to do this is to maintain such funds in a separate bank accounts. Additionally, any interest which accrues from program funds belongs to the program.



Cause:

With the regard to the second sale of program commodities mentioned above, the institution considered it convenient to keep the funds in its general account. Further, we found no evidence that USAID/Bolivia instructed FHI to maintain the funds in a separate bank account. We did note, however, that USAID/Bolivia instructed the other PVO's involved in this program to maintain program funds in separate accounts, which would indicate the mission's desire that such funds be kept separate.

Effect:

As a result of the failure to maintain the proceeds of the monetization program separate from the other funds of the institution, FHI did not keep track of amounts of program funds available. Therefore, FHI failed to invest such funds to protect them against devaluation and inflation. During the period from the second sale until the funds were finally used, the Bolivian currency, in which the funds were held, devalued 6 percent against the United States dollar (from Bs2.33 to Bs2.47 per US\$ 1) and inflation as measured by the retail price index was 4.2 percent.

Recommendation:

USAID/Bolivia should direct Food for the Hungry International (FHI) to deposit the proceeds from the sales of PL480 Title II commodities into a separate bank account and to make disbursements from that account only to meet the expenses of the program. Further, USAID/Bolivia should require FHI to invest excess program funds so as to earn interest on them until such time as the funds are needed to meet approved program costs.

4. Proceeds from the Sale of Wheat Bags were not Included in the Program

Condition:

Bs3,303 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 commodities should be included in the program.

Cause:

We were informed that these funds were not included because the management of Food for the Hungry International 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 Food for the Hungry International to include within the program's funds the income generated from the sale of the bags within which the commodities were shipped.

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

Condition:

Food for the Hungry International 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:

For purchases over a predetermined minimum amount, formal controls need to be exercised to assure that only those purchases that are approved are made and that competitive prices are paid. Typical controls include the use of purchase orders approved by responsible personnel and the obtaining of at least three price quotations. These controls are exercised when the request for procurement is initiated -- not when the purchase has already been made.



Cause:

Food for the Hungry International 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 Food for the Hungry International 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. Receipt Forms were not Issued to Evidence the Receipt of Materials

Condition:

Receipt forms were not issued to document the receipt of materials in the projects.

Criteria:

Receipt forms should be issued by each project to demonstrate that the materials have been received and recorded in the project to which the costs were charged. Any material charges not supported by adequate documentation are questionable expenditures under government cost principles.

Cause:

Food for the Hungry International did not use formal procedures to document the reception of materials in the projects.



Effect:

It was not possible to verify that the Bs13,369 of materials charged to the program were received. Additionally, the lack of controls could lead to errors or irregularities that might not be detected in a timely manner.

Recommendation:

Food for the Hungry International should implement the use of forms to support all the receipts of materials charged to the program. We consider that the material costs charged to the program are not adequately supported with documentation and that such costs are therefore questionable.



Moreno Muñoz



FISCAL YEAR 1987 PL480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY FOOD FOR THE HUNGRY INTERNATIONAL

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 Food for the Hungry International for the period August 15, 1987 to December 31, 1988 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 Food for the Hungry International is the responsibility of Food for the Hungry International's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of Food for the Hungry International's 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 finding Nos. 1, 2 and 3, Food for the Hungry International did not collect value-added and transaction taxes amounting to about Bs18,000 on its sales of program commodities or withhold about Bs1,000 of complementary value-added taxes and transaction taxes from its payments for services which

were not supported by fiscal invoices. Additionally, approximately Bs5,000 of complementary value-added taxes were not withheld from per diem allowances.

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

This report is intended for the information of the managements of Food for the Hungry International 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 PL480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY FOOD FOR THE HUNGRY INTERNATIONAL
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. Food for the Hungry International does 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 transactions tax calculated at the rate of one percent of gross income. There is no exemption in the law for non-profit organizations.

Cause:

Food for the Hungry International, because it is a non-profit charity, believes that its activities are exempted from these taxes.

Effect:

A significant tax liability (about Bs18,000 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 Food for the Hungry International to clarify its exemption status with regard to value-added and transaction taxes with the Bolivian tax authorities.

2. Taxes were not Withheld on Per Diem Payments

Condition:

No taxes were withheld from payments of per diem allowances.

Criteria:

In accordance with the tax law No. 843, per diem allowances are not taxable to the extent that the amount of per diem was actually incurred as a business expense and documented with appropriate invoices. In actual practice, however, Food for the Hungry International employees did not document their per diem expenses. Therefore retentions of the required ten percent complementary value-added tax should have been made from the full amount of per diem allowances paid.

Cause:

Food for the Hungry International was unaware that tax had to be retained on per diem payments.

Effect:

Food for the Hungry International would be held responsible for the payment of the tax amounting to about Bs5,000 plus interest and fines in the case of a tax inspection.



Recommendation:

USAID/Bolivia should require that Food for the Hungry International withhold the required complementary value added tax from future payments of per diem in excess of those amounts that its employees furnish appropriate invoices to document their actual business expenses incurred.

3. Tax was not Retained on Payments of Services not Supported by Fiscal Invoices

Condition:

Food for the Hungry International 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. Fiscal invoices are legal 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 (10 percent complementary value-added tax and 1 percent transactions 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 Bsl,000) together with fines and interest.



Recommendation:

USAID/Bolivia should ensure that Food for the Hungry International 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.



Moreno Muñoz



FISCAL YEAR 1987 PL480 TITLE II
MONETIZATION PROGRAM ACTIVITIES
MANAGED BY FOOD FOR THE HUNGRY INTERNATIONAL

LIST OF REPORT RECOMMENDATIONS

Internal Control Structure

Recommendation 1:

USAID/Bolivia should provide guidance to Food for the Hungry International and other PVO's involved in monetization of PL480 commodities making clear the degree of latitude, if any, each PVO has in deviating from approved budgets and specifying the procedures to be followed in requesting USAID/Bolivia approval of changes to such budgets.

Recommendation 2:

USAID/Bolivia should consider requiring Food for the Hungry International (FHI) to improve its accounting system by establishing audit trails to enable verification that the costs charged to the projects were actually incurred on such projects. In any case, A.I.D. should not provide any funds to FHI for which A.I.D. will require separate project accountability until such time that the entity has improved its accounting system so that it will be able to provide such separate accountability.

Recommendation 3:

USAID/Bolivia should direct Food for the Hungry International (FHI) to deposit the proceeds from the sales of PL480 Title II commodities into a separate bank account and to make disbursements from that account only to meet the expenses of the program. Further, USAID/Bolivia should require FHI to invest excess program funds so as to earn interest on them until such time as the funds are needed to meet approved program costs.

Recommendation 4:

USAID/Bolivia should require Food for the Hungry International to include within the program's funds the income generated from the sale of the bags within which the commodities were shipped.

Recommendation 5:

USAID/Bolivia should require Food for the Hungry International 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:

Food for the Hungry International should implement the use of forms to support all the receipts of materials charged to the program. We consider that the material costs charged to the program are not adequately supported with documentation and that such costs are therefore questionable.

Compliance with Agreement Terms and Applicable Laws and Regulations

Recommendation 1:

USAID/Bolivia should request Food for the Hungry International to clarify its exemption status with regard to value-added and transaction taxes with the Bolivian tax authorities.

Recommendation 2:

USAID/Bolivia should require that Food for the Hungry International withhold the required complementary value added tax from future payments of per diem in excess of those amounts that its employees furnish appropriate invoices to document their actual business expenses incurred.



Recommendation 3:

USAID/Bolivia should ensure that Food for the Hungry International 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.





FUNDACION CONTRA EL HAMBRE
FOOD FOR THE HUNGRY INTERNATIONAL

Casilla 5671, La Paz, Bolivia, S. A.

Telex Hungerhelp 3201 FHIBV

EXEC.251/90

May 15, 1990

Mr. Andrew Page
Price-Waterhouse
La Paz, Bolivia

Dear Mr. Page:

This letter is in response to the audit by your firm of Food for the Hungry's "Fiscal Year 1987 PL480 Title II Monetization Program".

It is Food for the Hungry's desire to continually improve in the control of donor assets, so we view your audit and observations as opportunities for improvement. We also wish to complement you and your firm on what we feel was a very professional audit.

Since the audit was conducted for 1987 funds, Food for the Hungry has since corrected many of the observations. Therefore, I would like the opportunity to briefly comment on some of the findings.

1. "Funds were not used in accordance with the approved budget". Clear monetization program guidelines and policies have since been established with all changes requiring approval by USAID.
2. "It was not possible to verify that all the expenses charged to a project were actually incurred on such projects". FH/B admits that there was not a formal audit trail for tracking expenses to projects in 1987-8. We feel, however, that the Bs. 13,369 of suspended material purchases related to this observation should be allowed for the following reasons:
 - All of the expenditures are backed-up by receipts and cancelled checks.
 - FH certifies that the expenses were made on actual, existent projects.
 - FH has received a series of positive evaluations on its project impact.
 - FH has established systems that verify the receipt of materials.
3. "Funds of the Program were not maintained in a separate bank account". FH now maintains all monetization funds in a separate bank account.
4. "Proceeds from the sale of wheat bags were not included in the program". FH/B admits that proceeds were not re-deposited and accounted for within the monetization fund. This doesn't mean, however, that the proceeds were lost or not controlled. They were deposited with other beneficiary contributions and accounted for using established USAID guidelines for beneficiary contributions (Regulation 11). In addition, similar to all monetization funds, the proceeds were used to contribute to overall Title II objectives. For these reasons, we ask that the Bs.3,303 of suspended proceeds be allowed.

5. "Procurements of goods and services were not supported with quotations and purchase orders".
FH/B now requires 3 quotations for procurements of goods and services over \$500.
6. "Receipt forms were not issued to evidence the receipt of materials".
Same answer as number 2.

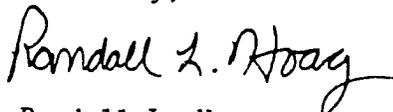
In addition to the above 6 findings, your audit also highlighted 3 tax findings. In each case, FH/B admits the previous weakness but also has since corrected the observations.

While not specifically mentioned in the 9 findings, note 8 of the "Notes to the Fund Accountability Statement" (p.14), suspends an additional Bs. 1,200 for per diems and Bs. 1,000 for sales commissions. The per diems are backed-up by cancelled checks to the employees and there was also a note in the records stating "see chart 6". This implies that the backup chart did exist, but was apparently lost. For this reason, we ask that the per diems in question be allowed.

Finally, our defense for the sales commissions is that the 1987 monetization program was an experimental program both for USAID and the PVO's. There were no established guidelines and it was necessary to make some initial decisions without clear guidance. While I don't have numbers to give you, it should also be noted that in 1987 FH consistently received the highest prices for its commodities.

Again, we wish to express our appreciation for your constructive suggestions that will help Food for the Hungry improve. We are sending via a separate letter requests for technical assistance in correcting findings 2 and 6. If you have any questions, please contact us.

Sincerely,



Randall L. Hoag

cc. Luis Fernando Moreno, USAID
Luis Montero, USAID Controller's Office

APPENDIX II

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34