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**AUDIT OF THE RURAL SCHOOL
REFURBISHMENT PROJECT UNDER
MEMORANDUM OF UNDERSTANDING NO. 19
MANAGED BY STAFF OF USAID/COSTA RICA'S
SPECIAL DEVELOPMENT FUND
APRIL 27, 1987 TO DECEMBER 31, 1989**

**Audit Report No. 1-515-91-10-N
December 27, 1990**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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December 27, 1990

MEMORANDUM

TO: D/USAID/Costa Rica, Ronald F. Venezia

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

SUBJECT: Audit of the Rural School Refurbishment Project Under Memorandum of Understanding No. 19, Managed by Staff of USAID/Costa Rica's Special Development Fund, April 27, 1987 to December 31, 1989

This report presents the results of a non-Federal financial audit of the Rural School Refurbishment Project (Project) Under Memorandum of Understanding No. 19, managed by staff of the Special Development Fund (Unit) an operating unit of USAID/Costa Rica. The Unit was assisted by Peace Corp volunteers in Costa Rica assigned to the Ministry of Education's Central Planning Office and 16 Regional offices. The audit was for the period April 27, 1987 to December 31, 1989. The accounting firm of Price Waterhouse prepared the report which is dated November 29, 1990.

Memorandum of Understanding No. 19 authorized \$120 million in local currency (equivalent to US\$1.7 million) to assist rural communities upgrade the quality of education through physical improvements to rural schools. Funds were used for the acquisition of basic school furniture and construction materials for the repair, renewal or construction of school classrooms, lunchrooms and sanitary facilities.

The objectives of the audit were to determine whether: (1) the Unit's fund accountability statement presents fairly Project receipts and disbursements under Memorandum of Understanding No. 19 for the period April 27, 1987 to December 31, 1989, (2) the internal control structure of the Unit was adequate to manage the Project, and (3) the Unit complied with the terms of Memorandum of Understanding No. 19 and applicable laws and regulations.

Price Waterhouse found that the fund accountability statement presents fairly, in all material respects, the receipts and disbursements of the Project. Regarding the internal control structure of the Unit, Price Waterhouse found no material weaknesses. With respect to compliance, the auditors found that the Unit complied, in all material respects, with the terms of Memorandum of Understanding No. 19 and applicable laws and regulations.

The draft report was submitted to Unit management who had no comment on the report.

RURAL SCHOOL REFURBISHMENT PROJECT UNDER
MEMORANDUM OF UNDERSTANDING NO. 19
USAID/COSTA RICA

FOR PERIOD FROM APRIL 27, 1987 TO
DECEMBER 31, 1989



RURAL SCHOOL REFURBISHMENT PROJECT UNDER
MEMORANDUM OF UNDERSTANDING NO. 19
USAID/COSTA RICA

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Price Waterhouse



November 29, 1990

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

Dear Mr. Howard:

This report presents the results of our audit of the Rural School Refurbishment Project, under Memorandum of Understanding No. 19, signed by the United States Agency for International Development in Costa Rica (USAID/Costa Rica), the Ministry of Public Education (MEP) and the Peace Corps in Costa Rica, for the period from April 27, 1987 to December 31, 1989.

BACKGROUND:

On April 27, 1987, the United States Agency for International Development in Costa Rica, the Ministry of Public Education and the Peace Corps in Costa Rica signed Memorandum of Understanding No. 19 in the amount of \$50,000,000 to execute the Rural School Refurbishment Project. The purpose of the project was to assist rural communities to upgrade the quality of education through physical improvement of existing condition of rural one-room schools with multi-grade classrooms, up to a maximum school size of three classrooms. The financial resources assigned to the Project are being used for the acquisition of construction materials for the repair, renewal or construction of school classrooms, school lunchrooms, sanitary facilities and basic school furniture.

The Project was considered as a USAID/Costa Rica activity and was managed through the Special Development Fund (SDF) staff, an operating unit of USAID/Costa Rica. Also, the Special Development Fund staff were assisted by Peace Corps Volunteers in Costa Rica (PCV's) assigned to 16 regional offices of the Ministry of Public Education and MEP's Central Planning Office.

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Mr. Reginald Howard



Modification order No. 5 dated February 7, 1989 extended the Memorandum of Understanding's completion date to December 31, 1991. Additionally, on July 11, 1989, modification order No. 6 increased the amount of project funds to a total of \$120,000,000.

AUDIT OBJECTIVES AND SCOPE:

We were engaged to conduct a financial audit of the Rural School Refurbishment Project under Memorandum of Understanding No. 19 for the period from April 27, 1987 to December 31, 1989.

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 the review of documentation, accounting records, internal control structure of USAID/Costa Rica's Special Development Fund and such other auditing procedures as we considered necessary in the circumstances to determine whether:

1. The Fund Accountability Statement of the Rural School Refurbishment Project, under Memorandum of Understanding No. 19 managed by USAID/Costa Rica's Special Development Fund staff, presents fairly the Project's income and expenses under the mentioned memorandum for the period from April 27, 1987 to December 31, 1989.
2. The internal control structure of USAID/Costa Rica's Special Development Fund was adequate for the purposes of the project.
3. USAID/Costa Rica's Special Development Fund, the Ministry of Public Education and the Peace Corps in Costa Rica, complied with terms of the Memorandum of Understanding, and applicable laws and regulations.

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Mr. Reginald Howard



The major audit procedures conducted during our work, in order to meet the stated audit objectives consisted of:

1. Review on a selective basis, of the Project's documentation to determine whether the income and expenses of the project were properly documented, allocable and allowable in accordance with the Memorandum of Understanding, and properly recorded. Additionally, our review included the physical inspection of constructions made with Project funds.
2. Review and evaluation of the internal control structure of the USAID/Costa Rica's Special Development Fund, especially those controls related with the recording of the Project's activities.
3. Review of the transactions and activities of the Project to determine whether the Project's implementing entities complied with terms of the Memorandum of Understanding, and applicable laws and regulations.

AUDIT RESULTS:

Fund Accountability Statement

In our opinion, the Fund Accountability Statement of the Rural School Refurbishment Project under Memorandum of Understanding No. 19 managed by USAID/Costa Rica's Special Development Fund staff, presents fairly the income and expenses of the Project for the period from April 27, 1987 to December 31, 1989, in accordance with the Memorandum of Understanding.

Internal Control Structure

We studied and evaluated the internal control structure and control risks of USAID/Costa Rica's Special Development Fund 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 the internal control structure of USAID/Costa Rica's Special Development Fund. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under the standards established by the American Institute of Certified Public Accountants. However, we did not note any matters involving the internal control structure and its operations that we consider to be material weaknesses. Other matters involving the internal control structure and its operation that we noted have

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been reported to the management of USAID/Costa Rica's Special Development Fund in a separate letter dated October 9, 1990.

Compliance with Terms of the Memorandum of Understanding, and Applicable Laws and Regulations

The results of our tests indicate that with respect to the items tested USAID/Costa Rica's Special Development Fund, Ministry of Public Education and Peace Corps in Costa Rica complied, in all material respects, with terms of the Memorandum of Understanding, and applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that the implementing entities had not complied, in all material respects, with those provisions. Also, we noted certain instances of immaterial noncompliance that we reported to the management of USAID/Costa Rica's Special Development Fund in a separate letter dated October 9, 1990.

MANAGEMENT COMMENTS:

We submitted a "draft" copy of this audit report to USAID/Costa Rica's Special Development Fund for their review and analysis. The management of the USAID/Costa Rica's Special Development Fund did not consider it necessary to include any written comments on this report.

Yours very truly,

PRICE WATERHOUSE

L. M. Zeledón

Luis Manuel Zeledón Sánchez

Price Waterhouse



RURAL SCHOOL REFURBISHMENT PROJECT UNDER
MEMORANDUM OF UNDERSTANDING NO. 19
USAID/COSTA RICA

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Fund Accountability Statement of the Rural School Refurbishment Project managed by USAID/Costa Rica Special Development Fund staff, under Memorandum of Understanding No. 19, for the period from April 27, 1987 to December 31, 1989. This financial statement is the responsibility of the management of USAID/Costa Rica's Special Development Fund. Our responsibility is to express an opinion on this financial 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Fund Accountability Statement audited by us presents fairly, in all material respects, the income and expenses of the Rural School Refurbishment Project for the period from April 27, 1987 to December 31, 1989, in accordance with the accounting policies described in Note 1 and terms of Memorandum of Understanding No. 19 with USAID/Costa Rica.

In accordance with the policies established by A.I.D., the original documentation related to project transactions was sent to A.I.D.'s office in Washington. Due to this situation, our review of the support documentation was limited to reviewing photocopies of such documentation.

This report is intended solely for the use of USAID/Costa Rica's Special Development Fund and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the office of the Inspector General is a matter of public record.

L. Zeledón

Price W. L. House

Luis Manuel Zeledón Sánchez

October 9, 1990

EXEMPT FROM STAMP TAX - LAW NO. 6663

RURAL SCHOOL REFURBISHMENT PROJECT UNDER
MEMORANDUM OF UNDERSTANDING NO. 19
USAID/COSTA RICA

FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD
FROM APRIL 27, 1987 TO DECEMBER 31, 1989
(expressed in Costa Rican colones - Note 1)

	Budgeted Amounts (Note 2) (Unaudited)	<u>Income and expenses</u>
Income:		
Grant from the Agency for International Develop- ment	¢120,000,000 =====	¢85,000,000 =====
Expenses:		
Subprojects	¢114,500,000	¢38,612,742
Motorcycles-PCVs	1,669,041	1,266,591
Per diem and travel- PCVs	2,345,600	564,244
Project workshop	152,000	69,809
Recognition plates	733,359	300,000
Audits	600,000	
	¢120,000,000 =====	40,813,386 =====
Excess of income over expenses		¢44,186,614 =====

RURAL SCHOOL REFURBISHMENT PROJECT UNDER
MEMORANDUM OF UNDERSTANDING NO. 19
USAID/COSTA RICA

NOTES TO FUND ACCOUNTABILITY STATEMENT FOR THE
PERIOD FROM APRIL 27, 1987 TO DECEMBER 31, 1989

NOTE 1 - NATURE OF OPERATIONS AND
ACCOUNTING POLICIES:

1. Operations

On April 27, 1987, the United States Agency for International Development in Costa Rica, the Ministry of Public Education and the Peace Corps in Costa Rica, signed Memorandum of Understanding No. 19, in the amount of ₡50,000,000 to execute the Rural School Refurbishment Project. The purpose of this project was to assist rural communities to upgrade the quality of education through physical improvement of the existing condition of rural one-room schools and schools with multi-grade classrooms, up to a maximum school size of three classrooms. The financial resources assigned to the Project are being used for the acquisition of construction materials for the repairs, renewal or construction of school classrooms, school lunchrooms, sanitary facilities and basic school furniture.

The Project was considered as a USAID/Costa Rica activity and was managed through the Special Development Fund staff, an operating unit of USAID/Costa Rica. Also, the Special Development Fund staff were assisted by Peace Corps Volunteers in Costa Rica (PCV's) assigned to 16 regional offices of the Ministry of Public Education and MEP's Central Planning Office.

Modification Order No. 5 dated February 7, 1989 extended the Memorandum of Understanding's completion date to December 31, 1991. Additionally, on July 11 1989, Modification Order No. 6 increased the amount of Project funds to a total of ₡120,000,000.

2. Accounting policies

The Fund Accountability Statement has been prepared in accordance with accounting practices dictated by USAID/Costa Rica. Such practices consisted primarily of recording the income and expenses on a cash basis. Disbursements made to unfinished sub-projects and advances for per diems and travel in the amount of ₡21,808,793 at December 31, 1989 have been recorded as advances and accordingly are not included as expenses in the accompanying statement.

The transactions related with the Rural School Refurbishment Project were recorded in Costa Rican colones and were clearly identified in the USAID/Costa Rica's accounting records.

NOTE 2 - BUDGETED AMOUNTS:

A summary of the costs budgeted through December 31, 1991 under Memorandum of Understanding No. 19 and its amendments is shown below:

<u>Budget category</u>	<u>Original budget</u>	<u>Amendments</u>	<u>Final budget</u>
Subprojects	¢48,400,000	¢66,100,000	¢114,500,000
Motorcycles-PCVs	680,000	989,041	1,669,041
Per diems and travel-PCVs	768,000	1,577,600	2,345,600
Project workshop	152,000		152,000
Recognition plates		733,359	733,359
Audits		600,000	600,000
	<u>¢50,000,000</u>	<u>¢70,000,000</u>	<u>¢120,000,000</u>

Price Waterhouse



RURAL SCHOOL REFURBISHMENT PROJECT UNDER
MEMORANDUM OF UNDERSTANDING NO. 19
USAID/COSTA RICA

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statement of the Rural School Refurbishment Project managed by USAID/Costa Rica's Special Development Fund (SDF) staff under Memorandum of Understanding No. 19 for the period from April 27, 1987 to December 31, 1989 and we have issued our opinion thereon dated October 9, 1990.

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

In planning and performing our audit of the Fund Accountability Statement of the Rural School Refurbishment Project managed by USAID/Costa Rica's Special Development Fund staff under Memorandum of Understanding No. 19 for the period from April 7, 1987 to December 31, 1989, we considered SDF's internal control structure 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 the internal control structure.

The management of USAID/Costa Rica's Special Development Fund is responsible for establishing and maintaining an internal control structure for the Project. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of the policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Approval, follow up and liquidation of subprojects
- Accounting process
- Receipts and disbursements
- Budgetary control

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operations that we have reported to the management of USAID/Costa Rica's Special Development Fund in a separate letter dated October 9, 1990.

This report is intended solely for the use of USAID/Costa Rica's Special Development Fund and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the office of the Inspector General, is a matter of public record.

L. Zeledon S.

Price Waterhouse

Lic. Luis Manuel Zeledon Sánchez

October 9, 1990

EXEMPT FROM STAMP TAX - LAW NO. 6663

Price Waterhouse



RURAL SCHOOL REFURBISHMENT PROJECT UNDER
MEMORANDUM OF UNDERSTANDING NO. 19
USAID/COSTA RICA
COMPLIANCE WITH TERMS OF THE MEMORANDUM OF
UNDERSTANDING AND APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the Fund Accountability Statement of the Rural School Refurbishment Project managed by USAID/Costa Rica's Special Development Fund (SDF) staff, under Memorandum of Understanding No. 19 for the period from April 27, 1987 to December 31, 1989, and have issued our opinion thereon dated October 9, 1990.

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

Compliance with terms of the Memorandum of Understanding, and with laws and regulations applicable to USAID/Costa Rica's Special Development Fund, Ministry of Public Education and Peace Corps Volunteers in Costa Rica (the implementing entities) is the responsibility of each entity's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of the implementing entities' compliance with terms of the Memorandum of Understanding, and certain applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the implementing entities complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the implementing entities had not complied, in all material respects, with those provisions. However, we noted certain immaterial instances of noncompliance that we have reported to the management of USAID/Costa Rica's Special Development Fund in a separate letter dated October 9, 1990.

This report is intended solely for the use of USAID/Costa Rica's Special Development Fund and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the office of Inspector General, is a matter of public record.

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October 9, 1990

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