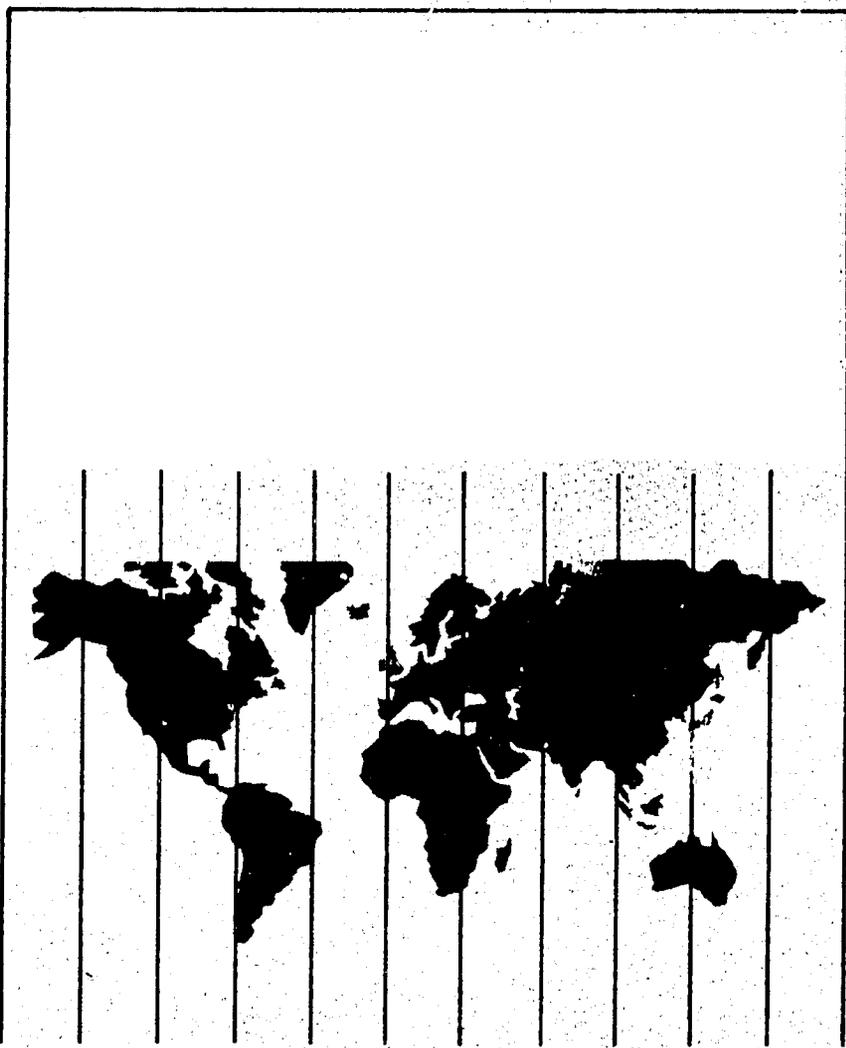


PD-A-BD-059

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
NATIONAL AGRICULTURAL DEVELOPMENT BANK
SEPTEMBER 30, 1983 TO JUNE 30, 1990**

**Audit Report No. 1-520-91-37-N
July 25, 1991**

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
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AMERICAN EMBASSY
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July 25, 1991

MEMORANDUM

TO: D/USAID/Guatemala, Terrence Brown

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

SUBJECT: Audit of USAID/Guatemala's Highlands Agricultural Development Project-Phase I, Activities Managed by the National Agricultural Development Bank, 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, managed by the National Agricultural Development Bank (Bank), USAID/Guatemala Project No. 520-0274, 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 Project is to increase rural agricultural productivity and profitability. The Bank's main activities are the promotion and administration of credit assistance granted by the Government of Guatemala to the country's agricultural sector with emphasis on medium and small farmers. With respect to the Project, the Bank is responsible for administering a trust fund which finances small scale irrigation credit and social payments for a soil conservation program. The audit coverage included \$3,201,343 provided by A.I.D. to the Bank.

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

The auditors found that, with the exception of being unable to reconcile the amount of Project funds received by the Bank to the data supplied by

USAID/Guatemala, the fund accountability statement fairly presents the receipts and disbursements of the Project managed by the Bank for the audit period. The

auditors identified four weaknesses concerning internal controls and seven weaknesses related to compliance, none of which were considered by the auditors to be material.

The audit report was discussed with management officials of the Bank 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 require the Bank to reconcile the amount of Project funds it has received to the amount disbursed according to USAID/Guatemala's records.

Recommendation No. 2

We recommend that USAID/Guatemala require the Bank to design a plan for implementing procedures to ensure that it maintains proper accounting records concerning the receipt and use of counterpart contributions and fixed assets acquired with A.I.D. funds and that any deviations from approved budgeted expenditures are previously approved by USAID/Guatemala.

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

AUDIT OF THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE NATIONAL AGRICULTURAL DEVELOPMENT BANK (BANDESA)
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 NATIONAL AGRICULTURAL DEVELOPMENT BANK (BANDESA)
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 National Agricultural Development Bank (Banco Nacional de Desarrollo Agrícola - BANDESA) 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 September 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

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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 Agropecuario 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.

INAFOR functioned through 1988, when it was replaced by DIGEBOS which was created on June 21, 1988. During their life and as a decentralized and semiautonomous entities, both institutions were charged with assuring that the country's natural renewable sources were used under technical and appropriate procedures. With respect to the project, both institutions were responsible for implementing the reforestation activities.

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.

BANDESA is a decentralized, autonomous Government entity, with its own legal personality and patrimony, and governed by decree No. 99-70 of the Guatemalan Congress. BANDESA's main activities are the promotion and administration of the credit assistance granted by the Government to the country's agricultural sector, with emphasis on the medium and small farmers and along the guidelines of the Government agricultural policy executed by the Ministry of

Agriculture (MAGA), regarding which BANDESA is the principal Government credit agency. With respect to the project, 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.

BANDESA has its central offices in Guatemala City and serves national needs through eight regional districts. Thirty eight 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.

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 BANDESA from September 30, 1983 to June 30, 1990, had as objectives determining whether:

- A. The fund accountability statement for the project activities implemented by BANDESA, presents fairly the project component's receipts and expenditures 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 BANDESA was adequate to manage the project component as required by USAID/Guatemala.
- C. BANDESA 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 BANDESA to USAID/Guatemala.

B. Fund Accountability Statement

Examine the fund accountability statement for the project activities financed by USAID/Guatemala and carried out by BANDESA 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 purposes 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 BANDESA to USAID/Guatemala.
5. On a selective basis, obtain confirmation from the farmers receiving loans from BANDESA and perform on-site visits to BANDESA agencies in the country side and rural agencies in order to review the supporting documentation of loans granted.

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 BANDESA's 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 procedures and accounting records maintained by BANDESA 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 BANDESA had adequate controls on the use of light and heavy equipment, vehicles, spare parts, hand tools, construction materials, tires and tubes, fuel and lubricants.
5. Establish the adequacy of BANDESA'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 furnished by USAID/Guatemala.
6. Review and evaluate the procedures used by BANDESA to make disburse from the trust fund and to control the loan portfolio.
7. Perform an evaluation to determine if BANDESA had established controls and statistics on the project's activities and results.
8. Evaluate if BANDESA 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 agreements.

D. Compliance With Agreement Terms and Applicable Laws and Regulations

Determine whether BANDESA 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 BANDESA 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:

Fund Accountability Statement -

Our work disclosed that cash received for project purposes (Q9,438,000, equivalent to U.S.\$3,495,000) could not be reconciled with the data supplied by USAID/Guatemala.

In our opinion, except for the effects if any of the matter discussed above, the fund accountability statement examined by us presents fairly, in all material respects, the cash receipts and disbursement of the Highlands Agricultural Development Project, Phase I, National Resources Management Component managed by the National Agricultural Development Bank (BANDESA), USAID/Guatemala Project No. 520-0274, for the period January 1, 1985 to June 30, 1990.

Internal Control Structure -

Our evaluation of BANDESA's internal control structure applied to project operations financed by USAID/Guatemala did not identify weaknesses which in our opinion would constitute material weaknesses. Reportable conditions revealed by our evaluation are summarized as follows:

1. The Government of Guatemala did not perform any audit or evaluation of the project.
2. Fixed assets acquired with grant funds were not included in BANDESA's own financial statements.
3. Established procedures were not strictly or consistently adhered to by some chiefs of BANDESA's agencies and rural offices.

4. The accounting records of trust project No. 520-T-037 showed some balances contrary to their nature.

Compliance with Agreement Terms and
Applicable Laws and Regulations -

Our test of compliance revealed the following cases where agreement terms or applicable laws and regulations were not fully complied with:

1. Although the total sum is correct, the fund accountability statement does not disclose the details of the counterpart contributions allocated to the different project elements.
2. All four findings summarized under the internal control structure section are also cases of noncompliance.
3. The Ministry of Finance did not opportunely pay to BANDESA its commissions for managing the trust fund.
4. BANDESA did not submit to USAID/Guatemala reports as required by the agreements.
5. BANDESA's cost allocation system for the project was not approved by USAID/Guatemala.
6. Value-added taxes were paid with project funds.
7. Two operating departments within BANDESA are functioning without the required authorization of the National Civil Service Office.

MANAGEMENT COMMENTS:

An exit conference was held on June 10, 1991 to discuss all findings requiring clarification or additional analysis based on a letter prepared by BANDESA on May 30, 1991. This exit conference was attended by BANDESA's officials, representatives of Price Waterhouse, and Messrs. Edgar Velazco from the Project Administrative Unit and Julio Martínez from USAID/Guatemala.

On the basis of additional analyses performed on data supplied by BANDESA, certain changes to our draft report were made and are reflected in the present final report.

Price Waterhouse

Price Waterhouse



THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE NATIONAL AGRICULTURAL DEVELOPMENT BANK (BANDESA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM JANUARY 1, 1985 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 National Agricultural Development Bank (BANDESA), USAID/Guatemala Project No. 520-0274 from January 1, 1985 (see Note 5) to June 30, 1990. This fund accountability statement is the responsibility of BANDESA's management.

Except as discussed in the following paragraph, our audit was conducted in accordance with generally accepted auditing standards and 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. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, except for the effects, if any, of the matter discussed in the preceding paragraph, the fund accountability statement examined by us presents fairly, in all material respects,

the receipts and disbursements of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by the National Agricultural Development Bank (BANDESA), USAID/Guatemala Project No. 520-0274, for the period from January 1, 1985 to June 30, 1990.

This report is intended solely for the use and information of the National Agricultural Development Bank (BANDESA) 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.

Pricewaterhouse

January 15, 1991

HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I,
 NATURAL RESOURCES MANAGEMENT COMPONENT
 MANAGED BY THE NATIONAL AGRICULTURAL DEVELOPMENT
 BANK (BANDESA)
 USAID/GUATEMALA PROJECT No. 520-0274
 JANUARY 1, 1985 TO JUNE 30, 1990

(In 000'0 Quetzales)

	B U D G E T						E X E C U T E D													
	USAID Contributions		USAID direct Contributions		Counterpart		Total Budget		AID Contributions		AID direct payments		Total USAID		Counterpart contributions			Total budget execution		
	Loans	Grants	Loans	Grants	Loans	Grants	Loans	Grants	Loans	Grants	Loans	Grants	Loans	Grants	Loans	Grants	Total	Loans	Grants	Total
R E C E I P T S:																				
YEAR 1 85	4,669	-	-	-	798	-	5,467	-	-	-	-	-	-	-	-	-	-	-	-	-
YEAR 2 86	4,669	-	-	-	798	-	5,467	-	688	-	-	-	688	-	150	-	150	838	-	838
YEAR 3 87	4,786	-	-	-	798	-	5,584	-	531	-	-	-	531	-	350	-	350	881	-	881
YEAR 4 88	10,645	-	1,395	-	798	-	12,838	-	1,416	-	-	-	1,416	-	298	-	298	1,714	-	1,714
YEAR 5 89	10,645	5,400	-	2,095	14,298	-	24,943	7,495	4,728	-	793	-	5,521	-	4,677	-	4,677	10,198	-	10,198
YEAR 6 90 (June)	-	-	-	-	-	3,227	-	3,227	1,282	-	-	-	1,282	-	-	-	-	1,282	-	1,282
TOTAL RECEIPTS	35,414	5,400	1,395	2,095	17,490	3,227	54,299	10,722	8,645	-	793	-	9,438	-	5,475	-	5,475	14,913	-	14,913
D I S B U R S E M E N T S:																				
Soils conservation									3,798				3,798					3,798		3,798
Small scale irrigation									6,260				6,260					6,260		6,260
Credit to production									77				77					77		77
Credit to commercialization									203				203					203		203
Logistics											793		793					793		793
Training																				
TOTAL DISBURSEMENTS (See Note 7)									10,338		793		11,131					11,131		11,131
									(1,693)				(1,693)					3,782		3,782

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE NATIONAL AGRICULTURAL DEVELOPMENT BANK (BANDESA)
USAID/GUATEMALA PROJECT No. 520-0274

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

JANUARY 1, 1985 TO JUNE 30, 1990 (SEE NOTE 5)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES:

a) History and background

The Highlands Agricultural Development Project, Phase I, Natural Resources Management Component is managed by the National Agricultural Development Bank (Banco Nacional de Desarrollo Agrícola - BANDESA) on the basis of loan agreement No. 520-T-037 and grant agreement No. 520-0274 entered into on September 30, 1983 between USAID/Guatemala and the Government of Guatemala, through the Ministries of Agriculture (MAGA) and Communications and Public Works. 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.

The main purpose of the project is to improve the basic productive resources of the poorest rural populations of the Guatemalan highlands.

BANDESA is a Government decentralized autonomous entity, with its own legal personality and patrimony, which was created for the main purpose of promoting and administering the credit assistance that the GJG grants to the country's agricultural sector, with emphasis on the median and small farmer, along the lines of the Government agricultural development policy, charged to MAGA for its implementation.

b) Accounting records and basis of accounting

BANDESA is responsible for the management and recording of project transactions. The accounting records are maintained in quetzales, currency of legal tender in Guatemala.

The fund accountability statement for the period January 1, 1985 to June 30, 1990 reflects only the cash receipts and disbursement of funds provided by USAID/Guatemala.

NOTE 2 - EXCHANGE:

The trust deed between the Ministry of Finance and BANDESA was executed in quetzales. Because of the exchange fluctuations sustained by the local currency from 1984 to 1986, on June 6, 1986 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 - FIXED ASSETS:

The financial statements of the trust fund do not disclose the value of 24 vehicles (4 Cherokee and 20 pick-up units), which were directly acquired by USAID/Guatemala with project funds for Q793,000 in the aggregate. The value of these vehicles was opportunely registered as fixed assets in the accounting records of BANDESA and was also reported in the fund accountability statement prepared for our review, thus giving rise to some inconsistencies between the entity's records and the related trust fund's financial reports.

NOTE 4 - PORTFOLIO SITUATION:

The trust's financial statements disclose, under account 512. LOANS, the results of operations arising from the agricultural loans granted by BANDESA during the period September 30, 1983 to June 30, 1990, none of which was due for maturity at the most recent date. This condition is due to the fact that the loans are granted for ten to fifteen year terms, with a grace period of one to two years. A breakdown of the loans granted up to June 30, 1990, on the basis of the guarantees submitted by the borrowers and approved according to the pertinent regulation, is shown below:

<u>Guarantees</u>	<u>Amount</u>
Pledge and cosignature	Q 856,865
Pledge	4,636,786
Mortgage and pledge	555,040
Mortgage	<u>1,772</u>
Balance at June 30, 1990	<u>Q 6,050,463</u>

NOTE 5 - APPLICATION OF COUNTERPART FUNDS:

The fund accountability statement compiled by BANDESA covers the period January 1, 1985 to June 30, 1990, (in lieu of the period September 30, 1983 to June 30, 1990 which we were supposed to audit) because funds for the project were not received by BANDESA until 1985. Although counterpart contributions reportedly made by the Government of Guatemala (GOG) amount to Q5,475,091, the fund accountability statement does not disclose the details as to the source and application of such funds.

Also, and based on information disclosed in the fund accountability statement, when compared with the budget figures, it can be inferred that the GOG did not comply in making its counterpart contributions when and in the amounts required by the authorized budget.

NOTE 6 - CASH ON HAND:

Account 501.00 (Savings Deposits) records and controls the trust funds available for the program beneficiaries with respect to the subproject activities. These funds are deposited in savings accounts maintained with some local commercial banks and the balances as at June 30, 1990 were the following:

Loans	Q	3,802,949
Social payments		<u>444,047</u>
Total cash in savings accounts	Q	<u><u>4,246,996</u></u>

The trust's liabilities include Q462,427 pertaining to USAID/Guatemala advances not yet applied to the program as at June 30, 1990.

NOTE 7 - APPLICATION OF GRANT FUNDS:

The fund accountability statement compiled by the bank includes disbursements for Q1,413,452, pertaining to the Small-scale Irrigation Subproject, and in excess of budget allocations by USAID/Guatemala and Q280,000 pertaining to the Commercialization and production subprojects which do not belong to Phase I of the Highlands Agricultural Development Project. The Q1,693,452 were included as executed with A.I.D. funds as BANDESA is confident the budget overrun will be approved and covered by USAID/Guatemala.

The funds used by BANDESA for the disbursements mentioned above were taken from other trust funds set out with A.I.D. and other donors' monies, which corroborates that grant funds are not only commingled with loan funds (both from A.I.D.) but also with funds from other sources and other programs.

Price Waterhouse



THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE NATIONAL AGRICULTURAL DEVELOPMENT BANK (BANDESA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1985 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 National Agricultural Development Bank (BANDESA), 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 audit of the fund accountability statement of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by The National Agricultural Development Bank (BANDESA), 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 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 BANDESA 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: cash management, accounting and budgetary control system; controls over the use of vehicles, spare parts, fuels and lubricants; controls over USAID/Guatemala furnished fixed assets; 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 statement.

The deficiencies noted are described in the following pages as findings No. 1 to 4, and are summarized below:

1. BANDESA was not subject to audits or evaluations concerning the project, nor did it reconcile the sums received to the amounts confirmed as disbursed by USAID/Guatemala.
2. The fixed asset items acquired with grant funds were not included in the financial statements of the trust fund.

3. The standards and provisions contained in the regulations for the administration of social credits and payments were not consistently adhered to by some chiefs of BANDESA's agencies and rural offices.
4. The accounting records of trust project No. 520-T-0237 show some credit balances in accounts that should have debit balances.

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. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the use and information of the National Agricultural Development Bank (BANDESA) 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.

Price Waterhouse

January 15, 1991

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE NATIONAL AGRICULTURAL DEVELOPMENT BANK (BANDESA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1985 TO JUNE 30, 1990

INTERNAL CONTROL STRUCTURE

FINDINGS

1. The Government of Guatemala, through the Ministry of Finance Did Not Audit the Project, Nor Did It Reconcile The Sums Received for Project Purposes to The Sums Confirmed As Disbursed by USAID/Guatemala.

Condition:

During the project activities, BANDESA's transactions were not audited nor evaluated. Also, up to the date of our financial audit, the entity had not reconciled the use of the project No. 520-T-037 trust funds to the confirmation received from USAID/Guatemala.

Criteria:

Sections 5.2, 5.3 and 6.4 of the grant agreement do mention the responsibilities which the Project Administrative Unit acquired with respect to "annual evaluations and audits," which are of importance to determine the adequate execution of a given project and the management of the related funds.

Cause:

Management claims that the Ministry of Finance (MINFIN) is usually charged with the above-mentioned responsibilities; however, the trust deed executed with MINFIN does not include similar provisions.

Effect:

The financial information submitted by BANDESA to USAID/Guatemala might contain errors unlikely to be detected on time.

Recommendation:

The Government of Guatemala, represented by those entities responsible for the project supervision and control (MINFIN, MAGA, the General Comptroller's Office or Contraloría General de Cuentas), should provide adequate assurance that each implementing unit complies with the audit requirements established by the pertinent agreements; that separate controls are maintained over each project; and that as a minimum every quarter a reconciliation covering "receipts, sum liquidations, items not approved and those pending liquidation," is prepared.

2. The Fixed Assets Acquired With Grant Funds Were Not Included in The Fund Accountability Statement Prepared by Management With Respect To the Trust Fund.

Condition:

The fixed assets (vehicles) acquired for the Highland Agricultural Development Project's trust fund were not recorded by BANDESA nor were such assets disclosed in the financial statements of the trust fund. Also, these items were not tagged for proper identification with the project to which they pertain and/or to the fact that they were donated by the U. S. Government and people. On the other hand, four Cherokee units originally assigned to the entity's agency in Quetzaltenango were transferred to the central offices with no evidence of authorization of such transfer by USAID/Guatemala.

Criteria:

Section B.8 of grant agreement No. 520-0274 establishes that the assets acquired with grant funds should be "identified, registered and show that they were donated by the U. S. people." Furthermore, section B.5 of Annex I to loan agreement No. 520-T-037 determines that BANDESA should maintain books and records adequate to control the project in accordance with generally accepted accounting principles.

Cause:

Management states that the 24 vehicles, pertaining to the project, were recorded since December 1989 in the entity's financial statements because those vehicles were donated and consequently they are considered not to be part of the loan funds to be eventually returned; that those units were not identified with BANDESA's or USAID's logos for security reasons; and that the donation is not a part of the agreement that defines the trust fund.

Effect:

Regarding identification requirements and presentation in the project's financial statements BANDESA's decisions were at variance with the covenants between USAID/Guatemala and the Government of Guatemala.

Recommendation:

The Ministry of Finance and the Ministry of Agriculture should disseminate among the project participant units the commitments entered into and insist on their due compliance therewith. Furthermore, BANDESA should register in the project's records the assets acquired and request formal USAID/Guatemala approval to transfer the four Cherokee units to the project's central offices.

3. The Standards and Regulations Governing Management of Social Payments and Credits Were Not Consistently Followed by the Bank's Chiefs of Some Agencies and Rural Offices.

Condition:

In several cases, social payments were made by BANDESA on the basis of documentation failing to fulfill the requirements (such as the recipients's ID and/or name, No. of resolution, etc.) clearly defined by the Regulations on Management of Social Payments and Credits, approved by both USAID/Guatemala and MINFIN. This situation was reported by the banking superintendency to BANDESA under Circular DC-004-88, whereby the attention of the agencies and rural office chiefs is brought to the matter, and where they are also reminded that noncompliance with such regulations would result in some consequences for the concerned parties.

A listing of 42 cases with these problems, for a total of Q31,007, is in the hands of BANDESA.

Criteria:

Sections 4th to 10th of the regulations supporting social payments and credits of the Highlands Agricultural Development Project, define the requirements to be fulfilled by DIGESA's agricultural technicians, who as responsible for passing judgment on such payments are required to be aware of and comply with said regulations. Also, as administrator of project resources, BANDESA was required to comply and cause that the related regulations be complied with. Furthermore, deviations from these regulations contravene the established internal controls and may give rise to doubts as to whether the program objectives are being attained.

Cause:

Dereliction of DIGESA's technicians and BANDESA's employees in complying with the above mentioned regulations.

Effect:

Inadequate documentation on certain payments and doubts regarding its authenticity.

Recommendation:

BANDESA should comply with the regulations for the management of social payments and credits in order to preclude the questioning of the related transactions.

4. Some Financial Statements of BANDESA's Disclose Credit Balances Contrary to Their Customary Debit Balances As a Result of Overdrafts.

Condition:

The financial statements for October and November 1988, together with the daily reports on the trust funds' cash position, disclose some balances under account 500.22 - Revolving Funds with credit balances contrary to its customary debit balances.

Criteria:

The above condition could had been prevented should BANDESA had complied with resolution 218-80 issued by the Superintendency of Banks on April 14, 1980, whereby the bank was precisely instructed to "avoid using resources from one trust fund in order to finance another".

Cause:

The above mentioned overdrafts are the result of excess cash deliveries made to the project beneficiaries over the program actual cash availability.

Effect:

Possible penalties assessed by the Superintendency of Banks to BANDESA.

Recommendation:

BANDESA should strictly comply with agreement terms concerning the use of project funds and with the regulations emanated from the Superintendency of Banks which are of mandatory observance by all credit institutions in Guatemala.

Price Waterhouse



THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE NATIONAL AGRICULTURAL DEVELOPMENT BANK (BANDESA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATION

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 National Agricultural Development Bank (BANDESA), 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 financial management review to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to BANDESA is the responsibility of BANDESA's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatements, we performed tests of BANDESA's 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.

The results of our tests indicate that, with respect to the items tested BANDESA 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 BANDESA had not complied, in all

material respects, with those provisions. We noted, however, certain immaterial instances of noncompliance which are described under findings Nos. 1 to 4 in the internal control section of this report and findings Nos. 1 to 7 in the following pages which are summarized below:

1. The fund accountability statement does not disclose the details of the counterpart contributions allocated to the different project elements.
2. The Ministry of Finance did not opportunely pay to BANDESA its commissions for managing the project trust fund.
3. BANDESA did not submit to USAID/Guatemala, on a timely basis, the reports required by the agreements.
4. The bank's costs allocation system for the project was not approved by USAID/Guatemala.
5. Value-added taxes (IVA) were paid with project funds.
6. Two operating departments are functioning at the bank with no authorization from the National Civil Service Office (ONSEC).
7. Budget allocations were exceeded without the required prior approvals.

This report is intended solely for the use and information of the National Agricultural Development Bank and the U. S. Agency for International Development. This restriction is not intended to limit distribution of this report which, upon its 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 NATIONAL AGRICULTURAL DEVELOPMENT BANK (BANDESA)
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. The Fund Accountability Statement Compiled by BANDESA Does Not Disclose the Allocation of The Counterpart Contributions Per Project Element.

Condition:

The fund accountability statement compiled by BANDESA for the period January 1, 1985 to June 30, 1990 discloses the overall counterpart contributions made by the Government for the project, but it does not show how such contributions were applied.

Criteria:

The presentation of the fund accountability statement requires that the several disbursement items by source of financing be segregated by component, with respect to both USAID/Guatemala advances and the Government's contributions.

Cause:

Lack of BANDESA's experience in the preparation of a fund accountability statement because neither the agreement nor the trust deed do include any clauses requiring preparation of such a statement.

Effect:

Lack of information on the counterpart contributions did not permit management to be aware of the project's overall financial situation.

Recommendation:

BANDESA should submit to USAID/Guatemala a document detailing the use of the counterpart contributions per cost element together with the pertinent supporting documentation.

2. The Ministry of Finance Did Not Opportunely Pay to the Bank its Commissions for Managing the Project Trust Fund.

Condition:

During 1988, the Ministry of Finance did not opportunely pay to BANDESA its 5% commission for the management of the project trust fund, to be computed on the aggregate of the resources assigned to subproject "A"- Soil Conservation for Q164,244. For these purposes, on April 29, 1988 BANDESA issued a debit note and a memorandum (DF-187-88-SGS) for the Ministry to pay the note on time (actual payment thereof was made eight months later).

Criteria:

Clause 6 of public deed No. 330, dated March 7, 1987, executed between the Ministry of Finance and BANDESA states that the latter would collect a commission for the management of the above mentioned component trust fund.

Cause:

The national deficit sustained by the Government in the last few years did not allow the Ministry of Finance to pay on time its obligations and for the amounts agreed upon.

Effect:

Obstacles for BANDESA to more effectively undertake a number of activities and investments programmed by the agreement (acquisition of radio and computation equipment, for example).

Recommendation:

The Government of Guatemala (GOG) should apply the necessary mechanisms to enforce the covenants agreed upon with the Ministry of Finance, so that when funds are delivered by USAID/Guatemala to the GOG for a specific purpose, such funds are made available to the concerned implementing unit.

3. BANDESA Did Not Submit to USAID/Guatemala on a complete and timely basis the Reports Required by the Agreements.

Condition:

On several occasions the project reports, submitted by BANDESA to USAID/Guatemala were incomplete or were too late (during 1986 the report submitted covered from January to June only; the one

submitted during 1988 covered January to August, while the one submitted during 1990 covered only from January to July). Also, BANDESA did not prepare a fund accountability statement to report on the project's financial situation.

Criteria:

The referenced reports were required by clause 5 "Commitments by the trustee," paragraph II, section b) of the trust deed executed on October 26, 1988 and confirmed on April 28, 1989. Furthermore, the original loan and grant agreements state that the grantee commits itself to submit on a quarterly basis the reports requested by the Mission (project progress, extent of its execution, etc.).

Cause:

- a) Rotation of the personnel involved in the preparation of the reports required by the agreements.
- b) The hardware facilities at the Bank's costs and trust sections had been recently acquired and were not functioning as expected, and consequently the project transactions were processed manually.
- c) Duplication of efforts and time lost prompted by the conditions described in b), above.
- d) Neither the agreement nor the trust deed include formal requirements for the preparation of the fund accountability statement.

Effect:

Neither BANDESA nor USAID/Guatemala received timely and reliable information on the project for them to adopt any corrective action required. As an example, in July 1987 the Ministry of Finance felt compelled to discontinue its disbursements to BANDESA for replenishment of the latter's revolving funds and as a consequence thereof the bank's financial department discontinued its credit operations for project purposes, as evidenced by letter DF-034-88 of January 25, 1988.

Recommendation:

BANDESA should continuously train its personnel involved on the trust control and follow-up, with emphasis on the attention that should be paid to the preparation of the reports required by both the agreements and the trust deed.

4. The Cost System Applied by BANDESA to Allocate Both Receipts and Disbursements of the Trust Project was not Approved by USAID/Guatemala.

Condition:

The cost systems applied by BANDESA for the distribution of the receipts generated by the trust and the allocation of the indirect costs applicable thereon, was approved by both the Ministry of Finance and the Superintendency of Banks on the grounds that it did comply with clause 9 of the corresponding deed. However, to the date of our review, we had not been furnished with any evidence that USAID/Guatemala was aware of or had approved the cost systems.

Criteria:

The Ministry of Finance should have obtained approval from USAID/Guatemala on the costs system to be applied by BANDESA to the project for the trust fund to be properly charged with both direct and indirect costs generated by its management.

Cause:

Management believes it acted in a proper manner as its actions were based on resolutions issued by both the Ministry of Finance and the Superintendency of Banks, coupled to the fact that for project purposes BANDESA was accountable before the Ministry of Finance only.

Effect:

Application of the present cost systems implies a considerable number of operations and, to a certain extent, duplication of functions, because prior to accounting for the project operations the bank's accounting department prepares the journal entries covering project transactions for the subsequent reclassification of disbursements, by project components.

Recommendation:

Bank's management should reassign certain functions or, alternatively, design a specific system so that the allocation of costs to the project is part of the system and not a subsequent function performed by the bank's costs accounting department. In any event, it is recommended that the cost system followed by reviewed and approved by USAID/Guatemala.

5. Value-added Taxes (IVA) Were Paid With Project Funds

Condition:

Following instructions of the Bank's trust department, IVA was to be considered part of project costs on any item so financed.

Criteria:

Section B.4, paragraphs a, b and c of Annex II to the loan agreement states that no taxes are to be paid with project funds. This prohibition was reiterated by USAID/Guatemala in PILs No. 7, 18 and 36.

Cause:

The bank's decision that the costs to be financed by the project could also include IVA was supported by the notion that it could finance the payment of any taxes as part of the credits granted, because the bank would receive back the value of such taxes upon the loans repayment.

Effect:

Contravention of the provisions issued by USAID/Guatemala in this respect.

Recommendation:

BANDESA should comply, in full, with all applicable agreement provisions. If the applicability of any given agreement term or provision is questionable, BANDESA should request specific authorization or waivers from USAID/Guatemala.

6. Two Operating Departments Were Created by the Bank Without the Authorization of the National Civil Service Office (ONSEC).

Condition:

Both the Trust and Costs Department of the Bank are functioning without ONSEC's and the Budget Department of the Ministry of Finance's (MINFIN) prior approval. Personnel and other costs of these departments are allocated by the Bank to other departments for budget purposes.

Criteria:

BANDESA is required to obtain the prior approval of both ONSEC and MINFIN for the departments referred to above to be formally recognized within the entity's general organization, their operation duly authorized and their related costs included in its budget.

Cause:

The new departments were created on the basis of a resolution issued by the bank's Board of Directors on December 9, 1986, which based its decision on a favorable resolution concerning the implementation of a cost accounting system, issued by both the Superintendency of Banks and the MINFIN. It should be pointed out that on October 18, 1990, the costs section was approved by resolution No. 3451 of the Ministry of Finance.

Effect:

Exposure of BANDESA to eventual economic and legal actions by the Government.

Recommendation:

BANDESA should promptly initiate procedures to have the two new departments authorized, since such authorization does not imply any cost increases to be covered by the entity's budget.

7. Budget Allocations Were Exceeded Without Previous Authorization From USAID/Guatemala.

Condition:

BANDESA used other funds to pay for budget overruns in the hope that USAID/Guatemala would subsequently give authorization and additional funding for those purposes.

Criteria:

Payments in excess of budget or transfer from one cost line item to another or from one phase of the project to another require prior approval by USAID/Guatemala.

Cause:

Management considered that disbursements made were proper, reasonable and related to the project objectives and that, because

of the relative success of the project, USAID/Guatemala would not pose objections to the decisions taken.

Effect:

Noncompliance with agreement terms and possibility that USAID/Guatemala denies authorization for reimbursement of all those disbursements in excess of previously approved budgets.

Recommendation:

BANDESA should, in future projects, comply in full with agreement terms and request prior approval from USAID/Guatemala when variances or deviations from previously authorized budgets appear justifiable and necessary.

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE NATIONAL AGRICULTURAL DEVELOPMENT BANK (BANDESA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

LIST OF REPORT RECOMMENDATIONS

Internal Control Structure:

Recommendation 1:

The Government of Guatemala, represented by those entities responsible for the project supervision and control (MINFIN, MAGA, the General Comptroller's Office or Contraloría General de Cuentas), should provide adequate assurance that each implementing unit complies with the audit requirements established by the pertinent agreements; that separate controls are maintained over each project; and that as a minimum every quarter a reconciliation covering "receipts, sum liquidations, items not approved and those pending liquidation," is prepared.

Recommendation 2:

The Ministry of Finance and the Ministry of Agriculture should disseminate among the project participant units the commitments entered into and insist in their due compliance therewith. Furthermore, BANDESA should register in the project's records the assets acquired and request formal USAID/Guatemala approval to transfer the four Cherokee units to the project's central offices.

Recommendation 3:

BANDESA should comply with the regulations for the management of social payments and credits in order to preclude the questioning of the related transactions.

Recommendation 4:

BANDESA should strictly comply with agreement terms concerning the use of project funds and with the regulations emanated from the Superintendency of Banks which are of mandatory observance by all credit institutions in Guatemala.

Compliance with Agreement Terms and
Applicable Laws and Regulations:

Recommendation 1:

BANDESA should submit to USAID/Guatemala a document detailing the use of the counterpart contributions per cost element together with the pertinent supporting documentation.

Recommendation 2:

The Government of Guatemala (GOG) should apply the necessary mechanisms to enforce the covenants agreed upon with the Ministry of Finance, so that when funds are delivered by USAID/Guatemala to the GOG for a specific purpose, such funds are made available to the concerned implementing unit.

Recommendation 3:

BANDESA should continuously train its personnel involved on the trust control and follow-up, with emphasis on the attention that should be paid to the preparation of the reports required by both the agreements and the trust deed.

Recommendation 4:

Bank's management should reassign certain functions or, alternatively, design a specific system so that the allocation of costs to the project is part of the system and not a subsequent function performed by the bank's costs accounting department. In any event, it is recommended that the cost system followed by reviewed and approved by USAID/Guatemala.

Recommendation 5:

BANDESA should comply, in full, with all applicable agreement provisions. If the applicability of any given agreement term or provision is questionable, BANDESA should request specific authorization or waivers from USAID/Guatemala.

Recommendation 6:

BANDESA should promptly initiate procedures to have the two new departments authorized, since such authorization does not imply any cost increases to be covered by the entity's budget.

Recommendation 7:

BANDESA should, in future projects, comply in full with agreement terms and request prior approval from USAID/Guatemala when variances or deviations from previously authorized budgets appear justifiable and necessary.

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