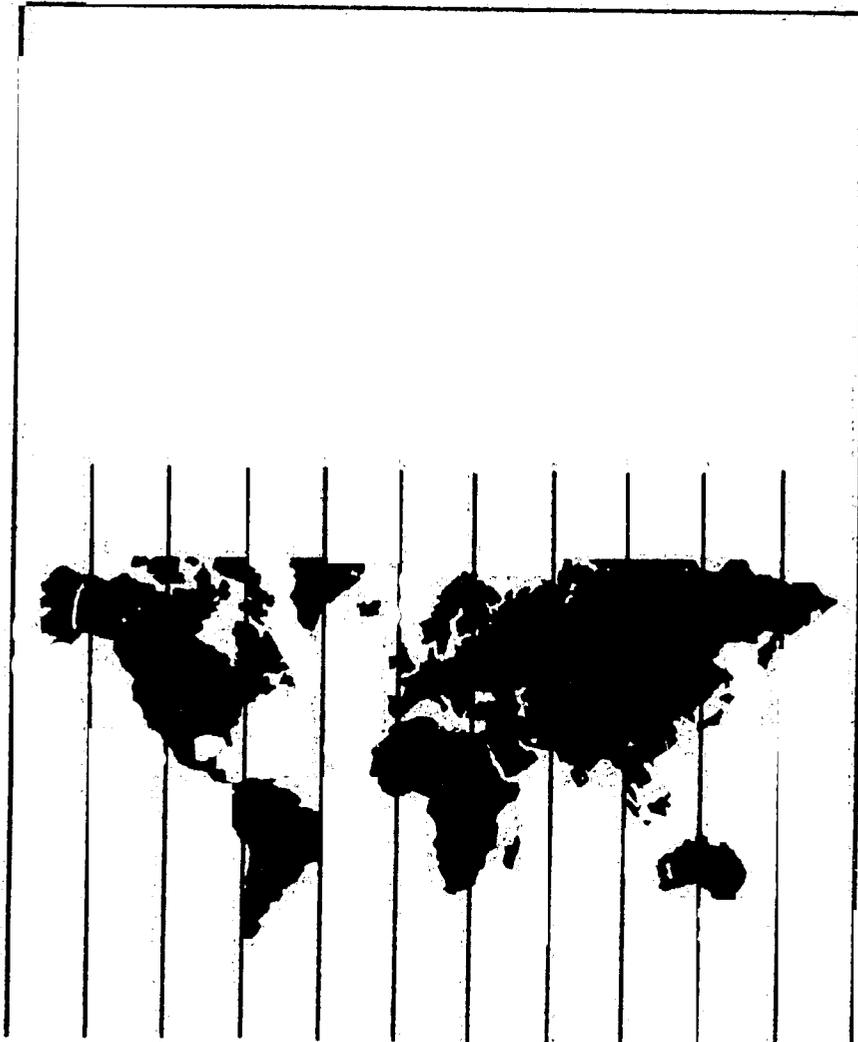


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit

TEGUCIGALPA

PD - ABD - 386

**AUDIT OF USAID/BOLIVIA'S
CHAPARE REGIONAL DEVELOPMENT PROJECT
ACTIVITIES MANAGED BY
THE PL-480 EXECUTIVE SECRETARIAT
FOR THE YEAR ENDED DECEMBER 31, 1990**

**Audit Report No. 1-511-91-53-N
September 20, 1991**

U. S. MAILING ADDRESS:
RIG/T
APO. MIAMI 34022

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987 - 32-3120
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September 20, 1991

MEMORANDUM

TO: D/USAID/Bolivia, Carl H. Leonard
FROM: *for* RIG/A/T, Reginald Howard *for* *Don W. Hundy*
SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project, Activities Managed by the PL-480 Executive Secretariat, for the Year Ended December 31, 1990

This report presents the results of a financial audit of the PL-480 Executive Secretariat (Secretariat) for the year ended December 31, 1990. This audit was one of six audits performed to evaluate entities receiving funds under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543. The accounting firm of Price Waterhouse prepared the report which is dated August 23, 1991.

The Project was initiated in 1983 as a part of the Government of Bolivia's program to reduce coca plantings. The Project focuses on the agroindustrial and institutional development of the Chapare region--Bolivia's principal illicit coca growing area. The life-of-project budget as of December 31, 1990 was \$73.2 million, of which USAID/Bolivia is providing grant and loan funds of \$38.5 million and the Government of Bolivia the balance of \$34.7 million. The Government of Bolivia has also developed a program whereby it makes compensation payments of \$2,000 per hectare to peasant farmers who voluntarily reduce their coca plantings.

The principal activities of the Secretariat include granting and administering loans to peasant farmers as well as disbursing grant funds to other Project entities for their operating costs and accomplishment of community works and studies. The audit coverage included \$3.0 million collected by the Secretariat from loans previously made under the Project, \$2.1 million from the sale of wheat, and \$0.2 million in interest earned during the year ended December 31, 1990.

The purpose of the audit was to determine whether: (1) the Secretariat's fund accountability statement presents fairly, in all material respects, cash receipts and disbursements for the period audited; (2) the Secretariat's internal control structure was adequate for Project purposes; and (3) the Secretariat had complied with the terms of the Project Agreement and implementation letters and applicable laws and regulations. The scope of the audit included an examination of the Secretariat's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

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Price Waterhouse found that the fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the Secretariat for the period audited.

With respect to the internal control structure of the Secretariat, Price Waterhouse identified two material weaknesses concerning: (1) inadequate collection and documentation procedures of loans¹ and (2) the lack of adequate control over travel expenses.

In its report on compliance with agreement terms and applicable laws and regulations, Price Waterhouse found that the Secretariat complied in all material respects except that it did not: (1) grant loans to farmers in the volume anticipated by the strategic plan; (2) perform supervisory reviews of its loan portfolio¹; and (3) verify that required counterpart contributions are being met by loan recipients.

The report was discussed with management of the Secretariat who expressed general disagreement with the auditors' findings and conclusions. The auditors' evaluation of management's comments is on page 9 of the report, and the entire text of management's comments is in Appendix II to the report.

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

Recommendation No. 1

We recommend that USAID/Bolivia, in conjunction with the PL-480 Executive Secretariat, develop a plan, including a timetable for implementation, for: (1) evaluating the loan program and establishing measures to ensure that the annual loan goals established by the Project's Strategic Plan are met; and (2) developing and implementing procedures to verify that required counterpart contributions are being met by loan recipients.

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

¹ *These weaknesses were identified in the prior audit of the Secretariat for the year ended December 31, 1989 (Audit Report No. 1-511-91-16-N, dated January 22, 1991). RIG/A/T has received information from USAID/Bolivia detailing actions that have been initiated to correct these weaknesses and we consider the related recommendation resolved. The recommendation will be closed upon receipt of documentation from USAID/Bolivia that recommended actions have been completed. Accordingly, RIG/A/T has not repeated corrective actions for these weaknesses in the above recommendation.*

AUDIT OF THE
CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990



AUDIT OF THE
CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990

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Moreno Muñoz



August 23, 1991

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

Dear Mr. Howard:

This report presents the results of our audit of the Chapare Regional Development project, USAID/Bolivia Project No. 511-0543, activities managed by the PL-480 Executive Secretariat (Secretaría Ejecutiva PL-480), for the year ended December 31, 1990.

BACKGROUND

On August 12, 1983, the Republic of Bolivia and the United States of America acting through the U.S. Agency for International Development Mission to Bolivia (USAID/Bolivia), signed a loan and grant agreement to implement the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, which consisted of an integrated package of financing and technical assistance for small farmer related production, agroindustry development/marketing and institutional development support activities to be carried out by Bolivian public and private institutions for development of the Chapare region and associated high valleys sub-regions.

The project is a complementary part of the Government of Bolivia (GOB)'s program to reduce the coca plantings in Bolivia, and includes different activities and sub-projects designed to focus development resources on Bolivia's principal transitory coca growing area which is used for illicit purposes, the Chapare region. Due to different causes, the implementation of project activities had to be delayed and the project itself was significantly modified. The amended project concentrates on four principal development areas: 1) agriculture and forestry production; 2) rural industry and marketing;

3) productive and transport infrastructure; and
 4) a project investment fund. Each area includes activities of immediate impact and applied research activities to support medium and long-term activities. The project assistance completion date is May 31, 1992 and the life-of-project budget as modified in July 1990, expressed in thousands of U.S. dollars, includes the following:

| | USAID/BOLIVIA | | GOVERNMENT OF BOLIVIA | | Total |
|----------------------|------------------|------------------|-----------------------|-----------------|------------------|
| | Grant | Loan | PL-480 | GOB | |
| Technical assistance | \$ 12,558 | | | | \$ 12,558 |
| Training | 2,092 | \$ 1,070 | \$ 2,523 | | 5,685 |
| Constructions | 3,060 | 1,019 | 3,246 | \$ 1,600 | 8,925 |
| Commodities | 3,780 | 2,662 | 240 | | 6,682 |
| Operating costs | 3,280 | 7,258 | 2,300 | 1,147 | 13,985 |
| Evaluations | 530 | 53 | | | 583 |
| Other | 700 | 438 | 22,831 | | 23,969 |
| Contingencies | 100 | 345 | 860 | | 860 |
| | <u>\$ 26,000</u> | <u>\$ 12,500</u> | <u>\$ 32,000</u> | <u>\$ 2,747</u> | <u>\$ 73,247</u> |

Additionally the Government of Bolivia has developed a program to reduce the cultivation of coca and make compensation payments of US\$ 2,000 per hectare from its own resources to the peasant farmers that voluntarily reduce their coca plantations. The plan foresaw the eradication of 6,000 hectares of coca plants in 1990. In accordance with DIRECO's reports 7,382 hectares were in fact eradicated.

USAID/Bolivia performs the overall supervision of the project, which consists of various phases carried out by different GOB administrative units, as indicated in the following summary:

| <u>Phase</u> | <u>Administrative Unit</u> |
|--|---|
| 1 Administration of the project and overall supervision and coordination of the Government of Bolivia's programs related to coca eradication | Subsecretariat for Alternative Development and Coca Planting Substitution (Subsecretaría de |



| <u>Phase</u> | <u>Administrative</u> |
|--|---|
| | Desarrollo Alternativo y Sustitución de Cul- tivos de Coca-SUBDESAL) |
| 2 Technical assistance to farmers to allow access to financial services and development of community projects in Chapare and associated high valleys | Program of Alternative Regional Development (Programa de Desarrollo Alternativo Regional - PDAR) |
| 3 Technical assistance in the development of alternative crops, and sale of genetic material for alternative crops | Bolivian Institute of Agriculture and Cattle Technology/Chapare (Instituto Boliviano de Tecnología Agropecuaria - IBTA/Chapare) |
| 4 Granting of loans to farmers to plant alternative crops | PL-480 Executive Secretariat |
| 5 Compensation to coca growers to reduce coca cultivation | National Directorate for Agricultural Re-conversion Agrícola - DIRECO) |
| 6 Development of productive and transport infrastructure through the maintenance of roads | National Service of Roads (Servicio Nacional de Caminos - SNC) |

The PL-480 Executive Secretariat participates in the project funding of US\$ 32,000,000 which includes US\$ 17,500,000 for giving credits to peasant farmers and US\$ 14,500,000 to be implemented through other executing units as grants for operating costs and for costs to carry out basic community infrastructure work related to the Chapare Regional Alternative Development.

The grant funds are disbursed directly to the project's executing components. The main disbursements consist of support for operating costs of SUBDESAL and the office established in Cochabamba by the PL-480 Executive Secretariat. Moreover, the PL-480 Executive Secretariat



makes disbursements through the Program of Alternative Regional Development (PDAR).

PDAR uses these funds for carrying out community works and studies to generate alternative development under PDAR supervision. As of December 31, 1990 the accumulated disbursements of grant funds were US\$ 4,357,915 and the undistributed balance was US\$ 10,142,185.

With respect to the loan funds, the PL-480 Executive Secretariat established a Regional Office in Cochabamba to directly administer the agricultural credits until an intermediate credit institution (ICI) is contracted. In compliance with Project Implementation Letter (PIL) 112 dated December 19, 1989 the PL-480 Executive Secretariat will continue its direct administration of the distribution of agricultural credits to the peasant farmers for two additional years. As of December 31, 1990, US\$ 4,203,544 had been disbursed, US\$ 57,312 had been collected and US\$ 1,014,713 of committed loans were pending disbursement.

These credits are designed for agricultural purposes. The capital investment loans usually have a term of ten (10) years and may include a four (4) year repayment grace period. When the credits are designed for working capital the repayment period is two (2) years with no grace period. In both cases, the interest to be accrued is 13% and a loan agreement clause is provided to maintain the value of both, capital and interest.

The loans managed by this unit are intended to encourage peasant farmers living in the Chapare area to realize alternative agricultural development by encouraging legal agricultural production and cattle raising activities. Consequently, these credits have been given mainly to those peasant farmers who have reduced their coca crop planting in accordance with terms of the Bolivian Law No. 1008 and the agreement signed between the United States Agency for International Development Bolivian Mission (USAID/Bolivia) and the Government of Bolivia.

Consequently, the agricultural credit funds are administered directly by the PL-480 Executive Secretariat and the grant funds are managed through SUBDESAL and PDAR.



AUDIT OBJECTIVES AND SCOPE

We were contracted by USAID/Bolivia, to conduct a financial audit of the Chapare Regional Development Project for the year ended December 31, 1990. The audit included the operations carried out by each administrative unit under the loan and grant agreements signed between the Government of Bolivia and USAID/Bolivia, and their corresponding fund accountability statement.

The audit did not include the examination of the documentation and operations of periods prior to January 1, 1989 nor transactions made directly by USAID/Bolivia and the Government of Bolivia through direct payments. However, for information purposes only, we include as annex 1, a fund accountability statement of project's accumulated receipts and disbursements as of December 31, 1990, including direct payments made by USAID/Bolivia and the Government of Bolivia. This statement is expressed in United States dollars.

Our audit was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision) and accordingly included such tests of the accounting records and documentation, evaluation of the internal control structure and other auditing procedures as we considered necessary in the circumstances to determine whether:

- 1 The fund accountability statement of the project's activities managed by PL-480 Executive Secretariat presents fairly in all material respects, the cash receipts and disbursements for the year ended December 31, 1990, identifying costs which were not fully supported with adequate records or which were not allowable, allocable, and reasonable under the agreement terms, project implementation letters, and applicable laws and regulations:
- 2 PL-480 Executive Secretariat internal control structure is adequate for project purposes: and
- 3 PL-480 Executive Secretariat complied in all material respects, with agreement terms, project implementation letters, and applicable laws and regulations.



Based on monthly field work, carried out throughout the year, the scope of our work included:

- Reviewing the accounting records and bank accounts used by the Executive Secretariat PL-480 to record the receipt of funds and obtaining direct confirmation from the banks.
- Reviewing the supporting documentation of the income earned by the project and corresponding bank statements.
- Evaluation of the procedures and controls applied to sub-projects and review of the reconciliations and supporting documentation of disbursements in favor of the executing units and their records.
- Evaluation of the procedures and controls applied for giving agricultural credits in accordance with the agreement terms.
- Reviewing the supporting documentation of agriculture credits disbursed during the year. This test covered 72% of 1990 disbursements and 59% of the total loan portfolio.
- On-site visits to the farmers' properties in order to verify the information recorded in the credit files. This verification included direct confirmation with the peasant farmers as to the amount of loan, terms of repayment, interest rates, objectives of the loan, and compliance with previous requirements for obtaining credit (reduction of coca plantings). These procedures were used in our visits to 103 agricultural properties belonging to loan beneficiaries.
- Reviewing the supporting documentation of the principal project's operating costs paid by the PL-480 Executive Secretariat. These tests covered 90% of the amount spent during the year. The objective of these tests was to determine whether the expenses were properly supported with documentation, were made to achieve the objectives of the Program, were made in accordance with agreement terms, and the expenditure was properly recorded in the year the expense was incurred.
- Reviewing and evaluating PL-480's compliance with agreement terms and applicable laws and regulations.



RESULT OF AUDIT

Fund Accountability Statement

The PL-480 Executive Secretariat, in accordance with project requirements, has recorded its transactions on the basis of cash receipts and disbursements. Consequently, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. This is a comprehensive basis of accounting for cash transactions other than generally accepted accounting principles. Our audit disclosed questioned costs in the amount of Bs 96 which we consider non material to the fund accountability statement.

In our opinion, the fund accountability statement audited by us presents fairly, in all material respects the cash receipts and disbursements of the activities managed by the PL-480 Executive Secretariat, under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, for the year ended on December 31, 1990, on the basis of accounting described in the precedent paragraph.

Internal Control Structure

We have considered the internal control structure of PL-480 Executive Secretariat in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement of the Chapare Regional Development Project, and not to provide assurance on the internal control structure of PL-480 Executive Secretariat taken as a whole.

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. However, we observed the following matters involving the internal control structure that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.



Findings Arising During the Year

- 1 Legal Action not Always Taken to Recover Loans when the Funds are Used by Peasant Farmers for Other Purposes or When the Interest on Loans is Overdue.
- 2 Expenses not related to the project.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the PL-480 Executive Secretariat in separate letters.

Compliance with Agreement Terms, Project Implementation Letters, and Applicable Laws and Regulations

Except for the noncompliance mentioned below, the results of our tests of compliance indicate that, with respect to the items tested, PL-480 Executive Secretariat complied in all material respects with the terms and provisions of the agreement, project implementation letters, and applicable laws and regulations. With respect to items not tested nothing came to our attention that caused us to believe that PL-480 Executive Secretariat had not complied, in all material respects, with those terms and provisions.

Findings Arising During the Year

1. Non-compliance With Loan Program Laid Down in the Strategic Plan.
- 2 Lack of supervision of loans.

Reiteration of Previous Year's Findings

- 1 The allowance for uncollectible loans is not recorded by the PL-480 Executive Secretariat.
- 2 The PL-480 Executive Secretariat did not ensure that the farmers receiving loans under the project no longer cultivated coca.
- 3 Semester evaluations of the accomplishments of the credit program were not performed.



MANAGEMENT COMMENTS

In its written responses to this report, see Appendix II, the management of PL-480 Executive Secretariat gives an explication as to why legal action was not taken in certain cases (finding No. 1) and states there is a contradiction between the criteria and cause. With respect to the expenses not related to the project (finding 2) it states that this was an error and that this was solved. In its response to the compliance section of this report PL-480 states that the cause of the failure to comply with the strategic plan was outside its control and that the recommendation is out of place as this is the responsibility of the Interinstitutional Committee. Regarding the lack of supervision of loans the Secretariat considers that there has been a significant improvement in the number of visits and any further increase would increase costs. They also consider that it is inadequate and difficult to implement the recommendation because it is not IBTA/Chapare's responsibility, nor does it have the capacity, to visit all the loan beneficiaries on an individual basis.

Auditor's response

Finding 1: There is no contradiction between the criteria and the cause. In the criteria we state that when no legal action is taken the reason should be laid down in writing and properly approved. This requires that the reason and approval be properly documented as a regular internal routine and included in the loan file. The lawyers explication was in a letter to us and not part of a normal internal routine.

Finding 2: At the time of the conclusion of our audit in February 1991 this matter, which occurred in March 1990, had not been clarified or the amount recovered.

Compliance Finding 1: The strategic plan was not complied with and we do not believe that PL-480 can delegate the evaluation of the program and the determination of measures to encourage the use of credit to an Interinstitutional Committee. PL-480 should discuss and coordinate its effort with the other institutions, but must accept the responsibility for the credit program.



Compliance Finding 2: The universe of the loans to be supervised must be all loans outstanding not just the new loans given during the year. The figure of 3 or 4 visits is mentioned as this is the number of disbursements made and it is considered necessary to carry out a supervisory visit before making each disbursement. The recommendation to use IBTA personnel was to attempt to improve efficiency and to properly define responsibilities.

Mrs. Waterhouse.



Moreno Muñoz



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities of the Chapare Regional Development Project USAID/Bolivia Project No. 511-0543, activities managed by the PL-480 Executive Secretariat (Secretaría Ejecutiva PL-480), for the year ended December 31, 1990. The fund accountability statement is the responsibility of the PL-480 Executive Secretariat's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles, and is not intended to be a presentation in conformity with generally accepted accounting principles.

As mentioned in Note 4, our audit disclosed certain questioned costs amounting to Bs96 which we consider non-material to the fund accountability statement.

In our opinion, the fund accountability statement audited by us presents fairly, in all material respects, the cash receipts and disbursements of the activities of the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, activities managed by the PL-480 Executive Secretariat for the year ended December 31, 1990, on the basis of accounting described in paragraph 3.

This report is intended solely for the information of the PL-480 Executive Secretariat and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance of the Office of the Inspector General, is a matter of public record.

February 15, 1991

Prince Waterhouse



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990

FUND ACCOUNTABILITY STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1990
(Expressed in Bolivianos - Note 3)

| | Funds balance at December 31, 1989 <u>Bs</u> | Funds received during 1990 <u>Bs</u> | Funds available <u>Bs</u> | 1990 Disbursements <u>Bs</u> | Funds balance at December 31, 1990 <u>Bs</u> | Questioned Costs (Note 4) <u>Bs</u> |
|--|--|--|---------------------------------|------------------------------------|--|--|
| Balances at December 31, 1989 | 3,009,587 | | 3,009,587 | | 3,009,587 | |
| RECEIPTS | | | | | | |
| Collection of credits from the Emergency Agricultural Program | | 8,660,008 | 8,660,008 | | 8,660,008 | |
| Sales of wheat | | 6,699,106 | 6,699,106 | | 6,699,106 | |
| Interest earned | | 711,696 | 711,696 | | 711,696 | |
| Exchange difference arising from adjustments made to maintain principal value | | 513,898 | 513,898 | | 513,898 | |
| Collection of credits | | 932,500 | 932,500 | | 932,500 | |
| Others | | 1,000 | 1,000 | | 1,000 | |
| DISBURSEMENTS | | | | | | |
| Disbursement of credits | | | | 3,408,899 | (3,408,899) | |
| Operating costs | | | | 845,916 | (845,916) | 96 |
| Disbursements for Sub-Secretariat for Alternative Development and Coca Crop Substitution (SUBDESAL) | | | | 1,229,319 | (1,229,319) | |
| Disbursements for the Program of Alternative Development Regional (PDAR) | | | | 2,888,651 | (2,888,651) | |
| Disbursements for the National Service of Roads (SNC) | | | | 2,613,638 | (2,613,638) | |
| Disbursements to the Banco Agrícola for the Associated High Valleys loan | | | | 596,200 | (596,200) | |
| Reclassification for erroneous appropriations during 1989 | | | | 63,105 | (63,105) | |
| | <u>3,009,587</u> | <u>17,518,208</u> | <u>20,527,795</u> | <u>11,645,728</u> | <u>8,882,067</u> | <u>96</u> |

CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1990

NOTE 1 - DESCRIPTION OF THE PROGRAM AND NATURE OF OPERATIONS

On August 12, 1983 the Republic of Bolivia and the United States of America acting through the U.S. Agency for International Development Mission to Bolivia (USAID/Bolivia), signed a loan and grant agreement to implement the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, which consisted of an integrated package on financing and technical assistance for small farmer related production, agroindustry development/marketing and institutional development support activities to be carried out by Bolivian public and private institutions for development of the Chapare region and associated high valleys sub-regions.

The project is a complementary part of the Government of Bolivia (GOB)'s program to reduce the coca plantings in Bolivia and includes different activities and sub-projects designed to focus development resources on Bolivia's principal coca growing area, the Chapare region. Due to different causes, the implementation of project activities had to be delayed and the project itself was significantly modified. The amended project concentrates on four principal development areas: 1) agriculture and forestry production; 2) rural industry and marketing; 3) productive and transport infrastructure; and 4) a project investment fund. Each area includes activities of immediate impact and applied research activities to support medium and long-term activities. The project assistance completion date, currently is May 31, 1992 and the life-of-project budget as modified in July 1990, expressed in thousand of U.S. dollars, includes the following:

| | USAID/BOLIVIA | | GOVERNMENT OF BOLIVIA | | Total |
|----------------------|------------------|------------------|-----------------------|-----------------|------------------|
| | Grant | Loan | PL-480 | GOB | |
| Technical assistance | \$ 12,558 | | | | \$ 12,558 |
| Training | 2,092 | \$ 1,070 | \$ 2,523 | | 5,685 |
| Constructions | 3,060 | 1,019 | 3,246 | \$ 1,600 | 8,925 |
| Commodities | 3,780 | 2,662 | 240 | | 6,682 |
| Operating costs | 3,280 | 7,258 | 2,300 | 1,147 | 13,985 |
| Evaluations | 530 | 53 | | | 583 |
| Other | 700 | 438 | 22,831 | | 23,969 |
| Contingencies | | | 860 | | 860 |
| | <u>\$ 26,000</u> | <u>\$ 12,500</u> | <u>\$ 32,000</u> | <u>\$ 2,747</u> | <u>\$ 73,247</u> |

The PL-480 Executive Secretariat participates in the project funding of US\$ 32,000,000 which include US\$ 17,500,000 for giving credits to peasant farmers and US\$ 14,500,000 as grants for operating costs and costs of carrying out basic community infrastructure works related with the Chapare Regional Alternative Development.

The grant funds are disbursed directly to the project's implementing institutions or to the suppliers of goods and services. The main disbursements support operating costs of SUBDESAL and the office established in Cochabamba by the PL-480 Executive Secretariat. Moreover, the PL-480 Executive Secretariat makes disbursements through the Program of Alternative Regional Development (PDAR). PDAR uses these funds for carrying out community works and studies to generate alternative development under PDAR supervision. As of December 31, 1990 the accumulated disbursements of grant funds were US\$ 4,357,915 and the undistributed balance was US\$ 10,142,085.

With respect to the loan funds, the PL-480 Executive Secretariat established a Regional Office in Cochabamba to directly administer the agricultural credits until an intermediate credit institution (ICI) is contracted. In compliance with Project Implementation Letter (PIL) 112 dated December 19, 1989 the PL-480 Executive Secretariat will continue its direct administration of the distribution of agricultural credits to the peasant farmers for two additional years. At December 31, 1990 US\$ 4,203,544 had been disbursed, US\$ 57,312 had been collected and US\$ 1,014,713 of committed loans were pending disbursement.

These credits are designed for agricultural purposes. The capital investment loans usually have a term of ten (10)

years and may include a four (4) year repayment grace period. When the credits are designed for working capital the repayment period is two (2) years with no grace period. In both cases, the interest to be accrued is 13% and a loan agreement clause is provided to maintain the value of both, capital and interest.

The loans managed by this unit are intended to encourage peasant farmers living in the Chapare area to realize alternative agricultural development by encouraging legal agricultural production and cattle raising activities. Consequently, these credits have been given mainly to those peasant farmers who have reduced their coca crop planting in accordance with terms of the Bolivian Law No. 1008 and the agreement signed between the United States Agency for International Development Bolivian Mission (USAID/Bolivia) and the Government of Bolivia.

Consequently, the agricultural credit funds are administered directly by the PL-480 Executive Secretariat and the grant funds are managed through SUBDESAL and PDAR.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

According to the project requirements the PL-480 Executive Secretariat prepared the fund accountability statement of the project on the basis of cash receipts and disbursements. Consequently, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. Therefore, the fund accountability statement does not pretend to present the financial information in accordance with generally accepted accounting principles.

The fund accountability statement shows the receipts and disbursements made through the PL-480 Executive Secretariat for the following two sources of funds:

a) Loan funds

Funds administered by the PL-480 Executive Secretariat for distributing credits to peasant farmers who had joined the program of coca crop substitution and alternative development.

b) Grant funds

Funds received and transferred through the PL-480 Executive Secretariat to SUBDESAL and PDAR for carrying out tasks established by the project. Consequently, these funds are administered through these units.

The fund accountability statement includes only the receipts and disbursements related to project funds administered by the PL-480 Executive Secretariat and did not include operations and disbursements conducted by the PL-480 Executive Secretariat which were not related to the project.

NOTE 3 - EXCHANGE RATES

The fund accountability statement is presented in bolivianos, the local currency of Bolivia. During 1990 the Bolivian currency was devalued against the United States dollar from Bs2.98 per US\$ 1 at January 1, 1990 to Bs3.40 at December 31, 1990.

NOTE 4 - QUESTIONED COSTS (AUDITOR'S NOTE)

The project has paid an air ticket Santa Cruz - Cochabamba amounting Bs96 for which there is no justification (Voucher No. 06/191 from 06-18-90).

NOTE 5 - ACCUMULATED FUND ACCOUNTABILITY STATEMENT THROUGH
DECEMBER 31, 1990 EXPRESSED IN UNITED STATES DOLLARS
(UNAUDITED)

The activities of the PL-480 Executive Secretariat related to the project are completely funded by the counterpart contribution. The budget consist of:

| | <u>US\$</u> |
|-------------|-------------------|
| Loan funds | 17,500,000 |
| Grant funds | <u>14,500,000</u> |
| | <u>32,000,000</u> |

The accumulated fund accountability statement for the period from the commencement of the management of funds by the PL-480 Executive Secretariat through December 31, 1990 (expressed in United States dollars), is included for the information of the reader in Annex I. This statement has been prepared on the basis of cash receipts and disbursements carried out in local currency (bolivianos) for loans and operating costs which were translated into U.S. dollars at the exchange rate on the day the payment was made.

NOTE 6 - APPROVED LOANS AT DECEMBER 31, 1990

The accumulated approved loans from the beginning of management by the PL-480 Executive Secretariat through

December 31, 1990 were Bs17,742,074 (equivalent to US\$ 5,218,257), of which Bs14,292,049 (equivalent to US\$ 4,203,544) had been disbursed and Bs3,450,025 (equivalent to US\$ 1,014,713) were pending disbursement.

NOTE 7 - BUDGET EXECUTION

At December 31, 1990 the accumulated execution of the budget was as follows:

| | <u>Loan funds US\$</u> | <u>Grant funds US\$</u> | <u>Total US\$</u> |
|--|--------------------------------|---------------------------------|-----------------------|
| Budget | 17,500,000 | 14,500,000 | 32,000,000 |
| Less: Accumulated disbursements at December 31, 1990 | <u>4,450,103</u> | <u>4,357,915</u> (1) | <u>8,808,018</u> |
| Pending execution | <u>13,049,897</u> | <u>10,142,085</u> | <u>23,191,982</u> |

(1) This amount includes funds which have been separated from funds of PL-480 but which have not yet been disbursed to the beneficiaries. The accumulated fund accountability statement includes only those funds which have been disbursed to beneficiaries.

NOTE 8 - FUNDS BALANCE

The funds balance at December 31, 1990 consist of:

| | <u>Amount</u> | |
|--|------------------|------------------|
| | <u>Bs</u> | <u>US\$</u> |
| Banco Central de Bolivia | 3,796,900 | 1,116,735 |
| Banco de Cochabamba - La Paz | 504,423 | 148,360 |
| Banco Mercantil - La Paz | 2,474,548 | 727,808 |
| Banco Boliviano Americano - La Paz | 9,704 | 2,854 |
| Banco de Cochabamba - Cochabamba | 260,107 | 76,502 |
| Banco Mercantil - Cochabamba | 111,868 | 32,903 |
| Banco Hipotecario Nacional - Cochabamba | 1,316,956 | 387,340 |
| Banco Industrial y Ganadero del Beni - Cochabamba | <u>407,561</u> | <u>119,871</u> |
| | <u>8,882,067</u> | <u>2,612,373</u> |

CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990

ACCUMULATED FUND ACCOUNTABILITY STATEMENT AT DECEMBER 31, 1990
(UNAUDITED)

| | Budget for 1990 <u>US\$</u> | Accumulated as of 12-31-89 <u>US\$</u> | Actual 1990 <u>US\$</u> | Accumulated as of 12-31-90 <u>US\$</u> | Excess (defect) over 1990 budget <u>US\$</u> |
|--|-----------------------------------|---|----------------------------|---|--|
| RECEIPTS | | | | | |
| Loan Fund | | | | | |
| Grant Fund - PDAR | | | | | |
| Grant Fund - SNC | | | | | |
| Operating Fund | | | | | |
| Collection of credits from the Emergency Agricultural Program | | 4,565,574 | 2,707,318 | 7,272,892 | |
| Interest earned | | 98,934 | 220,225 | 319,159 | |
| Collection of credits | | 1,312 | 291,028 | 292,340 | |
| Sales of wheat | | 1,173,607 | 2,093,338 | 3,266,945 | |
| Others | | 1,328 | 313 | 1,641 | |
| | | <u>5,840,755</u> | <u>5,312,222</u> | <u>11,152,977</u> | |
| DISBURSEMENTS | | | | | |
| Disbursements of credits | 3,500,000 | 3,119,950 | 1,083,599 | 4,203,549 | (2,416,401) |
| Operating costs | 393,159 | 332,307 | 264,074 | 596,381 | (129,085) |
| Disbursements for PDAR | 1,731,800 | 430,355 | 897,748 | 1,328,103 | (834,052) |
| Disbursements for SNC | 1,470,000 | | 823,982 | 823,982 | (646,018) |
| Disbursements for SUBDESAL | 638,426 | 757,614 | 382,332 | 1,139,946 | (256,094) |
| Disbursements to the Banco Agrícola for the Associated High Valleys loan | | | 185,420 | 185,420 | 185,420 |
| Exchange difference on local currency bank accounts | | 190,600 | 52,964 | 243,564 | 52,964 |
| Reclassification for erroneous apropriations during the 1989 period | | | 19,659 | 19,659 | 19,659 |
| | <u>7,733,385</u> | <u>4,830,826</u> | <u>3,709,778</u> | <u>8,540,604</u> | <u>(4,023,607)</u> |
| Total receipts | | 5,840,755 | 5,312,222 | 11,152,977 | |
| Less total disbursements | | <u>4,830,826</u> | <u>3,709,778</u> | <u>8,540,604</u> | |
| Cash on hand | | <u>1,009,929</u> | <u>1,602,444</u> | <u>2,612,373</u> | |

Moreno Muñoz



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities of the Chapare Regional Development Project USAID/Bolivia, Project No. 511-0543, activities managed by the PL-480 Executive Secretariat relating to operations and disbursements made on behalf the Chapare Regional Development Project for the year ended December 31, 1990 and have issued our report thereon dated February 15, 1990.

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

In planning and performing our audit of the fund accountability statement of the activities of the Chapare Regional Development Project, activities managed by the PL-480 Executive Secretariat for the year ended December 31, 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 the PL-480 Executive Secretariat 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 proper preparation of the fund accountability statement. 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 and evaluated the following significant internal control categories:

- cash receipts and disbursements
- budgeting control
- agricultural credits
- bank accounts and funds controls
- purchases
- disbursements

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our 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 reportable conditions noted are included in the following pages as finding Nos. 1 and 2.



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 fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However we believe all of the reportable conditions included in our attached report are material weaknesses.

This report is intended solely for the information of the management of the PL-480 Executive Secretariat and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

February 15, 1991

Frederick W. H. H. H.



Moreno Muñoz



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1989

INTERNAL CONTROL STRUCTURE

FINDINGS

1 Legal Action not Always Taken to Recover Loans when
the Funds are Used by Peasant Farmers for Other
Purposes or When the Interest on Loans is Overdue

Condition:

PL-480 has not taken legal action to recover loans on which interest is overdue and in many cases no legal action has been taken to recover loans when the capital is overdue or the funds have been used for purposes other than those laid down in agreement.

Criteria:

In accordance with the loan agreements legal action may be taken once loan capital or interest is overdue or the funds are not used for project purposes. PL-480 should exercise this right, unless special conditions exist. If these such conditions exist the reasons why no legal action is taken should be laid down in writing and properly approved.

Cause:

In the case of overdue interest on loans SUBDESAL has requested PL-480 not take a legal action. In the case of the loans which are not used for project purposes and capital is overdue the lawyer states that in many cases no action has been taken because the Courts where the cases have to be brought are outside the major towns and access is difficult.

Furthermore there are cases where the supervisor recommends that legal action be taken but these loans are not separately identified in the accounting records as problem loans.

Effect:

There is an increase in the possibility of losses through bad debts resulting in the loss of resources for the project and the abandonment of alternative development.

Recommendation:

The PL-480 Executive Secretariat should separately identify in its accounting records all loans which are identified as problem loans by field supervisors, and take legal action to recover all such loans, unless special circumstances exist. If special circumstances exist these should be properly documented and approved.

2. Expenses not Related to the Project

Condition:

The project has paid an air ticket Santa Cruz - Cochabamba for Bs96 for which there is no justification.

Criteria:

All the expenses charged to the project should be directly related to the project.

Cause:

The employee had a ticket Cochabamba - Panamá - Cochabamba. When returning, he stopped over in Santa Cruz, for personal reasons, and then charged the additional charge Santa Cruz to Cochabamba to the project.

Effect:

The project paid twice for the portion of the trip Santa Cruz - Cochabamba, charging the project with expenses which were not a cost of the project. As a consequence this expense is considered a questioned cost.



Recommendation:

The PL-480 Executive Secretariat should supervise the expenses incurred to ensure that only those directly related to the project charged to the project.



Moreno Muñoz



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990

COMPLIANCE WITH AGREEMENT TERMS, PROJECT
IMPLEMENTATION LETTERS, AND APPLICABLE
LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities of the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, activities managed by the PL-480 Executive Secretariat for the year ended December 31, 1990 and have issued our report thereon dated February 15, 1991.

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

Compliance with agreement terms, project implementation letters, and laws and regulations applicable to this portion of the Chapare Regional Development Project is the responsibility of the PL-480 Executive Secretariat management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and agreement terms. However, our objective was not to provide an opinion on overall compliance with such terms and provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the

misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in PL-480 Executive Secretariat 1990 fund accountability statement.

As described in the following pages and in the follow-up of previous year recommendations Appendix I to this report, the PL-480 Executive Secretariat did not comply with the strategic plan (only 15% of the loans programed were disbursed), did not adequately supervise the loans, did not record the allowance for uncollectible loans, and no semester evaluations of the accomplishment of the credit program was performed.

We considered these material instances of noncompliance in forming our opinion on whether the PL-480 Executive Secretariat's 1990 fund accountability statement is presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated February 15, 1991 on this fund accountability statement.

Except for the noncompliances mentioned in the fifth paragraph, the results of our tests of compliance indicate that, with respect to the items tested, the PL-480 Executive Secretariat complied in all material respects with the terms and provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the PL-480 Executive Secretariat had not complied, in all material respects, with those terms and provisions.

This report is intended solely for the information of the managements of the PL-480 Executive Secretariat and the Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance of the Office of the Inspector General, is a matter of public record.

February 15, 1991

Pricewaterhouse.



Moreno Muñoz



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1989

REPORT ON COMPLIANCE WITH AGREEMENT TERMS, PROJECT
IMPLEMENTATION LETTERS, AND APPLICABLE
LAWS AND REGULATIONS

FINDINGS

1. Non-compliance With Loan Program Laid Down in the Strategic Plan

Condition:

In accordance with the strategic plan it was estimated that 1800 loans should be granted during 1990. In fact only 275 (15% of the plan) were granted. This record was even worse than the 1989 performance (which was also poor) when 723 loans were granted.

Criteria:

PL-480 should make every effort to reach the loan levels laid down in the strategic plan in order to support the alternative development program. In the strategic plan the credit program is considered essential for the success of the alternative development program so that the peasant farmers are able to finance new crops.

Cause:

According to the quarterly reports presented by PL-480's Secretary's office, the reason for the decrease in demand for loans is that the people interested in receiving the loans lack the necessary documents to begin the transaction. In other words, when land ownership documents are not available, farmers have difficulties in obtaining reduction certificates from DIRECO and technical assistance certificates from IBTA/Chapare.

With reference to the reduction certificates, we have knowledge that, during the first semester of the year, DIRECO gave preference to both reducing coca plants and officially registering land parcels, and subsequently proceed with the measuring plans and the issuance of certificates. On the technical assistance side, farmers have become knowledgeable about the certificates only when approaching the Agency. Naturally, IBTA/Chapare has no alternative but to accomodate these farmers in the next available course.

According to the same reports, other reasons for the lack of interest in receiving financial backing are:

- Syndicate prohibition that threatens the farmers with fines, expulsion from the area, and land repossession.
- A lack of interest in receiving credit and acquiring financial obligations due to low product prices and deficient markets for the products.
- Farmers leaving the area after reducing the coca plantation.
- A lack of interest in reducing coca due to the expectation of price increases.
- The fact that IBTA/Chapare does not accept homologous certificates issued by other institutions like Gilead-Bolivia, that trained farmers in the milk production industry within project 415 of the United Nations.

Effect:

The lack of the use of credit by the peasant farmers will reduce the effectiveness of the program, and slow down the planting of new crops.

Recommendation:

The PL-480 Executive Secretariat in conjunction with USAID/Bolivia should evaluate the loan program and take measures to encourage the peasant farmers to use credit.



These measures should be oriented towards reducing bureaucracy and assisting uneducated farmers in completing the necessary formalities and paperwork. It is recognized that there is a need to obtain the necessary legal support for the loans so that legal action can be taken if the loan conditions are not met, but we believe that measures could be designed to encourage the use of credit without significantly increasing the risk of losses through bad debts.

2. Lack of Supervision of Loans

Condition:

Our tests included 63 beneficiaries of PL-480 loans. These loans were mainly given in 1989. Of these 63, 30 had not been subject to supervision for periods of over 6 months. Furthermore there is no evidence that reviews had been made to ensure that the investment of counterpart funds required by this loan agreement had been made.

Criteria:

The beneficiaries of the loans should be subject to constant supervision (3 or 4 times per year) and the supervisor should prepare a report indicating that the counterpart investment has been made. If this counterpart investment is in labor the report should indicate that there is evidence that the land has been worked.

Cause:

This situation occurred mainly in the first half of 1990 when PL-480 Cochabamba lacked human resources. Also, in some cases access is extremely difficult especially in the rainy season.

Effect:

The risk of losses through uncollectible accounts is increased if constant supervision is not carried out. Also there may be delays in detecting those cases where



the required investment is not made. Furthermore the success or otherwise of the alternative development program is not being monitored.

Recommendation:

The PL-480 should take measures to ensure that constant supervision of the beneficiaries of the loan program is carried out, and that reports are made evaluating the counterpart investment. It should be possible to coordinate this work so that IBTA/Chapare personnel can carry out this supervision and make these evaluations when giving technical assistance to the farmers.



Moreno Muñoz



CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990

LIST OF REPORT RECOMMENDATIONS

INTERNAL CONTROL STRUCTURE:

Recommendation 1:

The PL-480 Executive Secretariat should separately identify in its accounting records all loans which are identified as problem loans by field supervisors, and take legal action to recover all such loans, unless special circumstances exist. If special circumstances exist these should be properly documented and approved.

Recommendation 2:

The PL-480 Executive Secretariat should supervise the expenses incurred to ensure that only those directly related to the project are charged to the project.

COMPLIANCE WITH AGREEMENT TERMS, PROJECT IMPLEMENTATION LETTERS AND APPLICABLE LAWS AND REGULATIONS:

Recommendation 1:

The PL-480 Executive Secretariat in conjunction with USAID/Bolivia should evaluate the loan program and take measures to encourage the peasant farmers to use credit. These measures should be oriented towards reducing bureaucracy and assisting uneducated farmers in completing the necessary formalities and paperwork. It is recognized that there is a need to obtain the necessary legal support for the loans so that legal action can be taken if the loan conditions are not met, but we believe that measures could be designed to encourage the use of credit without significantly increasing the risk of losses through bad debts.

Recommendation 2:

The PL-480 should take measures to ensure that constant supervision of the beneficiaries of the loan program is carried out, and that reports are made evaluating the counterpart investment. It should be possible to coordinate this work so that IBTA/Chapare personnel can carry out this supervision and make these evaluations when giving technical assistance to the farmers.



Moreno Muñoz



APPENDIX I

AUDIT OF THE
CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES
MANAGED BY THE PL-480 EXECUTIVE SECRETARIAT
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990

FOLLOW UP OF PREVIOUS YEAR RECOMMENDATIONS

We were engaged to perform a financial audit of the fund accountability statement of the Chapare Regional Development Project, activities managed by the PL-480 Executive Secretariat, for the year ended December 31, 1990. The scope of our work included a follow-up on the recommendations to improve the Internal Control Structure and compliance with Agreement Terms, Project implementation letters, and Applicable Laws and Resolutions presented by us in our report dated November 30, 1990 on the project covering the period January 1, 1989 through December 31, 1989 and to review what actions were subsequently taken by PL-480 Executive Secretariat and/or USAID/Bolivia to provide adequate documentation and settle the questionable disbursements of Bs881,960 identified in such audit report.

The following is a summary of our follow-up work:

A. RECOMMENDATIONS TO IMPROVE INTERNAL CONTROL STRUCTURE

Our previous year recommendations highlighted the following:

1. Some Loan Recipients were not Complying with Loan Agreement Terms

Previous Recommendation

The PL-480 Executive Secretariat should implement procedures to ensure that loan proceeds are used in accordance with terms of the loan agreement.

2. Collateral Received for Loans was not Formally Evaluated by Specialists

Recommendation:

Previous Recommendation

The PL-480 Executive Secretariat should:

- a) establish a minimum value for the relationship collateral/loan required for loans given under the project,
- b) design and implement control procedures to evaluate the sufficiency of collateral submitted by loan recipients.

3. The Loans in the Loan Portfolio were not Periodically Analyzed to Determine the Existence of Conditions that Could Adversely Impact on Loan Collectability

Previous Recommendation

The PL-480 Executive Secretariat should design and implement procedures to review the loan portfolio at least at the end of every year to identify any problems that may adversely affect the collectability of the loans.

4. The PL-480 Executive Secretariat did not have Accounting and Administration Manuals for the Project's Loan Program

Previous Recommendation

The PL-480 Executive Secretariat should study and define the applicability of this accounting and general administration manuals, in its office used to administer the agricultural loans given under the project.

Implementation Status of Previous Recommendations:

1. In the supervision visits, procedures are followed to detect cases of non compliance with loan agreements. However as mentioned in compliance finding No. 2, there are often significant delays in making these visits.



2. This situation continues. PL-480 consider that it is imposible to evaluate the guarantees, because of the nature of the beneficiaries and of the guarentees given. On further consideration we believe the position of the PL-480 is reasonable, and the evaluation of guarantees would only further reduce the beneficiaries of the program. However a formal properly documented decision should be taken on this matter.
3. Solved. Evaluations are now carried out.
4. No special manuals have been prepared, however it is possible that the PL-480 central office manuals can be adapted for this purpose.

B. RECOMMENDATIONS TO COMPLY WITH AGREEMENT TERMS, PROJECT IMPLEMENTATION LETTERS, AND APPLICABLE LAWS AND REGULATIONS

Our previous year recommendations highlighted the following:

1. Credits were Granted to Unqualified Farmers

Previous Recommendation

The PL-480 Executive Secretariat should design and implement formal procedures to ensure that the loan qualifications specified in the Rules for the Administration of the Credit Program, specifically the residence and the reduction of coca cultivation requirements, are met by the loan recipients.

2. The Allowance for Uncollectible Loans is not Recorded by the PL-480 Executive Secretariat

Previous Recommendation

The PL-480 Executive Secretariat should:

- a) establish a separate bank account with funds equaling 2% of the interest earned in the past on the loan portfolio and,



b) establish procedures to ensure that contributions will be made on future interest earned.

3 The PL-480 Executive Secretariat did not Ensure that the Farmers Receiving Loans under the Project no Longer Cultivated Coca

Previous Recommendation

The PL-480 Executive Secretariat should coordinate with the organization in charge of carrying out the reduction of coca plantations to ensure that the loan recipient complies with all agreement terms.

4. Semester Evaluations of the Accomplishments of the Credit Program were not Performed

Previous Recommendation

The PL-480 Executive Secretariat should, through the Regional Coordination Committee, implement procedures to ensure that periodic evaluations be performed of the accomplishments of the Credit Program.

5. There were Loans Made by the Program in which the Farmer did not Comply with the Minimum Contribution of 20% to the Project Financed

Previous Recommendation

The PL-480 Executive Secretariat should:

- a) Design and implement a procedure to ensure that the loan and counterpart amounts are correctly computed in compliance with the project agreement and,
- b) design and implement a procedure to ensure that the recipient farmer makes the required counterpart contribution to the sub-project.

Implementation Status of Previous Recommendations:

- 1. At the time the loans are made there is evidence of residence, however cases were detected when the beneficiary disappears. No case was detected in 1990 of loans being given to farmers who did not have a certificate of reduction.



2. No provision has been recorded at December 31, 1990. The PL-480 considers that no provision should be made, if this is the case the procedure requiring such a provision should be modified.
3. It is difficult to control this situation. DIRECO is sending general information about the percentage of reduction of groups of peasant farmers but this is not specific to individual beneficiaries of the program. In accordance with the loan agreements PL-480 can consider the loan in default if the farmer makes new coca plantings. However, in accordance with a decision of the Inter-institutional Committee of October 11, 1990 it was decided to temporarily suspend legal action against the beneficiaries who have not complied with the coca reduction established in the DIRECO certificates.
4. There is no evidence that half yearly evaluations have been carried out. In accordance with the strategic plan this evaluation should be made by PDAR.
5. The cases detected in the previous year have been solved and no further cases were detected during our work.

C. DISPOSITION OF QUESTIONABLE DISBURSEMENTS FOR Bs881,960 IDENTIFIED IN OUR PREVIOUS YEAR REPORT

Questionable disbursements arose from loans granted by PL-480 Executive Secretariat to farmers who had been given a "certificate of reduction" even though they had never grown coca on their land.

PL-480's officials informed USAID/Bolivia and ourselves that they granted these loans as result of a specific instruction from the Sub-secretariat for Alternative Development and Coca Crop Substitution SUBDESAL.

At the date of our report no other measures have been taken on this matter.



La Paz, julio. 22 de 1991
P.L.-480 D.F. No. 1594/91

APPENDIX II

Señor
John Davison
CONTRALOR USAID/Bolivia
Presente

Señor:

Adjunto a la presente tenemos a bien hacerle llegar nuestros comentarios a las observaciones de la auditoría externa realizada por Moreno Muñoz.

Al respecto, debemos comunicarle que las observaciones en muchos casos son inadecuadas, fundamentalmente porque a nuestro entender los auditores externos no conocen con la suficiente amplitud, las normas para la operación del Programa de Crédito del Proyecto de Desarrollo Regional del Chapare. Asimismo, consideramos que algunos comentarios y recomendaciones son inconsistentes, debido a que los profesionales responsables de su elaboración no tienen el suficiente conocimiento técnico especializado, que les permita tener una apreciación más objetiva del desarrollo del programa.

Por otra parte, parecería que los auditores externos no tienen conocimiento de las observaciones que a juicio de la Oficina del Inspector General debían ser transmitidas por su persona a la Secretaría Ejecutiva para su correspondiente regularización, aspecto que se oficializó mediante nota MC-90/766 de fecha 23 de octubre de 1990. Por esta circunstancia, aún mantienen observaciones que carecen de fundamentación, motivo, por el cual, no fueron tomadas en cuenta por la Oficina del Inspector General.

Con este motivo, nos es grato saludarle muy atentamente.



Carlos Detti L.
GERENTE FINANCIERO s.l.
P.L.-480

**PROGRAMA DE CREDITO DEL PROYECTO
DE DESARROLLO REGIONAL DEL CHAPARE**

**COMENTARIOS AL INFORME DE AUDITORIA EXTERNA
CORRESPONDIENTE A LA GESTION 1990**

ESTRUCTURA DE CONTROL INTERNO

1. **No siempre fue tomada la acción legal para recuperar los préstamos cuando los fondos fueron utilizados por los agricultores para otros propósitos o cuando el interés de los créditos está vencido**

Si bien el incumplimiento en la cancelación de los créditos (capital e intereses) y la no aplicación de los mismos en los fines autorizados son causales de ejecución, este análisis debió efectuarse por separado, a fin de evitar confusiones. En efecto, considerando la solicitud de SUBDESAL de no iniciar las acciones legales en caso de incumplimiento en el pago de intereses, la Secretaría solamente procedió a ejecutar estas acciones en caso de desvío de fondos. Lamentablemente, los trámites para estos propósitos son lentos y burocráticos, razón para el retraso en los mismos, no pudiendo atribuirse esta demora a la Secretaría Ejecutiva.

Además, existe una contradicción entre lo mencionado en la última frase del subtítulo CRITERIO y la explicación dada en el subtítulo CAUSA. Los auditores externos deberían ser más precisos. N.

Existe una mala comprensión de la razón por la que algunos juicios no fueron iniciados inmediatamente a la recomendación del Agente Provincial, ya que la apreciación de que los juicios deben efectuarse en cortes que están fuera del pueblo es incorrecta. Lo correcto sería indicar que los juicios deben efectuarse en varios distritos judiciales, demorando los trámites requeridos en cada caso, siendo necesario proceder a una priorización de los casos que requieren demanda judicial.

En el caso de la contabilización de los créditos en ejecución, se instruyó la regularización respectiva.

2. **Gastos no relacionados al Proyecto**

La aplicación incorrecta del gasto señalado por los auditores externos se debió a un error involuntario, ya que el mismo se regularizó una vez aclarada la situación con la empresa aérea. Asimismo, es necesario señalar que la reversión contempló un ajuste por variación del tipo de cambio, no afectando la cuenta del programa de crédito.

La recomendación efectuada por los auditores da la impresión de que no existe un control estricto de los gastos, lo que es totalmente falso. En efecto, el error no se debió a la falta de control, sino a un desconocimiento de la cuantificación del valor de los pasajes.

APLICACION DE LOS TERMINOS DEL CONVENIO, CARTAS DE IMPLEMENTACION Y APLICABILIDAD DE LAS LEYES Y REGULACIONES

El quinto párrafo del informe de auditoría externa es falso e inconsistente, en lo que se refiere a la evaluación de la rentabilidad de los proyectos financiados, el cumplimiento de los planes de reducción de coca y las evaluaciones semestrales del programa de crédito.

En el primer caso, es totalmente falso que no se evalúen las solicitudes de crédito, ya que es en base a estas evaluaciones que se procede a la aprobación respectiva, existiendo los formularios que respaldan esta situación para cada caso. Nos parece que los auditores no son el personal idóneo para evaluar esta actividad, ya que se requiere de profesionales especializados para este propósito.

Respecto al cumplimiento en los planes de reducción, tal como se mencionó en el informe correspondiente a la gestión 1989, esta actividad no es de responsabilidad de la Secretaría, sino de DIRECO. Al respecto, se han coordinado acciones con esta institución, para efectuar un seguimiento efectivo. Esta labor ha permitido plantear al Comité Interinstitucional, la existencia de un gran número de prestatarios que incumplieron con este compromiso voluntario, habiendo dicho Comité recomendado no iniciar temporalmente las acciones legales correspondientes.

Finalmente, debemos indicar que las evaluaciones semestrales no están bajo la responsabilidad de la Secretaría, sino de una comisión específica. Sería poco objetivo que la Secretaría evalúe sus propias actividades y los resultados logrados con la operación del programa de crédito.

1. No cumplimiento con el Programa de Crédito estipulado en el Plan Estratégico

Los auditores externos señalan concretamente las causas para el no cumplimiento del número de créditos que debían ser otorgados en la gestión 1990, los cuales no son atribuibles en ningún caso a la labor de la Secretaría. Sin embargo, se contradicen en el comentario expuesto en el subtítulo CRITERIO, donde se menciona que la Secretaría debería haber realizado cualquier esfuerzo para alcanzar los niveles del plan estratégico.

Asimismo, la recomendación de los auditores externos está fuera de lugar, ya que la instancia para evaluar esta situación es el Comité Interinstitucional.

2. Falta de supervisión a los créditos

Sobre este particular, debemos indicar que la situación del año 1990, en comparación con el año 1989 es muy diferente, ya que se incrementaron sustancialmente las supervisiones efectuadas a los prestatarios. Nos parece que al haberse considerado nuevamente los créditos otorgados en la gestión 1989, se están distorsionando los resultados de la gestión 1990.

Al respecto, cabe indicar que, en promedio, se efectuaron 2.7 visitas por prestatario, que representa una cantidad importante de supervisiones, considerando fundamentalmente el difícil acceso a muchas parcelas de los agricultores. Alcanzar el número de visitas propuesto por los auditores externos (3 o 4) es posible, pero representaría incrementar en gran medida los costos de operación del programa de crédito, que en la actualidad ya son bastantes elevados; motivo por el cual, nos parece difícil de aplicar esta recomendación.

Respecto a la verificación del cumplimiento del aporte propio de los prestatarios, consideramos que lo expresado por los auditores externos es inadecuado, considerando que para tener evidencia de que los prestatarios han cumplido con su aporte propio, que en su mayor porcentaje es en mano de obra, se debería supervisar al agricultor de manera permanente. En la actualidad se supervisa íntegramente el cumplimiento del plan de inversiones aprobado por la Secretaría, el cual contempla el aporte propio del agricultor.

Consideramos inadecuada y difícil de efectuar la recomendación de los auditores, en sentido de que el IBTA/Chapare efectúe esta supervisión, ya que aparte de no ser su responsabilidad, debe recordarse que esta institución no tiene la capacidad de llegar a todos los prestatarios de manera individual.

RECOMENDACION DEL INFORME CORRESPONDIENTE A LA GESTION 1989

La Secretaría solamente recibió de manera oficial de parte de USAID/Bolivia, dos recomendaciones consideradas pertinentes por la Oficina del Inspector General, las cuales están en proceso de regularización.

La primera se refiere al otorgamiento de crédito a agricultores que no tenían cultivos de coca, aspecto que fue reclamado oficialmente a SUBDESAL, la cual solicitó la aprobación de USAID/Bolivia, para dejar sin efecto la exigencia de la reversión del monto correspondiente a estos créditos. La segunda, referida a la elaboración de manuales de contabilidad y administración ha sido regularizada, aunque no de una manera totalmente adecuada, por el hecho de que la Secretaría está administrando el programa de crédito de manera temporal.

APPENDIX

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