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**AUDIT OF THE  
FARM-TO-MARKET ACCESS ROADS AND  
THE HIGHLANDS AGRICULTURAL DEVELOPMENT  
PROJECT ACTIVITIES MANAGED BY THE  
MINISTRY OF COMMUNICATION,  
TRANSPORTATION, AND PUBLIC WORKS,  
SEPTEMBER 30, 1983 TO DECEMBER 31, 1988**

**Audit Report No. 1-520-91-27-N  
May 21, 1991**

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

OFFICE OF THE REGIONAL INSPECTOR GENERAL

**AMERICAN EMBASSY**

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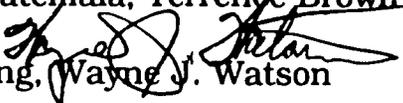
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FAX No (504) 31-4465

May 21, 1991

**MEMORANDUM**

TO: D/USAID/Guatemala, Terrence Brown

FROM: RIG/A/T Acting,  Wayne J. Watson

SUBJECT: Audit of the Farm-to-Market Access Roads and the Highlands Agricultural Development Project Activities Managed by the Ministry of Communication, Transportation, and Public Works, September 30, 1983 to December 31, 1988

This report presents the results of a non-Federal financial audit of the Farm-to-Market Access Roads Project, USAID/Guatemala Project No. 520-0332, and the Highlands Agricultural Development Project, Access Roads Program Component, USAID/Guatemala Project No. 520-0274, both managed by the Ministry of Communication, Transportation, and Public Works, General Directorate of Roads (Directorate). KPMG Peat Marwick prepared the report, which is dated April 5, 1991.

The purpose of these projects is to expand the network of all-weather farm-to-market access roads and strengthen the rehabilitation and maintenance of access roads in the western highlands of Guatemala. The audit coverage included \$2,587,315 of funding provided to Project No. 520-0332 and \$3,834,234 of funding provided to Project No. 520-0274.

The objectives of the audit were to determine whether: (1) the Directorate's fund accountability statements for the period audited fairly present the projects' receipts and disbursements, (2) the internal control structure of the Directorate was adequate to manage project funds, and (3) the Directorate complied with agreement terms and applicable laws and regulations. The scope of the audit included examination of documentation supporting receipts and expenditures, evaluation of the internal control structure of the Directorate, review of the Directorate's compliance with the terms of the agreements and applicable laws and regulations, and a review of bank reconciliations.

KPMG Peat Marwick disclaimed an opinion on the fund accountability statements. The auditors' disclaimer of opinion was related primarily to weaknesses concerning separate accountability for project funds and other assets, an

unreconciled difference of \$595,000 between USAID/Guatemala and Directorate expenditure records, other questionable costs totaling approximately \$854,000, and the identification of ten material internal control problems. These internal control problems concerned accounting system, procurement and disbursement procedure weaknesses and a lack of adequate controls over inventories and fixed assets utilized by the Directorate.

Due to the absence of separate accounting records and the lack of certain internal controls in the procurement system, as well as the identification of material weaknesses in four areas of compliance, the auditors were unable to perform sufficient audit tests to express assurance concerning compliance with the terms of agreements and applicable laws and regulations. The compliance weaknesses identified included the absence of separate bank accounts for handling loan and grant funds, unauthorized purchases, and delays in salary payments to project personnel.

Comments of the Directorate are included as Exhibit I of the report. The Directorate did not fully concur with the audit report since it maintains that it has support documentation which would resolve all the matters discussed in the report, but stated that the recommendations would be put into effect to the extent possible. The auditors state that the information referred to by the Directorate was not made available to them until after their fieldwork had been completed and therefore was not reviewed by them.

Because the project has ended we are not including, with the exception of Recommendation No. 1 below, KPMG Peat Marwick's report recommendations in the Office of the Inspector General's audit recommendation follow-up system. We do, however, suggest that A.I.D., prior to using this entity in the future, obtain assurance documenting that the Directorate has implemented the recommendations included in the KPMG Peat Marwick audit report dated April 5, 1991.

#### **Recommendation No. 1**

We recommend that USAID/Guatemala negotiate a settlement with the Ministry of Communication, Transportation, and Public Works, General Directorate of Roads for (1) the approximately \$595,000 of questionable (unsupported) costs representing the unreconciled difference between USAID/Guatemala records and the Directorate's expenditures per its fund accountability statement, (2) the other questionable costs totaling \$715,000 (\$708,500 unsupported) in Project No. 520-0332, and (3) the \$139,000 (\$119,600 unsupported) in Project No. 520-0274, included in the KPMG Peat Marwick audit report dated April 5, 1991.

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

**AUDIT OF THE FARM-TO-MARKET ACCESS ROADS PROJECT  
USAID\GUATEMALA PROJECT No. 520-0332, AND  
HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT,  
ACCESS ROADS PROGRAM COMPONENT  
USAID\GUATEMALA PROJECT No. 520-0274  
BOTH MANAGED BY THE  
MINISTRY OF COMMUNICATIONS, TRANSPORTATION  
AND PUBLIC WORKS  
GENERAL DIRECTORATE OF ROADS**

**AUDIT OF THE FARM-TO-MARKET ACCESS ROADS PROJECT**  
**USAID\GUATEMALA PROJECT No. 520-0332, AND**  
**HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT,**  
**ACCESS ROADS PROGRAM COMPONENT**  
**USAID\GUATEMALA PROJECT No. 520-0274**  
**BOTH MANAGED BY THE**  
**MINISTRY OF COMUNICATIONS, TRANSPORTATION**  
**AND PUBLIC WORKS**  
**GENERAL DIRECTORATE OF ROADS**

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Aldana Salazar García & Asociados  
Peat Marwick

Certified Public Accountants

P. O. Box 1020  
Guatemala, C. A.

April 5, 1991

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

Dear Mr. Howard:

This report presents the results of our audit of the Farm-to-Market Access Roads Project and the Highlands Agricultural Development Project, Access Roads Program Component USAID/Guatemala Projects Nos. 520-0332 and 520-0274, respectively, which were administered by the Ministry of Communications, Transportation and Public Works through the General Directorate of Roads (Dirección General de Caminos, DGC), for the period from March 20, 1985 to December 31, 1988 for Project No. 520-0332 and from September 30, 1983 to December 31, 1988 for Project No. 520-0274.

#### **BACKGROUND**

The General Directorate of Roads, a department of the Ministry of Communications, Transportation and Public Works, through its Rural Roads Program, is the institution implementing the Farm-to-Market Access Roads Project and the Highlands Agricultural Development Project, Access Roads Program Component USAID/Guatemala Projects Nos. 520-0332 and 520-0274, respectively, in the following Departments of Guatemala: Chimaltenango, Jalapa, Huehuetenango, Quetzaltenango, San Marcos, Quiche, Totonicapan, Solola, Baja Verapaz, El Progreso, Jutiapa, Santa Rosa, Zacapa and Chiquimula. The funds allocated to these projects are US\$30,000,000 and \$6,415,000, respectively as a contribution from USAID/Guatemala and US\$22,632,000 and \$1,357,000, respectively as a contribution from the Government of Guatemala.

The purposes of the projects are:

Project No. 520-0332:

Expand the network of all-weather farm-to-market roads and strengthen the institutionalization of the national program for the construction, rehabilitation and maintenance of access roads with intensive use of labor in the rural area, specially in the western highlands of Guatemala. This project is to finance the construction, improvement and maintenance of approximately 1,705 Kms. of access roads and the upgrading of 240 Kms. of tertiary roads located in the project area, with the object of increasing the income and productivity and improving the standard of living of 135,500 small farmer families.

Project No. 520-0274:

Improve the productive resources base of the rural poor in Guatemala and to assure continuous road access to markets, agricultural inputs and health and extension services by rural highlanders. The project will assure constant maintenance of about 4,500 kms. of access roads in the project area.

#### OBJECTIVES AND SCOPE OF THE AUDIT

We were engaged to audit the fund accountability statements of the Farm-to-Market Access Roads Project and the Highlands Agricultural Development Project, Access Roads Program Component, USAID/Guatemala Projects Nos. 520-0332 and 520-0274, respectively, implemented by the Ministry of Communications, Transportation and Public Works through the General Directorate of Roads (Dirección General de Caminos, DGC) from March 20, 1985 to December 31, 1988 for Project No. 520-0332 and September 30, 1983 to December 31, 1988 for Project No. 520-0274. The objectives of this audit were to determine whether:

- A. The fund accountability statements of the Farm-to-Market Access Roads Project and the Highlands Agricultural Development Project, Access Roads Program Component present fairly the project's receipts and expenditures from March 20, 1985 to December 31, 1988 for Project No. 520-0332 and from September 30, 1983 to December 31, 1988 for Project No. 520-0274 and whether the expenditures reported as incurred are in fact allowable, allocable and reasonable per the terms of the agreements.
- B. The internal control structure of the General Directorate of Roads is adequate for project purposes; and

- C. The General Directorate of Roads and the Ministry of Communications, Transportation and Public Works complied with the terms of the agreements and applicable laws and regulations which can affect the fund accountability statements.

Because of limitations imposed on the scope of our work, our examination was not performed in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Government Auditing Standards" (1988 Revision).

The scope of our work consisted of:

- A. Selective examination of the receipt and expenditure support documentation to determine whether:
1. The fund accountability statements of the projects reasonably present the financial situation at December 31, 1988.
  2. The costs reported as incurred are allowable, allocable and reasonable under the terms of the agreements.
- B. Study and evaluation of the internal control structure of the General Directorate of Roads in relation to the projects activities to determine the scope of our substantive tests.
- C. Review DGC'S compliance with the terms of the agreements and applicable laws and regulations.
- D. Review of bank reconciliations for the control of receipts and expenditures of USAID/Guatemala funds to determine the validity of transactions carried out.

In the course of our audit we were alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

## RESULTS OF AUDIT

### A. Fund Accountability Statements

We have disclaimed our opinion on the fund accountability statements of the Farm-to-Market Access Roads Project, USAID/Guatemala Project No. 520-0332, for the period from March 20, 1985 to December 31, 1988, and of the Highlands Agricultural Development Project, Access Roads Program Component Usaid/Guatemala Project No. 520-0274, for the period from September 30, 1983 to December 31, 1988, because of:

1. The accounting system of the General Directorate of Roads does not provide separate accountability for the control of the use of the projects loan and grant funds, inventories, vehicles, machinery and equipment.
2. The existence of a difference of approximately US\$595,000 (or Q1,606,000) between expenditures made as per confirmation received from USAID/Guatemala, which amount to US\$4,657,730 and expenditures reported in the fund accountability statement of Project No. 520-0332 by the DGC, which amount to US\$4,063,086.
3. The existence of certain questionable expenditures; which amount to Q2,147,765 (or approximately US\$715,900) for Project No. 520-0332 (Q2,127,912 equivalent to US\$708,500 considered as unsupported costs and Q19,853 equivalent to approximately US\$7,400 considered as questioned costs) and Q375,534 (or approximately US\$139,000) for Project No. 520-0274 (Q323,077 equivalent to approximately US\$119,600 considered as unsupported costs and Q52,457 equivalent to approximately US\$19,000 considered as questioned costs); and
4. The existence of certain deviations of internal control determined in the review of inventories, fixed assets and payrolls.

**B. Internal Control Structure**

Our study and evaluation of the internal control structure of the General Directorate of Roads disclosed situations which we believe result in more than a relatively low risk that errors or irregularities in quantities which would be material in relation to the fund accountability statements could occur and not be detected. Our evaluation disclosed the following findings:

1. The accounting system does not provide separate accountability for the control of the use of loan and grant funds, inventories, vehicles, machinery and equipment.
2. Unsupported expenditures on Project No. 520-0332.
3. The fund accountability statements are not prepared periodically.
4. Deviations in the procurement system.
5. Purchases made directly by USAID/Guatemala not recorded in the DGC accounting records.

6. Projects' materials and supplies inventories are not physically separated fuel work was completed.
7. Some endorsement signatures on the payroll checks are different from the signatures on file in payroll records.
8. Non-negotiable payroll checks were cashed by persons different than the payee.
9. Lack of comparison of the worker's identification document number with the identification number recorded on the attendance records.
10. Lack of signed record of receipt for fixed assets.

C. Compliance with Agreements Terms and Applicable Laws and Regulations.

The absence of separate accounting records for the control of projects loan and grant funds as mentioned at finding No. 1 of our report on the internal control structure, and the findings which are mentioned below, prevent us from expressing and we do not express, a positive assurance on the entries examined for compliance with the agreements terms and applicable laws and regulations, or a negative assurance on the entries not examined.

1. There is no separation in the handling of grant funds.
2. Loan advances handled in the grant bank account.
3. Unauthorized purchases.
4. The Government has not paid the labor funds of either project in a timely manner.

COMMENTS BY THE DIRECTORATE

Comments of the Directorate are included at the end of this report as Exhibit 1. The Directorate did not agree with the audit report since after a draft was provided to them on January 30, 1991 they have stated that the information which would resolve all the matters referred herein are already available for our review.

KPMG PEAT MARWICK FOLLOW-UP COMMENTS

As indicated in the letter from the Directorate dated March 11, 1991 and included as Exhibit 1, the Directorate has supplied to us additional supporting documentation. We did not review the documentation because it was not available to us until after our field work was completed.

*Klyweld Peat Marwick Goerdeler*



**FARM-TO-MARKET ACCESS ROADS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0332, AND  
HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT,  
ACCESS ROADS PROGRAM COMPONENT  
USAID/GUATEMALA PROJECT No. 520-0274  
BOTH MANAGED BY THE  
MINISTRY OF COMMUNICATIONS, TRANSPORTATION  
AND PUBLIC WORKS  
GENERAL DIRECTORATE OF ROADS**

**FUND ACCOUNTABILITY STATEMENTS**

**INDEPENDENT AUDITORS' REPORT**

1. We were engaged to audit the accompanying fund accountability statements of the Farm-to-Market Access Roads Project and of the Highlands Agricultural Development Project, Access Roads Program Component, USAID/Guatemala Projects Nos. 520-0332 and 520-0274, respectively, executed by the Ministry of Communications, Transportation and Public Works through the General Directorate of Roads (DGC) for the period from March 20, 1985 to December 31, 1988 for Project No. 520-0332 and from September 30, 1983 to December 31, 1988 for Project No. 520-0274. The fund accountability statements are the responsibility of the administration of the General Directorate of Roads.
2. As described in note 1, the fund accountability statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.
3. The accompanying fund accountability statements were prepared on the basis of requests for disbursement sent to USAID/Guatemala since, as more fully described under finding No. 1 of our report on the internal control structure, the accounting system of the General Directorate of Roads does not provide separate accounting records for the use of projects' loan and grant funds. In addition, as described in findings Nos. 6 to 9 in the report on the internal control structure, there are no separate accounting records for the projects' inventories, vehicles, machinery and equipment, and there are no adequate controls on the payroll payment process.

4. As mentioned in note 4, for Project No. 520-0332, we received direct confirmation from USAID/Guatemala of amounts for disbursements which have been refunded to the DGC. As of December 31, 1988 USAID/Guatemala confirmed US\$4,657,730 and the DGC has recorded at such date US\$4,083,086 resulting in a difference of US\$594,644 which at an average exchange rate of Q2.70=US\$1 represents approximately Q1,606,000.
5. We could not obtain the signed records of receipt by the DGC of the vehicles, machinery and equipment which USAID/Guatemala had purchased directly for an amount of Q4,731,654 for Project No. 520-0332 and Q1,914,822 for Project No. 520-0274.
6. As more fully described in the accompanying note 5 and in the finding No. 2 in the report on the internal control structure, on Project No. 520-0332 there are certain expenses which were made in 1985 for an amount of Q405,788 for which we could not obtain the related support documentation. We consider them to be questionable costs.
7. As described in note 5 and finding No. 4 in the report on the internal control structure, there are certain disbursements amounting to Q1,722,144 for Project No. 520-0332 and Q323,077 for Project No. 520-0274 which did not meet established procurement practices.
8. Because of the matters described in paragraphs 3 to 7 above, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the fund accountability statements of the Farm-to-Market Access Roads Project and the Highlands Agricultural Development Project, Access Roads Program Component, USAID/Guatemala Projects Nos. 520-0332 and 520-0274, respectively, administered by the Ministry of Communications, Transportation and Public Works through the General Directorate of Roads for the period March 20, 1985 to December 31, 1988 for Project 520-0332 and September 30, 1983 to December 31, 1988 for Project 520-0274.
9. This report is intended solely for the use of the Ministry of Communications, Transportation and Public Works and the U. S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Klyweld Pest Marwick Gorder*

June 11, 1990

**FARM-TO-MARKET ACCESS ROADS PROJECT**  
**USAID/GUATEMALA PROJECT NO. 520-0332**  
**MANAGED BY THE**  
**MINISTRY OF COMMUNICATIONS, TRANSPORTATION AND PUBLIC WORKS**  
**GENERAL DIRECTORATE OF ROADS**

**FUND ACCOUNTABILITY STATEMENT**  
**For the period March 20, 1985 to December 31, 1988**  
**(Expressed in Quetzales - Note 3)**

	DIRECT PAYMENTS USAID/6	LOAN	GRANT	TOTAL	QUESTIONABLE COSTS (NOTE 5)
<b>RECEIPTS</b>					
Funds provided by USAID/ Guatemala	Q <u>4,971,654</u>	<u>5,907,524</u>	<u>821,217</u>	<u>11,700,395</u>	
Equivalent to approximately			US\$	<u>4,499,000</u>	
<b>EXPENDITURES</b>					
Labor wages		5,228,910		5,228,910	317,358 (b)
					19,853 (a)
Hand tools		975,721		975,721	553,181 (b)
Construction materials		1,120,675		1,120,675	840,611 (b)
Spare parts		412,641		412,641	236,787 (b)
Tires and tubes		231,857		231,857	141,336 (b)
Furniture and office equipment		10,244		10,244	6,969 (b)
Buildings and installations rural roads regions		92,738		92,738	31,670 (b)
Machinery and equipment	4,386,486			4,386,486	
Vehicles	345,168			345,168	
Achiguate bridge repair	240,000			240,000	
Seminar, travel and promotions			102,076	102,076	
Computer equipment and other furniture			547,807	547,807	
Remodeling facilities at DGC			92,613	92,613	
Refunds		4,605	56	4,661	
Total expenditures	<u>4,971,654</u>	<u>8,077,391</u>	<u>742,552</u>	<u>13,791,597</u>	<u>2,147,765</u>
Balance	Q 0	(2,169,867)	78,665	(2,091,202)	<u>2,147,765</u>
	=====	=====	=====	=====	=====

(a) Questioned costs  
(b) Unsupported costs

See notes accompanying fund accountability statement.

HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT,  
ACCESS ROADS PROGRAM COMPONENT  
USAID/GUATEMALA PROJECT NO. 520-0274  
MANAGED BY THE  
MINISTRY OF COMMUNICATIONS, TRANSPORTATION AND PUBLIC WORKS  
GENERAL DIRECTORATE OF ROADS

FUND ACCOUNTABILITY STATEMENT  
For the period September 30, 1903 to December 31, 1908  
(Expressed in Quetzales - Note 3)

	DIRECT PAYMENTS USAID/G	LOAN	GRANT	TOTAL	QUESTIONABLE COSTS  (NOTE 5)
<b>RECEIPTS</b>					
Funds provided by USAID/ Guatemala	Q <u>2,237,726</u>	<u>1,433,915</u>	<u>220,914</u>	<u>3,892,555</u>	
Equivalent to approximately				US\$ <u>1,680,000</u>	
<b>EXPENDITURES</b>					
Labor wages		1,361,450		1,361,450	15,109 (a)
Hand tools		334,773		334,773	99,309 (b)
Construction materials		48,657		48,657	32,504 (b)
Fuel and lubricants		202,745		202,745	37,348 (a)
					127,828 (b)
Spare parts	84,169	52,809		136,978	43,152 (b)
Tires and tubes	164,399	50,321		214,759	20,284 (b)
Storage		5,049		5,049	
Heavy-light equipment	383,364			383,364	
Vehicles	1,605,794			1,605,794	
Office equipment			23,429	23,429	
Audio visual productions			45,005	45,005	
Computer programs			7,696	7,696	
Personnel training DGC			9,800	9,800	
Forms printing			6,532	6,532	
Computer repair and maintenance			2,907	2,907	
Refunds			4,643	4,643	
Total expenditures	<u>2,237,726</u>	<u>2,055,843</u>	<u>100,012</u>	<u>4,393,581</u>	<u>375,534</u>
Balance	Q 0	(621,928)	120,902	(501,026)	375,534
	=====	=====	=====	=====	=====

(a) Questioned costs  
(b) Unsupported costs

See notes accompanying fund accountability statement.

**FARM-TO-MARKET ACCESS ROADS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0332, AND  
HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT,  
ACCESS ROADS PROGRAM COMPONENT  
USAID/GUATEMALA PROJECT No. 520-0274  
BOTH MANAGED BY THE  
MINISTRY OF COMMUNICATIONS, TRANSPORTATION  
AND PUBLIC WORKS  
GENERAL DIRECTORATE OF ROADS**

**Notes to the Fund Accountability Statements  
For the period from March 20, 1985 to December 31, 1988  
for Project No. 520-0332 and September 30, 1983  
to December 31, 1988 for Project No. 520-0274.**

**NOTE 1: SUMMARY OF ACCOUNTING POLICIES**

The fund accountability statements were prepared 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 statements do not pretend to present the financial information in accordance with generally accepted accounting principles.

**Review Period**

Project No. 520-0332 started on March 20, 1985 and Project No. 520-0274 started on September 30, 1983. Receipts and expenditures included in these statements cover the period from those dates to December 31, 1988.

**Materials and Supplies**

Materials and supplies procured with projects funds are recorded as expenditures when paid. Consequently, there are no accounts payable records, and costs recorded do not represent actual consumption of material and supplies.

**Vehicles, Machinery and Equipment**

Vehicles, machinery and equipment are recorded at their purchase value and no depreciation is calculated. At the end of the projects, these assets become part of the fixed assets of the General Directorate of Roads.

**NOTE 2: LOAN AND GRANT AGREEMENTS**

The Government of the Republic of Guatemala, through the Ministry of Communications, Transportation and Public Works, signed loan agreements Nos. 520-T-040 and 520-T-037 and related grant agreements with the United States Agency for International Development in Guatemala (USAID/Guatemala) for a value of US\$30,000,000 (US\$27,900,000 in loan and US\$2,100,000 in grant) for Project No.

520-0332 and US\$6,415,000 (US\$ 5,379,000 in loan and US\$1,036,000 in grant) for Project No. 520-0274. The purpose of those projects are:

**Project No. 520-0332**

Expand the farm-to-market all-weather access road network and to strengthen the institutionalization of the national program for the construction, rehabilitation and maintenance of access roads with the use of intensive labor in the rural area, specially in the western highlands of Guatemala.

**Project No. 520-0274**

Improve the productive resource base of the rural poor in Guatemala's Highlands, and to assure continuous road access to markets, agricultural inputs and health and extension service by rural highlanders. The project will assure constant maintenance of about 4,500 kms. of access roads in the project area.

**NOTE 3: MONETARY UNIT AND EXCHANGE CONTROL**

The legal currency of the Republic of Guatemala is the Quetzal.

Up to June 5, 1986, the quetzal was at par with the United States dollar, Q1=US\$1. From June 8, 1986 to November 3, 1989, the Exchange System Transitory Law (Decree No. 22-86 as amended by Decree No. 26-88) was in effect, legalizing the existence of three exchange markets: the official market, exclusively for the servicing of the Bank of Guatemala's external debt, at a rate of Q1:US\$1; the regulated market, under which the Monetary Board fixed the rate of exchange, which at December 31, 1988 was Q2.70=US\$1; and the bank market, in which foreign exchange buying and selling operations and rates were determined by the Monetary Board.

As of November 4, 1989, all foreign exchange buying and selling operations are made through the bank market. At present, the rate fluctuates with supply and demand. At June 11, 1990, the exchange rate on this market was approximately Q4.29 to US\$1.

**NOTE 4: DIFFERENCE BETWEEN CONFIRMATION OF DISBURSEMENTS MADE ACCORDING TO USAID/GUATEMALA AND THE FUND ACCOUNTABILITY STATEMENT OF PROJECT No. 520-0332 PREPARED BY THE DGC**

The external auditors received direct confirmation from USAID/Guatemala of the amounts for disbursements which have been refunded to the DGC. As of December 31, 1988 USAID/Guatemala confirmed US\$4,657,730 and the DGC has recorded at such date US\$4,063,086 resulting in a difference of US\$594,644 which at an average exchange rate of Q2.70 = US\$1 represents approximately Q1,606,000. It was not possible to reconcile this information

with the fund accountability statement of Project No. 520-0332 at December 31, 1988 prepared by the DGC.

**NOTE 5: QUESTIONABLE COSTS FOR PROJECTS NOS. 520-0332 AND 520-0274**

The details of expenditures considered questionable for the projects Nos. 520-0332 and 520-0274, are the following:

**(a) Project No. 520-0332**

**Unsupported Costs:**

Labor Wages: Payrolls for 1985 which were included as project expenditures and were not available to us for our examination (see finding No. 2 of the report of the internal control structure):

MONTH		
January	Q	46,342
February		99,262
March		80,452
April		74,476
May		<u>16,826</u>
	Q	317,358

Expenditures made from January to May, 1985:

Hand Tools	Q	8,146	
Construction materials		59,518	
Spare parts		3,218	
Tires and tubes		<u>17,528</u>	<u>88,410</u>
	Q		405,768

**Questioned Costs:**

Endorsement signatures on the payroll checks are different from the signatures on file in the payroll records (see finding No. 7 of the report of the internal control structure)

19,853

**Deviations in Procurement Practices:**

(See finding No. 4 of the report on the internal control structure)

Hand tools	Q	545,035	
Construction materials		781,093	
Spare parts		233,569	
Tires and tubes		123,808	
Buildings and installations rural roads regions		31,670	
Furniture and office equipment		<u>8,969</u>	<u>1,722,144</u>
	Q		2,147,765
			=====

(b) Project No. 520-0274

Questioned Costs:

Purchases of fuel whose authorization by the agreement was not available to us for our examination (see finding No. 3 of the report on compliance with agreement terms and applicable laws and regulations)

37,348

Questioned Costs:

Endorsement signatures on the payroll checks are different from the signatures on file in the payroll records (see finding No. 7 of the report of the internal control structure)

15,109

52,457

Unsupported costs

Deviations in Procurement Practices:

(See finding No. 4 of the report of the internal control structure)

Hand tools

Q 99,309

Construction materials

32,504

Spare parts

43,152

Tire and tubes

20,284

Fuels and lubricants

127,828

323,077

Q 375,534

=====



**FARM-TO-MARKET ACCESS ROADS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0332, AND  
HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT,  
ACCESS ROADS PROGRAM COMPONENT  
USAID/GUATEMALA PROJECT No. 520-0274  
BOTH MANAGED BY THE  
MINISTRY OF COMMUNICATIONS, TRANSPORTATION  
AND PUBLIC WORKS  
GENERAL DIRECTORATE OF ROADS**

**INTERNAL CONTROL STRUCTURE**

**INDEPENDENT AUDITORS' REPORT**

We were engaged to audit the fund accountability statements of the Farm-to-Market Access Roads Project and of the Highlands Agricultural Development Project, Access Roads Program Component, USAID/Guatemala Projects Nos. 520-0332 and 520-0274 respectively, executed by the Ministry of Communications, Transportation and Public Works through the General Directorate of Roads ( Dirección General de Caminos-DGC), for the period March 20, 1985 to December 31, 1988, for Project No. 520-0332 and from September 30, 1983 to December 31, 1988 for Project No. 520-0274, and we have issued our report dated June 11, 1990 in which we disclaimed our opinion due to limitations imposed to the scope of our work.

In planning and performing our audit of the fund accountability statements for the Farm-to-Market Access Roads Project and for the Highlands Agricultural Development Project, Access Roads Programs Component, we considered their internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide assurance on the internal control structure.

The administration of the General Directorate of Roads is responsible for establishing and maintaining an adequate internal control structure. In fulfilling this responsibility, estimates and judgements by the administration are required to assess the related expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide the administration 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 administration's authorizations and recorded properly to permit the preparation of the fund accountability statements in accordance with generally accepted accounting principles or any other comprehensive accounting base. 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 system 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 purposes of this report, we have classified and evaluated the significant accounting controls in the following areas:

- Accounting systems and procedures
- Procurement system and procedures
- Budget control
- Inventory control
- Control and protection of fixed assets
- Payroll preparation and payment

For all internal control structure 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.

We noted certain matters, as described in findings Nos. 1 to 9 attached, which involve the internal control structure and its operation, that we considered 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 judgement, could adversely affect the ability of the entity to record, process, summarize and report financial data consistent with the assertions of the administration in the fund accountability statements.

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 risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly

would not necessarily disclose all reportable conditions that are also considered to be material weaknesses, as defined above. We believe that the conditions described in the accompanying findings Nos. 1 to 10 are material weaknesses.

This report is intended for the use of the Ministry of Communications, Transportation and Public Works, the General Directorate of Roads, 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.

*Klyweld Pest Marwick Gordeler*

June 11, 1990

**FARM-TO-MARKET ACCESS ROADS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0332, AND  
HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT,  
ACCESS ROADS PROGRAM COMPONENT  
USAID/GUATEMALA PROJECT No. 520-0274  
BOTH MANAGED BY THE  
MINISTRY OF COMMUNICATIONS, TRANSPORTATION  
AND PUBLIC WORKS  
GENERAL DIRECTORATE OF ROADS**

**INTERNAL CONTROL STRUCTURE**

**Findings**

1. **THE ACCOUNTING SYSTEM DOES NOT PROVIDE SEPARATE ACCOUNTABILITY FOR THE CONTROL OF THE USE OF LOAN AND GRANT FUNDS, INVENTORIES, VEHICLES, MACHINERY AND EQUIPMENT**

**Condition:**

The General Directorate of Roads does not have separate accounting records for the use of the projects' loan and grant funds. In addition, the materials, spare parts, machinery, vehicles and tools, which have been bought with projects funds, are not accounted for separately by means of auxiliary ledgers from the rest of the DGC's inventories and fixed assets.

**Criteria:**

The General Directorate of Roads should keep separate accounting records to facilitate control of project loan and grant funds, materials, spare parts, machinery, vehicles and tools.

**Cause:**

The General Directorate of Roads works under an integrated accounting system which is centralized in the Ministry of Finance of Guatemala. This accounting system does not allow for a separation of financial information in respect to the projects funds, inventories and fixed assets.

**Effect:**

It is not possible to prepare financial information on the basis of the projects' own accounting records. In addition, it is not possible either to determine, by means of accounting records, what materials, tools, vehicles and machinery have been bought with projects funds nor determine their subsequent use.

**Recomendation:**

The General Directorate of Roads should keep separate accounting records for projects' purposes for a clear identification of funding sources (loan, grant, direct payments, counterpart and others). In addition, the financial department of the General Directorate of Roads should separate, by means of auxiliary ledgers, all materials, spares, machinery, vehicles and tools to comply with the requirements of the agreements.

**2. UNSUPPORTED EXPENDITURES ON PROJECT No. 520-0332**

**Condition:**

We observed expenses reported in 1985 for Project No. 520-0332 amounting to Q405,708 which do not have support documentation. This is made up as follows:

Labor wages	Q 317,358
Hand tools	8,146
Construction material	59,518
Spare parts	3,218
Tires and tubes	17,528
TOTAL	Q 405,768
	=====

**Criteria:**

All expenses reported as allocable to the project should have sufficient support documentation. This documentation should be: Payrolls, vendor invoices, purchase and payment orders and quotations.

**Cause:**

In 1985, the USAID/Guatemala financing was not contemplated in the budget of the General Directorate of Roads as the budget was approved before the financing came into effect.

**Effect:**

It is not possible to establish factually whether these expenses originated in operations related to the project which was approved to be financed by USAID/Guatemala.

**Recommendation:**

The General Directorate of Roads should provide appropriate support documentation for disbursements in 1985 for a total of Q405,768, for Project 520-0332.

**3. THE FUND ACCOUNTABILITY STATEMENTS ARE NOT PREPARED PERIODICALLY**

**Condition:**

The General Directorate of Roads does not periodically prepare the projects' fund accountability statements.

**Criteria:**

The General Directorate of Roads should prepare quarterly fund accountability statements based on projects accounting records in order to improve the control on projects costs.

**Cause:**

The General Directorate of Roads did not know that fund accountability statements had to be prepared.

**Effect:**

There is no proper accountability of the projects' fundings.

**Recommendation:**

The General Directorate of Roads must prepare quarterly fund accountability statements for each project. These statements must be based on projects' accounting records.

**4. DEVIATIONS IN THE PROCUREMENT PRACTICES**

**Condition:**

During our review of purchase and payment orders, we noted the following deviations in internal control of purchases:

- A Use of solicitation order: This document is used by the regions to request projects' materials and spare parts and as evidence of authorization from both the resident delegate and the rural roads coordinator. Our audit disclosed the following cases in which this document was not provided to us:

**Purchase and  
payment order**

<u>number</u>	<u>Supplier</u>	<u>Materials</u>	<u>Amount</u>
<b>PROJECT No. 520-0332</b>			
57	Corporación Serrano Hnos.	Picks	Q 172,500
44	Cementos Progreso, S. A	Cement	25,582
99	Maya Quimicos, S.A.	Dynamite	29,470
83	ICOGUA	Pipes	371,448
24	Cementos Progreso, S.A.	Cement	95,934
108	Corporación Marnel	Wheelbarrows	22,820
144	Distribuidora El Pacifico	Wheelbarrows	21,875
257	Agrorepuestos	Tractor valve	10,720
199	Llantas y Servicios, S.A.	Tires	3,054
145	Electricidad, S.A.	Supplies	12,286
			Q 785,489
			=====

**PROJECT No. 520-0274**

335	Corporación Serrano Hnos.	Picks	Q 19,890
404	Distribuidora Sta. Marla	Hoes	21,300
023	Cementos Progreso, S. A.	Cement	29,999
123	Industrias Asociadas	Tires	12,555
			Q 83,744
			=====

- B. Use of bid summary: This document supports the selection of the supplier in each purchase. In addition, to the cases mentioned under the point above, the following are some cases in which this document was not provided to us:

**PROJECT No. 520-0332**

258	Corporación Serrano Hnos.	Furniture	Q 8,989
189	INCOGUA	Pipes	18,901
58	Corporación Serrano Hnos.	Hoes	267,000
95	Industrias Asociadas, S.A.	Spare parts	26,479
400	Ferreteria Leonardo	Wheelbarrows	20,400
413	Distribuidora Sta. Mónica	Hoes	20,750
438	Union Comercial	Spare parts	15,011
412	Corporation Serrano Hnos.	Picks	19,890
125	Distribuidora del Pacifico	Metal sheets	19,384
395	Maya Quimicos, S.A.	Dynamite	21,788
			Q 436,572
			=====

<u>Purchase and payment order number</u>	<u>Supplier</u>	<u>Materials</u>	<u>Amount</u>
<b><u>PROJECT No. 520-0274</u></b>			
107	Distribuidora del Pacifico	Hand tools	Q 13,899
221	Centro Ferretero Geminis	Hand tools	8,030
347	Corporación Serrano Hnos.	Shoves	18,940
241	Ferreteria Universal	Materials	2,505
428	Ferreteria Universal	Hoes	17,250
			Q 60,624
			=====

C. Quotations: Written evidence of quotations in the following purchases of spare parts was not provided to us:

<b><u>PROJECT No. 520-0332</u></b>			
124	Exportadora e Importadora	Truck stakes	Q 15,497
122	Exportadora e Importadora	Engine gaskets	12,048
2646	Various	Miscellaneous	20,000
2503	Various	Miscellaneous	20,000
2668	Various	Miscellaneous	19,988
2697	Various	Miscellaneous	19,998
2692	Various	Miscellaneous	19,292
2707	Various	Miscellaneous	620
2695	Various	Miscellaneous	19,950
*	Agrorepuestos	Miscellaneous	33,988
			Q 181,359
			=====

\* Purchase made with checks Nos. 99508, 99510 and 99511 from Credito Hipotecario Nacional Bank.

<b><u>PROJECT No. 520-0274</u></b>			
2585	Various	Miscellaneous	Q 20,000
2645	Various	Miscellaneous	20,000
**	Cia Guatemalteca	Miscellaneous	3,152
			Q 43,152
			=====

\*\* Without purchase and payment order.

**D. Fractioned purchases:**

**PROJECT 520-0332**

DGC made some purchases of supplies, materials and spare parts that were fractioned to circumvent the USAID/Guatemala authorization required by the terms of the agreement. These purchases were made during the same period of time and with consecutive purchase and payment order's numbers. We found the following cases:

**Purchase and  
payment order  
number**

**Date**

**Amount**

**PROJECT 520-0332**

**Supplier: Centro de Servicio Le Mans  
For: Purchase of tires**

197	11-13-86	3,054
198	11-13-86	3,054
200	11-10-86	3,054
201	11-14-86	1,190
208	11-20-86	3,054
213	11-28-86	1,504
233	12-03-86	2,646
250	12-08-86	2,568
251	12-08-86	1,648
252	12-08-86	1,440
		<u>Q 23,212</u>
		=====

**Supplier: IMCOGUA**

**For: Purchase of nestable pipes**

207	11-20-86	Q 17,500
209	11-20-86	17,500
210	11-20-86	17,500
211	11-20-86	17,500
212	11-20-86	17,500
234	12-03-86	19,950
235	12-03-86	19,800
237	12-03-86	19,500
238	12-03-86	19,800
239	12-03-86	19,800
		<u>Q 186,350</u>
		=====

**Purchase and  
payment order**  
number

Date

Amount

Supplier: DRETUCO, S. A.  
For: Purchase of nestable pipes

242	12-04-86	Q 15,820
246	12-04-86	<u>15,820</u>
		Q 31,640
		=====

Supplier: LLANSESA  
For: Purchase of tires and tubes

086	02-27-87	Q 12,000
104	03-12-87	2,496
105	03-12-87	2,880
106	03-12-87	2,496
147	04-10-87	2,100
148	04-10-87	2,100
149	04-10-87	2,496
150	04-10-87	2,496
151	04-10-87	1,752
152	04-10-87	5,200
153	04-10-87	2,496
192	04-27-87	2,496
432	11-12-87	2,766
433	11-12-87	2,766
437	11-12-87	2,766
444	11-20-87	2,931
445	11-20-87	2,931
446	11-20-87	2,931
448	11-20-87	6,000
451	11-20-87	3,489
452	11-20-87	3,489
453	11-20-87	2,931
455	11-20-87	2,931
456	11-20-87	2,394
458	11-20-87	<u>2,766</u>
		Q 82,099
		=====

Supplier: Comercial Erzo  
For: Purchase of tires and tubes

440	11-20-87	Q 3,400
447	11-20-87	<u>5,100</u>
		Q 8,500
		=====

**Purchase and  
payment order  
number**

**Date**

**Amount**

Supplier: Vitatrac, S. A.  
For: Purchase of tires and tubes

430	11-13-87	Q 1,359
434	11-12-87	1,987
454	11-20-87	1,136
457	11-20-87	1,136
459	11-20-87	<u>1,325</u>
		Q <u>6,943</u>
		=====

**PROJECT 580-0274**

Supplier: Alfa Repuestos y Lubricantes  
For: Purchase of grease

111	12-22-88	Q 13,500
112	12-22-88	<u>35,400</u>
		Q <u>48,900</u>
		=====

Supplier: Petroleos del Caribe Inc.  
For: Purchase of grease

114	12-22-88	Q 10,428
121	12-22-88	<u>68,500 *</u>
		Q <u>78,928</u>
		=====

\* Without solicitation order.

Supplier: LLANSESA  
For: Purchase of tires and tubes

18	03-22-88	Q 6,619
25	04-07-88	<u>1,110</u>
		Q <u>7,729</u>
		=====

**SUMMARY:**

	<u>Project</u> <u>520-0332</u>	<u>Project</u> <u>520-0274</u>
A. Use of solicitation order	Q 765,469	Q 83,744
B. Use of bid summary	438,572	60,624
C. Quotations	181,359	43,152
D. Fractioned purchases:		
Supplier:		
Centro de Servicio		
Le Mans	Q 23,212	
Imcogua	186,350	
Dretuco, S. A.	31,640	
Liansesa	82,099	Q 7,729
Comercial Erzo	8,500	
Vitatrac, S. A.	<u>6,943</u>	<u>338,744</u>
Alfa Repuestos y Lubricantes		48,900
Petroleos del Caribe		<u>78,928</u>
		<u>135,557</u>
Total	Q 1,722,144	Q 323,077
	=====	=====
Total of two projects		Q 2,045,221
		=====

**Criteria:**

The DGC should comply with all internal control aspects described in the procurement procedures.

**Cause:**

The General Directorate of Roads has not followed procedures under the system because it considers that such procedures take too much time.

**Effect:**

It is not possible to establish whether:

- a. All purchases made were authorized by the resident delegates and by the rural roads coordinator.
- b. The selection of suppliers in the purchase of goods or the contracting of services has been the most favorable.

The General Directorate of Roads did not comply with the Purchasing Law when it fractioned some purchases.

**Recommendation:**

The General Directorate of Roads should use solicitation orders with evidence of authorizations both from the resident delegate and the rural roads coordinator when ordering project materials and spare parts. The DGC must use the bid summary and should request five quotations from different suppliers for all purchases of spare parts.

5. **PURCHASES MADE DIRECTLY BY USAID/GUATEMALA NOT RECORDED IN THE DGC'S ACCOUNTING RECORDS**

**Condition:**

Some purchases made directly by USAID/Guatemala were not recorded in the DGC's accounting records as of the date of the fund accountability statements.

**Criteria:**

All projects expenditures, including the purchases and direct payments made by USAID/Guatemala in behalf of the projects, must be recorded in projects' accounting records and should be reported in the fund accountability statements.

**Cause:**

DGC has not received all pertinent documentation to record the direct payments made by USAID/Guatemala.

**Effect:**

These purchases were not controlled by the DGC in its accounting system, and it is therefore not possible to show them as expenses in the fund accountability statements.

**Recommendation:**

The General Directorate of Roads should design and implement procedures to ensure that all purchases made directly by USAID/Guatemala will be recorded in a timely manner in the appropriate accounting records of the DGC.

**6. PROJECTS' MATERIALS AND SUPPLIES INVENTORIES ARE NOT PHYSICALLY SEPARATED**

**Condition:**

In the Quiché, Huehuetenango, Quetzaltenango and Chimaltenango regions, it was observed that the inventories of projects' materials and supplies are not kept physically separated from the materials belonging to DGC.

**Criteria:**

The General Directorate of Roads and the different regions should keep inventories of projects materials and supplies physically separated from the materials belonging to DGC.

**Cause:**

The warehouses in those regions do not have sufficient physical space to keep projects inventories separated.

**Effect:**

It was not possible to determine whether, the materials and supplies are being used only for projects purposes.

**Recommendation:**

The DGC's regions should keep inventories of the projects' materials and supplies separated from other non-projects materials.

**7. SOME THE ENDORSEMENT SIGNATURES ON THE PAYROLL CHECKS ARE DIFFERENT FROM THE SIGNATURES ON FILE IN THE PAYROLL RECORDS**

**Condition:**

In our review of check endorsements, we found 438 documents for Project No. 520-0332 and 342 for Project No. 520-0274 in which the authorizing endorsement marks (either signature or fingerprint) of the payee of the check did not match the endorsement mark on the verifying payroll sheets (different signatures on payroll and on check, and signature on payroll and fingerprint on check or vice versa). For Project No. 520-0332, 254 checks were collected by third parties, and 184 were cashed by 5 different persons. For Project No. 520-0274, 97 checks of the 342 were cashed by a DGC employee and the remaining were cashed by third parties.

**Criteria:**

The endorsement marks (signatures or fingerprints) on checks should match the signatures which appear on the verifying payroll sheets.

**Cause:**

DGC does not have a well defined policy in regard to the endorsement of payroll checks.

**Effect:**

They could be paying persons who have not worked for the projects.

**Recommendation:**

The General Directorate of Roads should design and implement procedures to ensure that the person who collects from the paymaster is the person who endorses the check.

**8. NON-NEGOTIABLE PAYROLL CHECKS WERE CASHED BY PERSONS DIFFERENT THAN THE PAYEE**

**Condition:**

During our check endorsement test on Project No. 520-0274, we found 37 non-negotiable payroll checks endorsed and cashed by persons other than the payee.

**Criteria:**

Non-negotiable checks must be cashed only by the payee.

**Cause:**

The General Directorate of Roads did not have specific procedures to ensure that non-negotiable checks were cashed only by the payee.

**Effect:**

Some payments can be made to persons that have not worked for the projects.

**Recommendation:**

The General Directorate of Roads should design and implement procedures to ensure that non-negotiable payroll checks are cashed only by the payee.

**9. LACK OF COMPARISON OF THE WORKER'S IDENTIFICATION DOCUMENT NUMBER WITH THE IDENTIFICATION NUMBER RECORDED IN THE ATTENDANCE RECORDS**

**Condition:**

The paymasters in the different regions do not compare the number of the identification document presented by the person who collects the checks with the number of the identification card noted on the attendance records prepared by the foreman and approved by the chairmen of the different projects committees.

**Criteria:**

The paymasters should check the number of the identification card presented by workers with the number of the document noted on the attendance records prepared by the foreman in order to make certain that the person collecting the check is the same person who has worked on the projects.

**Cause:**

This situation is due to the fact that the time available for making payments is relatively short, and paymasters argue that this procedure would delay the payment process.

**Effect:**

There could be situations in which the people collecting checks are not the people who actually worked.

**Recommendation:**

The paymasters in the different regions should compare the ID card number presented by the person collecting with the ID card number noted in the attendance records prepared by the projects' foremen.

**10. LACK OF SIGNED RECORDS OF RECEIPT FOR FIXED ASSETS**

**Condition:**

During our field work, signed records of receipt by the DGC for vehicles, machinery and equipment purchased directly by USAID/Guatemala were not available to us for our examination.

**Criteria:**

DGC should have signed records of receipt for vehicles, machinery and equipment, purchased directly by USAID/Guatemala for better control of fixed assets and timely recording in its accounting records.

**Cause:**

There is no adequate filing of signed records of receipt.

**Effect:**

It is not possible to establish if all identified fixed assets correspond to purchases made directly by USAID/Guatemala.

**Recommendation:**

DGC must have signed records of receipt for vehicles, machinery and equipment, purchased directly by USAID/Guatemala for better control of fixed assets and timely recording in its accounting records.



**FARM-TO-MARKET ACCESS ROADS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0332, AND  
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MINISTRY OF COMMUNICATIONS, TRANSPORTATION  
AND PUBLIC WORKS  
GENERAL DIRECTORATE OF ROADS  
COMPLIANCE WITH AGREEMENT TERMS  
AND APPLICABLE LAWS AND REGULATIONS**

**INDEPENDENT AUDITORS' REPORT**

We were engaged to audit the fund accountability statements of the Farm-to-Market Access Roads Project and of the Highlands Agricultural Development Project, Access roads Program Component, USAID/Guatemala Projects Nos. 520-0332 and 520-0274, respectively, executed by the Ministry of Communications, Transportation and Public Works through the General Directorate of Roads (Dirección General de Caminos - DGC) for the period March 20, 1985 to December 31, 1988 for the Project No. 520-0332 and from September 30, 1983 to December 31, 1988 for the Project No. 520-0274, and we have issued our report dated June 11, 1990 in which we disclaimed our opinion due to limitations imposed on the scope of our work.

The administration of the General Directorate of Roads is responsible for compliance with the agreement terms and with applicable laws and regulations.

During our work we noted what:

- a) There are no separate accounting records for the control of project funds, inventories and fixed assets, as mentioned in finding No. 1 of our report on the internal control structure.
- b) There were lack of certain internal controls in the procurement system, as indicated at sections B, C and D of finding No. 4 of our report on the internal control structure; and.

c) Findings Nos. 1 to 4 herein included are considered as material weaknesses.

Because of the matters mentioned in a, b and c of the preceding paragraph, the scope of our audit work was not sufficient to enable us to express and we do not express, positive assurance on items tested for compliance with the terms of agreements and applicable laws and regulations, or a negative assurance on items not tested.

This report is intended for the use of the Ministry of Communications, Transportation and Public Works, the General Directorate of Roads 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.

*Klyuweld Pest Marwick Goeder*

June 11, 1990.

FARM-TO-MARKET ACCESS ROADS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0332, AND  
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GENERAL DIRECTORATE OF ROADS

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS AND  
APPLICABLE LAWS AND REGULATIONS

Findings

1. THERE IS NO SEPARATION IN THE HANDLING OF GRANT FUNDS

**Condition:**

The grant funds from Project No. 520-0332 have been handled jointly with the grant funds from Project No. 520-0274.

**Criteria:**

The agreement provides that the funds from each grant should be handled separately.

**Cause:**

The projects' administrators did not know about this.

**Effect:**

It cannot be determined what expenses correspond to one and the other project.

**Recommendation:**

The General Directorate of Roads should ensure that grant funds, attributed to different projects, are accounted for separately.

**2. LOAN ADVANCES HANDLED IN THE GRANT BANK ACCOUNT**

**Condition:**

In 1986, USAID/Guatemala granted two advances on the loan of the Project No. 520-0332, the first for Q38,572.99 and the second for Q134,284.13. Both advances served for the purpose of buying spare parts, and they were deposited in the Credito Hipotecario Nacional Bank account where grant funds were initially managed.

**Criteria:**

Under the agreement, both the loan and grant funds should be managed in separate bank accounts.

**Cause:**

The project administration did not know that they had to manage these funds in separate bank accounts.

**Effect:**

It cannot be determined whether these funds were managed in due course exclusively for project use.

**Recommendation:**

The General Directorate of Roads should manage loan and grant funds in separate bank accounts.

**3. UNAUTHORIZED PURCHASES**

**Condition:**

With the loan funds of Project No. 520-0274 the General Directorate of Roads bought fuel from Compañía Chevron Ltda. For these purchases we could not review the related authorization under the terms of the agreement. In addition, for these purchases we could not review the purchase and payment orders. They were made on 18-12-84, 8-2-85 and 10-7-85 amounting to Q22,597; Q7,278 and Q7,483, respectively.

**Criteria:**

Purchases of this kind of fuel are not authorized by the agreement. DGC must obtain a special authorization to do it.

**Cause:**

DGC was not aware of this situation, however, they did not ask for a written authorization from USAID/Guatemala.

**Effect:**

The DGC did not comply with the agreement terms.

**Recommendation:**

The General Directorate of Roads must obtain a written authorization for this purchase or refund to USAID/Guatemala the total amount involved.

**4. THE GOVERNMENT HAS NOT PAID THE LABOR FUNDS OF EITHER PROJECT IN A TIMELY MANNER**

**Condition:**

The Government has made labor payments up to one and half months late.

**Criteria:**

The labor payments are due at the end of each corresponding period.

**Cause:**

These late payments had occurred because the Government did not have funds at the moment the payment was due.

**Effect:**

People related to the projects do not want to work if they don't get paid. If this happens, the program may stop.

**Recommendation:**

The General Directorate of Roads should establish the needed mechanisms to obtain the payment by the Government in a timely manner.

**FARM-TO-MARKET ACCESS ROADS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0332, AND  
HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT,  
ACCESS ROADS PROGRAM COMPONENT  
USAID/GUATEMALA PROJECT No. 520-0274  
BOTH MANAGED BY THE  
MINISTRY OF COMMUNICATIONS, TRANSPORTATION  
AND PUBLIC WORKS  
GENERAL DIRECTORATE OF ROADS**

**LIST OF REPORT RECOMENDATIONS**

**INTERNAL CONTROL STRUCTURE**

**Recommendation 1**

The General Directorate of Roads should keep separate accounting records for projects' purposes for a clear identification of funding sources (loan, grant, direct payments, counterpart and others). In addition, the financial department of the General Directorate of Roads should separate, by means of auxiliary ledgers, all materials, spares, machinery, vehicles and tools to comply with the requirements of the agreements.

**Recommendation 2**

The General Directorate of Roads should provide appropriate support documentation for disbursements in 1985 for a total of Q405,768, for Project 520-0332.

**Recommendation 3**

The General Directorate of Roads must prepare quarterly fund accountability statements for each project. These statements must be based on projects' accounting records.

**Recommendation 4**

The General Directorate of Roads should use solicitation orders with evidence of authorizations both from the resident delegate and the rural roads coordinator when ordering project materials and spare parts. The DGC must use the bid summary and should request five quotations from diferent suppliers for all purchases of spare parts.

#### **Recommendation 5**

The General Directorate of Roads should design and implement procedures to ensure that all purchases made directly by USAID/Guatemala will be recorded in a timely manner in the appropriate accounting records of the DGC.

#### **Recommendation 6**

The DGC's regions should keep inventories of the projects' materials and supplies separated from other non-projects materials.

#### **Recommendation 7**

The General Directorate of Roads should design and implement procedures to ensure that the person who collects from the paymaster is the person who endorses the check.

#### **Recommendation 8**

The General Directorate of Roads should design and implement procedures to ensure that non-negotiable payroll checks are cashed only by the payee.

#### **Recommendation 9**

The paymasters in the different regions should compare the ID card number presented by the person collecting with the ID card number noted in the attendance records prepared by the projects' foremen.

#### **Recommendation 10**

DGC must have signed records of receipt for vehicles, machinery and equipment, purchased directly by USAID/Guatemala for better control of fixed assets and timely recording in its accounting records.

### **COMPLIANCE WITH THE TERMS OF THE AGREEMENTS AND APPLICABLE LAWS AND REGULATIONS**

#### **Recommendation 1**

The General Directorate of Roads should ensure that grant funds, attributed to different projects, are accounted for separately.

#### **Recommendation 2**

The General Directorate of Roads should manage loan and grant funds in separate bank accounts.

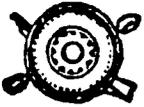
**Recommendation 3**

The General Directorate of Roads must obtain a written authorization for this purchase or refund to USAID/Guatemala the total amount involved.

**Recommendation 4**

The General Directorate of Roads should establish the needed mechanisms to obtain the payment by the Government in a timely manner.





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1. From 1990 the accounting records in this General Direction allow to give financial information by project or source of financing, due to the fact that this administration has promoted a renewal of Integrated Accounting Nomenclature in order to create Specific Codes for each bank account, either Loan or Donation from the different international agencies which supply financing to the Dirección General de Caminos, as well as for internal funds.
  
  2. The noted difference of \$594,644 does not exist because this amount are payments made directly by AID which were not reported to the Dirección General de Caminos at its proper time, and up to date the appropriate adjustment operations that vanishes such differences have been made.
  
  3. In reference to the existence of Questionable Expenses for Q.6. 879,415 to be used in Project 520-0332 and of Q.2.372,721 for Project 520-0274 described on page 16, of your report, will be explained as follows:
    - a) In reference to columns A, B, C and D in your report, please be advised of the following:
      - Q.317,358 Labor: Complete documentation operated in Fiscal Cash of June, July, September, October and December 1985, and January 1986 glossed by Contraloría de Cuentas.
  
      - 8,146 Tools: Payments directly made by the Ministry of Public Finances. Documents available.
  
      - 59,518 Construction Materials: Payment directly made by the Ministry of Public Finances. Documents Available.
  
      - 3,218 Tires and Tubes: Payment made directly by the Ministry of Public Finances. Documents available.
  
      - 17,528 Spare Parts: Payment made directly by the Ministry of Public Finances. Documents available.
- Q.405,768  
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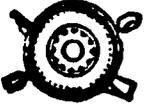
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b) Questionable Costs for Q.19,853 for Project 520-0332 and Q.15,109 for Project 520-0274 explained as follows:

- In reference to Non negotiable Checks (Numeral 8 Structure of Internal Control), cashed by a third person, this is responsibility of the bank making the payment. The checks cashed by the bank do not return to the Dirección General de Caminos but to the Ministry of Public Finances which issue them.
- In reference to the difference existing between the endorsement on the check and the signature that appears in our payroll (Numeral 7 Structure of Internal Control), this Dirección General was not aware of the fact, because as was mentioned before, the checks do not return to this Dirección General but to the Ministry of Public Finances. Nevertheless, an awareness campaign has been started among the workers in order that the same signature be made either on the check and on the payroll, because the person in charge to hand out the checks can not force the workers to endorse the check immediately after receiving it, without violating the individual property rights of the person.
- About the question of checks cashed by the same person (Numeral 7 Structure of Internal Control), it would be appreciated your sending to this General Directory, in a sealed envelope, of the name or names of person or persons involved in this matter, in order to proceed as corresponds.
- Your remark referred in Numeral 9 of Structure of Internal Control, will be analyzed and put into practice according to the specific mechanisms established by each work front.
- In reference to purchasing of gasoline for Q.37,348 affirmed in your Numeral 3, Fulfillment of the Terms of Covenant and Applicable Laws and Regulations, which do not have a Purchase and Payment Order, nor Authorization by AID, be advised:

Those purchases are included in the following documents:

<u>PURCHASE AND PAYMENT ORDER</u>	<u>DATE</u>	<u>V A L U E</u>
3803	12-18-84	Q. 22,597.36
0062	02-08-85	7,277.70
1076	07-10-85	7,473.14
		<u>Q. 37,348.20</u>
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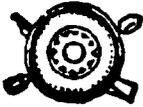
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These Purchase and Payment Orders were authorized by AID in Letters of Execution Nos. 9, 14 and 16.

- c) The Reception Proceedings referred to in Column C, page 16, are completely localized and were made available to you for revision in a previous occasion, and are available to you whenever you request them.
- d) Regarding the assumed Deviation from Internal Control in the purchasing System for an amount of Q.1,722,144 for the Project 520-0332 and for an amount of Q.323,077 for the Project 520-0274, referred to in column D, numeral 4, letters A, B, C and D of the Internal Control Structure (Pages 23,24, 25, 26, 27 and 28 of your reporte), we inform you the following:
- I. Regarding your statement that the Commercial Order of Purchasing for an amount of Q.765,469 for Project 520-0332, and the other for an amount of Q.83,744 for Project 520-0274 (page 23 in your report), were not prepared, we let you know that the aforementioned orders are annexed to the documents that were operated in Fiscal Cash and glossed by Account Comptrollership, and xerox copies which are available for your review.
  - II. Regarding letter B, numeral 4 of the Internal Control Structure (Page 24 in your report), where you indicate that the offering summaries for the Purchasing and Payment Order for an amount of Q.436,572 for Project 520-0332 and the other for an amount of Q.60,624 for Project 520-0274 were not furnished to you, we inform you that:
    - The Purchasing and Payment Orders Nos. 256, 189, 125, 107 and 241 were not furnished to you at a proper time since the summary were at the Ministry of Finance.
    - Purchasing and Payment Orders Nos. 58 and 221 were purchases done by Open-End Contract, whose numbers are 318-88 and 406-86, respectively.
    - The summary for Purchasing and Payment Orders Nos. 95, 400, 413, 438, 412, 347 and 428 is annexed to the Original Documents operated in Fiscal Cash corresponding to February and June of 1989 and May and June 1988, respectively, which are already - glossed by Accounts Comptrollership and consequently a Written Authorization is needed to furnish them to you.

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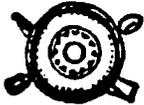
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- Finally, Purchasing and Payment Order No. 395; for this one the Provider has a letter of Exclusiveness under Decree-Law 90-82 dated October 22, 1982, and whose xerox copies are among the Documents that back the aforementioned order.
- III. Regarding your statement that there is no evidence of quotation in the purchasing of spare parts (Page 25 of your report), for an amount of Q.181,359 for Project 520-0332 and for an amount of Q.43,152 for Project 520-0274; we inform you that:
- Purchasing and Payment Orders Nos. 2646, 2503, 2668, 2697, 2692, 2707, 2695, 2585 and 2645 shelter purchases done with imprest - fund that do not require Quotation (See Art. 14, Law of Purchasing and Contracting)
  - Purchasing and Payment Orders Nos. 124 and 122 were purchases - done based on quotations Nos. 620-88 and 619-88, respectively, and are annexed to the original documents operated in Fiscal Cash of April 1989 (documents Nos. 52 and 53).
  - For the purchase done at Cía. Guatemalteca de Maquinaria for an amount of Q.3,152, we let you know that indeed a Purchasing and Payment Order was drafted and whose number is 2701 and it has no quotation since the firm is an exclusive Distributor for spare parts for JOHN DEERE heavy duty machinery.
  - Regarding the Purchase of spare parts to the commercial firm - Agro-Repuestos for an amount of Q.33,968, sheltered by the Purchasing and payment Order No. 2702, we inform you that the quotations were performed before advancement application, as it is indicated in document 4308 dated Nov. 20, 1985, and whose amount is Q.38,572.95) and of which a restitution of Q.4,604.89 was time ly made.
  - Regarding the fact that the purchases were paid with checks of Crédito Hipotecario Nacional Bank, we inform you that it is true and through accounts handled wxclusively by the Rural Roads Coordinator with funds from the loan advancement, the liquidation of which was presented to USAID/GUATEMALA, and a xerox copy of which is available to you.
- IV. Regarding letter D, numeral 4 of the Internal Control Structure (Pages 25, 26, 27 and 28 of your report) Fraction Purchases for Q.338,744 for Project 520-0332 and Q.135,557 for Project 520-0274; we inform you that all these purchases were awarded by open

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-End Contract, except the ones described below:

<u>PURCHASE &amp; PAYMENT ORDER No.</u>	<u>D A T E</u>	<u>PURCHASE No./ COMMERCIAL ORDER</u>	<u>D A T E</u>	<u>V A L U E W/O TAX</u>	<u>V A L U E WITH TAX</u>
207	11-20-86	1887/163,100	11-04-86	Q. 17,500	Q. 18,725
209	11-20-86	1888/163,096	11-04-86	17,500	18,725
210	11-20-86	1889/163,097	11-04-86	17,500	18,725
211	11-20-86	1886/163,099	11-04-86	17,500	18,725
212	11-20-86	1890/163,098	11-04-86	17,500	18,725
234	12-03-86	2030/163,116	11-11-86	19,950	21,346.50
235	12-03-86	2039/163,123	11-11-86	19,800	21,186
237	12-03-86	2046/153,111	11-11-86	19,500	20,865
238	12-03-86	2060/163,125	11-11-86	19,800	21,186
239	12-03-86	2061/163,117	11-11-86	19,800	21,186
<u>T O T A L . . .</u>				<u>Q. 186,350</u>	

The Purchase and Payment Orders described above were repaired in due time to the Authorities of the previous administration by the Accounts Comptrollership when it performed the Gloss, as it is indicated on the Records of Proceedings No. 02-87, dated Nov. 11, 1987 and whose xerox copu we have in our records, and it truly states what is indicated above, and is available to you at your request.

**B. Internal Control Structure:**

1. As it was stated on numeral 1, page 2 of this document, starting in 1990, the accounting registers of this Dirección General de Caminos, allow the furnishing of financial information by project and source of finance.
2. In relation to the finding # 2, Letter a, we clarify in our number 3, page # 2, we do have back up documents.
3. Regarding finding # 3, we inform you that in fact, the Reports of the State of Accounts were no prepared periodically but yearly, which does not violate the agreement or any other legal ordering, however at present a quarterly reports on the State of Accounts will be prepared, taking your recommendation in consideration, and which will be conciliated periodically against the data furnished to us by AID.

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4. Regarding finding # 4, we have answered to it in detail on pages 2, 3, 4 and 5 of this document.
5. Respecting finding # 5, please refer to numeral # 2 of the Reports on the State of Accounts.
6. Relating to your finding # 6, this is so because we do not have enough physical space since this Dirección General de Caminos is really big and the materials and supplies are in transit since they they are used at works inside the country.
7. Your findings # 7, 8 and i, were explained extensively on numeral 3, letter b), paragraphs 1, 2, 3 and 4 of the Reports on the State of Accounts.

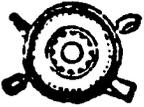
C. Terms of Covenant, Laws and Applicable Regulations Fulfillment.

1. Regarding the non separation of the donation funds handling, we inform you that starting in 1990, separate accounts were opened for the handling of the loan and donation funds, as follows:

111378-6	for AID Donation	520-T-040
111369-4	for AID Donation	520-T-037
111403-2	for AID Loan	520-T-040
111402-4	for AID Loan	520-T-037

2. Regarding the Loan advancements handled in donation accounts, the current administration was able to establish that they were not handled in separate accounts, and for that reason instructions were given so that the respective account openings were done, as it was stated in the previous numeral.
3. With respect to the non authorized purchases. They do have their respective authorization as was explained in a detailed way in the last paragraph of page # 3 of this document and in the first paragraph of page 4 of this document.
4. In relation to the indication that the Government does not pay in due time for the labor, we inform you that this General Directorate has nothing to do with the pay schedule of the Ministry of Finance.

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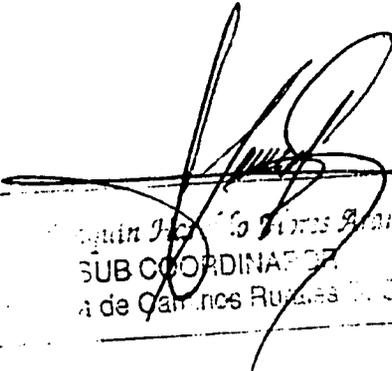
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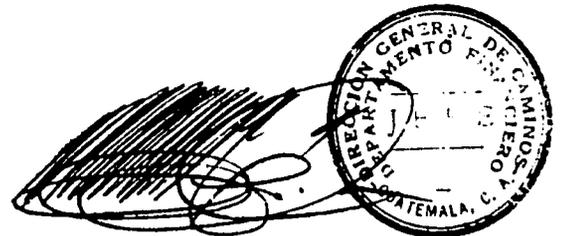
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Finally, we must do the observation that the rough draft of the Audit Report was delivered to us on February 1st, 1991, and after reading and studying its content, it was made a checking of your observations summarized on page 16 described with detail in Structure of Internal Control, since we had in our hands the necessary documents that vanished the significant amounts of money which would modify substantially the Reports on the State of Accounts of the Projects being audited, showed to you on March 1st, 1991. We consider it would have been of benefit for USAID and to this Directory, if the Auditing Firm would have accepted to check all documents, which were presented at the right moment.

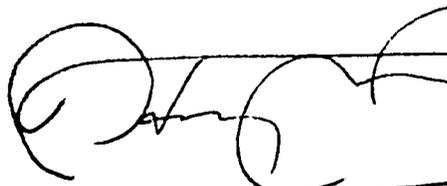
We appreciate all recommendations included in your rough draft of Report, and be certain that this Dirección General de Caminos will give the necessary instructions in order to put in practice them according to our possibilities.

Very Truly Yours,

  
MARIA TERESA CENTENO G.  
SUB COORDINADORA  
de Caminos Rurales S. A. S. C.



MARIA TERESA CENTENO G.

  
DIRECCION GENERAL DE CAMINOS  
DIRECTOR GENERAL

ING. VICTOR HUGO MONTOYA  
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