

UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit  
TECHNICAL

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

**Audit Report No. 1-520-91-38-N  
July 25, 1991**

U. S. MAILING ADDRESS:  
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**AGENCY FOR INTERNATIONAL DEVELOPMENT**

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY  
TEGUCIGALPA - HONDURAS

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July 25, 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, Activities Managed By The General Directorate For Agricultural Services, 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, USAID/Guatemala Project No. 520-0274, activities managed by the General Directorate For Agricultural Services (Directorate), for the period September 30, 1983 to June 30, 1990. Price Waterhouse prepared the report, which is dated June 28, 1991.

The purpose of the Highlands Agricultural Development Project is to increase rural agricultural productivity and profitability. The Directorate 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. The audit coverage included \$789,700 provided by A.I.D. to the Directorate.

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 had not prepared a fund accountability statement for the period January 1, 1990 to June 30, 1990 nor was it able to provide the auditors supporting documentation for Project disbursements for the period January 1, 1985 to December 31, 1987. Also, data given to the auditors by USAID/Guatemala pertaining to funds provided to the Directorate could not

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be reconciled to the Directorate's accounting records. Because of these scope limitations the auditors disclaimed an opinion on the fund accountability statement. The auditors identified questionable costs of \$318,452 (\$296,852 unsupported and \$21,600 questioned). Additionally, the auditors found one material weakness in the Directorate's internal control structure pertaining to inadequate accounting and filing systems. With respect to compliance the auditors found five material instances of noncompliance with agreement terms and applicable laws and regulations.

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 Directorate for the \$318,452 of questionable costs (\$296,852 unsupported and \$21,600 questioned), as described in the Price Waterhouse audit report dated June 28, 1991, representing expenditures made for salaries of individuals who have not worked on the Project and for equipment that either could not be located or was acquired in violation of the agreement terms.

**Recommendation No. 2**

We recommend that USAID/Guatemala require the Directorate to develop a plan for implementing 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, that vehicles acquired with A.I.D. funds are properly recorded in the Project's records and are used only for Project purposes, and that employees paid with A.I.D. funding work only on Project activities.

**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**  
**FOR AGRICULTURAL SERVICES**  
**(DIGESA)**

**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 FOR AGRICULTURAL SERVICES**  
**(DIGESA)**  
**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 for 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 for Agricultural Services (Dirección General de Servicios Agrícolas -DIGESA), 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 completion 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 from 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 of the construction of irrigation projects, and the construction of soil conservation structures.

INAFOR, replaced in 1988 by DIGEBOS, acted as a decentralized and semiautonomous unit charged with the responsibility of assuring that the country's natural renewable resources were used under technical and appropriate procedures. With respect to the Project, DIGEBOS (formerly INAFOR) was responsible for implementing reforestation activities.

BANDESA is a semi-autonomous division of the Ministry of Agriculture, established in 1971 as the principal government's credit agency for the agricultural public sector. BANDESA is responsible for administering the project's trust fund. This trust fund is to finance small scale irrigation credit and social payments for the soil conservation program.

The current organization 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.

## II. OBJECTIVES

Our financial audit of the fund accountability statement for the Natural Resources Management component within the Highlands Agricultural Development Project, Phase I, USAID/Guatemala Project No. 520-0274, implemented by DIGESA from September 30, 1983 to June 30, 1990 had as objectives determining whether:

- A. The fund accountability statement for the project activities implemented by DIGESA, presents fairly the receipts and expenditures of USAID/Guatemala provided 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 DIGESA was adequate to manage the project component as required by USAID/Guatemala. The study and evaluation was to include a review of the following areas: procurement systems; budgetary controls; inventories management and control; safeguarding of fixed assets; payrolls preparation and payment; and controls over the programs for technology research and the technology transfer resulting from these programs.
- C. DIGESA had complied with agreement terms and applicable laws and regulations which could affect the 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 DIGESA to USAID/Guatemala.

**B. Fund Accountability Statement**

Examine the fund accountability statement for the project activities financed by USAID/Guatemala and carried out by DIGESA as of June 30, 1990, and identify any 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 costs not considered appropriate for reimbursement under the agreement or for lack of proper documentation or 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 DIGESA to USAID/Guatemala.
5. On a selective basis, interview farmers benefiting from the technology programs transferred by DIGESA in order to determine whether they were receiving improvements from the project.
6. Reconcile the loan and grant funds recorded by DIGESA with those confirmed as disbursed by USAID/Guatemala.

**C. Internal Control Structure**

As part our audit of the fund accountability statement, we conducted a study and evaluation of the internal control structure of DIGESA 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 DIGESA 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 the materials, supplies, and services had been 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 controls over materials and supplies at the warehouse, including shipping and receiving procedures.
  4. Review and evaluate if DIGESA had adequate controls on 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 DIGESA's 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. Perform an evaluation to determine if DIGESA had established controls and statistics on the project, and specifically on the technology transferred to the small farmers and if the personnel in charge prepared reports on the project's activities and related results.
  7. Evaluate if DIGESA adequately monitored and supervised the project implementation progress and periodically reported to USAID/Guatemala on the financial status and progress of the project to the extent required by the agreement.
  8. Review and evaluate if DIGESA had adequate controls on payroll preparation and payment, including payments for local day laborers.
- D. Compliance With Agreement Terms and Applicable Laws and Regulations

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

1. Determine if funds provided by USAID/Guatemala under the agreement had been expended for purposes not authorized or not in accordance with the terms of the agreements.
2. Review contracts and subcontracts between DIGESA 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 be noncompliance with the agreements, standard provisions, or Handbook 11 that could have a significant effect on project progress or achievement, project objectives or goals.

#### IV. RESULTS OF WORK

##### a) Fund Accountability Statement -

Our audit of the fund accountability statement for the period September 30, 1983 to June 30, 1990 was restricted in scope by the following conditions:

- Program activities financed with grant funds were performed by USAID/Guatemala and not controlled by DIGESA;
- DIGESA did not prepare a fund accountability statement for the period January 1 to June 30, 1990; and
- The original documentation in support of disbursements made by DIGESA from January 1, 1985 to December 31, 1987 was not made available for our examination.

Because of the limitations described above, we do not express an opinion on the fund accountability examined by us which shows a budget execution of A.I.D. provided funds amounting to Q2,132,107 (approximately US\$789,700). Regarding project execution, however, our work identified costs for Q801,504 (approximately US\$296,852) which are unsupported and Q58,402 (approximately US\$21,600) of costs that are questioned for the reasons explained in Note 3 to the fund accountability statement.

b) Internal Control Structure -

Our evaluation disclosed the following reportable conditions, none of which is believed to constitute a material weakness:

- Established procedures for managing cash and bank deposit accounts by the regional offices were not adequate;
- The accounting department of DIGESA does not review the original documents in support of disbursements made;
- Some vehicles acquired with loan funds are in bad operating conditions; and
- The accounting and filing systems kept by DIGESA for the project were not adequate for USAID/Guatemala purposes.

c) Compliance with Agreement Terms and Applicable Laws and Regulations -

Our review disclosed the following cases of noncompliance:

- Accounting and control provisions regarding assets acquired with project funds were not observed;
- Counterpart contributions required from DIGESA were not separately controlled;
- Control over vehicles acquired with project funds was not adequate;
- The laboratory projected to be installed in Jutiapa was installed in Zacapa, with no evidence of approval for the change in plans;
- There was lack of proper supervision and assistance regarding some small-scale irrigation projects; and
- Some employees paid for with project funds devoted time to activities not related to the project.

**MANAGEMENT COMMENTS**

During the exit conference held on June 10, 1991, which was attended to by DIGESA's officials, representatives of our firm, and Messrs. Edgar Velazco, from the Project Administrative Unit and Julio Martínez, from the USAID Comptroller's Office, all findings requiring clarification were discussed.

As a result of the discussions and on the basis of a letter dated June 14, 1991, signed by the DIGESA's General Director, whereby some additional information clarifying our report's findings was supplied to us, we adjusted the applicable findings with no modifications to the pertinent opinions.

*Price Waterhouse*

*Price Waterhouse*



**THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I**  
**NATURAL RESOURCES MANAGEMENT COMPONENT**  
**MANAGED BY THE GENERAL DIRECTORATE FOR AGRICULTURAL SERVICES**  
**(DIGESA)**  
**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 accompanying fund accountability statement of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by The General Directorate for Agricultural Services (DIGESA), USAID/Guatemala Project No. 520-0274, from September 30, 1983 to June 30, 1990. This fund accountability statement is the responsibility of DIGESA's management.

The following scope limitations prevented the application of the audit procedures called for by our work plan:

1. The fund accountability statement does not disclose the program activities financed by grant agreement No. 520-0274, as such activities were directly performed by USAID/Guatemala.
2. The activities for the period January 1 to June 30, 1990, performed under loan agreement No. 520-T-037 and grant agreement No. 520-0274 were not included in the fund accountability statement, and as a consequence we were unable to examine the disbursements made during that period. Additionally we were not able to determine the sums provided by USAID/Guatemala to cover disbursements for the period January 1 to June 30, 1990.
3. We were not able to examine the original documentation which supports the disbursements made by DIGESA for the period January 1, 1985 to December 31, 1987 because such documentation was not made available to us by the Comptroller General's Office (Contraloría General de Cuentas).

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

Because of the scope limitations discussed above, 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 for USAID/Guatemala purposes, however, our work identified costs for Q801,504 which are unsupported and Q58,402 which have been questioned for the reasons explained in Note 3 to the fund accountability statement.

This report is intended solely for the use and information of the General Directorate for Agricultural Services (DIGESA) 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.



January 15, 1991

**THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I**  
**NATURAL RESOURCES MANAGEMENT COMPONENT**  
**MANAGED BY THE GENERAL DIRECTORATE FOR AGRICULTURAL SERVICES**  
**(DIGESA)**

**USAID/GUATEMALA PROJECT No. 520-0274**

**FUND ACCOUNTABILITY STATEMENT**

**FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990**

**(expressed in Quetzales)**

Receipts of A.I.D.  
funds:

	<u>Budget</u>	<u>Budget execution</u>	<u>Unsupported</u>	<u>Questioned</u>
1985	Q 597,046	Q 173,783		
1986	808,217	394,018		
1987	336,033	233,703		
1988	912,039	672,821		
1989	<u>852,593</u>	<u>657,782</u>		
	<u>3,505,928</u>	<u>2,132,107</u>		

Disbursements of A.I.D.  
funds:

Small-scale irrigation -

Supporting personnel	102,932	97,572	Q 35,296	Q 15,442
Administrative expenses	124,999	102,015	39,081	
Materials and supplies	486,642	419,203	184,038	5,113
Equipment	649,888	261,859	56,364	19,776
Training/EPS	114,663	69,875		
Unforeseen/IVA	277,411	74,232	71,433	
Sundries				
	<u>1,756,535</u>	<u>1,024,756</u>	<u>386,212</u>	<u>40,331</u>

Soil conservation -

Supporting personnel	195,500	177,199	47,181	6,618
Administrative expenses	100,271	78,933	34,004	
Materials and supplies	465,302	361,909	166,192	2,863
Equipment	650,813	355,892	107,588	8,590
Training/EPS	113,413	68,625		
Unforeseen/IVA	224,094	64,793	60,327	
Sundries				
	<u>1,749,393</u>	<u>1,107,351</u>	<u>415,292</u>	<u>18,071</u>
	<u>Q3,505,928</u>	<u>Q2,132,107</u>	<u>Q 801,504</u>	<u>Q 58,402</u>

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I  
NATURAL RESOURCES MANAGEMENT COMPONENT  
MANAGED BY THE GENERAL DIRECTORATE FOR AGRICULTURAL SERVICES  
(DIGESA)

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

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - NATURE OF OPERATIONS AND  
SIGNIFICANT ACCOUNTING POLICIES:

a) History and background -

On September 30, 1983, the USAID/Guatemala Mission entered into loan agreement No. 520-T-037 and grant agreement No. 520-0274 with the Government of Guatemala, through the Ministries of Agriculture and Communications and Public Works for the purpose of improving the basic productive resources of the rural population and the country's productivity. The project was subsequently amended to increase the funds allocated to each project components, extend the project coverage and restructure the project budgets and activities, as well as to extend the project's life.

b) Accounting records and bases of accounting -

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

The accompanying fund accountability statement was prepared on a cash basis, whereby both receipts and assets are recognized when collected or received, and expenditures are accounted for when paid, irrespective of the date when they are incurred.

NOTE 2 - EXCHANGE:

DIGESA received quetzales from the Ministry of Finance, which were at par with the U.S. Dollar until June 6, 1986 when the GOG established an official exchange rate of Q2.50 to US\$1.00. 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:**

We were not able to examine the original documentation supporting the disbursements made by DIGESA during the period January 1, 1985 to December 31, 1987, because said documentation was not made available for review at the GOG's Comptroller General's Office (where all vouchers and other documentation related to Government expenses are supposedly kept on file), and no explanations were supplied by that office regarding the documentation whereabouts. Consequently, all costs incurred with A.I.D. funds during the period referred to have been considered as unsupported until final determination thereof is made by USAID/Guatemala. A detail of such costs, by component and for the years not examined follows:

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>Total</u>
<b>Small - scale irrigation -</b>				
Supporting personnel	Q 5,982	Q 13,289	Q 16,025	Q 35,296
Administrative expenses	2,263	18,529	18,289	39,081
Materials and supplies	30,310	70,035	83,693	184,038
Equipment	33,686	21,728	950	56,364
Unforseen/IVA		71,433		71,433
	<u>Q 72,241</u>	<u>Q 195,014</u>	<u>Q 118,957</u>	<u>Q 386,212</u>
<b>Soil conservation -</b>				
Supporting personnel	Q 3,204	Q 19,865	Q 24,112	Q 47,181
Administrative expenses	2,918	15,271	15,815	34,004
Materials and supplies	29,123	62,250	74,819	166,192
Equipment	66,297	41,291		107,588
Unforseen/IVA		60,327		60,327
	<u>Q 101,542</u>	<u>Q 199,004</u>	<u>Q 114,746</u>	<u>Q 415,292</u>
	<u>Q 173,783</u>	<u>Q 394,018</u>	<u>Q 233,703</u>	<u>Q 801,504</u>

In addition, the following project costs have been questioned for the indicated reasons:

<u>Concept</u>	<u>Amount</u>		<u>Reason for questioning</u>
	<u>Small scale Irrigation Projects</u>	<u>Soil con-servation</u>	
Slides projector - Region II	Q 782		1
Steromicroscope - Region IV		Q 1,950	1
Microscope - Region IV		6,640	1
Optical precision equipment - Region III	11,000		2
Cameras and projectors - Region III	4,944		2
Overhead projector - Region III	1,650		2
Chemicals - Region III	5,113		2
Overhead projector - Region IV	1,400		3
Tires and tubes - Region V		1,274	4
Spare parts - Region V		1,589	4
Fifty-five (55) checks made payable to the administrative chief and the regional cashier who are defendants in a legal lawsuit and have not been performing their assigned functions	<u>15,442</u>	<u>6,618</u>	5
	<u>Q 40,331</u>	<u>Q 18,071</u>	

Also, we were not able to examine any documentation in support of disbursements incurred in project activities for the period January 1 to June 30, 1991 and the total of such disbursements was not disclosed in the accompanying fund accountability statement.

#### REASONS FOR QUESTIONING COSTS

1. Items could not be located.
2. Purchase orders awarded to reportedly sale supplies but not documented as required by article 14 of the regulations to Decree 35-80 (Ley de Compras).
3. Purchase made on behalf of PROGETARDS, a unit not participating in the project.
4. Unreasonable expenditures (10 tires and 10 tubes for just one vehicle in less than a month) and a duplicated purchase of spare parts for a Jeep C-J10, licence plate 0-2360.
5. Salaries to project employees who, for special reasons have not worked for the project; therefore, the cost does not appear to be necessary for the attainment of project objectives.

*Price Waterhouse*



**THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I,  
NATURAL RESOURCES MANAGEMENT COMPONENT  
MANAGED BY THE GENERAL DIRECTORATE FOR AGRICULTURAL SERVICES  
(DIGESA)**

**USAID/GUATEMALA PROJECT No. 520-0274  
FROM SEPTEMBER 30, 1983 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 for Agricultural Services (DIGESA), USAID/Guatemala Project No. 520-0274, from September 30, 1983 to June 30, 1990, and have issued our report thereon dated January 15, 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 review of the fund accountability statement of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by The General Directorate for Agricultural Services (DIGESA), USAID/Guatemala Project No. 520-0274, from September 30, 1983 to June 30, 1990, we considered its internal control structure in order to determine our audit 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 DIGESA 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, hand tools, fuels and lubricants; controls and statistics on the project's activities and results 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 statements.

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

1. Inadequate management of cash and bank deposit accounts by the regional offices.

Some vehicles acquired with loan funds are in bad operating condition.

3. The accounting and filing systems kept by DIGESA for the project were not adequate for USAID/Guatemala purposes.

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 that the reportable condition described under finding No. 3 is a material weakness.

This report is intended solely for the use and information of the General Directorate for Agricultural Services (DIGESA) 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.



January 15, 1991

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I,  
NATURAL RESOURCES MANAGEMENT COMPONENT  
MANAGED BY THE GENERAL DIRECTORATE FOR AGRICULTURAL SERVICES  
(DIGESA)

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

INTERNAL CONTROL STRUCTURE

FINDINGS

1. The Management of Cash and Bank Deposit Accounts by the Regional Offices is Inadequate.

Condition:

During our visits to the regional offices we noted the following:

- The checks issued to Region III - Zacapa are cashed but the proceeds are not deposited in any bank account.
- At Region VI - Quetzaltenango some checks were issued to the office's administrator who cashed them and paid for some purchases quoted by him. As a result of this situation, both the administrator and the regional cashier were accused before a local court (Lawsuit No. 3483-88).
- Approximately 55 checks issued to the above mentioned employees have neither been delivered to them nor have they been redeposited.

Criteria:

A proper management of cash and bank deposit accounts requires adequate internal control standards which provide for an effective segregation of functions.

Cause:

- According to the regional cashier, maintaining cash readily on hand allows for the issuance of one single Purchase and Payment Order to cover a number of suppliers, without having to issue several checks.

- Lack of awareness by the regional director and the GOG's Comptroller Office concerning the office's disarray, coupled to the fact that some particular interests may have existed (as asserted to by the concerned parties).
- The region's officers are waiting for the lawsuit's outcome prior to adopting any action concerning the checks issued.

**Effect:**

Unauthorized use of cash on hand and undue depletion of loan funds caused by the checks not returned to the GOG's Treasury Office.

**Recommendation:**

DIGESA should adopt, through its financial department, all control measures required to ensure that loan funds are properly managed by way of bank accounts and that responsibility over cash management is duly segregated from other noncompatible functions.

2. Some Vehicles Acquired With Loan Funds Were Found in Bad Working Conditions.

**Condition:**

Some vehicles acquired with USAID/Guatemala provided funds were found out of order at both the Central and Region V - Sacatepéquez offices.

**Criteria:**

DIGESA is required to maintain all vehicle in good working condition if it is to attain the objectives of their acquisition for project purposes.

**Cause:**

According to management, the vehicles maintenance program is somewhat inadequate because the units are of American origin and the models do not correspond to the national environment, thus accounting for the prevalent lack of spare parts. The parts can be imported only by the American manufacturer's authorized local dealers and on the basis of specific orders, which may consume at least six months for their processing. The Jeep C-J10 and Ford Ranger units confront some maintenance problems because they require specialized equipment, which is supplied by the above mentioned dealers only.

**Effect:**

Sensible reduction of the vehicles' useful life with the attendant inefficiency regarding project execution.

**Recommendation:**

DIGESA should establish policies and procedures concerning the project vehicles' maintenance so that their useful lives are extended and the projects are executed in a more efficient manner.

3. The Accounting and Filing Systems Kept by DIGESA for the Project Were not Adequate for USAID/Guatemala Purposes.

**Condition:**

The following situations were noted in connection with our examination of the project's fund accountability statement:

- a) Some fixed asset items could not be located where they were supposed to be. These items include a Say-Yes slides projector for Q782 assigned to Region II - Cobán, and a Kyowa stereomicroscope and a Meiji microscope, together aggregating Q8,590, assigned to Retalhuleu.
- b) The original documentation to support the disbursements made by DIGESA was reportedly destroyed by the GOG's Comptroller's Office.
- c) No information was furnished to us at Region VI - Quetzaltenango concerning the Purchase and Payment Orders supporting the disbursements made against loan funds.
- d) The Purchase and Payments Orders issued by Region V - Sacatepéquez during 1985 for Q59,520 and during 1986 for Q90,510, together with the checks issued during 1985 and 1989 were not examined by us, because the pertinent files were missing.

**Criteria:**

The Government of Guatemala (GOG) was required to maintain all project documents on file during three years after the agreement's life expiration and DIGESA, as a project implementing unit, was responsible for maintaining an adequate control environment in order to protect the project's assets and resources against waste and losses.

**Cause:**

- a) The fixed assets' subsidiary records are maintained in arrears and consequently the information on who should be held responsible for lost items is not on hand and no security measures have been adopted at the sites where the equipment is maintained.
- b) It appears that DIGESA and the GOG's Comptroller's Office officials were not made aware of the provisions by which the project's documentation was to be maintained on file for three years after the project's completion date.
- c) The project has experienced a high employee's turnover and the present employees were unable to locate the necessary documents.
- d) Change in the regions coverage during 1989 resulted in the transfer of Region V - Sacatepéquez to a new site. It is possible that files may have been lost during the transfer.

**Effect:**

Uncertainty with respect to the adequacy of the charges to the loan and likelihood of questioning the corresponding costs.

**Recommendation:**

DIGESA and the GOG's Comptroller General's Office should take whatever actions are necessary to maintain the projects' original supporting documentation on file for the period required by the agreements. Also, DIGESA should implement adequate controls over the projects' fixed asset items in order to properly protect and safeguard such items.

*Price Waterhouse*



THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT-PHASE I  
NATURAL RESOURCES MANAGEMENT COMPONENT  
MANAGED BY THE GENERAL DIRECTORATE FOR AGRICULTURAL SERVICES  
(DIGESA)

USAID/GUATEMALA PROJECT No. 520-0274  
FROM SEPTEMBER 30, 1983 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 for Agricultural Services (DIGESA), USAID/Guatemala Project No. 520-0274, from September 30, 1983 to June 30, 1990, and have issued our report thereon dated January 15, 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 DIGESA is the responsibility of DIGESA's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatements, we performed tests of DIGESA is 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.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in regulations, contracts, or grants, that cause us to conclude that the aggregation of its misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed several instances of noncompli-

ance with agreement terms, the effects of which have been considered by us in forming an opinion on the fund accountability statement referred to in the first paragraph, above.

Because we were unable to review the fund accountability statement from January 1, 1990 to June 30, 1990, we were not in the position to determine whether during this period the terms, conditions and requirements of agreement No. 520-0274 were duly complied with. Our tests of compliance, applied only to transactions for the period September 30, 1983 to December 31, 1989, identified the cases of noncompliance with agreement terms that are more fully described under findings Nos. 1 to 5 in the following pages, and which are summarized below:

1. DIGESA did not comply with the stated accounting and control provisions concerning the assets acquired with project funds.
2. Control over vehicles acquired with project funds was not adequate.
3. The laboratory projected to be installed in Jutiapa was installed in Zacapa instead, with no written evidence of authorization thereof.
4. There was lack of proper supervision and assistance regarding some small-scale irrigation projects.
5. Some employees paid with project funds worked in activities not directly related to the project.

Except as described above, the results of our tests indicate that, with respect to the items tested, DIGESA 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 DIGESA had not complied, in all material respects, with those provisions.

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



January 15, 1991

**THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT-PHASE I**  
**NATURAL RESOURCES MANAGEMENT COMPONENT**  
**MANAGED BY THE GENERAL DIRECTORATE FOR AGRICULTURAL SERVICES**  
**(DIGESA)**  
**USAID/GUATEMALA PROJECT No. 520-0274**  
**FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990**

**COMPLIANCE WITH AGREEMENT TERMS AND**  
**APPLICABLE LAWS AND REGULATIONS**

**FINDINGS**

1. **DIGESA Did Not Comply With the Accounting and Control 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 record the counterpart contributions and as a result, there was lack of information concerning the counterpart contributions which the GOG was required to make to the project.
- b) The fixed asset items acquired with project funds were not tagged with the USAID's logo and referenced to the loan number under whose auspices they were acquired.
- c) No financial reports were prepared concerning the small-scale irrigation and soils conservation projects.
- d) The quarterly and annual financial reports prepared by the Projects Coordinating Unit (UCP) at DIGESA, concerning the projects physical and financial progress, were not submitted to USAID/Guatemala for review and approval.

**Criteria:**

According to the agreements, DIGESA was required to maintain separate accounting records for the project and the related counterpart contributions and adequate controls over the fixed assets acquired, and to submit appropriate and periodic reports on the project's execution.

**Cause:**

Lack of awareness by certain DIGESA's officials with respect to both the agreement terms and conditions and the project itself, and lack of adequate controls to ensure due compliance therewith.

**Effect:**

Lack of the necessary information and documentation and inadequate records which may lead to the questioning of the related costs.

**Recommendation:**

DIGESA should implement adequate records and controls that help to ensure attainment of the goals established by the agreements.

2. The Controls Surrounding vehicles Acquired With Project Funds Were Not Adequate.

**Condition:**

- The vehicles acquired with project funds for the Region II - Cobán were used for what appeared to be political purposes, at variance with section B.3, Article B of Annex II to the loan agreement - Use of Assets and Services.
- Posting in the responsibility cards to account for the assets given in custody to project employees were not current.

**Criteria:**

DIGESA is required by the agreements to implement adequate controls over vehicles and their use for project purposes.

**Cause:**

- Project vehicles were temporarily lent to the department's governor (Region II - Cobán) for the political campaign, under instructions from DIGESA's management.
- The fixed assets clerk had overlooked specific instructions from the Comptroller General's Office with respect to posting and maintaining current the employee responsibility cards. Also no instructions have been issued concerning a detailed inventory of fixed assets, and their identification for project purposes.

**Effect:**

Noncompliance with agreement terms may jeopardize the achievement of project objectives, and result in questionable costs.

**Recommendation:**

DIGESA should fully comply with agreement terms and conditions regarding vehicles acquired with project funds.

3. A Laboratory Originally Authorized for the Jutiapa Region Was Installed in Zacapa Without Proper Evidence of Authorization.

**Condition:**

According to the agreement, a soils analysis laboratory was to be installed in Jutiapa under authorization from USAID/Guatemala. However, the laboratory was installed in Zacapa.

**Criteria:**

DIGESA was required to comply, in full, with agreement terms. If the laboratory was to be installed at variance with the original proposal, authorization for the change should have been obtained from USAID/Guatemala.

**Cause:**

According to management, transfer of the laboratory arose from a clerical error when printing Amendment No. 3 to the project, because such amendment was also printed on page 6, paragraph d), whereby the laboratories were going to be located at Regions IV and VII which at that time pertained to the departments of Retalhuleu and Zacapa.

**Cause:**

According to management, the name of the department (Jutiapa) was erroneously mentioned in the agreement instead of the correct one (Zacapa), and this situation was orally informed to USAID/Guatemala.

**Effect:**

Any changes to the agreed upon covenants of the agreement made without the prior approval of USAID/Guatemala result in unilateral actions with respect to the project execution and may lead to the questioning of the related costs.

**Recommendation:**

DIGESA should acknowledge that any change or modification to the project should be formally submitted to USAID/Guatemala for approval.

4. There Was Lack of Proper and Sufficient Supervision on Contain Small-Scale Irrigation Projects and Soil Conservation Projects.

**Condition:**

- The tubing of El Obraje project, installed in Ipala, department of Chiquimula, exploded because, according to the project beneficiaries, the system had faults in its design.
- At El Colorado Project, located in San José Pinula, department of Guatemala, the tubing installed did not resist the applied pressure and exploded.

**Criteria:**

According to Section B.2, article B of Annex II to the loan agreement - Project Execution, preliminary tests of the projects were required to be performed prior to delivering their components to the beneficiaries.

**Cause:**

Follow-up procedures and technical assistance was rendered only when DIGESA technicians were in the process of installing some equipment, and not at all times.

**Effect:**

The project purposes have not been fully attained as a result of the low productivity by the beneficiaries resulting from the damages sustained, which have required additional investments in order to correct design and construction defects.

**Recommendation:**

DIGESA should ensure that the projects in progress are properly supervised and followed-up once they become operative.

5. Some Employees Paid With Project Funds Devote Their Time To Non-Project Activities.

**Condition:**

Some employees at Region I - Jutiapa, who are paid with project funds, performed some activities not related to the project such as damming-up, inventories taking and transportation, at variance with Section B.3, article B of Annex II to the agreement - Use of Assets and Services.

**Criteria:**

All employees contracted by and paid with project funds should devote their time entirely to the project.

**Cause:**

Management contends that the employees were not specifically contracted for project purposes, but rather as DIGESA's employees.

**Effect:**

Incorrect diversion of project funds, and unrealistic project costs which may appear unreasonable and, therefore, questionable by USAID/Guatemala.

**Recommendation:**

DIGESA should contract employees to work directly for the project, so that funds are not diverted for other than agreed upon purposes.

**THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT-PHASE I**  
**NATURAL RESOURCES MANAGEMENT COMPONENT**  
**MANAGED BY THE GENERAL DIRECTORATE FOR AGRICULTURAL SERVICES**  
**(DIGESA)**  
**USAID/GUATEMALA PROJECT No. 520-0274**  
**FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990**

**LIST OF REPORT RECOMMENDATIONS**

**Internal Control Structure**

**Recommendation 1:**

DIGESA should adopt, through its financial department, all control measures required to ensure that loan funds are properly managed by way of bank accounts and that responsibility over cash management is duly segregated from other noncompatible functions.

**Recommendation 2:**

DIGESA should make sure that its accounting department does review the coding of the purchase and payment orders with respect to the related supporting documentation, in order to provide reasonable assurance that the resulting reports on budget execution are essentially correct.

**Recommendation 3:**

DIGESA should establish policies and procedures concerning the project vehicles' maintenance so that their useful lives are extended and the projects are executed in a more efficient manner.

**Recommendation 4:**

DIGESA and the GOG's Comptroller General's Office should take whatever actions are necessary to maintain the projects' original supporting documentation on file for the period required by the agreements. Also, DIGESA should implement adequate controls over the projects' fixed asset items in order to properly protect and safeguard such items.

**Compliance with Agreement Terms and  
Applicable Laws and Regulations:**

**Recommendation 1:**

DIGESA should implement adequate records and controls that help to ensure attainment of the goals established by the agreements.

**Recommendation 2:**

DIGESA should fully comply with agreement terms and conditions regarding vehicles acquired with project funds.

**Recommendation 3:**

DIGESA should acknowledge that any change of modification to the project should be formally submitted to USAID/Guatemala for approval.

**Recommendation 4:**

DIGESA should ensure that the projects in progress are properly supervised and followed-up once they become operative.

**Recommendation 5:**

DIGESA should contract employees to work directly for the project, so that funds are not diverted for other than agreed upon purposes.

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