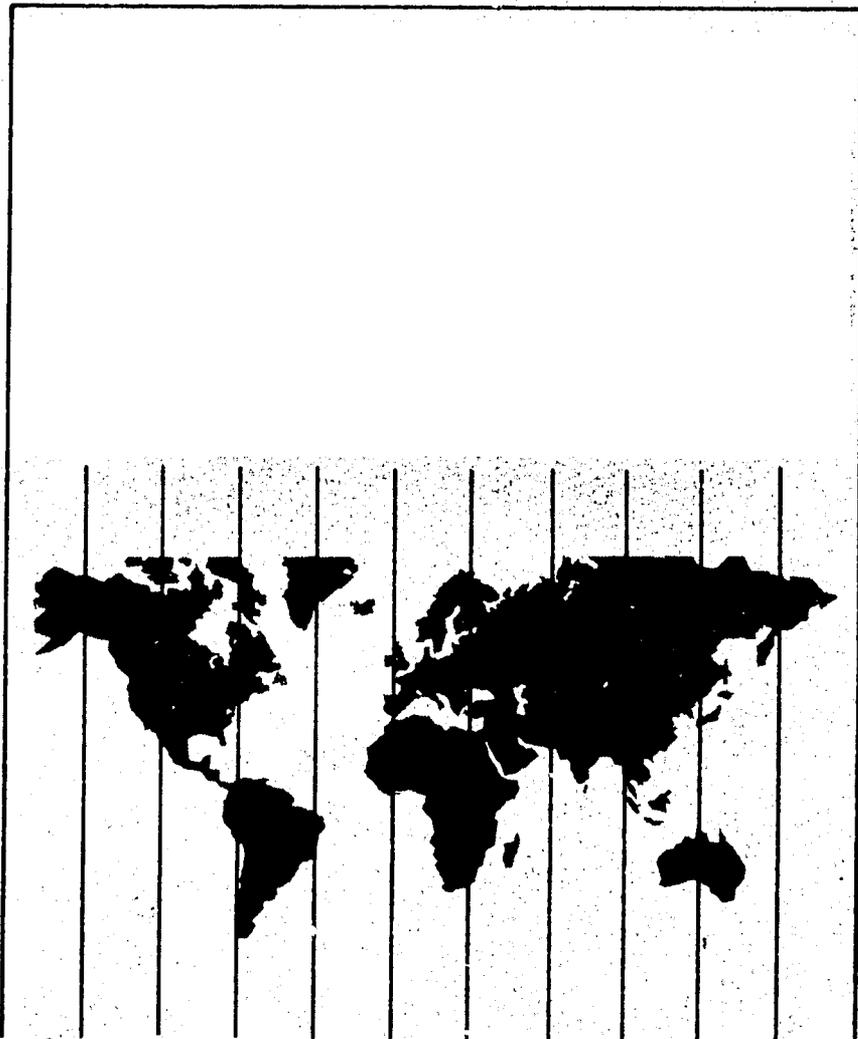


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit

TEGUCIGALPA

**AUDIT OF USAID/GUATEMALA'S HIGHLANDS
AGRICULTURAL DEVELOPMENT PROJECT-PHASE I
ACTIVITIES MANAGED BY THE
GENERAL DIRECTORATE OF FORESTS AND WILDLIFE
SEPTEMBER 30, 1983 TO JUNE 30, 1990**

**Audit Report No. 1-520-91-39-N
July 31, 1991**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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July 31, 1991

MEMORANDUM

TO: D/USAID/Guatemala, Terrence Brown

FROM: RIG/A/T, Reginald Howard *BR Howard*

SUBJECT: Audit of USAID/Guatemala's Highlands Agricultural Development Project-Phase I, Managed by the General Directorate of Forests and Wildlife, September 30, 1983 to June 30, 1990

This report presents the results of a non-Federal financial audit of the Highlands Agricultural Development Project-Phase I, Natural Resources Management Component, activities managed by the General Directorate of Forests and Wildlife (Directorate), USAID/Guatemala Project No. 520-0274, for the period September 30, 1983 to June 30, 1990. Until July 4, 1988 these Project activities were managed by the National Forest Institute the predecessor of the Directorate. Both institutions were a part of the Government of Guatemala's Ministry of Agriculture. Price Waterhouse prepared the report, which is dated June 28, 1991.

The purpose of the Project is to increase rural agricultural productivity and profitability. The Directorate's primary purpose is to execute a national policy for the development and regulation of the forestry and wildlife resources. The audit coverage included \$607,595 provided by A.I.D. to the Ministry of Agriculture.

The objectives of the audit were to determine whether: (1) the Directorate's fund accountability statement for the period audited fairly presents Project receipts and disbursements, (2) the internal control structure of the Directorate was adequate to manage the Project's funds, and (3) the Directorate complied with contract terms and applicable laws and regulations. The scope of the audit included an examination of the Directorate's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

The auditors found that the Directorate: (1) included in the fund accountability statement only that data which pertained to Project activities subsequent to July

- 1 -

4, 1988, the date that the Directorate assumed responsibility for the Project's management, (2) did not separately account for Project activities, and (3) could not reconcile its records to the funds received from USAID/Guatemala. Because of these scope limitations the auditors disclaimed their opinion on the fund accountability statement. The auditors identified questionable costs of \$413,343 (\$408,600 unsupported and \$4,743 questioned).

The auditors found one material weakness in the Directorate's internal control structure pertaining to its inadequate accounting system for Project purposes. The audit also identified three instances of noncompliance involving the lack of separate accounting records for Project activities, inadequate accounting for counterpart contributions, and unauthorized use of Project assets.

The audit report was discussed with management officials of the Directorate who generally agreed with the report.

We are including the following recommendations in the Office of the Inspector General's recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Guatemala negotiate a settlement with the Ministry of Agriculture for the \$413,343 (\$408,600 unsupported and \$4,743 questioned) of questionable costs, as described in the Price Waterhouse audit report dated June 28, 1991, representing the expenditures incurred under the previous implementing entity prior to July 4, 1988 and for expenditures incurred for equipment and supplies.

Recommendation No. 2

We recommend that USAID/Guatemala, in conjunction with the Directorate, develop an action plan with implementation timetable for designing and implementing an accounting system adequate for Project purposes as well as procedures to ensure that Project documentation is maintained for a period of three years after the Project's completion date, that proper accounting records are maintained for the receipt and use of counterpart contributions, and that vehicles acquired with A.I.D. funds are properly recorded in the Project's records and are used only for Project purposes.

Recommendation No. 3

We recommend that USAID/Guatemala require the Directorate to reconcile the amount of Project funds it has received to the amount disbursed according to Mission records.

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

AUDIT OF THE HIGHLANDS AGRICULTURAL DEVELOPMENT
PROJECT - PHASE I, NATURAL RESOURCES MANAGEMENT
COMPONENT MANAGED BY THE GENERAL DIRECTORATE OF
FORESTS AND WILDLIFE
(DIGEBOS)

USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

AUDIT OF THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT- PHASE I,
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE GENERAL DIRECTORATE OF FORESTS AND WILDLIFE
(DIGEBOS)

USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

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Price Waterhouse



June 28, 1991

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

Dear Mr. Howard:

This report presents the results of our financial audit of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by the General Directorate of Forests and Wildlife (Dirección General de Bosques y Vida Silvestre-DIGEBOS) formerly the National Forestry Institute (Instituto Nacional Forestal - INAFOR), USAID/Guatemala Project No. 520-0274, from September 30, 1983 to June 30, 1990.

I. BACKGROUND

On September 30, 1983, the United States Government, acting through the U. S. Agency for International Development in Guatemala (USAID/Guatemala), signed loan agreement No. 520-T-037 and grant agreement No. 520-0274 with the Government of Guatemala (GOG). The agreements set forth the understandings of the Highlands Agricultural Development Project (the project) involving planned obligations of \$13,500,000 in loan and \$2,100,000 in grant funds. This total was assigned to two major components, Natural Resources Management and Access Roads. The Natural Resources Management Component involves \$8,121,000 in loan, \$1,064,500 in grant and \$18,670,497 in counterpart funds. The original agreement, together with three amendments to the loan and two amendments to the grant, were to cover a six-year period up to September 30, 1989 to help finance foreign exchange and local currency costs for the project.

However, a third amendment to the grant agreement, which increased funding and extended the ending date of the project to August 30, 1993, was signed on August 30, 1988. This amendment involved planned obligations of \$15,000,000, and the combining of this project's activities with those of the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255, which ended on March 30, 1989.

The project purpose is to increase rural agricultural productivity and profitability. This would be accomplished through the development of diversified commercial agriculture, expanded emphasis on irrigated farm systems, and the transfer of production technology and marketing services to small farmers. Other than the Department of Petén, the project area is the entire country.

The borrower/grantee is the Government of Guatemala (GOG) and the project has been implemented through the following institutions which are presided over by the Ministry of Agriculture: The General Directorate for Agricultural Services (Dirección General de Servicios Agrícolas - DIGESA), the General Directorate for Forests and Wildlife (Dirección General de Bosques y Vida Silvestre - DIGEBOS) formerly the National Forestry Institute (Instituto Nacional Forestal - INAFOR), the National Agricultural Development Bank (Banco Nacional de Desarrollo Agrícola - BANDESA), and the Agricultural Sector Planning Unit (Unidad Sectorial de Planificación Agropecuaria y de Alimentación - USPADA).

DIGESA is responsible for project activities involving extension and technical assistance services for the planning, design and construction of small scale irrigation systems and soil conservation structures. This includes training of farmers in appropriate irrigation technology as well as the promotion of soil conservation practices. DIGESA is also responsible for the promotion, design, credit arrangements and supervision of the construction of irrigation projects, and the construction of soil conservation structures.

BANDESA is responsible for the administration of the project's trust fund. This trust fund is to finance small scale irrigation credit and social payments for the soil conservation program. BANDESA is a semi-autonomous division of the Ministry of Agriculture which was established in 1971 as the principal credit agency for the agricultural public sector. The bank has its central offices in Guatemala City and serves national needs through eight regional districts. Thirty five subregional agencies have been established to serve agricultural credit needs. Each subregional office is able to develop, approve (within established limits), and monitor loans made to farmers.

USPADA is the Ministry of Agriculture's unit for sector planning and coordination. It reports directly to the office of the Minister of Agriculture and its organization includes functional and/or technical divisions for carrying out specific tasks.

Basically they consist of divisions for policy analysis, programming and budgeting studies and projects, and technical specialists.

INAFOR functioned through 1988, when it was replaced by DIGEBOS, and during its life as a decentralized and semiautonomous institution it was charged with assuring that the country's natural renewable resources were used under technical and appropriate procedures.

DIGEBOS was created on June 21, 1988 by Executive Order No. 392-88, and its purposes were to:

- a) Design and execute a national policy for the development and regulation of the forestry and wildlife resources.
- b) Promote and support the development of the country forestry resources for commercial purposes.
- c) Supervise the conservation, protection and rational tapping of the forest and wildlife resources.
- d) Coordinate with other agencies and institutions the activities related to the handling and conservation of the forest and wildlife resources.

For attaining its purposes, DIGEBOS was vested with the following authority:

- a) Plan at a national level all the activities aimed at obtaining major benefits through the rational tapping of natural renewable resources.
- b) Execute the programs, projects and activities provided by the plans for the development of renewable natural resources of national interest.
- c) Apply and comply with the laws applicable to the resources encompassing the forests, the wildlife, the national parks and the national reserve areas.

For purposes of the project DIGEBOS is responsible for implementing the reforestation activities.

II. OBJECTIVES

Our financial audit of the fund accountability statement for the project activities within the Natural Resources Management Component of the Highlands Agricultural Development Project, Phase

I, USAID/Guatemala Project No. 520-0274, managed by DIGEBOS (formerly INAFOR) from September 30, 1983 to June 30, 1990 had as objectives determining whether:

- A. The fund accountability statement for the project activities implemented by DIGEBOS, presents fairly the receipts and expenditures of USAID/Guatemala furnished funds from September 30, 1983 to June 30, 1990. This review was to include the determination as to whether the costs reported as incurred were in fact allowable, allocable and reasonable per the terms of the agreements and A.I.D. regulations, and to identify questionable costs, if any.
- B. The internal control structure of DIGEBOS was adequate to manage the project component as required by USAID/Guatemala.
- C. DIGEBOS (formerly INAFOR) had complied with agreement terms and applicable laws and regulations which could affect the project component's incurred costs.

III. SCOPE OF WORK

The following steps were applied by us as the basis for the audit program, and since they were not considered as all-inclusive or restrictive in nature they did not constitute relief from our exercising due professional care and judgment.

A. Pre-audit Steps

Review the agreements, action plans, project implementation letters and all other documentation related to the project, including the financial and progress reports submitted by DIGEBOS to USAID/Guatemala.

B. Fund Accountability Statement

Examine the fund accountability statement for the project activities financed by USAID/Guatemala and carried out by DIGEBOS as of June 30, 1990, and identify any questionable costs which were not fully supported by adequate documentation or which were not reasonable, allowable or allocable under the terms of the agreements.

1. Determine whether costs incurred in carrying out the purpose of the project were reasonable, allocable and allowable in accordance with the agreement, the standard provisions, and any negotiated advance understanding on a particular cost or item, as applicable.

2. Identify any cost not considered appropriate for reimbursement under the agreement or for lack of adequate support thereof.
3. On a selective basis, obtain confirmation from third parties and perform on-site visits as considered appropriate.
4. Evaluate, in general terms, the reasonableness and timeliness of information reported by DIGEBOS to USAID/Guatemala.
5. Reconcile the loan and grant funds recorded by DIGEBOS to those confirmed as disbursed by USAID/Guatemala.

C. Internal Control Structure

As part of our audit of the fund accountability statement, we conducted a study and evaluation of the internal control structure of DIGEBOS as required by generally accepted auditing standards and the U. S. Comptroller General's "Government Auditing Standards" (1988 Revision).

The study and evaluation was focused on the controls, procedures and accounting records maintained by DIGEBOS for the control of USAID/Guatemala provided funds and included the following relevant matters:

1. Evaluation of the procurement system in order to determine if materials, supplies, and services were purchased according to the Government procurement regulations and sound commercial practices, as required by USAID/Guatemala.
2. Evaluation of the project budgetary control system including the comparison of actual expenditures with the budgetary assignments in the agreements and subsequent A.I.D. approved transfers between budget items.
3. Evaluation of the warehouse controls over materials and supplies including shipping and receiving procedures.
4. Evaluation of established controls over the use of light and heavy equipment, dump trucks, vehicles, spare parts, hand tools, construction materials, tires and tubes, fuels and lubricants.
5. Establish the adequacy of the DIGEBOS' control over USAID/Guatemala furnished fixed assets by determining whether (a) a record was maintained on each fixed asset showing the identification number, location, date of purchase, and cost; (b) subsidiary records were periodically reconciled to the

general ledger; (c) fixed assets were tagged in such a manner so that they could be readily identified as being USAID/Guatemala furnished.

6. Evaluation to determine if DIGEBOS had established controls and statistics on the project's activities and results.
7. Evaluation of DIGEBOS' established policies and procedures for monitoring and supervising the project implementation progress and periodically report to USAID/Guatemala on the financial status and progress of the project to the extent required by the agreement.
8. Review of DIGEBOS' controls on payrolls preparation and payment, including payments for local day laborers.

D. Compliance with Agreement Terms and Applicable Laws and Regulations.

Determine whether DIGEBOS had complied with the terms and conditions of the agreements, implementation letters, amendments, and applicable laws and regulations, as follows:

1. Determine if funds provided by USAID/Guatemala under the agreements had been expended for purposes not authorized or not in accordance with the terms of the agreements.
2. Review contracts and subcontracts between DIGEBOS and third parties, if any.
3. Explain any failure to submit required reports or the submission of any inaccurate financial reports.
4. Determine if counterpart funds and technical personnel were provided in a timely manner, according to the loan and grant agreements and to the project needs.
5. Determine other areas where there might have been noncompliance with the agreements, standard provisions, or Handbook 11 that could have a significant effect on the project's progress or achievement of project objectives.

RESULTS OF WORK

Fund accountability statement

Our audit disclosed the following situations:

1. The documentation in support of project operations conducted by the National Forestry Institute (INAFOR), predecessor of DIGEBOS could not be located and DIGEBOS management elected to prepare a fund accountability statement that covers only project transactions undertaken subsequent to July 4, 1988 under the responsibility of DIGEBOS (total disbursements amounting to Q 564,139 equivalent to US\$ 208,940).
2. DIGEBOS did not record the project's operations separately from those of the entity which are not related to the project.
3. It was not possible to reconcile the cash received, as shown in the fund accountability statement, with loan and grant amounts reportedly disbursed by USAID/Guatemala.

Because of the effect of the matters described above, our work was not sufficient to enable us to express an opinion on the fund accountability statement submitted by DIGEBOS for our examination. Regarding project execution, however, our work disclosed unsupported costs for Q1,100,743 (approximately US\$408,600) and questioned costs for Q12,801 (approximately US\$4,743), as explained in Note 3 to the fund accountability statement.

Internal control structure

The following weakness in the internal control structure applied to the project was considered by us as a material weakness:

- The accounting system maintained by DIGEBOS was not adequate to record, process and report financial data, complete and reliable, on the project components for which DIGEBOS is responsible.

Other internal control weaknesses, not believed to be material follow:

- The annulment of purchase orders is not adequately controlled;
- The controls over certain fixed assets was deficient.

Compliance with agreement terms and applicable laws and regulations

Since we were not able to examine project transactions conducted from inception to mid 1988, we were not in a position to determine whether for this period the terms of the agreements were complied with.

Our tests of transactions subsequent to July 4, 1988 identified the following cases of noncompliance:

1. Separate accounting records were not maintained by the project;
2. The counterpart contributions were not properly registered;
3. The accounting records and documents from 1985 to July 4, 1988 were not available for examination;
4. Certain fixed assets were not exclusively used for project related activities;
5. Some reforestation projects were developed in privately-owned properties and it is doubtful that their benefits will extend to the neighboring communities.

MANAGEMENT COMMENTS:

During the exit conference held on June 11, 1991, which was attended to by DIGEBOS officials, representatives of our firm, and Messrs. Edgar Velazco, from the Project Administrative Unit and Julio Martinez, from the USAID Comptroller's Office, all findings requiring clarification together with the pertinent changes that could be included in our report were discussed.

As a result of the discussions and on the basis of the documentation supplied, we have modified our report, although its essential contents remain as they were originally presented.

Price Waterhouse

Price Waterhouse



THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT- PHASE I,
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE GENERAL DIRECTORATE OF FORESTS AND WILDLIFE
(DIGEBOS)

USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit the fund accountability statement of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by the Directorate of Forests and Wildlife (DIGEBOS), USAID/Guatemala Project No. 520-0274, from September 30, 1983 to June 30, 1990. Presentation of the fund accountability statement pertaining to project operations is the responsibility of DIGEBOS's management. The documentation pertaining to the operations conducted for the project by the National Forestry Institute (Instituto Nacional Forestal - INAFOR), predecessor of DIGEBOS, could not be located and management elected to prepare a fund accountability statement that covers only those project transactions effected subsequent to July 4, 1988, where DIGEBOS took over the operations conducted by INAFOR.

Our examination of the accompanying fund accountability statement prepared by DIGEBOS was restricted in scope by the following conditions:

1. The DIGEBOS' accounting department does not record the project's operations separately from those of the entity which are not related to the project.
2. It was not possible to reconcile the cash received, as shown in the accompanying fund accountability statement, with loan and grant amounts reportedly disbursed by USAID/Guatemala.

3. The data supplied directly to us by USAID/Guatemala concerning fund allocations could not be reconciled to the records maintained by DIGEBOS.

Because of the effect of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the accompanying fund accountability statement. Regarding project execution by DIGEBOS, however, our work disclosed incurred costs amounting to Q1,100,743 which have been considered as unsupported and costs for Q12,801 which are questioned for the reasons explained in Note 3.

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

Pace Waterhouse

January 29, 1991

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I
 NATURAL RESOURCES MANAGEMENT COMPONENT
 MANAGED BY THE GENERAL DIRECTORATE OF FORESTS AND WILDLIFE
 (DIGEBOS)
 USAID/GUATEMALA PROJECT No. 520-0274

 FUND ACCOUNTABILITY STATEMENT
 (expressed in quetzales)

JULY 4, 1988 TO JUNE 30, 1990

	B U D G E T			E X E C U T E D			A V A I L A B I L I T Y			QUESTIONABLE COSTS (Note 3)	
	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total	Questioned	Unsupported
RECEIPTS OF A.I.D. FUNDS:											
1988	q 519,296		q 519,296	q 60,636		q 60,636	q 458,660		q 458,660		
1989	706,744		706,744	194,229		194,229	512,515		512,515		
1990	417,680		417,680	78,842	230,432	309,274	338,838	q (230,432)	108,406		
TOTAL RECEIPTS	<u>q1,643,720</u>		<u>q1,643,720</u>	<u>q 333,707</u>	<u>q 230,432</u>	<u>q 564,139</u>	<u>q1,310,013</u>	<u>q (230,432)</u>	<u>q1,079,581</u>		
DISBURSEMENTS OF A.I.D. FUNDS:											
Vehicles					q 230,432	q 230,432		q (230,432)	q (230,432)		
Salaries	q 269,199		q 269,199	q 116,361		116,361	q 152,838		152,838		
Fuel	42,000		42,000	24,075		24,075	17,925		17,925		
Bonuses	294,616		294,616	136,986		136,986	157,630		157,630		
Per diem allowances	26,500		26,500	1,817		1,817	24,683		24,683		
Plastic products (Nylon, PVC)	54,100		54,100	9,946		9,946	44,154		44,154		q 9,075
Accessories and spare parts	32,000		32,000	2,977		2,977	29,023		29,023		
Other items	767,605		767,605	41,545		41,545	726,060		726,060	q 12,801	17,718
Telephone	4,500		4,500				4,500		4,500		
Tires and tubes	8,500		8,500				8,500		8,500		
Fertilizers	3,000		3,000				3,000		3,000		
Advertising and publicity	7,000		7,000				7,000		7,000		
Credit pending application	21,200		21,200				21,200		21,200		
Advisor, technicians	105,500		105,500				105,500		105,500		
Insecticides, fungicides and tools	1,000		1,000				1,000		1,000		
	7,000		7,000				7,000		7,000		
TOTAL DISBURSEMENTS	<u>q1,643,720</u>		<u>q1,643,720</u>	<u>q 333,707</u>	<u>q 230,432</u>	<u>q 564,139</u>	<u>q1,310,013</u>	<u>q (230,432)</u>	<u>q1,079,581</u>	<u>12,801</u>	<u>26,793</u>
Disbursements reportedly made by INAFOR from September 30, 1983 to July 3, 1988 (Note 3)											1,073,950
										<u>q 12,801</u>	<u>q1,100,743</u>

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT- PHASE I,
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE GENERAL DIRECTORATE OF FORESTS AND WILDLIFE
(DIGEBOS)
USAID/GUATEMALA PROJECT No. 520-0274

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

JULY 4, 1988 TO JUNE 30, 1990

NOTE 1 - NATURE OF OPERATIONS AND
SIGNIFICANT ACCOUNTING POLICIES:

a) History and background

On September 30, 1983, USAID/Guatemala entered into loan agreement No. 520-T-037 and grant agreement No. 520-0-074 with the Government of Guatemala, through the Ministries of Agriculture and Communications and Public Works for the purpose of partially financing the Highlands Agricultural Development Project.

The main objective of the project is to improve the basic productive resources of the poorest rural inhabitants of the country highlands.

The project's reforestation component was originally assigned to the National Forestry Institute (Instituto Nacional Forestal - INAFOR), which managed the project until mid 1988 when it was taken over by DIGEBOS, as successor of INAFOR.

b) Basis of Accounting

The project's subsidiary records are maintained in quetzales (denoted by the symbol Q), currency of legal tender in Guatemala.

The accompanying fund accountability statement was compiled on the basis of the budget execution reports approved by the Ministry of Finance.

NOTE 2 - EXCHANGE:

DIGEBOS, and its predecessor INAFOR received only quetzales from the Ministry of Finance. Up to June 6, 1986, the quetzal was at par with the U. S. dollar; however, on this date the GOG established an official exchange rate of Q2.50 to US\$1.00, and as a consequence thereof USAID/Guatemala committed and delivered funds to their equivalent in local currency at the highest exchange rate prevailing in the market. On June 23, 1988 the exchange rate for the regulated and banking markets was unified at Q2.70 to US\$1.00 and, by resolution of the Monetary Board issued on May 30, 1990, the selling to the public of foreign exchange was authorized at an initial exchange rate of Q4.27485 to US\$1.00 on June 5, 1990 to a closing rate of Q4.31551 to US\$1.00 by June 30, 1990.

NOTE 3 - QUESTIONABLE COSTS:

Following is a summary of costs charged by DIGEBOS to the project, which are considered to be unsupported costs with the recommendation that they be kept in abeyance until USAID/Guatemala makes a final determination by regarding the allowability:

a) Purchases made by
DIGEBOS

<u>Purchase and</u> <u>payment order</u>	<u>Date</u>	<u>Amount</u>	<u>Reason for</u> <u>Questioning</u>
89-657	11/24/89	Q 2,480	Xerox typewriting machine without evidence of authorization by A.I.D.
89-675	11/21/89	8,613	IBM microcomputer, 240 CPS printer and wiring without evidence of authorization by A.I.D.
89-677	11/28/89	4,325	Kodak slides projector, an overhead projector, and portable screen without evidence of authorization by A.I.D.
Carried over		<hr/> Q15,418	

<u>Purchase and payment order</u>	<u>Date</u>	<u>Amount</u>	<u>Reason for Questioning</u>
Brought forward		Q15,418	
89-771	12/22/89	2,300	Coleman light generator. No evidence of authorization by A.I.D.
89-821	28/12/89	9,075	Half-a-million polyethylene bags ordered by the project for the nurseries, and received during May 1990, despite that such nurseries were not under DIGEBOS' management since November 1989.
		<u>Q26,793</u>	

b) Disbursements reportedly made by INAFOR

Q 1,073,950

The documents in support of these expenditures were not made available for our examination and DIGEBOS management does not assume responsibility over the cash management exercised by INAFOR. The full amount represent the funds assigned by USAID/Guatemala to the project; however, actual cash received by INAFOR could not be determined by the audit.

The following costs are questioned on the basis of section B.3 (a), article B, Annex II to the loan agreement and paragraph 1(a)(3) of the standard provisions:

<u>Purchase and payment order</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
89-514	05/26/89	Q 9,000	Hermetic condenser unit not allocable to the project.
89-514	11/15/89	2,889	Acquisition of maps not allocable to the project.
89-824	12/28/89	912	Approximately 48 durpanel sheets for refurbishing of offices not used for project related activities.
		<u>Q 12,801</u>	

Price Waterhouse



THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT- PHASE I,
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE GENERAL DIRECTORATE OF FORESTS AND WILDLIFE
(DIGEBOS)
USAID/GUATEMALA PROJECT No. 520-0274
FROM JULY 4, 1988 TO JUNE 30, 1990

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by the General Directorate of Forests and Wildlife (DIGEBOS), USAID/Guatemala Project No. 520-0274, from July 4, 1988 to June 30, 1990, and have issued our report thereon dated January 29, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. 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 review of the fund accountability statement of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by the General Directorate of Forests and Wildlife (DIGEBOS), USAID/Guatemala Project No. 520-0274, from July 4, 1988 to June 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of DIGEBOS is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal

control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the 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 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: procurement system; accounting and budgetary control system; warehouse controls over materials and supplies; controls over the use of light and heavy equipment, spare parts, and controls over USAID/Guatemala furnished fixed assets; controls and statistics on the project's activities and financial information system.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

The deficiencies noted are described in the following pages as findings Nos. 1 to 3, and are summarized below:

1. The accounting system maintained by DIGEBOS is not adequate to record, process and report financial data, complete and reliable on the project components for which DIGEBOS is responsible.

2. The annulment of purchase orders is not adequately controlled.

3. The control over project fixed assets was deficient.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being reviewed 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, however, that the reportable condition described under Finding No. 1 above is a material weakness.

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January 29, 1991

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT- PHASE I,
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE GENERAL DIRECTORATE OF FORESTS AND WILDLIFE
(DIGEBOS)
USAID/GUATEMALA PROJECT No. 520-0274
FROM JULY 4, 1988 TO JUNE 30, 1990

INTERNAL CONTROL STRUCTURE

FINDINGS

1. The Accounting System was not Adequate to Record, Process and Report on Complete and Reliable Financial Data on the Project Components for Which DIGEBOS is Responsible.

Condition:

The accounting records maintained by DIGEBOS do not separately control the counterpart contributions required to be made by the agreement nor the loan and grant sums received for project purposes. Separate records are not kept to control project operations and the fund accountability statement was prepared on the basis of the budget execution reports approved by the Ministry of Finance.

Criteria:

DIGEBOS is responsible for maintaining adequate accounting records for the components of the project under its administration and to report on the project in accordance with generally accepted accounting principles and USAID/Guatemala regulations.

Cause:

Management was unaware of its accounting and reporting obligations imposed by the agreements entered into by the GOG with USAID/Guatemala. Funds were received from the Ministry of Finance and liquidated in accordance with established GOG's procedures regarding budget execution.

Effect:

Inefficient application of general controls over USAID/Guatemala furnished funds at variance with agreement terms which may lead to the questioning of project incurred costs.

Recommendation:

DIGEBOS should implement an accounting system adequate to its purposes and to report on all project activities carried out, regardless of the source of financing.

2. There Was Lack of Appropriate Controls Over the Purchase and Payment Orders Which are Annulled After their Issuance, to Preclude Their Inclusion in the Entity's Budget Execution Reports.

Condition:

At least in one case, the report on the project's financial execution included a Purchase and Payment Order which had been already annulled (a case in point was Order No. 89-537 for Q9,200).

Criteria:

The financial reports on the entity's operations should include only those Purchase and Payment Orders actually used, with exclusion of those annulled for whatever the reason.

Cause:

Lack of proper communication between the entity's administrative department and the budget execution control section regarding the annulled Purchase and Payment Orders, and untimely communication from the Ministry of Finance when such orders are annulled there.

Effect:

The financial reports on the entity's operations, including those pertaining to the project components financed by USAID/Guatemala, may include incorrect data and lead to erroneous decisions, thus limiting their use.

Recommendation:

All Purchase and Payment Orders annulled for any reason should be immediately reported to the entity's budget execution control section to preclude their inclusion in the related budget execution reports.

3. Project Assets Acquired by INAFOR (DIGEBOS' Predecessor) Were not Adequately Accounted for nor Controlled in their Entirety by the Present Entity's Records

Condition:

During our visit to the San Cristobal nursery's warehouse we noted that a 5 HP water pump, 15M-13B model, series No. 8370054, acquired by INAFOR had not been picked up by DIGEBOS' records.

Also, assets acquired by DIGEBOS' predecessor (INAFOR) have not been transferred and incorporated to its own accounting records for better control.

Criteria:

All assets acquired with Project No. 520-0274 funds should be picked up by the entity's records for their proper control, as required by the loan and grant agreements.

Cause:

Lack of adequate controls over the assets to be transferred to DIGEBOS, including an effective physical inventory of such assets.

Effect:

Possibility that the assets beyond DIGEBOS control may be used without proper authorization or suffer damages and that such situations may go unnoticed.

Recommendation:

All assets acquired should be identified in full at the time they are received for a proper incorporation in the entity's records. This recommendation should be complemented by periodic physical inventories to assure a better control over assets and enhance the reliability of the reports on the use of project funds.

Price Waterhouse



THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT- PHASE I,
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE GENERAL DIRECTORATE OF FORESTS AND WILDLIFE
(DIGEBOS)

USAID/GUATEMALA PROJECT No. 520-0274
FROM JULY 4, 1988 TO JUNE 30, 1990

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by the General Directorate of Forests and Wildlife (DIGEBOS), USAID/Guatemala Project No. 520-0274 from July 4, 1988 to June 30, 1990, and have issued our report thereon dated January 29, 1991.

We conducted our audit in accordance with generally accepted auditing standards and met, whenever applicable, the U. S. 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 laws, regulations, contracts, and grants applicable to DIGEBOS is the responsibility of DIGEBOS' management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatements, we performed tests of DIGEBOS' compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Because of limitations to the scope of our work and mainly because we were unable to review the accounting records maintained by INAFOR (predecessor of DIGEBOS') when it managed the project, we were not in the position to determine whether during the project initial years the terms, conditions and requirements of Agreement No. 520-0274 were duly complied with.

The results of our tests for the subsequent years indicate that, with respect to the items tested, DIGEBOS complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that DIGEBOS had not complied, in all material respects, with those provisions. We noted, however, the following immaterial instances of noncompliance which are more fully described under findings No. 1 and 2 in the following pages:

- Separate accounting records were not maintained for the project.
- The counterpart contributions were not properly recorded.
- The accounting records maintained by INAFOR from 1985 through July 4, 1988 could not be made available.
- Certain fixed assets were not exclusively used for project related activities.
- There are some private reforestation projects whose benefits are doubtful to be extended to the neighboring communities.

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Rice Waterhouse

January 29, 1991

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT- PHASE I,
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE GENERAL DIRECTORATE OF FORESTS AND WILDLIFE
(DIGEBOS)

USAID/GUATEMALA PROJECT No. 520-0274
FROM JULY 4, 1988 TO JUNE 30, 1990

COMPLIANCE WITH AGREEMENT TERMS
AND REGULATIONS AND AGREEMENT TERMS

FINDINGS

1. DIGEBOS Did Not Comply With Certain Terms, Conditions And Requirements Established by the Loan and Grant Agreements.

Condition:

The evaluation made disclosed the following cases of noncompliance:

- a) No separate accounting records were maintained to register the project operations, nor were the loan transactions separated from those pertaining to the grant (which include all fixed assets acquired for project purposes), at variance with section B.5.b), paragraph B of Annex II to the loan agreement and section B.5.b paragraph B of Annex II to the grant agreement.
- b) Lack of information regarding the counterpart funds which DIGEBOS was required to contribute to the project, at variance with section 3.2, paragraph 3 of the loan agreement, and section 3.2, paragraph 3 of the grant agreement.
- c) The accounting records maintained by INAFOR (predecessor of DIGEBOS) since the project inception (1985) through July 4, 1988, could not be examined. From this limitation it can be inferred that there was noncompliance with section B.5. of the loan agreement, which requires that the project records be maintained open for review for up to three years after the date of the last project disbursement.
- d) Not all project fixed asset items are exclusively used by employees working directly for the project, at variance with section B.3, paragraph B of annex II to the grant agreement. Some examples in question include a RANGER pick - up '90 used by the entity's general director who does not work directly for the project; and an air conditioning generator used at the entity's Seeds Bank, which although occasionally transfers some seeds to the project it does not pertain to the project.

Criteria:

Management was required to comply with the terms established by the loan and grant agreements.

Cause:

Lack of awareness of agreement terms and conditions by both DIGEBOS officials and the members of the commission appointed by the Government of Guatemala to liquidate INAFOR, together with lack of pertinent controls which would assure compliance with such terms and conditions.

Effect:

Lack of the necessary documentation to permit a review of the project operations, as well as inadequate records which may lead to the questioning of incurred project costs.

Recommendation:

DIGEBOS's management should communicate in writing to USAID/Guatemala what specific actions will be taken and when, to remedy the conditions noted by the audit.

2. Private Reforestation Projects Whose Benefits are Doubtful to Be Extended To The Neighboring Communities Are In Process.

Condition:

During our visits to different project sites, we noted that the projects undertaken at Labor San Antonio and Canton Paxlaju pertain to privately owned farms.

Criteria:

The reforestation projects were designed to benefit the largest possible number of users living in the surrounding areas so that the project meets the purposes of its creation.

Cause:

The above mentioned projects were undertaken to take advantage of the forests located at existing private farms, with the presumed approval of USAID/Guatemala.

Effect:

The project benefits may be limited to a small number of individuals and bypass a mass of rural inhabitants in the neighboring communities, at variance with the project objectives.

Recommendation:

DIGEBOS should evaluate the status of these projects and all decisions taken should be confirmed with USAID/Guatemala in writing as evidence of what is the general understanding regarding the attainment of project goals.

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT- PHASE I,
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE GENERAL DIRECTORATE OF FORESTS AND WILDLIFE
(DIGEBOS)

USAID/GUATEMALA PROJECT No. 520-0274
FROM JULY 4, 1988 TO JUNE 30, 1990

LIST OF REPORT RECOMMENDATIONS

Internal Control Structure

Recommendation 1:

DIGEBOS should implement an accounting system adequate to its purposes and to report on all project activities carried out, regardless of the source of financing.

Recommendation 2:

All Purchase and Payment Orders annulled for any reason should be immediately reported to the entity's budget execution control section to preclude their inclusion in the related budget execution reports.

Recommendation 3:

All assets acquired should be identified in full at the time they are received for a proper incorporation in the entity's records. This recommendation should be complemented by periodic physical inventories to assure a better control over assets and enhance the reliability of the reports on the use of project funds.

Compliance With All the Terms, Conditions and
Requirements Established by Project No. 520-0274

Recommendation 1:

DIGEBOS's management should communicate in writing to USAID/Guatemala what specific actions will be taken and when, to remedy the conditions noted by the audit.

Recommendation 2:

DIGEBOS should evaluate the status of these projects and all decisions taken should be confirmed with USAID/Guatemala in writing as evidence of what is the general understanding regarding the attainment of project goals.

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