

**Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Guatemala's Small Farmer
Diversification Systems Project
Managed by the National Bank for
Agricultural Development
July 1, 1987 through March 31, 1989**

**Audit Report No. 1-520-92-10-N
November 18, 1991**



**Inspector General for Audit
Tegucigalpa, Honduras**

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Diversification Systems Project
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AGENCY FOR INTERNATIONAL DEVELOPMENT

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November 18, 1991

MEMORANDUM

TO: D/USAID/Guatemala, Terrence J. Brown

FROM: 
RIG/A/T, Reginald Howard

SUBJECT: Audit of USAID/Guatemala's Small Farmer Diversification Systems Project, Managed by the National Bank for Agricultural Development, July 1, 1987 through March 31, 1989

This report presents the results of a financial close-out audit of the National Bank for Agricultural Development (Bank), for the period July 1, 1987 through March 31, 1989. This was one of six audits performed of organizations which received funds under the Small Farmer Diversification Systems Project (Project), USAID/Guatemala Project No. 520-0255. The accounting firm of Arthur Andersen & Co. prepared the report which is dated October 29, 1991.

Initiated in 1981, the Project's major goal was to strengthen the agricultural sector's livestock and stimulate small farm diversification from basic grains to higher value crops requiring greater labor intensity. The life-of-project budget was \$14.8 million, of which USAID/Guatemala was to provide grant and loan funds totaling \$8.1 million and the Government of Guatemala the balance of \$6.7 million.

The Bank is an autonomous decentralized banking entity of the Government of Guatemala whose general objective is to promote and administer the provision of credit facilities to the agricultural sector. The Bank's role in the Project was to manage the trust fund created by the Project's Loan Agreement to provide loan facilities to small- and medium-sized farmers. The audit coverage included A.I.D. funds of \$331,006 provided to the Bank during the audit period.

The objectives of the audit were to determine whether: (1) the Bank's financial statements present fairly, in all material respects, the financial activity under the Project during the period audited; (2) the Bank's internal control structure was adequate to manage activities under the Project; and (3) the Bank had complied with the terms of the Project Agreement and applicable laws and regulations. The scope of the audit included an examination of the Bank's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

Arthur Andersen & Co. found that the Bank's financial statements, with the exception of questionable costs of \$48,276 and an insufficient provision for doubtful accounts of

approximately \$33,700, presents fairly, in all material respects, the Project's financial activities managed by the Bank for the period audited.

With respect to the Bank's internal control structure, the auditors identified three material weaknesses. The auditors reported that the Bank did not have: (1) evidence showing that verification was made of actual loan use in 57 (18 percent) of the 317 loan files reviewed; (2) adequate control over documentation supporting liquidations presented to A.I.D. and funds received from A.I.D.; and (3) procedures requiring that A.I.D. funds be maintained in a separate bank account.

In their review of the Bank's compliance with Project Agreement terms and applicable laws and regulations the auditors identified three areas of material noncompliance. The auditors found that the Bank did not: (1) contribute the total agreed upon counterpart to the Project (approximately \$1.11 million of the agreed \$1.16 million had been contributed); (2) fully comply with the Project Agreement clause concerning reports, records, inspections, and audits; and (3) fully comply with the Project Agreement clause concerning use of property and services.

The draft report was provided to Bank management officials and based on their comments certain revisions were made to the final report. Bank management disagreed with all of the report's findings and questioned costs. Their comments are included in Annex I and the auditors' response to those comments in Annex II to the report.

Although the Project has ended the Mission has an existing agreement with the Bank under the Highland Agricultural Development Project (USAID/Guatemala Project No. 520-0274). For this reason we suggest that USAID/Cuatemala obtain assurance that the problems noted in this report concerning the Bank's internal control structure and compliance with agreement terms, i.e. commingling of A.I.D. funds with other donor funds, insufficient counterpart contribution, and control over the use of Project property, are not evident in the Highland Agricultural Development Project.

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

Recommendation No. 1

We recommend that USAID/Guatemala resolve the questionable costs of \$48,276 (\$4,183 questioned and \$44,093 unsupported) identified in the Arthur Andersen & Co. audit report dated October 30, 1991 and recover the appropriate amount from the National Bank for Agricultural Development.

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

AUDIT OF THE
SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-
FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

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ARTHUR ANDERSEN & Co.

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GUATEMALA, C. A.
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October 30, 1991

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

Dear Mr. Howard:

This report presents the results of our financial close-out audit of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST, USAID/GUATEMALA PROJECT No. 520-0255, COMPONENT MANAGED BY THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT (BANCO NACIONAL DE DESARROLLO AGRICOLA -BANDESA-), from July 1, 1987 to the end of the Project, March 31, 1989.

I. BACKGROUND

On August 28 and September 24, 1981, the Government of Guatemala -GOG-, through the Ministry of Public Finances (Ministerio de Finanzas Públicas - MPF); the Ministry of Agriculture, Livestock and Food (Ministerio de Agricultura, Ganadería y Alimentación - MAGA); and the National Board of Economic Planning (Consejo Nacional de Planificación Económica - CNPE), signed grant agreement No. 520-0255 for US\$ 3,696,000 and loan agreement No. 520-T-034 for US\$ 5,500,000 with the U.S. Agency for International Development in Guatemala (USAID/Guatemala) for the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255. The Government of the Republic of Guatemala will amortize this loan to the United States Agency for International Development -USAID- within a twenty-five years (25) term, from the date of the first disbursement, by means of thirty-one (31) semi-annual payments. USAID will furnish to the Government of the Republic of Guatemala an amortization schedule; interest will be paid on a 2% annual base, during ten (10) years, beginning the date of the first disbursement and subsequently using a 3% annual base, computed over the loan balance and interest overdue and unpaid. The original amount was reduced on September 26, 1988 to US\$ 4,413,135. The funds committed by USAID/Guatemala were for the purpose of financing the acquisition of the goods and services necessary to carry out the project. In addition to these funds, the GOG agreed to commit a minimum of US\$ 6,700,000 in counterpart funds to finance administrative expenditures and other direct and indirect costs related to the project. The project completion date, originally scheduled for March 31, 1987, was later extended to March 31, 1989.

The project's major goal was to strengthen the agricultural sector's livestock and to stimulate small farm diversification from basic grains to higher value diversified crops of greater labor intensity. The project activities were: a) applied research and technology adaptation, b) extension and promotion, c) loans and social cost payments (contributions), d) in-service training, e) project coordination, and f) nutritional impact evaluation.

As part of the project's loan agreement, a trust fund agreement was signed by the MPF, MAGA, and the National Bank for Agricultural Development -BANDESA-. The main objective of the trust fund agreement was to provide funds to finance short and long-term loans for fruit and vegetable production, cattle raising, small-scale irrigation works, and social cost payments (contributions) to project beneficiaries. Under the trust funds agreement, USAID was to provide US\$ 3,000,000 of funds from the loan agreement No. 520-T-034 and the GOG was to provide US\$ 2,200,000 as counterpart contribution. These funds were subsequently modified, agreeing that USAID would contribute the amount of US\$ 4,270,567 from the loan funds and the Government of the Republic of Guatemala should provide US\$ 3,131,455 as counterpart funds.

There were six implementing institutions in the project including a coordinating unit and the bank mentioned above. The institutions and their respective roles in the project are described below:

- The Coordinating Unit for the Agricultural Diversification Program -UCPRODA- was formed specifically to coordinate the project activities. This coordination included receiving reimbursement requests from the implementing institutions, obtaining reimbursements from USAID/Guatemala and distributing them back to the implementing institutions, and preparing consolidated financial information for the project based on fund accountability statements or other financial statements received from each implementing institution. Under procedures established for the project, UCPRODA's own transactions were to be reviewed and approved by MAGA.
- The National Bank for Agricultural Development -BANDESA- is an autonomous decentralized banking entity of the GOG whose general objective is to promote and administer the provision of credit facilities from the GOG to the agricultural sector of the country, mainly to the small and medium-sized farmer. Its funds are obtained by means of Government trust funds and from its capital, reserves, and liabilities. BANDESA's role in the project is to manage the trust fund created by the above agreement to provide loan facilities to small and medium-sized farmers.
- The General Directorate for Agricultural Services -DIGESA- is part of the Ministry of Agriculture, Livestock, and Food -MAGA- of the Government of Guatemala. Its general objective is to provide technical assistance to small farmers and to promote the Government's general policy of agricultural development to improve their standard of living. On this project, DIGESA was responsible for activities involving the transfer of agricultural technology for crop production. The crops and activities that DIGESA was to develop as part of the project included: vegetables, fruits from deciduous trees (such as apples and pears), soil preservation, and small-scale irrigation works.

- The general Directorate for Livestock Services -DIGESEPE- is part of the Ministry of Agriculture, Livestock and Food -MAGA-. DIGESEPE's general objective is to improve the standard of living of small and medium-sized farmers by providing them with the necessary technical assistance to increase the reproduction of different livestock species, the production of animal protein, and the development of a better livestock infrastructure. DIGESEPE's role in the present project is to develop, in coordination with the other participating implementing institutions, livestock extension activities for cows, pigs, sheep, and poultry, focusing primarily on improving management practices related to disease, parasite control, and nutrition/feed supply.
- The Institute of Agricultural Science and Technology -ICTA- is part of the Ministry of Agriculture, Livestock and Food -MAGA-. ICTA's general objective is to contribute towards the economic and social development of the country through the generation, validation, and promotion of proper technology to increase agricultural and cattle production. ICTA's role in the project was to perform research and adapt technology to be applied for improving fruit, vegetables, and cattle; and to improve the agricultural and cattle related technical training provided to small farmers by DIGESEPE and DIGESA.
- The Technical Assistance Team (Equipo de Asistencia Técnica - EAT) was responsible for assisting the implementing institutions of the project. The team started with five specialists transferred by the U.S. Department of Agriculture to collaborate with the U.S. Agency for International Development in the implementation of the project. Additionally, six local specialists were hired by USAID/Guatemala and included in the project.

Each of the project implementing entities was audited by another auditing firm as of June 30, 1987, and in general, the audits found that there was a lack of accountability for USAID funds by the implementing entities, except for the coordinating unit. Only the bank and the coordinating unit had adequate accounting systems/records, and only the coordinating unit reconciled its financial information with USAID records. In the cases of BANDESA, DIGESEPE and DIGESA, the USAID funds flowed through the Government of Guatemala's -GOG- accounts where such funds were commingled with the GOG's own funds before being received by the institutions, and accountability for the USAID funds was lost.

Although the records of the implementing units, the coordinating unit, and USAID/Guatemala were not reconciled, based upon USAID/Guatemala's information a total of US\$ 2,479,655 in loan funds and US\$ 1,817,137 in grant funds had been disbursed through June 30, 1987, which would leave loans funds of US\$ 3,020,345 and grant funds of US\$ 1,878,863 remaining to be disbursed through the end of the project period on March 31, 1989.

Except for the coordinating unit and the Technical Assistance Team, which were disbanded, USAID/Guatemala continues to work with each entity (although in some cases under different accounting relationships than previously) under USAID/Guatemala's Highland Agricultural Development Project, USAID/Guatemala Project No. 520-0274.

II. AUDIT OBJECTIVES

This is a financial audit of the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255, for the period from July 1, 1987 to the end of the project on March 31, 1989. This project was implemented by the Coordinating Unit for the Agricultural Diversification Program -UCPRODA- the National Bank for Agricultural Development -BANDESA-, the General Directorate for Agricultural Services -DIGESA-, the General Directorate for Livestock Services -DIGESEPE-, the Institute of Agricultural Science and Technology -ICTA-, and the Technical Assistance Team -EAT-. The audit will build upon the work of prior auditors who reviewed each implementing entity from their individual starting dates of project operations through June 30, 1987. However, additional steps were required to verify the amounts received by each entity during the full life of the project.

The audit was to be performed in accordance with generally accepted auditing standards and the United States Comptroller General's Government Auditing Standards (1988 Revision) and accordingly included such tests of the accounting records as deemed necessary. The specific objectives of the audit were to determine whether:

1. The fund accountability statement for each implementing entity under the project for the period July 1, 1987 to March 31, 1989, fairly presents in all material respects, the entity's financial activities under the project, and costs reported as incurred and reimbursed by USAID/Guatemala during the period are allowable, allocable, and reasonable in accordance with agreement terms and applicable laws and regulations.
2. The internal control structure of each implementing institution was adequate to manage its activities under the project.
3. Each implementing institution complied with agreement terms, and applicable laws and regulations which may affect the project's goals and incurred costs.

Although it was not the purpose of the audit, we were alert to situations or transactions that could be indicative of fraud, abuse, and illegal expenditures and acts.

III. SCOPE OF WORK

The scope of our work was the following:

A. Pre-audit steps

We reviewed the following documents to become familiar with the project:

1. The project paper

2. The project related agreements between the Government of Guatemala and USAID/Guatemala, including the trust fund agreement under the project's loan agreement.
3. The sub-agreements between the Government of Guatemala, USAID/Guatemala, and the implementing institutions, as applicable.
4. Contracts and sub-contracts with third parties.
5. The budgets, project implementation letters, and written procedures approved by the GOG and USAID/Guatemala to manage the project.
6. The reports derived from the audits performed on each implementing entity by another audit firm for RIG/A/T covering the period from the start of their project operations through June 30, 1987.
7. USAID Handbook 11, Chapter 4, which discusses host country contracts and audit.
8. Federal Acquisition Regulations -FAR-, which include costs principles and procedures for contracts issued after April 1, 1984.
9. USAID Acquisition Regulations -AIDAR- which specifies USAID peculiar procurement regulations in addition those specified in the FAR.
10. All financial and project reports; charts of accounts, organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing and distribution procedures of materials, as necessary to successfully complete the required work.

B. Fund accountability statement

For each implementing entity, we examined the fund accountability statement of the entity's activities under the project to include the budgeted amounts by category and major item; the costs reported as incurred during the audited period; the costs reimbursed by USAID/Guatemala during the period; and the reimbursed costs to be questioned or suspended and references to notes explaining the criteria for the questioning of those costs. In the case of BANDESA, because it maintains its accounting records on an accrual basis, instead of a fund accountability statement we examined BANDESA's statement of assets, liabilities and fund balance, statement of trust revenues and expenditures and statements of fund balance and cash flows for the same time period. The work included evaluations of project implementation actions and accomplishments to specifically determine that costs incurred are allowable, allocable, and reasonable under the agreement terms and to identify areas where fraud, waste, abuse and mismanagement exist or could exist as a result of inadequate controls.

C. Internal control structure

We reviewed and evaluated entities' internal control structure related to the project's management as considered appropriate to comply with generally

accepted auditing standards. The major internal controls that were evaluated included but were not limited to the adequacy of the accounting and information systems, procurement procedures and practices, bank account reconciliation procedures, and controls to assure that charges to the project were proper and well supported.

D. Compliance with agreement terms and applicable laws and regulations

Our work on entities' compliance with agreement terms, and applicable laws and regulations was designed to:

1. Identify the agreement terms and pertinent laws and regulations and determine which of those not observed could have a direct and material effect on the entity's fund accountability statement.
2. Assess, for each material requirement, the risks that material noncompliance could occur. This includes consideration and assessment of the internal controls in place to assure compliance with laws and regulations.
3. Design steps and procedures to test compliance with agreement terms and applicable laws and regulations to provide reasonable assurance of detecting both unintentional and intentional instances of non-compliance that could have a material effect on the fund accountability statement.
4. Determine if payments have been made in accordance with agreement terms and applicable laws and regulations.
5. Determine if funds have been expended for purposes not authorized or not in accordance with applicable agreement terms. If so, identify these costs as questionable.
6. Ensure that performance under the agreement is being adequately supervised by GOG, including oversight in connection with the determination of eligibility of the persons to participate in the project.
7. Identify any costs not considered appropriate for reimbursement explaining why these costs are questionable.
8. Determine if the counterpart and/or the matching funds and technical assistance, as applicable, are obtained opportunely according to the agreement and to the project's needs. Quantify any shortcomings in this area.

IV. RESULTS OF THE AUDIT

In this section we present a summary of the audit results briefly describing the most important issues and problems found, which are fully

discussed in the corresponding section of this report. We conducted our audit in accordance with the audit standards referred in section II above, even though, we had the following limitations during our review:

Financial statements

Except as discussed in the following paragraphs, the financial statements included herein present fairly in all material respects, the financial situation of the project trust, component managed by BANDESA, its revenues and expenditures and its cash flows, for the period from July 1, 1987 through March 31, 1989:

- It was determined that the provision for doubtful accounts as of March 31, 1989 is insufficient by Q 91,000.
- During the audited period from July 1, 1987 through March 31, 1989, there were determined questioned costs for an amount of Q 130,346.

Internal control structure

The current BANDESA internal control structure for the execution of the project trust, is based in some cases on mandatory procedures and accounting manuals issued by the Superintendencia de Bancos de Guatemala. To perform our evaluation we considered these factors. Such evaluation disclosed the following reportable conditions:

1. Lack of evidence of supervision of loans given
2. Lack of control and filing of the documentation related to the liquidations presented to USAID
3. A segregated account was not used to manage the trust funds, as the cash was managed by BANDESA as a whole.

Compliance with agreement terms and applicable laws and regulations

Except for the non-compliance situations mentioned in the following paragraphs, BANDESA complied in all material respects, with the agreement terms and applicable laws and regulations. Regarding the non-tested matters, nothing came to our attention that caused us to believe that BANDESA had not complied in all material respects, with the agreement terms and the applicable laws and regulations.

Loan agreement

BANDESA did not comply with some accounting and financial provisions of the loan agreement subscribed with USAID. These non-compliance situations are described below:

- (1) Section 3.2 "Borrower resources for the project"
 - The expected contribution for the projects by the Government of Guatemala as counterpart was Q 3,131,455. As of March 31, 1989, it had been furnished the amount of Q 2,993,324. As of the date of this report BANDESA had not received yet the remaining Q 138,131, to complete the foreseen contribution.
- (2) Section B.5 "Reports, records, inspections, audits" clause (b) Annex 2
 - A separate bank account was not used for the managing of the trust funds.
 - There was no adequate control and file of the documentation related to the component execution of the project.
 - No independent and periodic audits were contracted.
- (3) Section B.3 "Use of property and services", clause (a), Annex 2
 - Vehicles provided by USAID to BANDESA for the project operation, were transferred to other agencies out of the region where the project is located.

V. MANAGEMENT COMMENTS

The BANDESA management comments were considered and included in the final report. They disagreed with our opinion, with the findings related to the questionable costs, with the internal control structure, and the compliance with applicable laws. The complete text of the management comments is included in the Annex I of this report.

VI. AUDITORS RESPONSE

Upon receiving BANDESA's management comments, we revised the findings included in the report, in order to determine the measures taken by management to clear them up. Our response to BANDESA's management comments is included in the Annex II of this report.

Arthur Andersen & Co.

ARTHUR ANDERSEN & Co.

AUDIT OF THE
SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of assets, liabilities and fund balance of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST, USAID/GUATEMALA PROJECT NO. 520-0255, COMPONENT MANAGED BY THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-, (a trust constituted in the Republic of Guatemala and managed by BANDESA an autonomous and decentralized banking governmental entity) as of March 31, 1989, and the related statements of revenues and expenditures, fund balance and cash flows for the period from July 1, 1987 through March 31, 1989. These financial statements are the responsibility of the BANDESA management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As it is explained in Note 5a to the financial statements, the trust policies and accounting practices, as well as the presentation of its financial statements are based on the regulations included in its deed of constitution and its amendments, as well as in the instructions issued by the Superintendencia de Bancos de Guatemala, (which is the entity in charge of inspecting the trustee), which is a comprehensive basis of accounting other than generally accepted accounting principles.

1. It was determined that the provision for doubtful accounts as of March 31, 1989 is insufficient by Q 91,000.
2. As mentioned in Note 9 to the financial statements, during the period from July 1, 1987 through March 31, 1989, there were questioned costs in an amount of Q 130,346 (approximately US\$ 48,276).

In our opinion, except for what is mentioned in the preceding paragraphs the financial statements referred to above, present fairly, in all material respects, the financial position of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST, USAID/GUATEMALA PROJECT No. 520-0255, COMPONENT MANAGED BY THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-, as of March 31, 1989, the revenues an expenditures and the cash flows for the period from July 1, 1987 through March 31, 1989 according to accounting principles regulated by the Superintendencia de Bancos and the regulations included in its deed of constitution on the basis above described.

This report is intended for the information and use of the United States Agency for International Development, the Government of the Republic of Guatemala and the Banco Nacional de Desarrollo Agrícola -BANDESA-. This restriction is not intended to limit the distribution of this report, which is a matter of public record, upon acceptance by the Office of the Inspector General.

Arthur Andersen & Co.

Guatemala, C. A

February 8, 1991

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

STATEMENT OF ASSETS, LAIBILITIES AND FUND BALANCE

AS OF MARCH 31, 1989

<u>ASSETS</u>				<u>LIABILITIES AND FUND BALANCE</u>		
		<u>Questionable costs</u>		<u>Reference</u>		
		<u>Questioned</u>	<u>Unsupported</u>	<u>to notes</u>		
CASH AND BANKS (Note 6)	Q 1,891,327	Q 11,295		(9)	CURRENT LIABILITIES:	
					Margin to draw (Nota 8)	Q 531,237
					Accounts payable	1,949

						533,186
LOANS - net (Nota 7)	3,142,502		Q 119,051	(9)	DEFERRED PROFITS (Nota 8)	226,613
OTHER ASSETS (Nota 8)	762,146				TRUST FUND BALANCE:	
					Agency for International Development	
					AID contribution to the trust	2,874,853
					Government of Guatemala contribution	2,993,324
					Social payments delivery	(650,748)
					Accumulated of revenues over accrued	
					expenditures	141,599
					Excess of expenditures over the	
					period revenues	(322,852)

						5,036,176

	Q 5,795,975	Q 11,295	Q 119,051			Q 5,795,975
	=====	=====	=====			=====

The notes to the financial statements are an integral part of this statement.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

STATEMENT OF TRUST REVENUES AND EXPENDITURES

FOR THE PERIOD FROM JULY 1, 1987 THROUGH MARCH 31, 1989

REVENUES:

Loans interest	Q	260,904
Savings accounts interest		165,253
Other revenues		277
		<hr/>
		426,434
		<hr/>

EXPENDITURES:

Administrative expenditures (Nota 5b)		401,598
Uncollectible accounts		261,869
		<hr/>
		663,467
		<hr/>
Excess of expenditures over revenues derived from operations		(237,033)
ADJUSTMENTS TO PRIOR PERIODS PROFITS AND LOSSES		(85,819)
		<hr/>
Excess of expenditures over revenues	Q	(322,852)
		<hr/>

The notes to the financial statements are an integral part of this statement.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

STATEMENT OF FUND BALANCE

FOR THE PERIOD FROM JULY 1, 1987 TO MARCH 31, 1989

	<u>AID contribution</u>	<u>Government of Guatemala contributions</u>	<u>Social payments delivery</u>	<u>Excess of revenues over expenditures to be applied</u>	<u>Excess of expenditure over revenues from 1/1/87 to 31/3/89</u>	<u>Total</u>
Balance as of June 30, 1987	q 2,009,919	q 1,774,998	q (606,423)	q 141,599	q -	q 3,320,093
- AID contributions (Note 11)	864,934					864,934
- Government of Guatemala contribution		1,218,326				1,218,326
- Social payments delivery			(44,325)			(44,325)
- Excess of expenditures over the audited period revenues					(322,852)	(322,852)
	----- q 2,874,953 =====	----- q 2,993,324 =====	----- q (650,748) =====	----- q 141,599 =====	----- q (322,852) =====	----- q 5,036,176 =====

The notes to the financial statements are an integral part of this statement.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM JULY 1, 1987 THROUGH MARCH 31, 1989

CASH FLOWS FROM OPERATING ACTIVITIES:

Excess of expenditures over the period revenues	Q	(322,852)
Plus - Charges to results which not required cash use-		
Provision for doubtful loans		261,869
		<hr/>
Cash applied to operations		(60,983)

Net changes in assets and liabilities:

Cash used for increase in assets and decrease		
in liabilities-		
Loans		(864,020)
Social payments delivery		(44,325)
		<hr/>
Net cash applied to operating activities		(969,328)

CASH FLOWS IN FINANCING ACTIVITIES:

Government of Guatemala contributions		1,145,119
Agency for International Development contributions		864,933
		<hr/>
Net cash from financing activities		2,010,052

NET INCREASE IN CASH AND BANKS		1,040,724
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CASH BALANCE, at beginning of the period		850,603
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CASH BALANCE, at end of the period	Q	<u><u>1,891,327</u></u>
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The notes to the financial statements are an integral part of this statement.

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SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

NOTES TO THE FINANCIAL STATEMENTS

AS OF MARCH 31, 1989

(1) Brief history and description of the Project

The Guatemalan Government through the Ministry of Public Finances, the Ministry of Agriculture, Livestock and Food and the National Board of Economic Planning, signed a grant agreement No. 520-0255 for US\$ 3,696,000 and the loan agreement No. 520-T-034 for US\$ 5,500,000 with the United States Agency for International Development in Guatemala (USAID/Guatemala) for the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255. The Government of the Republic of Guatemala will amortize this loan to the United States Agency for International Development -USAID- within a twenty-five (25) year term, from the date of the first disbursement, by means of thirty-one (31) semi-annual payments. USAID will furnish to the Government of the Republic of Guatemala an amortization schedule; interest will be paid on a 2% annual base, during ten (10) years, beginning from the date of the first disbursement and subsequently using a 3% annual base, computed over the loan balance and interest overdue and unpaid. The original amount was reduced on September 26, 1988 to US\$ 4,413,135. Additionally to these funds, the Guatemalan Government committed a minimum of US\$ 6,700,000 as counterpart funds.

The project's major goal was to strengthen the agricultural sector's livestock and to stimulate small farm diversification from basic grains to higher value diversified crops of greater labor intensity. The project activities were: a) applied research and technology adaptation, b) extension and promotion, c) loans and social cost payments (contributions), d) in-service training, e) project coordination, and f) nutritional impact evaluation.

(2) Description of the trust

On December 3, 1982 before the Government Public Notary, a trust agreement contained in deed of constitution number 1162 was signed, which is ruled by the following provisions.

(a) Trust objective

The trust's major goal is to obtain significant improvements in the domestic compensations and the nutritional level of the small and medium-sized farmers, through the provision of short and long terms credits, for the support and development of diversified crops, cattle systems and small farms betterments.

(b) Trusted fund

The total cost of the program was estimated to be Q 5,200,000 which will be granted by the USAID by means of the loan 520-T-034 for US\$ 3,000,000 and by the Government of the Republic of Guatemala through the Ministry of Public Finances for Q 2,200,000. This amount was modified to Q 7,402,022, agreeing that USAID will grant Q 4,270,567 by means of the loan 520-T-034 and the Government of the Republic of Guatemala for Q 3,131,455.

(c) Trust subjects

Trust subjects are trustee and truster, the Government of the Republic of Guatemala represented through the Ministry of Public Finances and the Ministry of Agriculture, Livestock and Food and fiduciary as the National Bank of Agricultural Development -BANDESA-.

(d) Term

The trust term is for 20 years beginning December 3, 1982.

(e) Brief history of the fiduciary

The National Bank for Agricultural Development -BANDESA- was created as an autonomous and decentralized banking governmental entity. Its objectives are to promote, manage and provide credit facilities from the Government of the Republic of Guatemala to the agricultural sector of the country, mainly to small and medium-sized farmers.

(3) Monetary unit

The trust's accounting records are kept in quetzales, official monetary unit of the Republic of Guatemala.

The in force exchange rates were as follows:

- Official exchange rate during the period July 31, 1987 through March 31, 1989 was Q 1.00 per US\$ 1.00, to be used only in payment of part of the external debt of the Banco de Guatemala (Central Bank).
- Regulated market exchange rate for all other foreign currency transactions:
 - . For the period from July 31, 1987 through June 22, 1988 Q 2.50 per US\$ 1.00.
 - . For the period from June 23, 1988 through March 31, 1989 Q 2.70 per US\$ 1.00.

(4) Independent accounting records

The trust's accounting records are kept separately from the BANDESA's accounting records (fiduciary).

(5) Main accounting policies

(a) Basis of presentation

Policies and accounting procedures used, as well as the presentation of the trust financial statements are according to its deed of constitution and its amendments, as well as to the instructions issued by the Superintendencia de Bancos of Guatemala, which is the entity in charge of the inspection of the country's banking system. Such dispositions are mandatory for all the banks operating in the country. That is the reason why, there are some differences with the generally accepted accounting principles. The main differences are the following:

1. Interest from loans are initially recorded as deferred profits in the statement of assets and liabilities they are recorded in the statement of revenues and expenditures when collected. Interest over Government bonds are recorded as a profit when earned.
2. In the balance sheet the following accounts are shown "Authorized credits to be disbursed" and "Liabilities for non-used credits", whose balances are the same, and are used only to control the authorized but non-disbursed loans.

(b) Administrative expenditures

These expenses correspond basically to the applications of certain percentages, as explained below.

Until June 30, 1986, the Government of the Republic of Guatemala approved to BANDESA the following percentages to cover the direct, indirect costs and administrative expenditures incurred by the trust as follows: 5% annually calculated over the current loans portfolio generated by this fund; and 7% annually calculated over the capital retrieval of the trusted funds. As of July 1, 1986 the base and calculation percentage were changed, to 10% annually over the credits granted.

(c) Trust fund balance

The project trust fund balance was formed by contributions from the USAID loan agreement No. 520-T-034 and counterpart contributions from the Government of Guatemala, as it is specified in the project agreement.

(d) Social payments

The social payments are cash contributions to the small farmers to perform soil preservation in their lands. The funds received for social payments costs were recorded as liabilities.

(6) Cash and banks

The balance of this account as of March 31, 1989, consists of:

Cash (rotating fund loans 520-T-034)	Q 358,267
Saving accounts deposits-	
Banco de la Construcción, S. A.	754,602
Banco Internacional, S. A.	517,853
Banco Inmobiliario, S. A.	159,928
Banco Promotor, S. A.	100,677
	<hr/>
	Q 1,891,327
	<hr/> <hr/>

(7) Loans receivable

The balance of this account as of March 31, 1989, is classified according to its term, and guarantee type, as follows:

Current loans-	
Pledges	Q 2,201,997
Pledges-fiduciary	490,475
Mortgages-pledges	140,499
Fiduciary	16,647
Mortgages	4,256
Mortgages-fiduciary	3,490
	<hr/>
	2,857,364
	<hr/> <hr/>
Over loans-	
Pledges	418,347
Pledges-fiduciary	120,548
Fiduciary	6,135
Mortgagee-pledges	1,977
	<hr/>
	547,007
	<hr/> <hr/>
	3,404,371
Less - Provision for doubtful loans- (Note 10a)	(261,869)
	<hr/> <hr/>
	Q 3,142,502
	<hr/> <hr/>

(8) Other fixed assets

The balance of this account as of March 31, 1989, consists of:

Loans interest receivable	Q 226,613	a/
Credits authorized to be used	531,237	a/
Accounts receivable from employees	4,197	
Third party payments	99	
	<hr/>	
	Q 762,146	
	<hr/> <hr/>	

- a/ This amount corresponds to reciprocal balances shown in assets as in liabilities, as well.

(9) Questionable costs

Among disbursements performed by BANDESA for loan furnishing with project funds there were some questionable costs, which are detailed as follows:

Questioned

Transfers of loans that were reported to USAID for a higher amount in the reimbursement request No. 1-88, as follows:

<u>Loan No.</u>	<u>Reimbursed by USAID</u>	<u>Disbursed</u>	<u>Questionable amount</u>
93220015488-8	Q 7,000	Q 700	Q 6,300
93220015688-2	3,750	375	3,375
93230022988-7	1,800	180	1,620
Approximately US\$ 4,183			11,295

Unsupported

Disbursements without supporting documentation, not available for the auditors review:

- Reimbursement request No. 4-87	80,031
- Part of the reimbursement request No. 5-87. The request is for Q 736,731 and the attached listings amounts Q 697,711	39,020
Approximately US\$ 44,093	119,051
Approximately US\$ 48,276	Q 130,346

(10) Subsequent events

(a) Subsequent transactions

On March 27, 1990, BANDESA recorded an adjustment for Q 188,429 to increase the provision for doubtful accounts provided with trust funds. This adjustment was made on the basis of an collectible analysis, made as of September 30, 1989.

(b) Monetary unit

As of February 8, 1991, exchange rate for the quetzal (Q) related to the dollar of the United States of America (US\$) was of Q 5.11 per US\$ 1.00.

Exchange rate is determined according to the supply and demand of the US dollar of the United States of America, and there is a base price for its acquisition which is periodically determined by the Monetary Board.

(11) USAID Contributions

USAID contributions during the period July 1, 1987 to March 31, 1989 Q 864,934 is equal to approximately US\$ 331,006.

ARTHUR ANDERSEN & Co.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We have audited the statement of assets, liabilities and trust fund balance of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST, USAID/GUATEMALA PROJECT No. 520-0255, COMPONENT MANAGED BY THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA- as of March 31, 1989, and the related statements of revenues and expenditures, fund balance, and cash flows for the period from July 1, 1987 through March 31, 1989 and we have issued our report in which we expressed a qualified opinion there on dated February 8, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

In planning and performing our audit of the financial statements of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST, USAID/GUATEMALA PROJECT No. 520-0255, COMPONENT MANAGED BY THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-, for the period July 1, 1987 through March 31, 1989, we considered its internal control structure in order to determine the nature, timing and extent of 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 National Bank for Agricultural Development -BANDESA- is responsible for establishing and maintaining an internal control structure to execute the project trust operations. In fulfilling this responsibility, 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 an internal control structure are to provide management with reasonable, but not absolute, assurance that the 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 the financial statements in accordance with the basis of accounting described in Note 5(a) to the financial statements. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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For the propose of this report, we have classified the significant internal control structure policies and procedures in the following economic cycles: 1) financial report, 2) treasury, 3) credits concession and 4) social payments delivery.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified public Accountants and the United States Comptroller General's Government Auditing Standards (1988 Revision). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Management's ability to record, process, summarize, and report financial data consistent with the assertions of the Management in the financial statements. Reportable conditions are described in findings from 1 to 3 in the following pages of this report.

A material weakness is a reportable condition in which the design or operation of 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 believe all the reportable conditions as described in the following pages, are material weakness.

This report is intended for the information of the United States Agency for International Development, the Government of the Republic of Guatemala and the National Bank for Agricultural Development -BANDESA-. This restriction is not intended to limit the distribution of this report which is a mater of public record, upon acceptance by the Office of the Inspector General.

Arthur Andersen & Co.

Guatemala, C. A.
February 8, 1991

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

INTERNAL CONTROL STRUCTURE
FINDINGS

1. Lack of evidence of supervision
of loans given

Condition

From 317 loans files reviewed, 57 did not have the report related to the loan supervision.

Criteria

According to the credit lines regulation for loans to be provided with the trust funds "BANDESA has the right to investigate the manner of which the credits will be used", for this purpose visits to each loan user must be done to verify that the credit has been used in accordance with the work plan presented. The results of the visits must be duly documented in a report which must be filed in each loan user file.

Cause

In spite of the credit lines regulation, there is insufficient personnel to supervise credits in some sub-regions, therefore, not all visits are performed; on the other hand, the monitoring activity was also in charge of other executor entities of the project, such as DIGESA and DIGESEPE, and did not provide all the reports for the visits executed. Another reason is that the credit agents perform the visits but they do not file the reports in the corresponding file.

Effect

There is no evidence about the proper use of the credits, in accordance to the work plan and for the purpose they were provided.

Recommendation

We recommend that BANDESA require the other executor entities, submit monitoring reports corresponding to the visits performed, and to file them in the loan file.

2. Lack of control and filing of the documentation related to the liquidations presented to USAID

Condition

Disbursement listings supporting the liquidations presented to USAID, as well as the documentation supporting the funds received by BANDESA, is not properly filed in a corresponding chronological order, so it was not possible for us to locate part of the documentation, regarding the reimbursement requests to USAID, numbers 4-87 for Q 80,031 and 5-87 for Q 39,020.

Criteria

In accordance with section B.5 "Reports, records, inspections, audits", clause (b), Annex 2 of the loan agreement signed with USAID, all the books and records related to the project execution must be adequately controlled and be kept for a period of three years after the date of the last disbursements made by USAID.

Cause

Lack of adequate control procedure for the filing of this documentation.

Effect

Documentation is not adequately filed and part of it was lost, therefore it is not available for review, so we could not verify its existence and fairness.

Recommendation

We recommend BANDESA adequately control and file in a chronological order information and documentation related to the liquidations presented to USAID/Guatemala so it can be available for subsequent reviews.

3. Trust funds managed by BANDESA in their entirety

Condition

The total trust funds were managed by BANDESA as a whole, since there was no bank account to separately manage them.

Criteria

According to what is indicated in section B.5 "Reports, records, inspections, audits", clause (b), annex 2 of the loan agreement signed with USAID, "Adequate books and records must be kept in order to identify, without limitations, the transfer and use of property and services financed with loan funds". BANDESA must managed trust funds in a segregated bank account.

Cause

BANDESA did not implement the procedure of establishing a bank account for each trust fund, due, to inadequate written procedure to comply with the agreement terms.

Effect

Noncompliance of above mentioned clause, resulting in reduced accountability of USAID/Guatemala funds.

Recommendation

We recommend BANDESA establish procedures requiring the maintenance of a separate bank account for the trust operations relating to the USAID/Guatemala project.

ARTHUR ANDERSEN & Co.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITORS' REPORT

We have audited the statement of assets, liabilities and fund balance of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST, USAID/GUATEMALA PROJECT No. 520-0255, COMPONENT MANAGED BY THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-, as of March 31, 1989, and the related statements of revenues and expenditures, fund balance and cash flows for the period from July 1, 1987 through March 31, 1989 and we have issued our report in which we expressed a qualified opinion thereon dated February 8, 1991.

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

Compliance with agreement terms laws and regulations applicable to the National Bank for Agricultural Development -BANDESA- is the responsibility of the Government of the Republic of Guatemala and the National Bank for Agricultural Development -BANDESA-. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of The National Bank for Agricultural Development -BANDESA- compliance with certain provisions, agreement terms and laws and regulations. However, our objective was not to provide an opinion on the overall compliance with such provisions.

Material instances of non-compliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the findings Nos. 1 to 3 included in the following pages which in our opinion are of material effect. In addition, possible matters of noncompliance may exist in those areas of the project which we did not review.

We considered these material instances of noncompliance in forming our opinion on whether the National Bank for Agricultural Development -BANDESA- financial statements are fairly presented, in all material respects, in conformity with the basis of accounting described in Note 5(a) to the financial statements, and this report does not affect our report dated February 8, 1991.

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Except as describe above, the results of our tests of compliance indicate that, with respect to the items tested, the National Bank for Agricultural Development -BANDESA- complied, in all material respects, with the provisions referred to in the third paragraph of this report; and with respect to the items not tested, nothing came to our attention that caused us to believe that The National Bank for Agricultural Development -BANDESA- had not complied, in all material respects with those provisions.

This report is intended for the information of the United States Agency for International Development, the Government of the Republic of Guatemala and the National Bank for Agricultural Development -BANDESA-. This restriction is not intended to limit the distribution of this report which is a matter of public record, upon acceptance by the Office the Inspector General.

Arthur Andersen & Co.

Guatemala, C. A.
February 8, 1991

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE
LAWS AND REGULATIONS
FINDINGS

AGREEMENT TERMS

1. In order to fulfill the requirements included in
Section 3.2 "Borrower resources for the project"

Condition

The Government of the Republic of Guatemala did not totally provide the committed funds to finance the project trust. As of March 31, 1989, it has provided Q 2,993,324 and as of the date of this report it had not given any additional amount to complete the expected total contribution of Q 3,131,455.

Criteria

According to the trust agreement provision in clause 5 item a) dated December 3, 1982, and modified with the one dated September 27, 1988, the Government of Guatemala must "opportunely provide the local counterpart resources necessary for the complete and non-interrupted execution of the sub-projects "A", "B", "C". The total amount of those local counterpart resources is estimated in Q 3,131,455, which will be furnished to BANDESA in accordance with a plan it presents related to the needs of the above mentioned sub-projects "A", "B" and "C".

Cause

The contribution of the Government of the Republic of Guatemala was not based on the proportion indicated in the loan agreement signed with USAID.

Effect

Noncompliance of what is established in this clause, thereby possibly threatening the project operations and achievement of project objectives.

Recommendation

We recommend that BANDESA ensure and verify that the Government of the Republic of Guatemala opportunely comply with the stipulations of the subscribed agreements.

2. In order to fulfill the requirements included in section B.5 "Reports, records, inspections, audits", clause (b), Annex 2

Condition

BANDESA did not fully comply with this provision, in the following manner:

- A segregated account was not used to manage the trust funds, as the cash was managed by BANDESA as a whole.
- There was no an adequate control and file of all the documentation related to the project component execution.
- No independent and periodical audits were contracted to review the project accounting records.

Criteria

According to the above mentioned clause BANDESA should have "kept or supervise that books and accounting records be kept related to the project and the agreement provisions, in accordance with generally accepted accounting principles and practices and in an appropriate way to identify without limitations the dispatch and usage of property and services financed with loan funds. Such books and records should be submitted to periodical audits, and should be kept for a period of three years after the date of the last disbursement made by USAID".

Cause

Omission of internal control procedures and to what is stipulated in the agreement, and lack of instructions and funds for the contracting of independent audits.

Effect

The Government of the Republic through BANDESA did not comply with the clause.

Recommendation

We recommend that both the Government of the Republic of Guatemala and the project's executer units, establish the necessary procedures in order to comply with the agreement terms.

3. In order to fulfill the requirements included in Section B.3 "Use of property and services", clause (a), Annex 2

Condition

BANDESA did not comply with this stipulation due to the following:

- The three (3) vehicles provided for the project operation, were transferred to the agencies of La Máquina, Chiquimulilla and Gualán and at the date of this report, they have not been returned to the region in which the project was located.

Criteria

According to the mentioned clause "any resource financed with the loan funds will be used in the project while it is in operation and later it will be used to obtain the same project objectives, unless USAID agrees other use by means of a written document".

Cause

There was no adequate control over materials, supplies, and fixed assets purchased with project funds.

Effect

The noncompliance of the indicated provision, may jeopardize the project's goals.

Recommendation

We recommend that BANDESA establish written procedures to provide for the adequate control of materials, supplies and fixed assets in order to comply with provisions described in the agreement.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

LIST OF REPORT RECOMMENDATIONS

Internal control structure

1. We recommend that BANDESA require the other executer entities, submit monitoring reports corresponding to the visits performed, and to file them in the loan file.
2. We recommend BANDESA adequately control and file in a chronological order information and documentation related to the liquidations presented to USAID/Guatemala so it can be available for subsequent reviews.
3. We recommend BANDESA establish procedures requiring the maintenance of a separate bank account for the trust operations relating to the USAID/Guatemala project.

Compliance of legal aspects, applicable regulations and terms of the agreement

1. We recommend that BANDESA ensure and verify that the Government of the Republic of Guatemala opportunely comply with the stipulations of the subscribed agreements.
2. We recommend that both the Government of the Republic of Guatemala and the project's executer units, establish the necessary procedures in order to comply with the agreement terms.
3. We recommend that BANDESA establish written procedures to provide for the adequate control its materials, supplies and fixed assets in order to comply with provisions described in the agreement.

BANCO NACIONAL DE DESARROLLO AGRICOLA

9a. CALLE No. 9-47, ZONA 1
GUATEMALA, GUATEMALA, C. A.

ANNEX I1 of 8**SUB-GERENCIA GENERAL**

DIRECCION CABLEGRAFICA
BANDESA

No. ASG-346-91
Ref.:

3 de octubre de 1991

Señores
AREVALO PEREZ, ARANKY Y ASOCIADOS
Contadores Públicos y Auditores
Corresponsales de **ARTHUR ANDERSON & Co.**
Guatemala, Ciudad

Señores:

En referencia al contenido del informe preliminar, relacionado con la Auditoría del Proyecto de Sistemas de Diversificación para el Pequeño Agricultor (520-0255), me permito exponerle los siguientes puntos de vista:

1. RESULTADO AUDITORIA.

1.1 ESTADOS FINANCIEROS

OBSERVACION:

- Se determinó una insuficiencia en la reserva para préstamos de dudosa recuperabilidad por Q.91,000.00 al 31 de marzo de 1989.

COMENTARIO:

La presente observación tiene carácter subjetivo, ya que dependiendo de los criterios que adopte cada auditor así serán los resultados.

Independientemente la propia Auditoría en la nota de los Estados Financieros (10) eventos subsecuentes literal (a) transacciones posteriores, señala que el Banco el 27 de marzo de 1990, incrementó la reserva para préstamos de dudosa recuperación en Q.188,429.00.

Por lo tanto dicha observación a la fecha no tiene ninguna relevancia.

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BANCO NACIONAL DE DESARROLLO AGRICOLA9a. CALLE No. 9-47, ZONA 1
GUATEMALA, GUATEMALA, C. A.ANNEX I
2 of 8SUB-GERENCIA GENERALDIRECCION CABLEGRAFICA
BANDESANo. **ASG-346-91**
Ref.:.....Señores
AREVALO PEREZ, ARANKY Y ASOCIADOS
Contadores Públicos y Auditores
Corresponsales de **ARTHUR ANDERSON & Co.**
HOJA 2**OBSERVACION:**

- Durante el período auditado del 1 de julio de 1987 al 31 de marzo de 1989, se determinaron costos cuestionables por un valor de Q.130.346.00.

COMENTARIO:

No compartimos esta observación en vista que indica que se determinaron costos cuestionables, lo cual por ser un sinónimo de gastos da la impresión que se hizo un mal uso de los recursos, siendo lo correcto que dicha cantidad corresponde a inversiones en créditos.

Al respecto en la nota de los Estados Financieros (9), se hace un detalle de los mismos y en lo que corresponde a entregas de préstamos que fueron reportados a **USAID**, por un monto mayor en la solicitud de reembolso 1-88, efectivamente existe el error en las cantidades liquidadas siendo imposible a la fecha determinar a que se debió; no obstante, se observa en la liquidación que no se elaboró con intención de dolo ya que a la par se consigna el monto concedido del crédito, suma que es menor a las entregas liquidadas. Por lo que se concluye que fue un error mecanográfico que no se corrigió en su oportunidad.

En lo que corresponde a los Q.119,051.00 de desembolsos de documentación sin soporte de las solicitudes de reembolso 4-87 y 5-87, efectivamente en los archivos de nuestra Sección Financiera no quedó completa la integración que se remitió a **USAID/GUATEMALA**.

En ambas situaciones la documentación fue revisada por autoridades tanto de **UCPRODA** como de **AID**, por otra parte, al final las mismas no excedieron del monto asignado al componente de crédito del proyecto en referencia. No obstante, ya se estableció

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BANCO NACIONAL DE DESARROLLO AGRICOLA

9a. CALLE No. 9-47, ZONA 1
GUATEMALA, GUATEMALA, C. A.

ANNEX I
3 of 8

SUB-GERENCIA GENERAL

DIRECCION CABLEGRAFICA
BANDESA

No. ASG-346-91
Ref.:.....

Señores

AREVALO PEREZ, ARANKY Y ASOCIADOS
Contadores Públicos y Auditores
Corresponsales de **ARTHUR ANDERSON & Co.**
HOJA 3

comunicación con el Contralor de **AID** a efecto que nos permita buscar dicha documentación en los archivos de esa Institución (Oficio **ASG-345-91**).

1.2 ESTRUCTURA CONTROL INTERNO**OBSERVACION 3**

Falta de evidencia de supervisión de préstamos otorgados.

COMENTARIO:

En la ejecución del componente de crédito participaron otras Instituciones del Sector Público Agrícola (**DIGESA, DIGESEPE**), consecuentemente la evidencia sobre el seguimiento y supervisión que efectuaron a los proyectos dichas entidades, no fue remitida para su archivo en cada expediente.

Asimismo es importante mencionar que al 31 de marzo de 1989 la Cartera de préstamos de este fideicomiso reportaba 1874 créditos concedidos, lo cual comparado contra los 57 casos que carecían de informe de supervisión de préstamos, estimamos que no es representativa dicha cantidad.

No obstante lo anterior se giraron las instrucciones pertinentes a las distintas unidades de campo, con el objeto que en lo sucesivo documenten debidamente los expedientes de crédito de acuerdo a las normas establecidas.

OBSERVACION 5

- Falta de control y archivo de la documentación relacionada con las liquidaciones presentadas a **USAID**.

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BANCO NACIONAL DE DESARROLLO AGRICOLA

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GUATEMALA, GUATEMALA, C. A.

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SUB-GERENCIA GENERAL

DIRECCION CABLEGRAFICA
BANDESA

No. **ASG-346-91**
Ref:.....

Señores
AREVALO PEREZ, ARANKY Y ASOCIADOS
Contadores Públicos y Auditores
Corresponsales de **ARTHUR ANDERSON & Co.**
HOJA 4

COMENTARIO:

A la fecha esta deficiencia ha sido superada; sin embargo, no compartimos que se generalice esta observación, en vista que la falta de documentación sólo existió en dos liquidaciones.

OBSERVACION 6

Fondos del Fideicomiso manejados a nivel de todo **BANDESA**.

COMENTARIO:

No se comparte esta observación, en vista que cada Fideicomiso lleva sus propios registros por separado, y según el Manual de instrucciones contables para los bancos del sistema, establece el uso de la cuenta 3202 "Fideicomisos", a través de la cual se deben registrar el movimiento de ingresos y egresos en efectivo de los diferentes fideicomisos y su saldo representará la disponibilidad inmediata a favor de éstos.

Con base en lo anterior y de acuerdo a lo establecido en la sección B. 5 "Informes, Registros, Inspecciones, Auditorías", inciso (b), del anexo 2 del Convenio de préstamos suscrito con **USAID**, el Banco lleva los libros y registros en una forma adecuada para identificar sin limitaciones la entrega y uso de bienes y servicios financiados con fondos del préstamo.

Para el caso particular de manejar los fondos del Fideicomiso a través de una cuenta bancaria por separado; para el Banco resultaría demasiado costoso y engorroso establecer dicha práctica, ya que significaría abrir una cuenta de depósitos monetarios en cada una de sus agencias y cajas Rurales. Práctica que no solo tendría que establecer en la administración de este Fideicomiso sino que también para los demás.

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BANCO NACIONAL DE DESARROLLO AGRICOLA

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DIRECCION CABLEGRAFICA
BANDESA

No. **ASG-346-91**
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Ref.:.....

Señores
AREVALO PEREZ, ARANKY Y ASOCIADOS
Contadores Públicos y Auditores
Corresponsales de **ARTHUR ANDERSON & Co.**
HOJA 5

En virtud de lo antes expuesto, no compartimos la observación efectuada por el órgano fiscalizador, toda vez que de acuerdo a los registros y controles establecidos por el Banco, este permite facilidad para efectos de análisis, supervisión, evaluación y fiscalización.

- 1.3 Cumplimiento de aspectos, regulaciones aplicables y términos del convenio.

OBSERVACION

La contribución prevista por parte del Gobierno de Guatemala como contrapartida al Proyecto fue de Q.3,131.455. Al 31 de marzo de 1989 había aportado la cantidad de Q.2,993.324. A la fecha de este informe **BANDESA** aún no había recibido los Q.138,131 restantes para completar la aportación prevista.

COMENTARIO:

La falta de cumplimiento de esta condición no es imputable a **BANDESA**, ya que ésta compete al Gobierno de la República de Guatemala.

Al respecto el Banco en sus diferentes presupuestos ha considerado el ingreso de los Q138,131. correspondientes a la contribución del Gobierno de Guatemala como contrapartida al proyecto; sin embargo, por parte del Gobierno Central no se ha cumplido con lo establecido en la Escritura Constitutiva del Fideicomiso. Como evidencia se adjunta la "Situación de contrapartida período 1987-1992" en donde se observa que el Banco si ha solicitado en su oportunidad la referida contrapartida.

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DIRECCION CABLEGRAFICA
BANDESA

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Señores
AREVALO PEREZ, ARANKY Y ASOCIADOS
Contadores Públicos y Auditores
Corresponsales de **ARTHUR ANDERSON & Co.**
HOJA 6

OBSERVACION

No se utilizó una cuenta Bancaria separada para administrar los fondos del Fideicomiso.

COMENTARIO

Para esta observación cabe la misma respuesta proporcionada en la observación 6

OBSERVACION

No hubo control adecuado y archivo de la documentación relacionada con la ejecución del componente del proyecto.

COMENTARIO:

Se acepta los casos concretos expuestos por los auditores, pero no como una observación generalizada del Proyecto.

OBSERVACION

No se contrataron auditorías independientes periódicas.

COMENTARIO:

De conformidad con la Escritura Constitutiva del Fideicomiso suscrita entre el Gobierno de la República y el Banco no se encuentra estipulada la condición referente a que el BANDESA

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DIRECCION CABLEGRAFICA
 BANDESA

ASG-346-91

No.

Ref.:

Señores

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 Contadores Públicos y Auditores
 Corresponsales de **ARTHUR ANDERSON & Co.**
HOJA 7

contrate auditores independientes periódicos, acción que en todo caso le corresponde al prestatario (Gobierno Central), por lo que se considera que dicha observación debe ser dirigida al Gobierno de la República o en su defecto modificar la sección B. 5 "Informes, registros, inspecciones, auditorías", inciso (b) del anexo 2 del convenio. De llevarse a cabo la modificación anterior sería necesario que el Gobierno o AID provea al Banco de los recursos financieros con el fin de poder contratar los servicios de una auditoría independiente.

Por aparte, le informamos que el Banco contrata anualmente una auditoría independiente, que audita los estados financieros de todos los fideicomisos que administra; asimismo, nuestro Departamento de Auditoría Interna tiene contemplado dentro de su programa de trabajo fiscalizar los recursos provenientes de Fideicomisos, de igual manera lo efectúa la Superintendencia de Bancos.

OBSERVACION

Los vehículos proporcionados por **USAID/GUATEMALA** a BANDESA para el funcionamiento del proyecto, fueron trasladados a otras agencias fuera de la región donde está ubicado el proyecto.

COMENTARIO:

Dicha medida se adoptó para aprovechar el uso de los recursos de la entidad, en virtud que la región I (actualmente Región VI) fue reforzada con un lote de vehículos nuevos provenientes del Proyecto 520-0274 (Desarrollo Agrícola del Altiplano).

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BANCO NACIONAL DE DESARROLLO AGRICOLA

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SUB-GERENCIA GENERAL

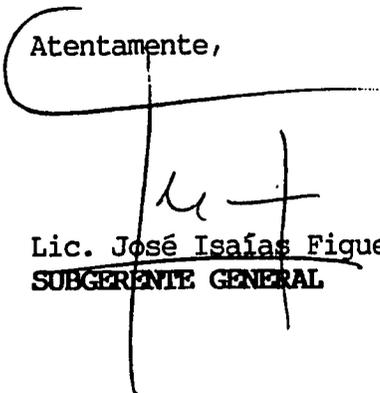
DIRECCION CABLEGRAFICA
 BANDESA

No. ASG-346-91
 Ref:.....

Señores
AREVALO PEREZ, ARANKY Y ASOCIADOS
 Contadores Públicos y Auditores
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HOJA 8

Dicho traslado se efectuó posteriormente a la finalización de la ejecución del Proyecto, además se encuentran asignados para la atención de los distintos fideicomisos financiados con recursos de **AID**.

Atentamente,


 Lic. José Isaias Figueroa C.
SUBGERENTE GENERAL



C.c.: Gerencia General
 Auditoría Interna
 Coordinador Proyecto Desarrollo Agrícola (PDA)
 Auditoría T-034


JIFC/PRBA/kmpg

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SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT TRUST

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT -BANDESA-

FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

AUDITORS RESPONSE TO BANDESA'S MANAGEMENT COMMENTS

I EXCEPTIONS TO THE FINANCIAL STATEMENT

I.1 Insufficient provision for doubtful loans

According to the note of subsequent events, this provision was adjusted in March 1990, therefore, we agree with BANDESA that currently such exception does not apply.

I.2 Questioned costs

We do not agree with BANDESA, because according to the USAID criteria, any disbursement of project funds or funds which are later reimbursed by USAID which is not duly documented or justified constitutes a questioned cost. We confirm the exception, since we were not provided with the additional data to clear the end-use of the disbursements.

II FINDINGS ON INTERNAL CONTROL STRUCTURE
AND COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS

Some of these recommendations have already been implemented: however, BANDESA should implement them in its entirety or request to USAID an authorization for not complying with some of them, indicating the reason for not complying them.

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APPENDIX

REPORT DISTRIBUTION

U.S. Ambassador to Guatemala	1
D/USAID/Guatemala	5
AA/LAC	1
LAC/CONT	1
LAC/CAP/G	1
AA/XA	2
XA/PP	1
LEG	1
GC	1
AA/MS	2
FM/FPS	2
PPC/CDIE	3

Office of the Inspector General

IG	1
AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM/C&R	5
AIG/I	1
IG/A/PSA	1
IG/A/FA	1

Regional Inspectors General

RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Europe	1
RAO/Manila	1
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