

**Regional Inspector General for Audit  
Tegucigalpa, Honduras**

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**Audit of USAID/Ecuador's Activities Managed by the  
Institute of Livestock and Agriculture Strategies for  
the Period January 1, 1988 to July 30, 1990 and  
Award Survey of the Institute's Capability to Manage  
the Agricultural Sector Reorientation Project**

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**Report No. 1-518-92-02-N  
October 24, 1991**



**Regional Inspector General for Audit  
Tegucigalpa, Honduras**

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Institute of Livestock and Agriculture Strategies for  
the Period January 1, 1988 to July 30, 1990 and  
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**Report No. 1-518-92-02-N  
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U. S. MAILING ADDRESS:  
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APO. MIAMI 34022

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
**AMERICAN EMBASSY**  
TEGUCIGALPA - HONDURAS

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October 24, 1991

**MEMORANDUM**

TO: D/USAID/Ecuador, Charles E. Costello

FROM: RIG/A/T Acting, Lou Mundy *Lou Mundy*

SUBJECT: Audit of USAID/Ecuador's Activities Managed by the Institute of Livestock and Agriculture Strategies for the Period January 1, 1988 to July 30, 1990 and Award Survey of the Institute's Capability to Manage the Agricultural Sector Reorientation Project

This report presents the results of a financial audit of USAID/Ecuador's activities managed by the Institute of Livestock and Agriculture Strategies (Institute) through July 30, 1990 and an award survey of the Institute's capability to manage future activities of the Agricultural Sector Reorientation Project (Project), USAID/Ecuador Project No. 518-0051. The accounting firm of Ernst & Young prepared the report which is dated September 10, 1991.

The Institute was created on February 10, 1988 as an Agricultural Private Voluntary Organization to coordinate and implement the Project's activities. The major objectives of the Institute are to conduct and sponsor scientific and technical studies in the agricultural field; collaborate with Ecuadorian and international individuals or organizations with similar objectives; and research and analyze economic and policy matters involving the agricultural sector. The primary objective of the Project is to strengthen and expand both the public and private sectors' capacity to further analyze and discuss agricultural policy.

During the period ended July 30, 1990 the Institute received funding through both the Project and the PL-480 Program. Audit coverage included \$240,234 provided under the Project and \$83,493 in equivalent local currency through the PL-480 Program. The auditors also reviewed the Institute's statement of proposed costs totaling \$2.2 million for managing the Project's activities through July 31, 1993.

The objectives of the financial audit and award survey were to determine whether: (1) the Institute's financial statements and fund accountability statements present fairly its financial position and operating results for the period ended July 30, 1990; (2) the Institute's internal control structure was adequate for Project

purposes; (3) the Institute complied with the terms of the agreement and applicable laws and regulations; (4) the Institute's statement of proposed costs is current, complete, accurate, and reasonable to accomplish Project activities; (5) the Institute's financial and managerial capability to administer the Project. The scope of the audit included an examination of the Institute's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

Ernst & Young found that the Institute did not maintain adequate accounting records, separately account for A.I.D. funds, or prepare the required financial statements. Because of these scope limitations the auditors were unable to express an opinion on the Institute's financial statements and fund accountability statements for the period ended July 30, 1990 and therefore consider all funding provided by USAID/Ecuador to be questionable, \$240,234 provided under the Project and \$83,493 provided under the PL-480 Program.

The auditors reported eight material weaknesses in the Institute's internal control structure. In summary, these weaknesses related to the Institute's: (1) lack of an accounting system; (2) inability to prepare proper financial statements; (3) use of an improper exchange rate; (4) recording of expenses to an asset account; (5) lack of procedures to process disbursement vouchers and cash receipts; and (6) failure to liquidate fund balances of completed projects.

With respect to the Institute's compliance with agreement terms and applicable laws and regulations the auditors disclosed nine instances of material noncompliance. In addition to certain weaknesses discussed under the internal control structure above, material noncompliance related to using Project funds for unallowable purposes, such as for loans to unrelated projects.

In reviewing the Institute's statement of proposed costs for managing Project activities through July 31, 1993, Ernst & Young determined that the statement was prepared in accordance with the Office of Management and Budget Circular A-122 and the most current, complete, and accurate data available. However, although the proposal was found acceptable, the auditors concluded that the Institute does not have the administrative and financial capability to manage the Project. The auditor's conclusion was based on the Institute's previously noted weaknesses and their evaluation which disclosed that the Institute does not have a financial plan nor has it maintained minutes of committee meetings since 1988.

The draft report was presented to the Institute for comment. The Institute's management expressed general disagreement with the report. The auditors believe that the information provided in the Institute's response did not justify the modification of the findings and opinions expressed in the draft report. The Institute's response is presented in Annex I to the Ernst & Young 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/Ecuador negotiate a settlement with the Institute of Livestock and Agriculture Strategies for questionable funds totaling \$240,234 (unsupported) which relate to funds received by the Institute under the Agricultural Sector Reorientation Project as identified by the Ernst & Young audit report dated September 10, 1991.**

**Recommendation No. 2**

**We recommend that USAID/Ecuador negotiate a settlement with the Institute of Livestock and Agriculture Strategies for questionable funds totaling \$83,493 in equivalent local currency (unsupported) which relate to funds received by the Institute under the PL-480 Program as identified by the Ernst & Young audit report dated September 10, 1991.**

**Recommendation No. 3**

**We recommend that USAID/Ecuador restrict funding to the Institute of Livestock and Agriculture Strategies until both parties have jointly developed a plan, including a timetable for implementation, which demonstrates that the Institute has developed systems or procedures to: (1) establish an accounting system which records expenses to the proper accounts, allows for the preparation of financial statements and fund accountability statements, and assures that funds are used for authorized purposes; (2) utilize proper exchange rates in accounting for funds; (3) process disbursement vouchers and cash receipts; (4) liquidate fund balances of completed projects; (5) prepare a detailed financial plan; and (6) maintain minutes of all committee meetings.**

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

**Romero & Asociados Ernst & Young**

**AUDIT OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA  
AND THE AGRICULTURAL SECTOR REORIENTACION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990**

AUDIT OF THE  
 INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES AND  
 THE "AGRICULTURAL SECTOR REORIENTACION "PROJECT  
 USAID/ECUADOR PROJECT No. 518-0051  
 AS OF JULY 30, 1990

TABLE OF CONTENTS

	Page No.
Transmittal Letter and Summary	
Background	1
Audit objectives	3
Audit scope	4
Results of audit	5
Management comments	8
Financial and Fund Accountability Statements	
Independent auditor's reports	9, 22, 28
Financial statements and the projects fund accountability statements	11, 24, 30
Notes to the financial statements and fund accountability statements	15, 25, 31
Proposed Costs	
Independent auditor's report	32
Statement of proposed costs	34
Notes to the statement of proposed costs	35
Management and Financial Capabilities	
Independent auditor's report	41
Findings	42
Internal Control Structure	
Independent auditor's report	45
Findings	47
Compliance with Agreement Terms and Applicable Laws and Regulations	
Independent auditor's report	54
Findings	56
List of Report Recommendations	64
Management Comments	Annex I

# **Romero & Asociados Ernst & Young**

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**Audidores y Consultores**

Edif. Karolina Plaza-Mezz.  
C. Borja Lavayen y C. Herrera  
P.O. Box 3452  
Quito, Ecuador

Quito, September 10th 1991

Mr. Reginald Howard  
Regional Inspector General for Auditing  
**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT**  
Tegucigalpa, Honduras

Dear Mr. Howard:

The enclosed report presents the results of the audit of the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA on the activities assigned to IDEA to administer as a subgrantee, under Cooperative Agreements No. 518-0051-G-SS-9003-00 and 518-0051-A-00-0093-000 and as part of Agreement No. 518-0051 to carry out Activity 3 of the "Expansion of Private Sector Capacity for Analysis and Dialog in Agricultural Policies Project" and through Activity 30 under PL-480 funds, for that same purpose.

## **BACKGROUND**

In July 1985, the Government of Ecuador and the United States Agency for International Development (USAID/Ecuador) signed a Cooperative Agreement to implement the Agricultural Sector Reorientation Project, USAID/Ecuador Project No. 518-0051. The primary objective was to strengthen and expand the capacity of the public and private sectors to further analyze and discuss agricultural policy. To carry out Activity 3 of the project (Expansion of Private Sector Capacity for Analysis and Agricultural Policy Dialog) a subgrant was given to the "Fundación Ciencia" in order to establish, among other objectives, the Institute of Livestock and Agriculture Strategies - IDEA as a specialized, permanent administrative unit to coordinate and implement these activities.

THE INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA was created by Executive Decree No. 3702, published in the Official Registry No. 871 on February 10, 1988, as an Agricultural Private Voluntary Organization.

Its major objectives are to conduct and sponsor scientific and technical studies in the agricultural field; collaborate with Ecuadorian and international individuals or organizations with similar objectives; and research and analyze economic and policy matters involving the agricultural sector.

Between June 1986 and May 31, 1990, IDEA received financial assistance under PL-480 funds through Activity 30, "Expansion of Private Sector Capacity for Analysis and Agricultural Policy Dialog", as the implementing agency. This assistance has totaled S/.364,773,469, including S/.240 million as an endowment fund, to cover its administrative overhead. The funds were delivered as follows:

	Sucre
As of December 31, 1987	S/. 30,299,400
Endowment Fund, August 7, 1989	240,000,000
From January 1, 1988 to date	<u>94,474,069</u>
Total	S/. <u>364,773,469</u>

On January 20, 1989, the Institute of Livestock and Agriculture Strategies - IDEA and USAID/Ecuador signed Grant Subagreement No. 518-0051-G-SS-9003-00 for the agricultural sector reorientation project, USAID/Ecuador Project No. 518-0051. The Agreement was signed for the amount of U.S.\$677,600, including USAID/Ecuador's grant for U.S.\$349,600 and IDEA's counterpart contribution for U.S.\$328,000 during an 18-month period ending as of July 30, 1990. The budget is as follows:

	USAID/ECUADOR	IDEA	TOTAL
	(Expressed in U.S. dollars)		
Policy study	231,100		231,100
Administration		116,000	116,000
Office equipment		20,000	20,000
Study grants	56,000		56,000
Support for thesis		36,000	36,000
International travel	17,000		17,000
Local travel		102,000	102,000
Guest lecturers	18,000		18,000
Library	4,500		4,500
Publications		54,000	54,000
Others	<u>23,000</u>		<u>23,000</u>
Total	<u>349,600</u>	<u>328,000</u>	<u>677,600</u>

On April 17, 1990, a new agreement was signed between IDEA and USAID/Ecuador, Cooperative Agreement No. 518-0051-A-00-0093-00, to continue with the Agricultural Sector Reorientation Project, and to contribute to the improvement of the Ecuadorian agricultural sector, and its development through enhanced policies oriented toward competitive, open markets. The Project completion date is July 31, 1993, and will provide the equivalent of U.S.\$2,230,500, including a grant by USAID/Ecuador of U.S.\$1,775,000 and a counterpart contribution by IDEA for U.S.\$455,000. The project's budget includes the following categories:

	USAID/ECUADOR	IDEA	TOTAL
(Expressed in U.S. dollars)			
Policy study	261,000	180,000	441,000
Administration	400,000	145,000	545,000
Office supplies	75,000	27,000	102,000
Study grants	219,000	52,000	271,000
Support for thesis	60,000	-	60,000
International travel	30,000	-	30,000
Technical assistance	711,000	-	711,000
Office equipment	19,000	11,000	30,000
Local travel		<u>40,500</u>	<u>40,500</u>
Total	<u>1,775,000</u>	<u>455,500</u>	<u>2,230,500</u>

#### AUDIT OBJECTIVES

The objectives of our examination were to determine:

- Whether IDEA's financial statement reasonably presents its financial position as of July 30, 1990; its operating results, cash flows and statement of project funds for the period from January 1, 1988 through July 30, 1990.
- Whether IDEA's internal control structure, including its control environment, accounting system and control procedures is adequate for project's purposes.
- Whether IDEA is complying with the terms of the agreements, and applicable laws and regulations.

- Whether IDEA's proposed costs to implement the Agricultural Sector Reorientation Project under agreement No. 518-0051-A-00-0093-00 have been determined considering the most current, complete and accurate data available, and reflect only those that are allocable, allowable and reasonable to accomplish with project activities.
- Whether IDEA has sufficient administrative and financial capability and means of control to administer this project, considering IDEA's present and future financial obligations, as well as the volume of present and future projects' operations, level of organization and staffing, and previous performance.

#### AUDIT SCOPE

Our work covered:

1. Examine the financial statements of the Institute of Livestock and Agriculture Strategies - IDEA as of July 30, 1990, examine the fund accountability statement of the project and the income and expenditures related to the assistance provided to the Institute with PL-480, in accordance with Generally Accepted Auditing Standards and in accordance with Government Auditing Standards (1988 revision), issued by the Comptroller General of the United States; to render a professional opinion on them.
2. Review and evaluate the IDEA's internal control structure, as considered appropriate, of the accounting and information systems, procurement procedures and practices, bank account controls, and controls to assure that charges to the project are proper and adequately documented.
3. Review to determine whether the Institute has complied with agreement terms, and applicable laws and regulations. Identify the agreement terms and pertinent laws and regulations and determine which if not observed could have a direct and material effect on the fund accountability statement; if payments have been made in accordance with agreement terms and applicable laws and regulations; if funds have been expended for purposes not authorized or not in accordance with applicable agreement terms; and if, the counterpart and/or the matching funds and technical assistance as applicable are obtained opportunely according to the agreement and to the project needs.
4. Analytical review of the direct proposed costs for the project to determine whether they are based on the most current, complete and accurate data available. The basis used to estimate the proposed costs including the present and projected staffing levels regarding the proposed nature and volume of project activities; the documentation supporting and/or value assigned to each line item; and if, the proposed costs are allocable and necessary to the project.

5. Examination of the Institute's management and financial capabilities to effectively carry out the project, considering the past performance of the Institute in administering the first part of the project and the workload to be assumed with the proposed new activities. Evaluate the Institute's actual organization chart and determine the proposed allocation of responsibilities for project activities; the staffing levels in terms of expertise and experience managing similar projects for USAID/Ecuador or other donors; the actual and proposed workload of key personnel to be in charge of project activities; the degree of delegation of authority and responsibility by the Institute Executive Director is appropriate or whether it is disruptive to the Institute's operations and the project's progress; the Institute's policies regarding administration of personnel including prompt payment of salaries, administration of funds and assets, and other related policies such as segregation of duties, conflict of interests; accuracy and timeliness of submission of reports and other project documentation, and past performance in terms of attainment of project goals; if current assets on hand and lines of credits, as applicable, are sufficient to pay proposed project expenditures during at least a two month period, until A.I.D. makes periodic reimbursements; if the Institute has realistically projected expenses in respect to its planned staffing levels, and present and planned activities, and whether the funds programmed for project activities are sufficient to meet the project's operating costs; and it is a formal commitment from the Institute's sponsors to provide counterpart funds and what procedures will be followed in order to obtain counterpart funds in a timely manner.

## **RESULTS OF AUDIT**

### **Financial Statements:**

Due to the situations mentioned in paragraphs 2 through 4 of the independent accountants report (pages 9 and 10), the scope of our work was not sufficient to enable us to express any opinion on the financial statements of the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA as of July 30, 1990, and therefore we do not express an opinion.

### **Fund Accountability Statement, Subgrant No. 518-0051-G-SS-9003-00:**

Due to the situations mentioned in paragraphs 2 and 3 of the independent accounts report (page 22), the scope of our work was not sufficient to enable us to express any opinion on the Fund Accountability Statement from the period from January 1, 1988 through July 30, 1990, under the Subgrant No. 518-0051-G-SS-9003-00 signed between USAID/ Ecuador and the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA, and therefore we do not express an opinion.

**Fund Accountability Statement, PL-480 Program:**

Due to the situations mentioned in paragraph 2 of the independent accounts report (page 28), the scope of our work was not sufficient to enable us to express any opinion on the Fund Accountability Statement of funds provided by PL-480 Program to the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA from the period from January 1, 1988 through July 30, 1990, and therefore we do not express an opinion.

**Proposed Costs:**

Based on the results of our review, we feel that the costs proposed for the activities assigned to the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES -IDEA under Cooperative Agreement No. 581-0051-A-00-0093-00 have been prepared according to OMB Circular A-122, the terms of the Agreement, and the most current, complete, accurate data available.

**Administrative and Financial Capability:**

Based on the results of our evaluation and understanding of the organization of the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA, due to the conditions described in the preceding sections and those reported below, we feel that the Institute has neither the financial nor the management capability to administer the activities assigned under Cooperative Agreement No. 518-0051-A-00-0093-00 signed with USAID/Ecuador.

Based on our review we noted the following weaknesses:

1. The Institute has not prepared a detailed financial plan.
2. The loan received from the PL-480 Implementation Secretariat has not been repaid.
3. Committee meeting minutes have not been filed.

**Internal Control Structure:**

Based on the results of our examination and evaluation, the following conditions have been determined as significant weaknesses:

1. The Institute has no accounting system.
2. There is no permanent staff responsible for issuing the financial statements.
3. No consolidated income and disbursement statements are prepared.

4. No cash flow statement is available.
5. The Institute records all disbursements in dollars at the rate of 500 sucres per dollar. Instead of the exchange rate in effect at the time of the transaction.
6. IDEA's expenses have been recorded in asset accounts.
7. There are no adequate internal control procedures to use neither payment (expense) vouchers nor cash (income) receipts.
8. Previous projects have not been liquidated.

Compliance with Agreement Terms and Applicable Laws and Regulations:

As a result of our tests, we believe that the Institute of Livestock and Agriculture Strategies - IDEA has not complied with certain terms of the PL-480 and USAID Agreement No. 518-0051-G-SS-9003-00, and of the laws and regulations applicable to the Institute, namely:

1. There is no fund accountability balance for the agreements signed with USAID/Ecuador.
2. There is no information regarding the PL-480 Program, activity 30.
3. Lack of approval of disbursements by USAID/Ecuador.
4. There are no written policies regarding counterpart contribution.
5. Costs for other projects have been recorded under the Subgrant being evaluated.
6. Loans to the PL-480 Program have been made with dollar appropriated funds from Subgrant No. 518-0051-G-SS-9003-00.
7. Certain unallowable administrative expenses have been paid with funds from Subgrant No. 518-0051-G-SS-9003-00.
8. The Institute does not reconcile on a regular basis its accounts with USAID/Ecuador records.
9. USAID/Ecuador has not prepared the final liquidation for the Subgrant No. 518-0051-G-SS-9003-00.

## MANAGEMENT COMMENTS

The management of INSTITUTE OF LIVESTOCK AND AGRICULTURE ESTRATEGIES-IDEA has expressed their disagreement with our observations including those findings relating to the absence of an accounting system, a financial plan and the following financial statements because of the lack of a qualified accountant: the general balance sheet, consolidated statement of income and disbursements and a fund accountability statement of funds contributed by USAID/Ecuador. The comments received from the management of IDEA reflect a lack of knowledge of the most basic professional norms which include: generally accepted governmental auditing standards, generally accepted auditing standards, generally accepted accounting principles and the circulars issued by the United States Office of Management and Budget (OMB) and all of which are subscribed to by USAID/Ecuador and were the bases on which we conducted our audit and prepared our report.

We continue to assert, as described in the findings of our report, that the Institute does not maintain the minimum required accounting records such as: a chart of accounts, journal entry sheets, subsidiary journals, and a general ledger. The Institute's claim that a computer spreadsheet is an acceptable accounting system is not valid. Furthermore the Institute does not have a full time employee with adequate formal education and sufficient accounting experience responsible for the maintenance of its accounting system. The preparation of the financial plans required by the Sub-grant agreement and the general uniform regulations included in all the agreements establish that the financial plans be prepared on a periodic basis to report the external financing received from the donor institutions.

A copy of the draft report was sent to the management of IDEA on July 31, 1991 and was discussed with them on July 31, 1991. In this meeting they expressed their general agreement with the findings presented by us and were willing to take corrective actions to implement the recommendations; nevertheless, the formal reply of IDEA's management to our report included in Annex I, includes comments that contradict what we discussed in the preliminary meeting. We do not believe the information supplied by the management of IDEA in their latest response justifies the modification of the findings and opinions expressed in our reports.

*Ernst & Young*

Quito, Ecuador.

**AUDIT OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES-IDEA AND  
THE AGRICULTURAL SECTOR REORIENTATION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990**

**FINANCIAL STATEMENTS AS OF JULY 30, 1990**

**INDEPENDENT AUDITOR'S REPORT**

1. We were engaged to audit the attached statement of assets and liabilities arising from cash transactions of the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA as of July 30, 1990, and the related statement of revenue collected and expenses paid, changes in equity and the statement of cash flows for the period from January 1, 1988 through July 30, 1990. These financial statements are the responsibility of the Institute's management.
2. The Institute does not have the basic accounting records necessary to support the preparation of the attached financial statements, according to generally accepted accounting principles. In addition, neither consolidated statement of income and expenditures nor a statement of cash flow are prepared.

Due to the Institute does not having the basic accounting records, it made certain adjustments, for approximately S/. 121 million (U.S. \$ 135,000), which are not supported by any documentation; it has accounted S/. 60 million (U.S. \$ 67,000) as assets of the account for Projects in Execution, these expenses are the Institute's own, but are charged to the IDEA-PL-480 program.

3. The Institute does not have a statement accounting for the funds provided by the United States Agency for International Development (USAID/Ecuador), breaking down the items by budget allocation categories, nor is there any such statement in U.S. dollars. Due to this situation the Institute accounts for foreign-currency income and disbursements under Subgrant No. 518-0051-G-SS-9003-00 at the exchange rate of 500 sucres per U.S. dollar. Such a procedure prevents the actual amounts from being reflected in the accounts of Advance Payments to Projects and Projects in Execution. Generally accepted accounting principles require the foreign-currency income and expenditures be recorded at the exchange rate in effect on the date when the transaction is made. Due to the nature of the accounting records, we have not been able to quantify the effect, if any, of the use of this procedure in the above accounts. (See Note B.)

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And as of July 30, 1990, the Institute has not separated in its accounting records, the funds donated initially by USAID/Ecuador to the Fundación Ciencia through Subgrant No. 518-0051-G-00-6003-00, from those funds donated through Subgrant No. 518-0051-G-SS-9003-00.

4. We have been unable to obtain information regarding the objective, or the approved budget, regarding the funds provided by PL-480 Program, Activity 30. These funds total some S/.124,8 million (U.S.\$138,667) as of July 30, 1990, differ from those actually disbursed by the Implementation Secretariat, some S/.105 million (U.S.\$116,694). Due to the lack of this information, we could not determine the reasonableness of the disbursements made under this project, approximately S/.184 million (U.S.\$205,000).
5. Due to the situations mentioned in paragraphs 2 through 4, the scope of our work was not sufficient to enable us to express any opinion on the financial statements of the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA as of July 30, 1990, and therefore we do not express an opinion.

*Ernst & Young*

October 19, 1990  
Quito, Ecuador

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS  
AS OF JULY 30, 1990**

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	Thousands of sucres
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Banks	6,747
Temporary investments--Note C	299,000
Accounts receivable--Note D	<u>9,381</u>
<b>TOTAL CURRENT ASSETS</b>	<b><u>315,128</u></b>
<b>FIXED ASSETS--Note E</b>	
Furniture and equipment	21,706
Vehicles	<u>21,700</u>
Total cost	43,406
Accumulated depreciation	<u>(3,798)</u>
<b>TOTAL AT COST, NET</b>	<b><u>39,608</u></b>
<b>PROJECTS UNDER IMPLEMENTATION--Note F</b>	<b><u>313,392</u></b>
<b>TOTAL</b>	<b>668,128</b> <b>=====</b>

The accompanying notes are an integral part of the financial statements.

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	Thousands of sucres
<b>LIABILITIES AND EQUITY OF THE INSTITUTE</b>	
<b>CURRENT LIABILITIES:</b>	
Loan payable--Note G	12,000
Interest payable--Note G	3,176
Other accounts payable--Note H	<u>5,877</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>21,053</u>
<b>ADVANCE PAYMENTS TO PROJECTS--Note I</b>	<u>260,072</u>
<b>TOTAL LIABILITIES</b>	<u>281,125</u>
<b>EQUITY OF THE INSTITUTE:</b>	
Endowment fund--Note J	240,000
Fixed assets--Note E	43,406
Other contributions	4,047
Accumulated surplus--Note K	<u>99,550</u>
<b>TOTAL EQUITY OF THE INSTITUTE</b>	<u>387,003</u>
<b>TOTAL</b>	668,128 =====

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID FOR THE PERIOD FROM  
JANUARY 1, 1988 THROUGH JULY 30, 1990**

Thousands of sucres

**REVENUES COLLECTED:**

Interest on local currency--Note C	34,325
Interest on foreign currency--Note C	8,305
Exchange difference--Note B	<u>65,094</u>
<b>TOTAL</b>	<b><u>107,724</u></b>

**EXPENSES PAID:**

Interest paid--Note G	3,176
Commissions, endowment fund	1,200
Fixed asset depreciation--Note B	<u>3,798</u>
<b>TOTAL</b>	<b><u>8,174</u></b>

<b>SURPLUS FOR THE PERIOD</b>	<b>99,550</b> <b>*****</b>
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The accompanying notes are an integral part of the financial statements

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**STATEMENT OF CHANGES IN THE INSTITUTE'S EQUITY FOR THE PERIOD FROM  
JANUARY 1, 1988 THROUGH JULY 30 1990**

	<u>Endowment fund</u>	<u>Fixed assets</u>	<u>Other contribution (Thousands</u>	<u>Accumulated surplus of sucres)</u>	<u>Total</u>
Balance at December 31, 1987	-	-	-	-	-
PL-480 Letter Implementation No. 172	240,000	-	-	-	240,000
Project liquidation	-	-	4,047	-	4,047
Fixed asset recording	-	43,406	-	-	43,406
Surplus for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,550</u>	<u>99,550</u>
Balance at July 30, 1990	240,000 =====	43,406 =====	4,047 =====	99,550 =====	387,003 =====

The accompanying notes are an integral part of the financial statements

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM JANUARY 1, 1988 THROUGH JULY 30, 1990**

**NOTE A--ACTIVITIES OF THE INSTITUTE**

THE INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA was created by Executive Decree No. 3702, published in Official Registry No. 871 on February 10, 1988, as a nonprofit institution.

Its major objectives are to conduct and sponsor scientific and technical studies in the agricultural field; collaborate with Ecuadorian and international individuals or organizations with similar objectives; and research and analyze economic and policy matters involving the agricultural sector.

Between June 1986 and May 31, 1990, IDEA received financial assistance under PL-480 funds through Activity 30, "Expansion of Private Sector Capacity for Analysis and Agricultural Policy Dialog", as the implementing agency. This assistance has totaled S/.364,773,469, including S/.240 millones as an endowment fund, to cover its administrative overhead.

On January 20, 1989, the Institute of Livestock and Agriculture Strategies-IDEA and USAID/Ecuador signed Grant Subagreement No. 518-0051-G-SS-9003-00 for the agricultural sector reorientation project, USAID/Ecuador Project No. 518-0051. The Agreement was signed for the amount of U.S.\$677,600, including USAID/Ecuador's grant for U.S.\$349,600 and IDEA's counterpart contribution for U.S.\$328,000 during an 18-month period ending as of July 30, 1990.

On April 17, 1990, a new agreement was signed between IDEA and USAID/Ecuador, Cooperative Agreement No. 518-0051-A-00-0093-00 to continue with the Agricultural Sector Reorientation Project, and to contribute to the improvement of the Ecuadorian agricultural sector, and its development through enhanced policies oriented toward competitive, open markets. The Project completion date is July 31, 1993, and will provide the equivalent of U.S.\$2,230,500, including a grant by USAID/Ecuador of U.S.\$1,775,000 and a counterpart contribution by IDEA for U.S.\$455,000.

**Basis of Accounting:** The Institute uses the cash method of accounting. That is, income and expenses are recorded when the funds are received or paid out; this method has been modified due to certain provisions related with depreciation, interest expenses and interest earned.

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

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**NOTE B--SIGNIFICANT ACCOUNTING POLICIES**

**Temporary Investments:** These are investments in foreign currency and deposit certificates, recorded at purchase cost.

**Fixed Assets:** Recorded at estimated replacement cost and purchase costs, they are depreciated using the straight-line method as a function of estimated life expectancy: furniture and equipment, 10% yearly, and vehicles 20% yearly; in accordance with local laws.

**Foreign Currency:** In accordance with generally accepted accounting principles in Ecuador, assets in foreign currency are converted to sucres at the free-market exchange rate. The exchange rate valid on July 30, 1990, was S/.895.00 per U.S.\$1,00.

**Exchange Differences:** The exchange differences result from the updating of investments in foreign currencies maintained abroad. The Institute accounts of foreign-currency income and disbursements were recorded at the exchange rate of S/.500.00 per U.S. \$ 1,00; under Subgrant No. 518-0051-G-SS-9003-00. The generally accepted accounting principles establish the income and expenditures should have been recorded at the exchange rate in effect on the date when the transaction was made.

**Projects Under Implementation:** Costs incurred in the various projects managed by the Institute are recorded and accumulated in both local and foreign currency. The latter amounts are converted for sucre records at the rate of S/.500.00 by U.S. \$1.00. When projects have been completely executed, they are liquidated for accounting purposes with the account of "Advance Payments to Projects".

**Advance Payments to Projects:** These payments are all the advances and reimbursements involving the funding of projects administered by the Institute, and are liquidated when projects are concluded.

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

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**NOTE C--TEMPORARY INVESTMENTS**

	Thousands of sucres
Citibank	120,000 (1)
Shearson Lehman Brothers	89,500 (2)
Merrill Lynch	<u>89,500</u> (2)
Total	299,000 =====

(1) Deposit certificates at 42.5% annual interest, maturity date November 17, 1992.

(2) Portfolio arrangements at 9% annual interest (U.S.\$100,000 each one).

**NOTE D--ACCOUNTS RECEIVABLE**

	Thousands of sucres
Interest	6,912
Chame project	1,160
Employees	1,035
Other accounts receivable	<u>274</u>
Total	9,381 =====

**NOTE E--FIXED ASSETS**

As of July 30, 1990, the Institute recorded those capital costs charged to PL-480 Program to purchase furniture, equipment and vehicles as fixed assets with credit to the equity of the Institute. The expenses caused by the depreciation were recorded as a part of the expenses paid.

**NOTE F--PROJECTS UNDER IMPLEMENTATION**

This account records the costs incurred and are accumulated in the various projects managed by the Institute. When projects have been completely executed, they are liquidated with the account of "Advance Payments to Projects".

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

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**NOTE F--PROJECTS UNDER IMPLEMENTATION (CONT.)**

As of July 30, 1990, the accumulated balances of incurred expenses for the various projects managed by the Institute, are as follows:

	Thousands of sucres
Project IDEA - PL-480	60,288 (1)
Project IDEA - USAID	204,928 (2)
Project IDEA - Funciencía	8,833
Project IDEA - Yasuni	1
Project IDEA - Chame/Fonapre	6,637
Study Grant Project	2,744
Famine Project	15,079
Morris Whitaker	<u>14,882</u>
Total	313,392 =====

- (1) Institute's overhead charged to PL-480 accounts, as a consequence of a prevailing accounting erroneous practice.
- (2) Including costs related to USAID/Ecuador Project No. 518-0051 signed in July 1985, through the subgrant allocated to the Fundación Ciencia and Subgrant No. 518-0051-G-SS-9003-00 signed in January 1989 between USAID/Ecuador and the Institute of Livestock and Agriculture Strategies - IDEA.

**NOTE G--LOAN AND INTEREST PAYABLE**

This involves the loan of 12 million sucres from the PL-480 Implementation Secretariat at 24% annual interest, which expired on June 26, 1990, according to Letter of Implementation No. 167.

The balance as of July 30, 1990 includes the principal of S/.12 million and interest of S/.3,176 thousands calculated according to the above rate.

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

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**NOTE H--OTHER ACCOUNTS PAYABLE**

	Thousands of sucres
Withholding payable	4,647
Other accounts payable	<u>1,230</u>
Total	5,877 =====

**NOTE I--ADVANCE PAYMENTS TO PROJECTS**

As of July 30, 1990, advance payments received to fund the projects are as follows:

	Thousands of sucres
Project IDEA - PL-480	(1,496)
Project IDEA - Compu	(400)
Project IDEA - Yasuni	200
Project IDEA - Operation/USAID	215,234 (1)
Project IDEA - Chame/Fonapre	6,498
Study Grant Project	4,100 (2)
Famine Studies Project	16,000 (2)
Morris Whitaker Project	<u>19,936 (2)</u>
Total	260,072 =====

- (1) Funded by USAID/Ecuador through Subgrant No. 518-0051-G-SS-9003-00, for the Agricultural Sector Reorientation Project. The agreement was signed on January 20, 1989 for U.S.\$677,600, which includes the USAID/Ecuador donation of U.S.\$349,600 and the IDEA contribution of U.S.\$328,000, during an 18-month period ending on July 30, 1990. As of the date of the independent auditor's report, this subgrant had not yet been liquidated.
- (2) Funded through PL-480 Program, through Letters of Implementation No. 163, 165, 168, 169, DS01, DS05, DS14, DS19, DS27, and DS33.

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

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**NOTE J--ENDOWMENT FUND**

This is the allocation, as part of the financial assistance received from PL-480 Program through Activity 30, according to Letter of Implementation No. 172.

These funds are the main source of financing that enable the Institute to operate, and it has been invested in local currency and U.S. dollars, described in Note C.

**NOTE K--ACCUMULATED SURPLUS**

As of July 30, 1990, this amount is the net result of nonoperational income and expenses of the Institute itself, which increases its net worth. It does not include the income and expenses of the various projects. (See report of independent accounts.)

**NOTE L--DIFFERENCES BETWEEN THE EXCHANGE RATE USED BY THE INSTITUTE AND THE ONE ESTABLISHED BY USAID/ECUADOR.**

All disbursements in foreign currency by the Institute under Project 518-0051, Subgrant No. 518-0051-G-SS-9003-00, are converted to sucres at the rate of S/.500.00 by U.S.\$1.00, which is different from the rate used by USAID/Ecuador to monitor accounts.

Due to the absence of auxiliary records in U.S. dollars, we have been unable to establish the effect of the exchange difference in the financial statements.

**NOTE M--COOPERATION AGREEMENT No. 518-0051-A-00-0093-00.**

In April 1990, a new agreement was signed between IDEA and USAID/Ecuador, in order to attempt to improve and develop agricultural sector policies. The project will be completed on July 31, 1993 and will cost U.S.\$2,230,500, of which USAID/Ecuador will donate U.S.\$1,775,000 and IDEA will contribute U.S.\$455,500.

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

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**NOTE N--POSITION IN FOREIGN CURRENCY**

As of July 30, 1990, the position in U.S. dollars is as follows:

	U.S. Dollars	Thousands of sucres
<b>ASSETS:</b>		
Banks	956	847
Temporary investments	<u>200,000</u>	<u>179,000</u>
Total net position	200,956 =====	179,847 =====

**NOTE O--SUBSEQUENT EVENTS**

**Approval of disbursements:** After July 30, 1990 the Institute received approximately S/.14 million and U.S.\$30 thousand, as reimbursement for expenses which previously were rejected and now have been approved according to amendments 1 and 2 of the Subgrant No. 518-0051-G-SS-9003-00, of December 11, 1989 and June 29, 1990.

**Advance payments received:** As of the independent auditor's report issue date, and subsequent to July 30, 1990, the Institute has received 85 million sucres in advance payments under Subgrant No. 518-0051-A-00-0093-000.

**AUDIT OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES-IDEA AND  
THE AGRICULTURAL SECTOR REORIENTATION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990**

**FUND ACCOUNTABILITY STATEMENT OF THE PROJECT  
FUNDED UNDER SUBGRANT 518-0051-G-SS-9003-00  
FOR THE PERIOD FROM JANUARY 1, 1988 THROUGH JULY 30, 1990**

**INDEPENDENT AUDITOR'S REPORT**

1. We were engaged to audit, the financial statements of the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES-IDEA, for the period from January 1, 1988 through July 30, 1990, and have issued our report thereon dated October 19, 1990 in which we did not express an opinion. We were engaged to audit the accompanying fund accountability statement for the period from January 1, 1988 through July 30, 1990 under the Subgrant No. 518-0051-G-SS-9003-00 signed between USAID/Ecuador and the Institute of Livestock and Agriculture Strategies-IDEA. This statement is the responsibility of the Institute's management.
2. As of July 30, 1990, the Institute has not separated in its accounting records, the funds donated initially by USAID/Ecuador to the Fundación Ciencia through Subgrant No. 518-0051-G-00-6003-00 from those funds donated through Subgrant No. 518-0051-G-SS-9003-00. (See Note B).
3. The Institute does not have a statement accounting for the funds provided by the U.S. Agency for International Development (USAID/Ecuador), breaking down the items by budget allocation categories, nor is there any such statement in U.S. dollars. We have been unable to compare the fund accountability statement with funds provided by USAID/Ecuador with the budget established in this subgrant. And due to the fact the Institute accounts for foreign-currency income and disbursements under Subgrant No. 518-0051-G-SS-9003-00 at the exchange rate of S/.500.00 by U.S.\$1.00, such a procedure prevents the actual amounts from being reflected in the accounts of Advance Payments to Projects and Projects in Execution, the amounts really incurred, which have to be recorded at the exchange rate in effect on the date when the transaction is made. (See Note C).

## Romero & Asociados Ernst & Young

4. Due to the situations mentioned in paragraphs 2 and 3, the scope of our work was not sufficient to enable us to express any opinion on the fund accountability statement of funds provided by USAID/Ecuador to the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES-IDEA for the period from January 1, 1988 through July 30, 1990, and therefore we do not express an opinion. Therefore we consider all the funding provided by USAID/Ecuador to IDEA under this subgrant for the period January 1, 1988 through July 30, 1990 to be questionable costs.
5. This report is intended solely for the use of IDEA and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Ernst & Young*

October 19, 1990  
Quito, Ecuador

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**FUND ACCOUNTABILITY STATEMENT - PROJECT 518-0051-G-00-0093-00 FOR THE PERIOD FROM JANUARY 1, 1988 THROUGH JULY 30, 1990**

	<u>As of January 20, 1989</u>	<u>From Jan. 20, 1989 To July 30, 1990</u>	<u>Total as of July 30, 1990</u>
<b>REVENUES COLLECTED</b>			
Grant revenues	<u>38,687</u>	<u>176,547</u>	<u>215,234</u>
<b>TOTAL REVENUES</b>	<u>38,687</u>	<u>176,547</u>	<u>215,234</u>
<b>EXPENDITURES PAID</b>			
Studies and forums	34,044	123,860	157,904
Study grants and training	3,210	6,246	9,456
International travel	13,680	938	14,618
Guest lecturers	485	5,492	5,977
Library	415	1,485	1,900
Publications and others	<u>2,222</u>	<u>12,851</u>	<u>15,073</u>
<b>TOTAL EXPENDITURES PAID</b>	<u>54,056</u>	<u>150,872</u>	<u>204,928</u>
<b>SURPLUS (DEFICIT)</b>	<u>(15,369)</u>	<u>25,675</u>	<u>10,306</u>

The accompanying notes are an integral part of this statement

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT - PROJECT 518-0051-G-SS-9003-00 FOR THE PERIOD FROM JANUARY 1, 1988 THROUGH JULY 30, 1990**

**NOTE A--BACKGROUND**

One of the objectives of the Agricultural Sector Reorientation Project (Project No. 518-0051) was to establish the Institute of Livestock and Agriculture Strategies - IDEA as a specialized unit to coordinate and implement project activities within the Fundación Ciencia. Due to the growth of IDEA, it was considered necessary to make it a private, independent, nonprofit organization, continuing with the activities outlined under Subgrant No. 518-0051-G-00-6003-00 with the Fundación Ciencia. For this purpose, USAID/Ecuador signed Subgrant No. 518-0051-G-SS-9003-00 directly with the Institute of Livestock and Agriculture Strategies - IDEA, for the amount of U.S.\$677,600, of which AID bound itself to providing U.S.\$349,600 for this purpose, with the effective date of January 20, 1989 through July 30, 1990.

**NOTE B--SIGNIFICANT ACCOUNTING POLICIES**

Revenues collected and Expenditures paid : It is the Institute's policy to record revenues collected under project activities in the account Advance Payments to Projects, and the expenditures paid in the account Projects under Implementation.

Up through the date of issue of the independent auditor's report, the Institute has not liquidated the cumulative balances in its accounts for Subgrant No. 518-0051-G-00-6003-00 between USAID/Ecuador and Fundación Ciencia (some S/.54 million as of December 31, 1988).

**NOTE C--ADVANCE RECEIVED AND LIQUIDATION ACCEPTED BY USAID/ECUADOR**

The Institute has an auxiliary record in U.S. dollars detailing the funds received and the expenditures approved by USAID/Ecuador. This record only describes the dates when the revenues are collected and the expenditures are approved. As of the date of the independent auditor's report the following information is presented:

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT - PROJECT 518-0051-G-SS-9003-00 (CONT.)**

**NOTE C--ADVANCE RECEIVED AND LIQUIDATION ACCEPTED BY USAID/ECUADOR (CONT.)**

<u>VOUCHER #</u>	<u>DATE</u>	<u>ADVANCE RECEIVED</u>	<u>LIQUIDATION ACCEPTED BY USAID/ ECUADOR</u>	<u>RECOVERY VOUCHER #</u>
		U.S.Dollars		
89-0919	24JAN89	8,900.00		
89-0918	24JAN89	35,462.96		
89-1346	20FEB89	1,962.50	1,962.50	89-0665
89-1312	21FEB89		7,751.82	89-0918
89-1311	20FEB89		1,565.74	89-0918
89-1347	20FEB89	15,673.15	15,673.15	89-1347
89-1760	04APR89		243.00	89-0919
89-1948	04APR89		7,142.68	89-0918
89-1561	24APR89	3,981.00		
89-1560	24APR89	28,509.85		
89-2056	16MAY89		9,427.90	89-0918
89-2184	14JUN89		1,007.43	89-0918
89-2185	14JUN89		8,567.39	89-0918
89-1560			29.00	89-1560
89-2189	19JUN89	16,105.00		
89-2403	25JUL89	56,593.14		
89-2519	25JUL89		3,400.00	89-0919
89-2520	25JUL89		18,839.58	89-1560
89-2537	10AUG89		9,641.27	89-1560
			735.33	89-2189
89-2777	05SEP89		2,028.84	89-2189
90-0590	05SEP89		11,205.86	89-2403
			1,010.09	90-0053
90-0185	12SEP89		2,800.00	89-1561
89-0036	12SEP89		13,340.83	89-2189
			8,606.99	89-2403
90-0216	29SEP89		13,338.21	89-2403
90-0053	29SEP89	24,061.84		
90-0126	20SEP89	11,046.00		
90-0227	29SEP89		5,165.00	89-0919

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT - PROJECT 518-0051-G-SS-9003-00 (CONT.)**

**NOTE C--ADVANCE RECEIVED AND LIQUIDATION ACCEPTED BY USAID/ECUADOR (CONT.)**

<u>VOUCHER #</u>	<u>DATE</u>	<u>ADVANCE RECEIVED</u>	<u>LIQUIDATION ACCEPTED BY USAID/ ECUADOR</u>	<u>RECOVERY VOUCHER #</u>
<b>U.S.Dollars</b>				
PI070524	25OCT89	18,212.63	18,212.63	
90-0554	27NOV89		23,442.08	89-2403
90-0556	28NOV89		1,181.00	89-1561
			92.00	89-0919
			1,458.85	90-0126
90-551	28NOV89	46,321.10		
PI070524	02JAN90	9,050.37	9,050.37	
90-1188	16FEB90		350.00	90-0126
90-1234	16FEB90		23,051.75	90-0053
			11,795.63	90-0561
90-1385	19FEB90	3,508.57		
90-1373	13MAR90		10,185.24	90-0551
90-1675	01MAR90	5,500.00		
90-1777	28JUN90	34,466.02		
	09JUN90	25,000.00	25,000.00	
90-1900	31MAY90		2,611.83	90-551
90-1901	31MAY90		2,328.75	90-159
90-2194	11MAY90		2,270.59	90-126
90-2193	11MAY90		2,018.73	90-126
90-2476	18JUL90		5,357.85	90-1675
90-2483	23AUG90		3,024.80	90-1777
90-2482	23AUG90		1,643.07	90-1777
90-2481	06AUG90		3,744.00	90-1777
90-2479	23AUG90		19,399.65	90-0551
			3,508.57	90-1385
			15,681.88	90-1777
			2,683.42	90-1777
<b>TOTAL</b>		<u>344.354,13</u> =====	<u>331.575,30</u> =====	

**AUDIT OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES-IDEA AND  
THE AGRICULTURAL SECTOR REORIENTATION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990**

**FUND ACCOUNTABILITY STATEMENT OF THE PROJECT  
FUNDED BY THE PL-480 PROGRAM  
FOR THE PERIOD FROM JANUARY 1, 1988 THROUGH JULY 30, 1990**

**INDEPENDENT AUDITOR'S REPORT**

1. We were engaged to audit, the financial statements of the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA, for the period from January 1, 1988 through July 30, 1990, and have issued our report thereon dated October 19, 1990 in which we did not express an opinion. We were engaged to audit the accompanying fund accountability statement of the funds provided by PL-480 Program to the Institute of Livestock and Agriculture Strategies-IDEA for the period from January 1, 1988 through July 30, 1990. This statement is the responsibility of the Institute's management.
2. We have been unable to obtain information regarding the objective and the approved budget, of the funds provided by PL-480 Program, Activity 30. These funds total some S/.124.8 million (U.S.\$138,667) as of July 30, 1990, and differ from those actually disbursed by the PL-480 Implementation Secretariat, some S/.105 million (U.S.\$116,694). Due to the lack of this information, we could not determine the reasonableness of the disbursements made under this project, approximately S/.184 million (U.S.\$205,000).
3. The Institute has accounted for some S/.60 million as expenditures directly to PL-480 Program. These expenses are the Institute's own, but are charged to the IDEA - PL-480 Program.
4. Due to the situation mentioned in paragraph 2, the scope of our work was not sufficient to enable us to express any opinion on the fund accountability statement of funds provided by PL-480 Program to the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES-IDEA for the period from January 1, 1988 through July 30, 1990, and therefore we do not express an opinion. Therefore we consider all the funding provided by USAID/Ecuador to IDEA under this subgrant for the period January 1, 1988 through July 30, 1990 to be questionable costs.

## Romero & Asociados Ernst & Young

5. This report is intended solely for the use of IDEA and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

*Ernst & Young*

October 19, 1990  
Quito, Ecuador

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**FUND ACCOUNTABILITY STATEMENT PL-480 PROGRAM FOR THE PERIOD FROM JANUARY 1, 1988 THROUGH JULY 30, 1990**

	As of 12/31/87 (Note C)	From 01/1/88 To 03/31/89 (Note E)	From 04/1/89 To 07/30/90	Total 07/30/90
	(Thousands of sucres)			
<b>REVENUES COLLECTED</b>				
Grant revenues	30,299	59,701	15,025	105,025
<b>TOTAL REVENUES</b>	<u>30,299</u>	<u>59,701</u>	<u>15,025</u>	<u>105,025</u>
<b>EXPENDITURES:</b>				
<b>DIRECTLY TO PL-480 PROGRAM:</b>				
Salaries and benefits	7,326	14,995	24,905	47,226
Office expenses	15,644	21,970	26,321	63,935
Studies	6,370	5,050	--	11,420
Study grants	2,027	801	4,951	7,779
Publications	1,592	1,426	4,111	7,129
Library	120	143	--	263
<b>TOTAL DIRECTLY TO PL-480 PROGRAM</b>	<u>33,079</u>	<u>44,385</u>	<u>60,288</u>	<u>137,752</u>
<b>TO OTHER PROJECTS:</b>				
Cacao Project	--	7,700	--	7,700
Earthen Dams Project	--	4,438	--	4,438
Agro-Credit Project	--	515	--	515
Sectorial Comission Project	--	1,380	--	1,380
Study Grant Project	--	--	2,744	2,744
Famine Project	--	--	15,079	15,079
Morris Whitaker Project	--	--	14,882	14,882
<b>TOTAL TO OTHER PROJECTS</b>	<u>--</u>	<u>14,033</u>	<u>32,705</u>	<u>46,738</u>
<b>TOTAL EXPENDITURES</b>	<u>33,079</u>	<u>58,418</u>	<u>92,993</u>	<u>184,490</u>
<b>SURPLUS (DEFICIT)</b>	<u>(2,780)</u>	<u>1,283</u>	<u>(77,968)</u>	<u>(79,465)</u>
	=====	=====	=====	=====

The accompanying notes are an integral part of this statement

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT PL-480 PROGRAM FOR THE PERIOD FROM JANUARY 1, 1988 THROUGH JULY 30, 1990**

**NOTE A--BACKGROUND**

The INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA has administered Activity 30 of PL-480 Program, entitled "Expansion of Private-Sector Capacity for Policy Analysis and Dialog" since June 1986.

The funds were provided to the Institute through the Implementation Secretariat under a current account opened in the National Development Bank (BNF).

**NOTE B--SIGNIFICANT ACCOUNTING POLICIES**

**Expenditures:** The Institute records disbursements directly related to project administration, as well as those disbursements related to other projects which are funded under this program.

**NOTE C--PREVIOUS REPORTS**

The fund accountability statement attached hereto includes, grant revenues of approximately S/.30 million which were reviewed by another independent auditing firm as of December 31, 1987. The auditing firm did not issue its opinion regarding this figure since it was a special financial report.

**NOTE D--EXPENDITURES CHARGED TO OTHER PROJECTS**

The Institute receives allocations of funds through the Program PL-480 Implementation Secretariat to finance other projects related to the formulation of economic policies to benefit the private sector and the country which are not covered under the subgrant signed with USAID/Ecuador.

**NOTE E--LIQUIDATION OF ALLOCATED FUNDS**

As of March 31, 1989, the Institute liquidated, in its records, the funds received from the PL-480 Program Implementation Secretariat up through February 13, 1989, with the disbursements made under these advance payments.

**AUDIT OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA AND  
THE AGRICULTURAL SECTOR REORIENTATION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990**

**STATEMENT OF PROPOSED COSTS**

**INDEPENDENT AUDITOR'S REPORT**

We have examined the proposed costs for the activities assigned to the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA under Cooperation Agreement No. 518-0051-A-00-0093-000 of the "Agricultural Sector Reorientation" Project, USAID/Ecuador, Project No. 518-0051. Our examination was based on work programs and performed according to governmental audit standards accepted by the United States Comptroller General (1988 Revision). The proposed costs for the project components assigned to IDEA were prepared by the Institute's administration in coordination with USAID/Ecuador.

The purpose of our examination was to determine whether the proposed costs followed these general guidelines:

1. Whether the direct proposed costs for the project have been prepared on the basis of the most current, complete, accurate data available.
2. Whether the basis used to estimate the proposed costs including the present and projected staffing levels are appropriate regarding the proposed nature and volume of project activities.
3. Whether the Institute has the documentation supporting the value assigned to each line item.
4. Whether the proposed costs are allowable, allocable and reasonable to carry out the proposed work, according to OMB Circular A-122 and the terms of the Agreement.

In our opinion, the costs proposed for the activities assigned to the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA under Cooperation Agreement No. 518-0051-A-00-0093-00 have been prepared according to OMB Circular A-122, the terms of the Agreement, and the most current, complete, accurate data available.

## Romero & Asociados Ernst & Young

This report is intended solely for the use of the IDEA and the U.S. Agency for International Development. However, 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.

*Ernst & Young*

October 19, 1990  
Quito, Ecuador

BUDGET OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA AND  
THE AGRICULTURAL SECTOR REORIENTATION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990

STATEMENT OF PROPOSED COSTS

LINE ITEM	YEAR 1			YEAR 2			YEAR 3			TOTAL			GRAND TOTAL		
	GRANT	GRANT	IDEA	GRANT	GRANT	IDEA	GRANT	GRANT	IDEA	GRANT	IDEA	TOTAL			
	U.S. \$	L/C	U.S. \$	U.S. \$	L/C	U.S. \$	U.S. \$	L/C	U.S. \$	U.S. \$	U.S. \$	U.S. \$			
1. POLICY STUDIES/FORMS/PUBLICATIONS			87,000			87,000	90,000			87,000	90,000	261,000	180,000	441,000	
STUDIES			54,000			54,000	75,000			54,000	75,000	162,000	150,000	312,000	
Local consultants: Macroeconomy			18,000			18,000	25,000			18,000	25,000	54,000	50,000	104,000	
Local consultants: Alimentary policy			18,000			18,000	25,000			18,000	25,000	54,000	50,000	104,000	
Local consultants: Natural resources			18,000			18,000	25,000			18,000	25,000	54,000	50,000	104,000	
FORUMS			18,000			18,000	0			18,000	0	54,000	0	54,000	
Macroeconomic policy			6,000			6,000	0			6,000	0	18,000	0	18,000	
Alimentary and Marketing policy			6,000			6,000	0			6,000	0	18,000	0	18,000	
Natural resource management policy			6,000			6,000	0			6,000	0	18,000	0	18,000	
PUBLICATIONS			15,000			15,000	15,000			15,000	15,000	45,000	30,000	75,000	
Macroeconomic policy studies			5,000			5,000	5,000			5,000	5,000	15,000	10,000	25,000	
Alimentary and marketing policy studies			5,000			5,000	5,000			5,000	5,000	15,000	10,000	25,000	
Natural resource management policy studies			5,000			5,000	5,000			5,000	5,000	15,000	10,000	25,000	
2. ADMINISTRATION AND TECHNICAL STAFF			139,000	39,750		127,000	49,750			134,000	55,500	400,000	145,000	545,000	
TECHNICAL STAFF			102,000	0		111,000	0			118,000	0	331,000	0	331,000	
Executive director			30,000	0		33,000	0			34,000	0	97,000	0	97,000	
Macroeconomist			24,000	0		26,000	0			28,000	0	78,000	0	78,000	
Agricultural Economist			24,000	0		26,000	0			28,000	0	78,000	0	78,000	
Natural resources Economist			24,000	0		26,000	0			28,000	0	78,000	0	78,000	
ADMINISTRATIVE STAFF			18,000	39,750		12,000	49,750			12,000	55,500	42,000	145,000	187,000	
Financial Administrator			0	9,000		0	9,000			0	10,000	0	26,000	26,000	
Research assistants (3)			18,000	6,750		12,000	15,750			12,000	15,750	42,000	36,250	80,250	
Public relations/librarian			0	6,000		0	6,000			0	6,000	0	18,000	18,000	
Bilingual secretaries (2)			0	7,200		0	7,200			0	6,200	0	22,600	22,600	
Secretary			0	3,000		0	3,000			0	3,750	0	9,750	9,750	
Office assistant			0	1,800		0	1,800			0	2,800	0	6,400	6,400	
Coordinator Guyaquil office			0	6,000		0	7,000			0	9,000	0	22,000	22,000	
CONTROL AND AUDITORY			19,000	0		4,000	0			4,000	0	27,000	0	27,000	
Auditory			4,000	0		4,000	0			4,000	0	12,000	0	12,000	
Pre-operative research			10,000	0		0	0			0	0	10,000	0	10,000	
Procedures development			5,000	0		0	0			0	0	5,000	0	5,000	
3. OFFICE FACILITIES AND LIBRARY			4,000	20,000	9,000	4,000	21,000	9,000		4,000	22,000	9,000	75,000	27,000	102,000
Office rental			0	20,000	0	0	21,000	0		0	22,000	0	63,000	0	63,000
Office expenses			0	9,000	0	0	9,000	0		0	9,000	0	27,000	0	27,000
Office implements			0	3,000	0	0	3,000	0		0	3,000	0	9,000	0	9,000
Computer materials			0	0	0	0	0	0		0	0	0	0	0	
Phone, fax expenses			0	6,000	0	0	6,000	0		0	6,000	0	18,000	0	18,000
Public services			0	0	0	0	0	0		0	0	0	0	0	
Library			4,000	0	0	4,000	0	0		4,000	0	12,000	0	12,000	
Books			3,000	0	0	3,000	0	0		3,000	0	9,000	0	9,000	
Suscriptions			1,000	0	0	1,000	0	0		1,000	0	3,000	0	3,000	
4. SCHOLARSHIPS AND TRAINING			75,000	26,000	16,000	75,000	21,000	17,000		0	22,000	19,000	219,000	52,000	271,000
Thesis researchs			0	26,000	16,000	0	21,000	17,000		0	22,000	19,000	69,000	52,000	121,000
Scholarships - PhD			75,000	0	0	75,000	0	0		0	0	150,000	0	150,000	
5. THESIS SUPPORT AND INSTRUCTORS			0	20,000	0	0	20,000	0		20,000	0	60,000	0	60,000	
Agricultural Economy thesis assistant			0	10,000	0	0	10,000	0		10,000	0	30,000	0	30,000	
Instructors			0	10,000	0	0	10,000	0		10,000	0	30,000	0	30,000	
6. INTERNATIONAL TRAVELS			10,000	0	0	10,000	0	0		10,000	0	30,000	0	30,000	
7. TECHNICAL ASSISTANT			217,500	0	0	326,500	0	0		67,000	0	711,000	0	711,000	
Short Term			70,000	0	0	66,775	0	0		67,000	0	203,775	0	203,775	
Natural Resources economist			165,000	0	0	173,150	0	0		0	0	338,150	0	338,150	
Macro-economist			82,500	0	0	86,575	0	0		0	0	169,075	0	169,075	
8. OFFICE EQUIPMENT			19,000	0	5,000	0	0	3,000		0	0	3,000	19,000	11,000	30,000
Vehicles			19,000	0	0	0	0	0		0	0	19,000	0	19,000	
Computation system			0	0	0	0	0	0		0	0	0	0	0	
Communication system			0	0	0	0	0	0		0	0	0	0	0	
Photocopy equipment			0	0	0	0	0	0		0	0	0	0	0	
Software			0	0	0	0	3,000	0		0	3,000	0	6,000	6,000	
Furniture			0	0	5,000	0	0	0		0	0	0	5,000	5,000	
9. LOCAL TRAVELS			0	0	13,500	0	0	13,500		0	0	13,500	40,500	40,500	
<b>TOTAL</b>			<b>425,500</b>	<b>292,000</b>	<b>£3,250</b>	<b>415,500</b>	<b>276,000</b>	<b>182,250</b>	<b>101,000</b>	<b>265,000</b>	<b>190,000</b>	<b>1,775,000</b>	<b>455,500</b>	<b>12,270,500</b>	

The accompanying notes are an integral part of this statement.

## INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA

### NOTES TO THE STATEMENT OF PROPOSED COSTS

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#### **NOTE A--BACKGROUND**

The Government of Ecuador and the United States signed project agreement on July, 31 1985 to implement the Agricultural Sector Reorientation Project, whose primary objective was to strengthen private and public sector capacity to analyze macro-economic and sectoral policies. Under that agreement, AID signed a sub-agreement with Fundación Ciencia to create an Agricultural Policy Institute for implementation of Activity 3 of the project.

On February 1988, the Agricultural Policy Institute separated from Fundación Ciencia to form the independent, non-profit institution, INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA. On January 20, 1989 USAID awarded IDEA the sum of U.S.\$ 349,500 through grant No. 518-0051-G-SS-9003-00 to provide support for a program within the USAID funded Agricultural Sector Reorientation Project. The completion date for this Grant Amendment was July 30, 1990.

On April 17, 1990, USAID/Ecuador signed with IDEA the Cooperation Agreement No. 518-0051-A-00-0093-00 of the "Agricultural Sector Reorientation" Project, USAID/Ecuador, Project No. 518-0051. The estimated completion date for this grant is July 31, 1993.

The goal of this project is to contribute to the improvement of resource allocation efficiency and the performance of the Ecuadorian agricultural sector through improved economic and agricultural sector policies oriented towards open and competitive markets.

The total estimated cost of the program is U.S.\$ 2,230,500. The contribution of USAID/Ecuador will total U.S.\$ 1,775,000. IDEA will support this program with the local currency equivalent of an estimated total of U.S.\$ 455,500. At the beginning of each calendar year, the Institute shall prepare and present to USAID/Ecuador an annual budget to cover the estimated expenses during the year. This budget shall be based on the general budget approved in the agreement.

Additionally, IDEA shall prepare and present to USAID/Ecuador a quarterly budget for the expenses to be incurred during the report period. The amount of the budget items shall be consistent with the annual working budget.

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE STATEMENT OF PROPOSED COSTS (CONT.)**

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**NOTE B--PROJECT PURPOSES**

The specific purposes of the Project are:

- a. To contribute to public and private understanding of policy issues through the investigation and analysis of the impact of sectoral and macroeconomic policies on agricultural output, resource use, income and employment, and sector growth.
- b. To identify and propose specific policy reform initiatives designed to improve resource use efficiency and sector performance based on policy analysis and research in the areas of agricultural policy and natural resource policy.
- c. To present policy alternatives and facilitate the development of a consensus among the entities involved in policy decision-making for the adoption of policy reforms.
- d. To promote an informed dialogue among the diverse elements of the agricultural sector, both public and private, to discuss, promote, and evaluate the impact of policy reforms and their effects among different sectors and population groups.
- e. To promote, monitor and evaluate the implementation of viable policy reforms in terms of improved sector performance and the management of natural resources.

**NOTE C--PROJECT ACTIVITIES**

IDEA will undertake the following activities to achieve the terms of this agreement:

**1. POLICY STUDIES/FORUMS/PUBLICATIONS**

An objective of this agreement is to strengthen IDEA as a specialized, professional agricultural policy research. To achieve this objective, IDEA will conduct studies on Ecuador's agricultural sector which include its potentials and alternatives, organize forums, round table, and

## INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA

### NOTES TO THE STATEMENT OF PROPOSED COSTS (CONT.)

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#### NOTE C--PROJECT ACTIVITIES (CONT.)

symposia to discuss the results of research conducted, to analyze problems and issues concerning sector policies, and discuss alternatives for improving the performance of the sector.

These events will focus on the institutions and professionals involved in the process of policy research, formulation, debate and implementation. IDEA has to establish group(s) of high level national and/or international advisors to serve as consultative committees for improved orientation and implementation of the policy reform agenda. The members of these groups will not be part of IDEA's staff, but they will be linked to the core of professionals through the Executive Director and/or direct representative of the Board of Directors.

#### 1. POLICY STUDIES/FORUMS/PUBLICATIONS (CONT.)

IDEA will establish a Technical Directorate with three highly qualified national agricultural economists, preferably with Ph.D. degrees in these areas. Each of these professionals will lead one of three policy research programs created as the organizing focus for all activities funded under this project. These policy research programs will be:

Agriculture in the Macroeconomy, focussing on the impact of monetary, fiscal, trade, and commercial policies on the structure of relative incentives between agriculture and other sectors in the economy, on consumption, and in demand.

Factor and Product Marketing Systems, focussing on policies and programs designed to improve the conduct, structure, and performance of the marketing system in the context of both the domestic and international market.

Natural Resource Policy, focussing on the impact of policies on land and water use and the sustainability of the natural resource base, as well as on ecosystem conservation and development.

#### 2. ADMINISTRATION AND TECHNICAL STAFF

IDEA will be managed by a full-time Executive Director with the capacity to direct, orient, and execute the proposed program. To ensure that the Executive Director will have this capacity, the individual will have to fulfill the recommended qualifications/minimum requirements described in the agreement. The Executive director will be the legal representative of the Institute.

## INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA

### NOTES TO THE STATEMENT OF PROPOSED COSTS (CONT.)

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#### **NOTE C--PROJECT ACTIVITIES (CONT.)**

The Executive Director will organize and staff and Administrative Department with responsibilities in the areas of public relations with public and private sectors, organization and maintenance of a library, as well as in the areas of secretarial, accounting, computational, and general services support.

A librarian will be contracted, at least part-time to organize the existing library and to assist the core professional staff in the development of IDEA's library. The librarian position may be filled by the same person hired as a public relations professional.

IDEA has to develop mechanisms and procedures to systematically monitor and evaluate the implementation of policy reforms, comparing the actual effects with those expected as control and auditory.

#### **3. OFFICE FACILITIES/LIBRARY**

To support the establishment of an institutional home and facilities for applied policy research, IDEA will secure office facilities adequate for the Institute's management and administration, the Technical Directorate for Policy Research, data processing and computational facilities, and technical assistance, library and conference facilities.

IDEA will establish an Agricultural Economics Library, concentrating on agricultural policy, agricultural marketing, and natural resource policy. The library will include subscriptions to at least ten professional journals as well as related publications by universities and international organizations. Statistical information on the Ecuadorian economy will also be maintained.

#### **4. SCHOLARSHIPS AND TRAINING**

For each of the three policy research programs, IDEA will establish a two year research agenda that specifies individual research projects, the resource inputs required for their execution, and the strategy and plan for their dissemination and utilization. An important element of this plan is the specification of how the combination of scholarships and thesis research will be used to implant the research agenda.

INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA

NOTES TO THE STATEMENT OF PROPOSED COSTS (CONT.)

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**NOTE C--PROJECT ACTIVITIES (CONT.)**

**5. THESIS SUPPORT AND INSTRUCTORS**

With the assistance of USAID/Ecuador and the Project Technical Assistance contractor, IDEA will establish a relationship with a set of U.S. universities to facilitate the development, management, and technical direction and monitoring of the external scholarship program. The external scholarships will be focused on the three policy research programs and to contribute directly to the research agenda. The scholarship program will provide for three M.S. degrees. The external scholarships will execute according to approved USAID/Ecuador procedures.

In line with the research agenda, IDEA will design a program of thesis development support for qualified economics students through a selection committee and describe the plans and procedures for its implementation.

**6. INTERNATIONAL TRAVEL**

IDEA will develop for submission to the Board of Directors a training plan for the professional enhancement of staff through participation in external, technical, policy related forums, symposia, and international training events. This plan has to be according to the terms of this agreement.

**7. TECHNICAL ASSISTANT**

To support the establishment of institutional and technical linkages for the policy research program and projects, IDEA will receive short-term technical assistance in two of the three research program areas and research agenda preparation. The long-term natural resources advisor will provide technical assistance principally on macroeconomic and marketing studies. These persons will collaborate with IDEA's program leaders on a stable and continuing basis.

**8. OFFICE EQUIPMENT**

The implementation of the activities, the establishment of IDEA as a specialized, professional, agricultural policy research institute are related to technical direction, staffing, program development. To achieve these objectives IDEA will secure data processing and computational facilities as well as communications and transportation facilities adequate to support the research program.

**INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA**

**NOTES TO THE STATEMENT OF PROPOSED COSTS (CONT.)**

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**NOTE C--PROJECT ACTIVITIES (CONT.)**

**9. LOCAL TRAVEL**

The development of productive relationships with key public and private institutions involved in policy formulation, debate, forums, symposia requires incurring local travel costs.

**NOTE D--EVALUATION**

The final evaluation will be a summative and impact evaluation to take place just prior to the end of the Project. This evaluation will determine the impact of the Project and will measure the achievement of the purpose and outputs. Key issues will be the degree to which policy analysis in the public and private sectors have contributed to policy formulation. The evaluation will identify any factors which inhibited or enhanced success and will make recommendations for further improve the system.

**AUDIT OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA AND  
THE AGRICULTURAL SECTOR REORIENTATION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990**

**ADMINISTRATIVE AND FINANCIAL CAPABILITY**

**INDEPENDENT AUDITOR'S REPORT**

We were engaged to audit the financial statements of the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA as of and for the period from January 1, 1988 through July 30, 1990; and we have issued our report dated October 19, 1990 in which we did not express an opinion.

As part of our audit, we have performed an evaluation of IDEA's management administrative and financial capability to administer the activities assigned to it under Cooperation Agreement No. 518-0051-A-00-0093-00 of the "Agricultural Sector Reorientation" Project, USAID/Ecuador, Project No. 518-0051. Our evaluation included those areas we considered relevant to the criteria established by the statement of work for the audit of the financial statements.

Based on our evaluation and understanding of the criteria included in the statement of work referred to in the preceding paragraph and due to the situations described in the accompanying findings No. 1 to 3 in the following pages of this report and the items included in the reports on the internal control structure and compliance with agreement terms and applicable laws and regulations, we believe that the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA does not have the administrative and financial capability to provide sufficient administration and span of control in relation to the activities assigned to it under Cooperation Agreement No. 518-0051-A-00-0093-00 of the "Agricultural Sector Reorientation" Project, USAID/Ecuador, Project No. 518-0051.

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

*Ernst & Young*

October 19, 1990  
Quito, Ecuador

AUDIT OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA AND  
THE AGRICULTURAL SECTOR REORIENTATION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990

ADMINISTRATIVE AND FINANCIAL CAPABILITY

FINDINGS

1. The Institute has not prepared a detailed financial plan.

Condition:

IDEA has no cash budget to show the sources of income, cash requirements or strategies for covering deficits through other sources aside from USAID/Ecuador.

Criteria:

According to agreement No. 518-0051-A-00-0093-00 of April 17, 1990, IDEA is required to prepare a financial plan to strengthen its endowment fund and achieve financial self-support. Additionally, OMB Circular A-110 states that records showing cumulative costs involving agreements must identify sources and applications of funds.

Cause:

The Institute has not deemed it necessary to implement this action.

Effect:

The Institute does not make basic projections of the income required in relation to the cash that may be available.

Recommendation:

We recommend the Institute prepare periodic cash flow statements in order to determine cash requirements and ways to finance them.

2. The loan received from the PL-480 Implementation Secretariat has not been repaid.

Condition:

We have observed that the Institute has borrowed 12 million sucres (U.S.\$13thousands) from the Implementation Secretariat. However, this loan is past due and neither the principal nor the interest has been paid.

Criteria:

OMB Circular A-110, in Attachment G. 2a), establishes that expenses regarding payments for services or amounts received shall be repaid or accrue.

Moreover, generally accepted accounting principles require that expenses be acknowledged within the corresponding period, when they appear.

Cause:

The Institute has not repaid the loan due to limitations on cash available.

Effect:

Charges for financial costs decrease the Institute's financial capacity.

Recommendation:

We recommend the Institute repay both the principal and the interest, and to prepare cash flow statements as indicated above.

3. Committee meeting minutes have not been filed.

Condition:

We have observed that the minutes have not been kept for any administrative committee meetings since 1988: the executive, technical or coordination committees, which operate the Institute

Criteria:

Decisions are made in these meetings that have repercussions for the operations of the Institute, and should be documented.

Cause:

The Institute has not deemed it necessary to prepare these minutes.

Effect:

There is no evidence of the decisions made in the administrative committee meetings.

Recommendation:

We recommend the Institute prepare minutes for every meeting of the administrative committees, in order to document the decisions that have been reached regarding the Institute's operations. These minutes must be numbered and filed sequentially.

**AUDIT OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA AND  
THE AGRICULTURAL SECTOR REORIENTATION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990**

**INTERNAL CONTROL STRUCTURE**

**INDEPENDENT AUDITOR'S REPORT**

We were engaged to audit the financial statements of the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA as of and for the period from January 1, 1988 through July 30, 1990; and we have issued our report dated October 19, 1990 in which we did not express an opinion.

In planning and performing the audit of the financial statements of the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA for the period from January 1, 1988 through July 30, 1990, we have considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control structure.

The management of IDEA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, the estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of the internal control structure are to provide the management with a 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, projections of any evaluation of the structure to future periods in subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories: criteria established by USAID/Ecuador, accounting and information systems, procurement procedures practices, auxiliary accounting systems and records; bank accounts controls, advance payments made; development procedures; procedures for counterpart contributions; requirements for reimbursements; planning procedures; and controls to assure that charges to the project are proper and adequately documented.

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For all of the internal control structure categories list 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 we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants (AICPA). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Our evaluation of IDEA's internal control structure disclose the reportable conditions, described as findings No. 1 to 8 in the following pages.

A material weakness is a reportable condition is 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 audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We consider findings 1 to 8 described above to be material weaknesses.

We have also noted other matters involving the internal control structure and its operation that we have reported to the management of IDEA in a separate letter dated October 19, 1990.

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

*Ernst & Young*

October 19, 1990  
Quito, Ecuador

**AUDIT OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA AND  
THE AGRICULTURAL SECTOR REORIENTATION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990**

**INTERNAL CONTROL STRUCTURE**

**FINDINGS**

**1. The Institute has no accounting system.**

**Condition:**

The Institute has no basic accounting records, such as: ledger accounts, journal entries, auxiliary records in U.S. dollars, or chart of accounts, therefore there is no supporting documentation (journal entries) for the adjustments made in December, 1989 affecting the following accounts:

Accounts receivable	( 45,453)
Projects under Implementation	(119,035)
Other accounts payable	( 45,962)
Advance payments to projects	(121,910)
Net worth	46,791
Fixed assets	43,405

And the interest earned on investments in foreign currency has been recorded by the Institute in accounts receivable rather than in the corresponding bank current account.

**Criteria:**

According to generally accepted accounting principles, organizations are required to keep basic accounting records to support the preparation of financial statements. Furthermore, USAID/Ecuador establishes, as a minimum requirements for the granting of funds, that grantees keep an adequate accounting system with due support by journal entries, expense and income vouchers to make it possible to properly monitor the accounts. Additionally, OMB Circular-A110 requires that accounting records be duly supported, and kept by the institution for at least three years.

**Cause:**

There is no accounting system for the small number of activities pursued by the Institute.

Effect:

The financial statements and information are not adequately supported, and the adjustments made could not be analyzed and evaluated to determine their reasonability. Additionally the financial statements do not accurately reflect the available funds, considering that what is recorded as accounts receivable is actually cash at the Institute's disposal.

Recommendation:

We recommend the Institute implement an adequate accounting system that will make it possible to identify, gather, analyze, classify, record and report on its transactions, and to present to USAID/Ecuador journal entries for review and approval, indicating the accounts, purposes and bases used for each adjustment made.

2. There is no permanent staff responsible for issuing the financial statements.

Condition:

The internal auditor performs the duties of an accountant, in view of the fact that IDEA has not employed a full-time accountant, and the accounting is not familiar with the system used by the auditor to issue financial statements.

Criteria:

The Institute's organization should include permanent staff for each area. Moreover, OMB Circular A-110, Attachment F, requires effective monitoring of assets and an adequate accounting system that will provide timely, reliable information.

Cause:

As Fundación Ciencia's administrative unit (prior to its legal constitution), IDEA did not hire a full time accountant, due to the small number of activities that it carried out, and in consideration that the internal auditor was familiar with the project's transactions.

Effect:

The duties performed by the internal auditor are incompatible with accounting activities. In addition, the support responsibilities related to the auditor have not been met, and the financial statements are not prepared oportunely. Therefore, the accounting records are not reliable.

Recommendation:

We recommend the Institute hire permanent staff for the duties of the accountant who must handle IDEA's normal activities and those activities involving projects administered.

3. No consolidated income and disbursement statements are prepared.

Condition:

The Institute does not prepare consolidated statements for its own income and disbursements together with those projects under execution.

Criteria:

According to generally accepted accounting principles, the Institute should present the consolidated statements of income and expenses, showing together the administration of projects and its own overhead.

Cause:

It has not been the Institute's policy to issue statements of income and expenses, but rather to prepare only a balance sheet including the cumulative amounts involving the transactions that it has handled.

Effect:

The financial information is not adequately presented so that readers may analyze the proper administration of the public funds and IDEA's own money.

Recommendation:

We recommend the Institute prepare consolidated income and expense statements in order to present adequate financial information.

4. No cash flow statement is available.

Condition:

The Institute has not issued cash flow statements.

Criteria:

Cash flow statements would summarize the Institute's operational, investment and financial activities and are mandatory according to generally accepted accounting principles.

Cause:

The Institute has felt that, as a nonprofit organization, it was not obliged to prepare such a statement.

Effect:

There is no financial tool to determine the cash needs and finance them in time.

Recommendation:

We recommend the Institute prepare such a cash flow statement in order to satisfy generally accepted accounting principles and provide adequate, timely financial information that is needed for appropriate decision-making.

5. The Institute records all disbursements in dollars at the rate of 500 sucres per dollar. Instead of the exchange rate in effect at the time of the transaction.

Condition:

The Institute converts disbursements in U.S. dollars to sucres using the exchange rate of S/.500.00 by U.S.\$1.00.

Criteria:

According to generally accepted accounting principles, disbursements in dollars must be recorded at the exchange rate in effect on the date of the transaction.

Cause:

The Institute has taken as its reference rate the exchange rate of 500 sucres per U.S. dollar, since Subgrant No. 518-0051-G-SS-9003-00 budgets at that rate as a basis for preparing the chart of costs.

Effect:

Costs incurred under the project being evaluated are underestimated, because the difference between the exchange rate in effect on the transaction date and the rate of 500 sucres per dollar is not recognized. Furthermore, this prevents reconciliation of the Institute's accounting records with those of USAID/Ecuador.

Recommendation:

We recommend the Institute modify this accounting practice and record such disbursements according to generally accepted accounting principles, using the exchange rates in effect on the date of each transaction.

6. IDEA's expenses have been recorded in asset accounts.

Condition:

The Institute has recorded the amount of U.S.\$67,000 as assets in the account of Projects Under Implementation and charged this amount to Project IDEA/PL-480. This amount corresponds to IDEA's expenses (mainly salaries, office supplies and car maintenance).

Criteria:

There is no written agreement that establishes that such disbursements may be considered as projects to be administered by the Institute.

Cause:

The funds financing these expenditures have been considered by the Institute as reimbursable funds and therefore needing future reimbursement.

The Institution was not aware that these were its own reimbursements since the funds received from the Endowment Fund, which serve to finance the administrative expenses of the Institute, were made through the PL-480 Program which previously was managed by the Institute.

Effect:

The IDEA statement of income and expenses does not adequately present the financial information.

Recommendation:

We recommend the Institute immediately correct these amounts mentioned above in order to accurately present the financial information. The Institute would need add as primary institution expenses all those incurred after the date the PL-480 Program was liquidated, that is in March 31, 1989.

7. There are no adequate internal control procedures to handle neither disbursement (expense) vouchers nor cash (income) receipts.

Condition:

There are the following deficiencies in handling disbursement vouchers and cash receipts:

- Disbursement vouchers are not pre-numbered.
- Some disbursement vouchers do not have signatures of the responsible person who prepared it, reviewed it and approved it.
- Some disbursement vouchers do not have supporting documentation.
- Some disbursement vouchers that have been voided are not filed together as a set, some pages are missing (pink sheet).
- On some voided checks, the authorized signature for drawing funds from the Institute's bank accounts has not been destroyed.
- The same disbursement vouchers are used for cash (income) receipts to record them.

Criteria:

An adequate internal control system requires that the cash income be suitably monitored by using documents that will ensure their integrity, which must be pre-numbered and duly reviewed and approved.

Additionally, proper internal control procedures require:

- Due authorization for transactions and activities.
- Separation of functions, to reduce the opportunity for any one person to commit or conceal errors or unmet obligations in the normal performance of his or her duties.
- Design and use of appropriate documents and records to help ensure adequate recording of transactions and facts with proper support.

Cause:

- The limited number of persons in the accounting area prevents the performance of all functions that would help maintain adequate separation.
- The Institute considers that there are no weaknesses since no problems with the management and registration of the information have arisen until this date

Effect:

The lack of internal controls of the recording and use of these documents could affect unfavorably the entity's financial situation.

Recommendation:

We recommend the Institute implement adequate internal control procedures to handle disbursements (expenses) vouchers, and cash (income) receipts in order to correct the above deficiencies. The Institute should establish cash receipts on pre-numbered forms, duly reviewed and approved in order to adequately support the accounting information and the integrity of the funds received.

8. Previous projects have not been liquidated.

Condition:

As of July 30, 1990, the balances of projects fully executed have not been liquidated, as in the case of Project Funciencia, Project Chame Fonapre, Chame Cultura II, Idea Compu, and Idea PL-480.

Criteria:

OMB Circular-A110 states that grantees must keep adequate accounting systems. Moreover, generally accepted accounting principles say that the Institute's assets and liabilities should not be unnecessarily over-or under-estimated.

Cause:

It has not been considered necessary to liquidate these balances, but this will be considered for correction.

Effect:

Accounts without movement are kept on the books without timely analysis and adjustment. Financial information is not accurate.

Recommendation:

We recommend the Institute analyze and adjust these balances, in order to present proper financial information.

**AUDIT OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA AND  
THE AGRICULTURAL SECTOR REORIENTATION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990**

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

**INDEPENDENT AUDITOR'S REPORT**

We were engaged to audit the financial statements of the INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA as of and for the period from January 1, 1988 through July 30, 1990; and we have issued our report dated October 19, 1990 in which we did not express an opinion.

As part of our audit, we have evaluated IDEA's compliance with Agreement No. 518-0051-G-SS-9003-00 and PL-480 Program, Activity 30, of the "Agricultural Sector Reorientation" Project, USAID/Ecuador Project No. 518-0051.

Compliance with laws, regulations, contracts, and grants applicable to INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA is the responsibility of INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of IDEA's compliance with certain provisions of laws, regulations, contract, 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 item tested, IDEA has not complied in all material respects, with the provisions referred to in the precedings paragraphs. Our opinion is based on the material non-compliance situations described in the accompanying findings No. 1 to 9. With respect to items not tested, nothing came to our attention that caused us to believe that IDEA had not complied, in all material the terms of the respects with those provisions.

We have also noted certain immaterial instances of noncompliance that we have reported to the management of IDEA in separate letter dated July 16, 1991.

## Romero & Asociados Ernst & Young

This report is intended solely for the use of the IDEA and the U.S. Agency for International Development. However, 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.

*Ernst & Young*

October 19, 1990  
Quito, Ecuador

**AUDIT OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA AND  
THE AGRICULTURAL SECTOR REORIENTATION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990**

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

**FINDINGS**

**1. There is no fund accountability balance for the agreements signed with USAID/Ecuador.**

**Condition:**

The Institute does not have any statement accounting for funds provided by the United States Agency for International Development breaking down the items by budget allocation, or such a statement in U.S. dollars.

**Criteria:**

The general stipulations for grantees issued by USAID/Ecuador state that real expenses must be compared with the amounts budgeted for each donation.

**Cause:**

It has not been deemed necessary to prepare such a statement.

**Effect:**

It has not been possible to compare the accounting for funds provided by USAID/Ecuador with the budget established in the grant agreements.

**Recommendation:**

We recommend the Institute prepare such a statement and the required reconciliation.

**2. There is no information PL-480 Program, Activity 30.**

**Condition:**

The Auditors have been unable to obtain information on the objective or the approved budget for the funds provided under PL-480 Program, Activity 30.

Criteria:

The funds provided by AID must be supported by formal documents including an accurate, current, complete itemization of the objective of the grant or sponsored program.

Cause:

There is no source document supporting the funds provided by AID through PL-480, Activity 30, either in AID (PL-480 Implementation Secretariat) or in IDEA.

Effect:

It has proven impossible to review the disbursements made by the Institute under PL-480's grant implementation provisions. It has not been feasible to determine the costs incurred and compare them with the amounts budgeted for in order to establish the respective differences, either.

Recommendation:

We recommend the Institute take the necessary measures to obtain the source document and perform the respective reconciliation.

3. Lack of approval of disbursements by USAID/Ecuador

Condition:

The auditors have observed that certain expenses charged to the administrative project under the Subgrant No. 518-0051-G-SS-9003-00, have been rejected because they did not correspond to the budgeted entries established in the Subgrant. These expenses correspond to the following:

- . Purchase of office equipment
- . Publications
- . Public relations

Following these rejections, USAID/Ecuador, proceeds to make amendments to the Subgrant, which consisted in approval and acceptance of these reimbursements with charge to advances and reimbursements.

Criteria:

According to standard provisions Non-U.S., Nongovernmental Grantees; the grantees have to contact an officer in charge of the project in case there are any costs considered questionable. The officer will then perform an analysis to change the agreement or reject such expenses. Following these changes the receipts should be verified to the expense and request approval of the USAID/Ecuador.

Cause:

It was not possible to stop the development and execution of the project managed under this Subgrant and to obtain prior authorization from the officer in charge to perform the required disbursements.

Effect:

The appropriate steps established by USAID/Ecuador for these situations have not been followed.

Recommendation:

We recommend the Institute comply with the existent dispositions to this respect.

4. There are no written policies regarding counterpart contribution.

Condition:

The description of Subgrant No. 518-0051-G-SS-9003-00 does not specify that the local counterpart contribution which the Institute must make can be funded by USAID/Ecuador monies through PL-480 Program.

Criteria:

PL-480 Program, Activity 30, has been funded by USAID/Ecuador. In agreements, the general practice is that the grantee must provide a minimum of 25% as the counterpart contribution.

Cause:

The Institute did not have the financial capacity to cover this counterpart input. Due to the importance of its activity within the Agricultural Sector Reorientation Project, it considers that financing with funds provided by PL-480 can be its counterpart contribution for the Subgrant, and USAID/Ecuador agrees.

Effect:

There is no formal agreement establishing that the local counterpart contribution can be funded through the PL-480 Program.

Recommendation:

We recommend IDEA request clarification of it's counterpart contribution requirements.

5. Costs for other projects have been recorded under the Subgrant being evaluated.

Condition:

The Auditors have observed that the Institute's project costs with USAID/Ecuador also include certain costs for projects related to PL-480, such as: the cacao, earthen dams, and balanced feed projects.

The costs of the projects related with the PL-480 are as follow:

Cacao S/. 3.056 thousands (U.S.\$3 thousands approximately)  
Balance feed S/. 104 thousands (U.S.\$116 approximately)  
Earthen dams S/. 100 thousands (U.S.\$111 approximately)

These projects were initially assumed by the PL-480 Program and when this project was liquidated in March, 1989, the Institute financed these costs with USAID/Ecuador under the Subgrant No. 518-0051-G-SS-9003-00.

Criteria:

These projects were financed with the PL-480 Program funds. This program was liquidated and the Institute received the endowment fund of S/.240 millions. This fund should have been used to financed these projects as owns, and costs should have been assumed by the Institute as its own.

Cause:

They are considered as studies that could be covered by this Subgrant.

Effect:

The costs related to the USAID/Ecuador project include certain project costs that were financed with PL-480 and reimbursed by USAID/Ecuador according to the cost liquidation presented by the Institute in March 1989, including the costs charged to these projects until that date USAID/Ecuador is reimbursing costs which were originally financed through other programs.

Recommendation:

We recommend the Institute separate these costs from those incurred under Subgrant No. 518-0051-G-SS-9003-00. Additionally, the Cooperative Agreement No. 518-0051-A-00-0093-00 establishes that the Institute must strengthen its financial capacity and to do so, it must try to generate different income from those of the USAID/Ecuador and avoid financial charges for the interest's accumulation due to non paid debts.

6. Loans to the PL-480 Program have been made with dollar appropriated funds from Subgrant No. 518-0051-G-SS-9003-00.

Condition:

Fourteen bank transfers have been made between Subgrant No. 518-0051-G-SS-9003-00 and PL-480 Program to cover temporary loans, these transfers amount to S/. 24 millions (U.S.\$27 thousands approximately).

Criteria:

According to the terms of this Subgrant, the funds donated by USAID/Ecuador must be used only for the purposes established thereunder, and not for loans to other projects.

Cause:

Requirements of cash to cover expenses incurred in PL-480 Program.

Effect:

There is no adequate control of the administration of the money donated by USAID/Ecuador (for a specific objective). In addition, the balances as of December 31, 1988 for loans among bank accounts of various projects have not been liquidated promptly. Some have remained as long as December 1989.

Recommendation:

We recommend the Institute properly monitor the use of funds under agreements signed with USAID/Ecuador and disburse only for the purposes permitted under the agreements.

7. Certain unallowable administrative expenses have been paid with funds from Subgrant No. 518-0051-G-SS-9003-00.

Condition:

Funds from Subgrant No. 518-0051-G-SS-9003-00 have been used to pay IDEA's legal advisory or technical assistance (computing) expenses, which have been reimbursed by USAID/Ecuador. These payments amount to U.S.\$7 thousands approximately.

Criteria:

The Subgrant clearly outlines the purposes for which payments may be made with these funds. No specific budget item exists for legal advisory service or technical assistance in computing. These expenses should be covered by the local counterpart, established in the budget entry which defines administrative and general expenses.

Cause:

There is inadequate control by USAID/Ecuador of authorizations and reimbursements of expenses involving Subgrant funds. Additionally, IDEA considered these costs eligible for Subgrant funding.

Effect:

This has resulted in improper use of funds for a purpose that is not specified in the budget of this Subgrant.

Recommendation:

We recommend the Institute should present to the project officer an itemization of disbursements that have to be incurred and that it is felt may not be specified in the budget, for approval prior to the expenditure. USAID/Ecuador must approve disbursements considering the general and specific stipulations that have been issued to control the administration of grant monies, and of approved budgets.

8. The Institute does not reconcile on a regular basis its accounts with USAID/Ecuador records.

Condition:

The Institute has not prepared periodic reconciliations between its own accounting records and those of USAID/Ecuador.

Criteria:

In order to determine the items to be adjusted, which will significantly affect the statements accounting for the use of funds, regular reconciliations are required between the balances of the Institute and those of USAID/Ecuador.

Cause:

The Institute has not done this, since it has not opportunely requested USAID/Ecuador for the information to perform these reconciliations.

Effect:

Any differences have not been analyzed and the respective accounts have not been adjusted in a timely manner.

Recommendation:

We recomend the Institute reconcile balances promptly and regularly in order to incorporate the respective adjustments in the statements accounting for the use of funds.

9. USAID/Ecuador has not prepared the final liquidation for the Subgrant No. 518-0051-G-SS-9003-00.

Condition:

As July 30, 1990, the Subgrant being analyzed here expired on July 30, 1990, the date in which it should have been liquidated. As of the date of this report it still has not been definitely liquidated and USAID/Ecuador has signed a new agreement with IDEA.

Criteria:

The expiration date of the Subgrant being analyzed is July 30, 1990. Additionally the Institute has signed a new Cooperation Agreement with USAID/Ecuador where all its management capacity is directed.

Cause

Due to USAID/Ecuador has changed its liable project's officers of this Sub-grant; it prevents to proceed with the final liquidation.

Effect:

Reconciliations have not been made for the balances of costs incurred by the budget entry of the Subgrant of the reference; therefore no situations or differences have been determined which should be timely adjusted.

Recommendation:

We recommend IDEA request USAID/Ecuador proceed with the final liquidation and issue a formal document which establishes evidence of this procedures.

AUDIT OF THE  
INSTITUTE OF LIVESTOCK AND AGRICULTURE STRATEGIES - IDEA AND  
THE AGRICULTURAL SECTOR REORIENTATION PROJECT  
USAID/ECUADOR PROJECT No. 518-0051  
AS OF JULY 30, 1990

LIST OF REPORT RECOMMENDATIONS

<u>RECOMMENDATIONS ON ADMINISTRATIVE AND FINANCIAL CAPABILITY</u>	Page No.
1. We recommend the Institute prepare periodic cash flow statements in order to determine cash requirements and ways to finance them.	42
2. We recommend the Institute repay both the principal and the interest, and to prepare cash flow statements as indicated above.	43
3. We recommend the Institute prepare minutes for every meeting of the administrative committees, in order to document the decisions that have been reached regarding the Institute's operations. These minutes must be numbered and filed sequentially.	44
 <u>RECOMMENDATIONS ON INTERNAL CONTROL STRUCTURE</u>	
1. We recommend the Institute implement an adequate accounting system that will make it possible to identify, gather, analyze, classify, record and report on its transactions, and to present to USAID/Ecuador journal entries for review and approved, indicating the accounts, purposes and bases used for each adjustment made.	48
2. We recommend the Institute hire permanent staff for the duties of the accountant who must handle IDEA's normal activities and those activities involving projects administered.	49
3. We recommend the Institute prepare consolidated income and expense statements in order to present adequate financial information.	49

	<b>Page No.</b>
4. We recommend the Institute prepare such a cash flow statement in order to satisfy generally accepted accounting principles and provide adequate, timely financial information that is needed for appropriate decision-making.	50
5. We recommend the Institute modify this accounting practice and record such disbursements according to generally accepted accounting principles, using the exchange rates in effect on the date of each transaction.	51
6. We recommend the Institute immediately correct these amounts in order to accurately present the financial information. The Institute would need add as primary institution expenses all those incurred after the date the PL-480 Program was liquidated, this is in March 31,1989.	51
7. We recommend the Institute implement adequate internal control procedures to handle disbursements (expenses) vouchers, and cash (income) receipts in order to correct the above deficiencies. The Institute should establish cash receipts on pre-numbered forms, duly reviewed and approved in order to adequately support the accounting information and the integrity of the funds received.	53
8. We recommend The Institute analyze and adjust these balances, in order to present proper financial information.	53

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

1. We recommend the Institute prepare such a statement and the required reconciliation.	56
2. We recommend the Institute take the necessary measures to obtain the source document and perform the respective reconciliation.	57
3. We recommend the Institute comply with the existent dispositions to this respect.	58

4. We recommend IDEA request clarification of it's counterpart contributions requirements .	Page No. 59
5. We recommend the Institute separate these costs from those incurred under Subgrant No. 518-0051-G-SS-9003-00. Additionally, the Cooperative Agreement No. 518-0051-A-00-0093-00 establishes that the Institute must strengthen its financial capacity and to do so, it must try to do generate different income from those of the USAID/Ecuador and avoid financial charges for the interest's accumulation due to non paid debts.	60
6. We recommend the Institute properly monitor the use of funds under agreements signed with USAID/Ecuador and disburse only for the purposes permitted under the agreements.	61
7. We recommend the Institute should present to the project officer an itemization of disbursements that are to be incurred and that it is felt may not be specified in the budget, for approval prior to the expenditure. USAID/Ecuador must approve disbursements considering the general and specific stipulations that have been issued to control the administration of grant monies, and of approved budgets.	61
8. We recommend the Institute reconcile balances promptly and regularly in order to incorporate the respective adjustments in the statements accounting for the use of funds.	62
9. We recommend the IDEA request USAID/Ecuador proceed with the final liquidation and issue a formal document in which establish evidence of this procedures.	63



**INSTITUTO DE ESTRATEGIAS AGROPECUARIAS**  
Bossano 617 y Crnel. Guerrero - Telf.: 245344 - Casilla 853 Suc. 12 de Octubre  
Quito - Ecuador

Quito, 09 de agosto de 1991  
Oficio Nro. 91-0164

**ANNEX I**  
**1 of 16**

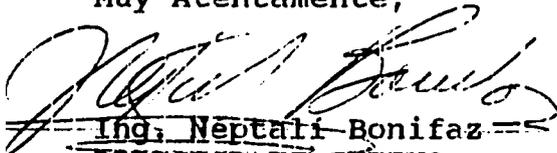
Señor  
Milton Yaselga R.  
**GERENTE DE ROMERO Y ASOCIADOS**  
**ERNST & YOUNG**  
Presente.-

De mis consideraciones:

En referencia a su comunicación S/N de fecha julio 16 de 1991 y a la comunicación AA-273/91 de agosto 5 de 1991; adjunto se servirá encontrar los comentarios a las observaciones efectuadas con relacion a la Auditoría realizada a la Fundación IDEA.

Seguro de que estos comentarios clarificarán las observaciones a la Auditoría por ustedes efectuada, me suscribo de usted.

Muy Atentamente,

  
~~Ing. Neptali Bonifaz~~  
DIRECTOR EJECUTIVO

Adj: Lo indicado  
c.c. File  
09-08-91  
acs

**COMENTARIOS SOBRE EL INFORME DE AUDITORIA DEL  
PROYECTO NRO. 518-0051 AL 30 DE JULIO DE 1990**

**CAPACIDAD ADMINISTRATIVA FINANCIERA**

Ante todo quisiéramos hacer notar que "Institute Of Livestock and Agriculture Strategies-IDEA" no corresponde a la denominación de nuestra institución. El Decreto Ejecutivo que creó la Fundación Instituto de Estrategias Agropecuarias-IDEA, fue publicado en el Registro Oficial Nro. 871 y ese es el nombre legal de la organización. En el Convenio Cooperativo Nro. CA-518-0051-A-00-0093-00 firmado con AID el 17 de abril de 1990, consta bajo esa denominación. De ser necesario traducir al Inglés el nombre de IDEA, se lo podría denominar "Agriculture Policy Institute", pero nos permitimos insistir que el nombre legal de la organización es Fundación IDEA.

En referencia a las observaciones de la Auditoría podemos anotar:

1. The Institute has not prepared a detailed financial plan

La donación de AID del Convenio Nro. 518 0051 G SS 90003 00 del 20 de enero 1989, no establece el requisito de preparación de un Plan Financiero.

El Convenio Cooperativo Nro. CA-518-0051-A-00-0093-00 del 17 de abril de 1990 requiere que IDEA prepare un Plan Financiero, para lo cual teníamos plazo hasta el 01 de febrero de 1991, AID e IDEA acordaron por escrito que el Plan Financiero sería entregado hasta el 31 de julio de 1991. En esa fecha se entregó el Plan Financiero de acuerdo a los requisitos de AID.

Dado que la Auditoría fue hasta el 30 de julio de 1990, no cabe esta observación.

2. The loan received from the PL-480 Implementation Secretariat has not been repaid

Nos sorprende que a pesar que los Auditores fueron plenamente informados sobre las circunstancias de este préstamo, no lo hayan expresado por escrito en las observaciones.

El último desembolso que recibió IDEA del PL-480 cubría gastos hasta el 31 de marzo de 1989, luego se decidió proceder a entregar a IDEA el Fondo Dotal programado con mas o menos un año y medio de anticipación. El Fondo Dotal se lo hizo efectivo en noviembre del mismo año, en el interin IDEA no tenía dinero para cubrir sus gastos locales de este proyecto, y el Comité Ejecutivo del PL-480 concedió un préstamo puente por S/12'000.000.00.

Revisada la Contabilidad y las asignaciones para IDEA, se encontró que IDEA tenía un saldo a su favor no desembolsado de S/9'076.530.57; se procedió a solicitar al Comité Ejecutivo del PL 480 que se haga una compensación de créditos para así saldar parcialmente el préstamo, IDEA estaba dispuesta a pagar el saldo inmediatamente.

La respuesta del Comité Ejecutivo del PL 480 fue que dichos fondos asignados originalmente a IDEA, habían sido reasignados a otro proyecto y en consecuencia nos solicitaban que cancelemos la obligación en su totalidad. (Ver documentación adjunta).

Por estas circunstancias muy particulares y al no disponer de recursos propios no hemos estado en capacidad de cancelar la obligación contraída, pues abrigamos la esperanza que dentro de la mas estricta justicia se va a resolver esta situación en una forma favorable para IDEA.

3. Committee meeting minutes have not been filed

Los Auditores sabían perfectamente y me admira que no hayan incluido en el informe, puesto que se les explicó en detalle, que durante el período auditado el convenio del Sub-Grant no existían los Comités, los mismos que se establecieron en el nuevo Convenio Cooperativo cuando IDEA aumentó su personal Ejecutivo y Técnico de dos funcionarios a once.

Los Comités de Gestión fueron creados a través del Manual de Procedimientos Administrativos y el Reglamento Orgánico Funcional de IDEA, aprobados por el Directorio de IDEA y el AID en agosto de 1990.

Durante el período auditado, las decisiones de IDEA eran tomadas por su Directorio que se reunía periódicamente, y las actas de dichas sesiones fueron revisadas por los Auditores.

Quito, 23 de mayo de 1990  
Oficio Nro. 90-063

Sr. Ing.  
ROBERTO PEÑAHERRERA  
Comité del Proyecto PL-480  
Presente.-

De nuestras consideraciones:

Dentro del Convenio firmado entre los Gobiernos del Ecuador y de los Estados Unidos, para el apoyo de fondos locales al Proyecto de Reordenamiento del Sector Agropecuario en la actividad No. 15, IDEA Código 30, se han hecho desembolsos a favor de IDIA por \$158.273.469,43 sucres, existiendo un saldo disponible de \$79.076.530,57.

Con fecha 23 de junio de 1989, el Comité PL-480 concedió un préstamo a IDEA por el valor de \$12.000.000,00 a un año plazo, el cual se vence en el mes de junio del presente año.

Consecuentemente deseáramos que se proceda a hacer una compensación de crédito entre estas dos cuentas para así reducir el valor de la deuda de IDIA con el Comité PL-480. El saldo cancelaremos en el futuro a medida que los fondos provenientes del fondo total vayan produciendo sus réditos.

Por la favorable atención a la presente, le anticipamos nuestros agradecimientos.

Muy atentamente,

  
Ing. Nestor A. Benítez A.  
DIRECTOR EJECUTIVO

cc

Quito, 15 de Junio de 1989  
PI-480-221-90

Señor Ingeniero  
Marco Peñaherrera  
Coordinador AID Programa de Apoyo Alimentario  
Misión Local AID  
Ciudad. -

Estimado Ingeniero Peñaherrera:

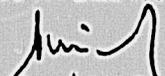
En referencia a su comunicación ANRO-20-030 de 31 de mayo próximo pasado, debo manifestarle que el saldo presupuestario de la Actividad Instituto de Estrategias Agropecuarias por un valor de \$/. 9'076.530,57 fue reprogramado a fin de utilizarlo para atender los requerimientos del Proyecto de Diagnóstico del Sector Agropecuario a cargo del Doctor Morris Whitaker.

Esta medida fue adoptada por la Secretaría de Implementación a inicios de este año, en vista que IDEA no solicitó desembolsos subsiguientes con cargo a su presupuesto ordinario, desde el 15 de mayo de 1989 y a la necesidad de administrar en forma racional los recursos financieros del Programa.

En tal virtud no es factible atender el requerimiento planteado por el Ingeniero Neptali Bonifaz, en el sentido de compensar con aquel saldo una parte del préstamo de 12 millones de sucres que nuestro Programa concedió a IDEA en Junio del año próximo pasado y cuya fecha de vencimiento es el 23 de los corrientes, particular que hemos notificado recientemente a dicha institución.

Sin otro particular, aprovecho la oportunidad para reiterarle mis sentimientos de consideración y estima.

Atentamente

  
Ing. Luis Antonio Sánchez  
Director Ejecutivo  
Secretaría de Implementación  
Programa de Apoyo Alimentario

cc. Ing. Neptali Bonifaz - IDEA

AK

**INTERNAL CONTROL STRUCTURE**

1. **The Institute has no accounting system**

Me sorprende sobremanera a título personal, que después de 30 años de trabajar en la actividad privada y haber manejado muchas empresas, se pueda afirmar que una institución a mi cargo como IDEA no tenga sistema de contabilidad.

De ser así quisiera preguntar a los Auditores, que documentos auditaron y revisaron tan minuciosamente por un periodo de seis semanas. Por las observaciones planteadas se deduce que los documentos auditados cumplían los requisitos básicos de un sistema de contabilidad generalmente aceptado para este tipo de institución.

Me llama la atención que a la terminación del Sub-grant se haya hecho este tipo de observación por parte de los Auditores, ya que en dos auditorías anteriores no se mencionó nada al respecto, y en consecuencia IDEA continuó utilizando el mismo sistema contable que tuvo Fundación Ciencia desde 1978 y que IDEA lo implementó desde su inicio.

He llegado a la conclusión luego de una revisión general de todas las observaciones, y de la afirmación de que no existe un sistema de contabilidad, que las personas que realizaron la auditoría están totalmente equivocadas en sus apreciaciones. IDEA, fundación nacional privada sin fines de lucro, tiene un sistema de "Contabilidad Presupuestaria" con principios de contabilidad generalmente aceptados, y pienso que los Auditores pensaron encontrar una Contabilidad Comercial o Industrial aplicable a organizaciones con fines de lucro como son las empresas que tienen accionistas, utilidades, reparto de las mismas a los accionistas y a sus trabajadores, reservas legales, facultativas y de contingencias al igual que pagos parciales y totales de tributos al Fisco, y Municipio vía Patentes.

Como ilustración de esta realidad incluyo copia de un Balance General de una exitosa Compañía de Seguros, que evidentemente produce lucro, de la cual he sido Director durante 15 años, y también de la Contabilidad Presupuestaria de IDEA inherente al Centro de Cómputo del MAG, manejado por IDEA y auditada por el MAG sin observaciones de ninguna clase.

Finalmente hago referencia al NOTE B- Significant Accounting Policies, página 15 de sus observaciones a los Estados Financieros, en el cual los Auditores identifican claramente el sistema de contabilidad utilizado.

Me atrevo a asumir que los Auditores se refieren a que no contábamos con un paquete de contabilidad computarizado, a lo cual me permito contestar que toda la contabilidad fue llevada en la hoja electrónica del programa Lotus y esos fueron los documentos que revisaron durante la auditoría.

Hemos adquirido un costoso programa de contabilidad computarizado el cual será implementado a partir de enero de 1992, siempre que esté de acuerdo con las estipulaciones legales del Estado Ecuatoriano y las regulaciones para fundaciones que AID piensa implementar en un futuro cercano.

2. There is no permanent staff responsible for issuing the financial statements

Desde enero de 1989 IDEA cuenta con una persona idónea en el manejo de la contabilidad, contamos además con el apoyo de un Auditor Interno concordante con nuestro Estatuto Social.

3. No consolidated income and disbursement statements are prepared

Rechazamos esta observación puesto que los resultados contables a julio 30 de 1990, se les entregó y fueron revisados por ustedes, si IDEA no hubiera contado con los Estados de Ingresos y Gastos hubiera sido imposible para los Auditores el haber realizado los análisis a los estados financieros.

4. No cash flow statement is available

Se preparará una vez al año y la fecha efectiva de preparación será con resultados a diciembre 31 de 1991.

5. The Institute records all disbursements in dollars at the rate of 500 sucres per dollar. Instead of the exchange rate in effect at the time of the transaction.

Se consideró un valor promedio para el año, estamos de acuerdo con la sugerencia. De hecho, desde julio de 1990 se está trabajando con tipos de cambio reales de mercado libre, para todas aquellas transacciones que se realicen en USD y consecuentemente los saldos de las cuentas en USD son ajustados en base a los tipos de cambio vigentes a la fecha de cada ejercicio o mes contable.

A partir del mes de agosto de 1991 se trabajará con el tipo de cambio que utiliza el AID para tener correlación y similitud con los datos de ellos.

6. IDEA's expenses have been recorded in asset accounts

Fué regularizado con el cierre contable de 1990. En la actualidad se continúa registrando los gastos de un proyecto en los Activos y los dineros anticipados para la ejecución de dichos proyectos se los registra en los Pasivos. Su cierre, tanto por los costos como de los ingresos del proyecto, se los analiza en diciembre de cada año.

7. There are no adequate internal control procedures to handle neither disbursement (expense) vouchers nor cash (income) receipts.

-Disbursement vouchers are not pre-numbered

Se utilizaba como número de comprobante el número de cheque, en cuanto estén listos los comprobantes numerados se procederá a la utilización de los mismos.

-Some disbursement vouchers do not have signatures of the responsible person who prepared it, reviewed it and approved it.

Todos los comprobantes llevaban la firma de aprobación del Director Ejecutivo.

-Some disbursement vouchers do not have supporting documentation

Todos los comprobantes tienen soportes. En aquellos casos en que son pagos por cuenta de contratos, el contrato va anexo al primer pago mas no en los pagos subsiguientes porque existen un archivo especial para cada uno, este procedimiento de enviar la copia del contrato adjunto al primer pago fue aceptado por AID durante la vigencia de la donación.

-Some disbursement vouchers that have been voided are not files together as a set, some pages are missing (pink sheet).

Cuando se anule un comprobante de ingreso y/o egreso se archivará todo el juego de comprobantes (original y copias)

-On some voided checks, the authorized signature for drawing funds from the Institute's bank accounts has not been destroyed.

Para extrema seguridad se romperá la parte del cheque anulado donde firman las personas autorizadas.

-The same disbursement vouchers are used for cash (income) receipts to record them.

Los comprobantes de ingresos existen y están numerados en orden secuencial.

Con la nueva organización de IDEA y el aumento de su personal se tomarán en cuenta todas estas observaciones.

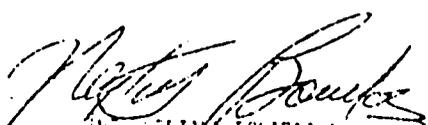
8. Previous projects have not been liquidated

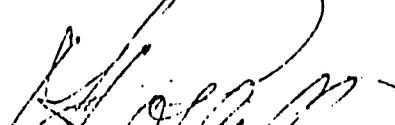
Todos ellos fueron liquidados en diciembre 31 de 1990

ESTADO DE SITUACION FINANCIERA IDEA - CONFO  
DEL 13 DE OCTUBRE DE 1988 AL 8 DE SEPTIEMBRE DE 1989

ANNEX I  
10 of 16

C U E N T A S	PRESUPUESTO		DEFICIT	R E S U L T A D O S	
	EGRESOS	INGRESOS		SUPERAVIT	EFFECTIVO BANCOS
GASTOS DEL PERSONAL	10'815.387,00	12'388.710,00		1'573.323,00	
Contratos, honorarios profesionales	7'629.837,00	8'557.710,00		927.873,00	
Servicios personal temporal	757.350,00	1'361.000,00		603.650,00	
Mobilización, viáticos	2.428.200,00	2'470.000,00		41.800,00	
SERVICIO DE CAPACITACION	450.000,00	950.000,00		500.000,00	
Seminarios: Analisis de sistemas	450.000,00	950.000,00		500.000,00	
COMUNICACIONES	851.309,00	1'320.000,00		468.691,00	
Telefono	596.309,00	990.000,00		393.691,00	
Adquisición de líneas telefónicas	165.000,00	330.000,00		165.000,00	
INSTALACION, ADQUISICIONES E. RESPALDO	2'911.819,50	5'300.000,00	514.993,50	2'903.174,00	
Aire acondicionado, ventilación	969.876,00	3'500.000,00		2'530.124,00	
Reubicación U.F.S.	452.293,50	300.000,00	152.293,50		
Data Show	906.950,00	1'000.000,00		93.050,00	
Muebles	362.700,00	0,00	362.700,00		
Conexión entre equipos (Micros)	220.000,00	500.000,00		280.000,00	
MANTENIMIENTO	355.878,60	2'750.000,00		2'394.121,40	
Preventivo, Correctivo, Equipos comput.	247.500,00	2'500.000,00		2'252.500,00	
Sistema de ventilación		50.000,00		50.000,00	
Sistema de seguridad		50.000,00		50.000,00	
Muebles equipos oficinas	108.378,60	150.000,00		41.621,40	
SUMINISTROS Y MATERIALES DE OFICINA	810.521,96	850.000,00		39.478,04	
IMPREVISTOS	2'221.481,46	1'898.346,54	323.134,92		
SALDO DISPONIBLE PARA 1989		878.846,00		878.846,00	
CUENTAS A PAGAR	5'473.676,65	5'473.676,65			
C.H.S. a septiembre 30/88	1'911.255,40	1'911.255,40			
C.H.S. a octubre 30/88	162.000,00	162.000,00			
IDEA: Contribución Fondo Dotal	3'400.421,25	3'400.421,25			
<b>SALANCE</b>	<b>23'900.074,17</b>	<b>31'609.579,19</b>	<b>838.128,42</b>	<b>8'747.633,44</b>	<b>7'309.505,02</b>

  
DIRECTOR EJECUTIVO IDEA

  
AUDITOR

**SEGUROS EQUINOCCIAL S.A.**  
**BALANCE GENERAL AL 31 DE DICIEMBRE DE 1990**

ACTIVOS	SEGUROS	SEGUROS	TOTALES	PASIVOS	SEGUROS	SEGUROS	TOTALES
	DE VIDA	GENERALES			DE VIDA	GENERALES	
EFFECTIVO	555.511,40	246.710.019,08	247.265.530,48	RESERVAS TECNICAS	78.006.454,09	485.623.474,38	563.629.928,47
INVERSIONES EN VALORES MOBIL	115.972.351,40	255.328.447,00	371.300.798,40	RESERVAS PARA OB. PEND.	0,00	331.230.890,15	331.230.890,15
INVERSIONES EN OTROS VALORES	579.012.433,17	1.480.378.908,17	2.059.391.341,34	RESERVAS RETENIDAS	0,00	348.884.930,59	348.884.930,59
INVERSIONES EN BIENES RAICES	0,00	556.266.999,85	556.266.999,85	RESERVAS DIVERSAS	7.744.342,31	81.188.848,92	88.933.191,23
OBLIGACIONES POR COBRAR	0,00	468.266.462,93	468.266.462,93	OBLIGACIONES POR PAGAR	318.315.912,68	75.325.560,89	393.641.473,57
CUENTAS POR COBRAR	217.687.001,42	683.360.531,15	901.047.532,57	CUENTAS POR PAGAR	311.835.274,25	1.604.895.540,60	1.916.730.814,85
MUEBLES, EQUIPOS Y VEHICULOS	0,00	119.741.151,65	119.741.151,65	CREDITOS DIFERIDOS	0,00	270.964.197,81	270.964.197,81
CARGOS DIFERIDOS	14.518.931,49	33.686.868,75	48.205.800,24	OTROS PASIVOS	89.195.354,86	192.415.521,88	281.610.876,74
PERDIDAS EJERCICIOS ANTERIORES				CAPITAL Y RESERVAS	24.053.114,48	290.483.559,69	314.536.674,17
				CUENTAS DE RESULT. (UTIL)	98.595.776,21	162.726.863,67	261.322.639,88
<b>TOTAL DEL ACTIVO</b>	<b>927.746.228,88</b>	<b>3.843.739.388,58</b>	<b>4.771.485.617,46</b>	<b>TOTAL DEL PASIVO</b>	<b>927.746.228,88</b>	<b>3.843.739.388,58</b>	<b>4.771.485.617,46</b>
CUENTAS DE ORDEN DEUDORAS	123.474.000,00	3.350.386.566,03	3.473.860.566,03	CUENTAS ORDEN ACREEDORAS	123.474.000,00	3.350.386.566,03	3.473.860.566,03
<b>TOTALES</b>	<b>1.051.220.228,88</b>	<b>7.194.125.954,61</b>	<b>8.245.346.183,49</b>	<b>TOTALES</b>	<b>1.051.220.228,88</b>	<b>7.194.125.954,61</b>	<b>8.245.346.183,49</b>

J. MARCELO MORENO M.  
GERENTE GENERAL

HUGO PAZ ESPINOSA  
GERENTE FINANCIERO ADMINISTRATIVO

FERNANDO E. MANTILLA  
CONTADOR GENERAL  
REG.#07145

SEGUROS  
EQUINOCCIAL

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

1. There is no fund accountability balance for the agreements signed with AID

Desde abril de 1991 se realizan reconciliaciones entre IDEA/AID. AID no requería de este procedimiento anteriormente.

2. There is no information on Program PL-480, activity 30

No estamos seguros que información requieren los Auditores del PL-480 Actividad 30. Se tratará de obtener toda la documentación del PL-480 pertinente a IDEA a pesar de que el Comité Ejecutivo del PL-480 tampoco tiene ningún documento al respecto

3. Approval of disbursements by USAID/Ecuador

La variabilidad de criterios de las personas de Contabilidad de AID que revisaban los vouchers de IDEA nos creó esta dificultad, problema que en su mayoría ya ha sido solucionado.

4. There are no written policies regarding countepart contribution

El Convenio de Donación estipulaba la contraparte nacional la misma que era cubierta por los fondos PL-480.

5. Costs for other projects have been recorded under the Subgrant being evaluated.

IDEA consiguió fondos adicionales del programa PL-480 para ciertos proyectos que consideró de suma importancia para el desarrollo nacional. Cuando se terminaron los fondos de dichos proyectos estos se suspendieron.

6. Loans to the PL-480 Program have been made with dollar appropriated funds from Subgrant Nro. 518-0051-G-SS-9003-00.

La falta de liquidez en IDEA por la suspensión de los fondos del Programa PL 480 en el interin desde el último desembolso hasta cuando principió a producir intereses el Fondo Dotal, lo cual tuvo un lapso de un año, se requirió de estos préstamos entre cuentas para poder continuar con el magnífico trabajo que se realizó durante ese período.

7. Certain unallowable administrative expenses have been paid with funds from Subgrant Nro. 518-0051-G-SS-9003-00

Suponemos que los Auditores estan haciendo referencia en este punto, al pago de los servicios prestados de una Asistente Técnica en Computación que trabajaba junto al Dr. Morris Whitaker durante su permanencia en el país.

A pedido expreso del Director de ANRO de AID se contrató a dicha persona como apoyo a las actividades del Dr. Whitaker, considerando que el documento del Dr. Whitaker sería distribuido a través de IDEA en el futuro.

Objetamos esta observación puesto que esta circunstancia fue plenamente explicada a los Auditores.

8. The Institute does not reconcile on a regular basis of its accounts with USAID records.

Esta observación fue explicada en el punto (1)

9. USAID/Ecuador has not prepared the final liquidation for the Subgrant Nro. 518-0051-G-SS-9003-00.

El Subgrant Nro. 518-0051-G-SS-9003-00 esta en proceso de liquidación.

**COMENTARIOS A LAS OBSERVACIONES DE LOS:**  
**FINANCIAL STATEMENTS AS OF JULY 30, 1990**  
(Pág. 8-9 del informe)

1. Efectivamente, los Estados Financieros son responsabilidad de la Dirección Ejecutiva de IDEA.
2. Favor referirse a nuestro comentario a las observaciones de la sección Nro. 1 sobre Control Interno, las cuales se explican por sí solas y contienen una explicación en detalle a los anotado por ustedes.

Nos permitimos repetir lo dicho anteriormente, que nos causa asombro que se diga que no se tiene un sistema contable cuando en la página Nro. 15 ustedes indican cuales son las bases contables con las que IDEA presentó sus Estados Financieros.

Así mismo se menciona que no se han preparado Estados de Ingresos y Gastos, los mismos que fueron entregados a ustedes con resultados a julio 30 de 1990. Caso contrario de dónde se obtuvieron las cifras que mencionan en la página 12.

Sobre las razones de los ajustes hechos por un valor aproximado a US\$ 135.000, éstas fueron dadas a ustedes. Corresponden a limpiezas entre cuentas de activos y pasivos (cobrar y pagar). Soporte de estos ajustes fueron entregados a los auditores en un diskette en el cual constaban los movimientos a los que hacen mención.

3. Nos permitimos informar que los fondos provistos por el AID fueron controlados internamente por nuestra parte, y los respectivos documentos fueron proporcionados a ustedes, de lo contrario preguntamos cómo obtuvieron la información que preparan en las páginas 25 y 26?.

En lo referente a que IDEA mantuvo un tipo de cambio fijo tanto para los ingresos y egresos esto ya fue contestado a la observación Nro. 5 del Control Interno. El efecto que ustedes quieren cuantificar para nuestro criterio no es muy relevante.

4. Favor referirse a nuestra contestación al punto 2 de las observaciones: Compliance with Agreement Terms and Applicable Laws and Regulations.
5. Sin comentarios

**FUND ACCOUNTABILITY STATEMENT OF THE PROJECT FUNDED UNDER  
SUB-GRANT 518-00-51-G-SS-9003-00  
FOR THE PERIOD FROM JANUARY 1, 1988 THROUGH JULY 30, 1990**  
(Pág 21-22 del informe)

1. Efectivamente, los Estados Financieros son responsabilidad de la Dirección Ejecutiva de IDEA.
2. Como consta en los documentos revisados por ustedes los proyectos fueron finiquitados al 31 de diciembre de 1990, según lo expresamos en el punto Nro. 8 de las observaciones de Control Interno de IDEA.

Adicionalmente informamos a ustedes que se encuentra en proceso de liquidación del convenio Nro. 518-00-51-G-SS-9003-00.

3. Favor referirse a nuestra contestación al punto Nro. 2 de los Comentarios a los Estados Financieros.
4. Contradicción: se dice que luego de revisar los Estados Financieros, los Auditores se abstienen de expresar su opinión, y a renglón seguido opinan que todos los costos de la financiación del convenio AID-IDEA son costos cuestionables. Opinión que dicen que no la expresan pero efectivamente la expresan. Sin embargo consideramos que todos los gastos incurridos con este financiamiento están suficientemente respaldados por los documentos contables auditados de manera que no hay razón para que sean costos cuestionables.
5. Numeral confuso. O es un informe interno para uso de IDEA y de AID, o es un informe público.

**FUND ACCOUNTABILITY STATEMENT OF THE PROJECT FUNDED BY THE  
PL-480 PROGRAM  
FOR THE PERIOD FROM JANUARY 1, 1988 THROUGH JULY 30, 1990**  
(Pág 27-28 del informe)

1. Efectivamente, los Estados Financieros son responsabilidad de la Dirección Ejecutiva de IDEA.
2. Favor pedir más información a la Secretaría de Implementación PL-480. Toda la documentación en nuestro poder fué puesta a disposición y revisada por ustedes.
3. El último desembolso del Programa PL-480 a IDEA fué para gastos hasta marzo de 1989. Posteriormente se siguió utilizando dicha cuenta con la misma denominación como la cuenta de fondos locales. Esto fué oportunamente explicado a los Auditores.
4. Contradicción: se dice que luego de revisar los Estados Financieros, los Auditores se abstienen de expresar su opinión, y a renglón seguido opinan que todos los costos de la financiación del convenio PL-480-IDEA son costos cuestionables. Opinión que dicen que no la expresan pero efectivamente la expresan. Sin embargo consideramos que todos los gastos incurridos con este financiamiento están suficientemente respaldados por los documentos contables auditados de manera que no hay razón para que sean costos cuestionables.
5. Numeral confuso. O es un informe interno para uso de IDEA y de AID, o es un informe público.

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