

**Inspector General for Audit  
Tegucigalpa, Honduras**

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**Audit of USAID/Guatemala's Small Farmer  
Diversification Systems Project  
Managed by the Technical Assistance Team  
July 1, 1987 through March 31, 1989**

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**Audit Report No. 1-520-92-09-N  
November 18, 1991**



**Inspector General for Audit  
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# AGENCY FOR INTERNATIONAL DEVELOPMENT

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

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY  
TEGUCIGALPA - HONDURAS

TELEPHONES:  
32-9987 - 32-3120  
FAX No. (504) 31-4465

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 Technical Assistance Team, July 1, 1987 through March 31, 1989

This report presents the results of a financial close-out audit of the Technical Assistance Team (Team), 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 30, 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 Team was responsible for assisting the implementing institutions of the project. The Team was originally composed of five specialists from the U.S. Department of Agriculture who collaborated with A.I.D. in implementing the Project. Six additional specialists were hired locally by USAID/Guatemala under the Project. The audit coverage included A.I.D. funds of \$32,714 provided to the Team during the audit period.

The objectives of the audit were to determine whether: (1) the Team's fund accountability statement presents fairly, in all material respects, the financial activity under the Project during the period audited; (2) the Team's internal control structure was adequate to manage activities under the Project; and (3) the Team had complied with the terms of the Project Agreement and applicable laws and regulations. The scope of the audit included an examination of the Team'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 Team's fund accountability statement presents fairly, in all material respects, the Project's financial activities managed by the Team for the period audited.

With respect to the Team's internal control structure the auditors identified three material weaknesses. The auditors reported that the Team did not: (1) perform periodic reconciliations of A.I.D. funds received; (2) maintain formal accounting records for the budget control accounts; and (3) require joint signatures on issued checks.

In their review of the Team's compliance with Project Agreement terms and applicable laws and regulations the auditors identified one area of material noncompliance. The auditors found that the Team did not fully comply with the Project Agreement clause concerning reports, records, inspections, and audits.

The draft report was discussed with Team management officials who expressed general agreement with the report. Their comments are included in Annex I of the report.

The Team was disbanded at the conclusion of the Project. For this reason we are not making any recommendations for inclusion in the Office of the Inspector General's audit recommendation follow-up system.

AUDIT OF THE  
SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
THE TECHNICAL ASSISTANCE TEAM -EAT-  
FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

AUDIT OF THE  
SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
THE TECHNICAL ASSISTANCE TEAM -EAT-  
FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

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ARTHUR ANDERSEN & CO.

EDIFICIO CAMARA DE INDUSTRIA  
RUTA 0. 0-21. ZONA 4-5o NIVEL  
GUATEMALA, C. A.  
TELS: 316136 Y 310381

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, USAID/Guatemala Project No. 520-0255, COMPONENT MANAGED BY THE TECHNICAL ASSISTANCE TEAM (EQUIPO DE ASISTENCIA TECNICA -EAT-) 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 year (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) year, 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 Q 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 expenses 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 on 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 -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 and Food -DIGESEPE-, the Institute of Agricultural Science and Technology -ICTA-, and the Technical Assistance Team -EAT-. The audit was built 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 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. 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. RESULT OF THE AUDIT

In this section we present a summary of the audit results describing briefly 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 mentioned in section II above, even though, we had the following limitations during our review.

##### Fund accountability statement

The fund accountability statement presents fairly, in all material respects, project's revenues and costs incurred, as well as the balance of the project component, managed by EAT for the period July 1, 1987 through March 31, 1989.

##### Internal control structure

The current EAT's internal control is minimum due to the limited volume of its operations and because the expenditures made were basically for its operations, so no store stocks or inventories were kept as all its equipment and furniture was acquired directly by USAID. We considered these factors for our evaluation. Such evaluation revealed the following reportable conditions:

##### **Financial report**

- Lack of reconciliation of the funds received from USAID
- Lack of formal accounting records

##### **Treasury-**

- Checks issuing without jointed signatures

##### Compliance with agreement terms, applicable laws and regulations

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

##### **Agreement terms**

EAT did not comply with some accounting and financial terms of the loan agreement signed with USAID. These non-compliance situations are described as follows:

- Section B.5 "Report, records, inspections, audits"  
Clause (b) Annex 2
  - . Beginning January 1988, EAT used a different bank account to the one assigned to the project component, to manage its funds.
  - . EAT did not have formal and authorized accounting records for the project operations.
  - . No periodical and independent audits were contracted to review the accounting records of the project.

V. MANAGEMENT COMMENTS

Generally EAT agreed with the findings on the internal control structure and the compliance with applicable laws; they will be taken into consideration for their implementation in the next technical assistance team to be constituted.

*Arthur Andersen & Co.*

ARTHUR ANDERSEN & Co.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
THE TECHNICAL ASSISTANCE TEAM -EAT-

FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying fund accountability statement of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT, USAID/GUATEMALA PROJECT No. 520-0255, COMPONENT MANAGED BY THE TECHNICAL ASSISTANCE TEAM -EAT- (an assistance entity of the executer units which worked with the support of the Agricultural Department of the United States of America) for the period July 1, 1987 through March 31, 1989. This fund accountability statement is the responsibility of the EAT's Management. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

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

As described in Note 4a to the fund accountability statement, EAT keeps its accounting records on a cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles, consequently the attached fund accountability statement does not attempt to present the financial information in accordance with generally accepted accounting principles.

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, the project revenues and costs incurred and the fund balance corresponding to the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT, USAID/GUATEMALA PROJECT No. 520-0255, COMPONENT MANAGED BY THE TECHNICAL ASSISTANCE TEAM -EAT-, for period the July 1, 1987 through March 31, 1989 in conformity with the cash basis of accounting.

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 Technical Assistance Team -EAT-. 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 Inspection General.

*Arthur Andersen & Co.*

Guatemala, C. A.

February 8, 1991

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE TECHNICAL ASSISTANCE TEAM -EAT-

FUND ACCOUNTABILITY STATEMENT

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

REVENUES:

Funds received from USAID (Note 5)	Q	86,356
Other		320
		<hr/>
		86,676
		<hr/>

EXPENDITURES:

Non-personal services		34,048
Materials and supplies (Note 6)		52,628
Value added tax (Note 7)		3,199
		<hr/>
		89,875

AMOUNT PENDING REIMBURSEMENT FROM THE GOVERNMENT  
TO THE PROJECT (Note 7)

Q (3,199)  

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The notes to the fund accountability statement are an integral part of this statement.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE TECHNICAL ASSISTANCE TEAM -EAT-

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

(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 year (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 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) Brief history of the executor unit

The Technical Assistance Team -EAT- whose headquarters are in Quetzaltenango, Guatemala, was responsible for assisting the executor institutions of the project. The Technical Assistance Team -EAT- was initiated with five specialists transferred from the Agricultural Department of the United States (USDA), to collaborate with the Agency for International Development USAID in the implementation of the Project. Additionally, six specialists were contracted by USAID/Guatemala and included in the Project.

(3) Monetary unit

The project's accounting records are kept in quetzales, the 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) Main accounting policies

(a) Basis of presentation

EAT prepared the funds accountability statement on a cash basis, which is a comprehensive basis of accounting other than the generally accepted accounting standards. Under the cash basis accounting:

- Revenues and expenditures are recorded at the time they take place, that is, when they are received or disbursed.
- Since there are no estimations or provisions made, there are no liabilities recorded.

(5) Funds received from USAID

For the period July 1, 1987 through March 31, 1989, USAID made the following reimbursements to EAT.

<u>Date of expenditure</u>	<u>Entry date</u>	<u>Amount</u>
It could not be established	07-09-87	Q 15,490 <u>a/</u>
It could not be established	09-07-87	15,430 <u>a/</u>
November and December 1987	12-18-87	4,750 <u>a/</u>
January to May 1988	08-03-88	16,965 <u>b/</u>
June 1988	09-09-88	4,407 <u>b/</u>
August 1988	02-08-89	4,853 <u>b/</u>
September 1988 and February 1989	06-19-89	14,797 <u>b/</u>
November 1988	07-13-89	4,746 <u>b/</u>
July 1988	10-14-88	2,532 <u>b/</u>
March 1989	09-20-89	2,386 <u>b/</u>
Approximately US\$ 32,714		Q <u>86,356</u>

a/ These revenues were deposited in a bank account under the name of EAT, No. 10-450802-4, of Banco Industrial, S. A.

b/ These revenues were deposited in a bank account under the name of USDA, the Technical Assistance Team, No. 58-21-0002-2 of Banco del Café, S. A.

(6) Expenditures made during the period  
July 1, 1987 through 31, 1989

Following is a summary of expenditures made by specific account and for each year.

	Period			Total
	July through December 1987	January through December 1988 a/	January to March 1989 a/	
<u>Non-personal services</u>				
Telephone	Q 6,596	Q 7,589	Q 1,235	Q 15,420
Vehicles maintenance	1,808	4,401	1,021	7,230
Specialized services	2,235	2,057	50	4,342
Office equipment maintenance	723	1,310	-	2,033
Electricity	495	1,209	245	1,949
Printing and binding	965	504	10	1,479
Mail	303	455	68	826
Miscellaneous services	4	113	93	210
Potable water	-	-	200	200
Telex, radiograms and cablegrams	87	100	-	187
Telegraph	4	31	4	39
Correspondence delivery	24	12	13	49
Per diem	-	38	-	38
Leasing	-	31	6	37
Advertising	9	-	-	9
	<u>13,253</u>	<u>17,850</u>	<u>2,945</u>	<u>34,048</u>
<u>Material and supplies</u>				
Fuels and lubricants	10,926	17,535	3,078	31,539
Tires	1,281	2,741	-	4,022
Accessories and spare parts	910	2,159	333	3,402
Pasteboard products	1,980	1,025	49	3,054
Stationery	1,696	1,242	-	2,938
Office supplies	967	597	17	1,581
Books and magazines	-	1,375	-	1,375
Ink and paints	628	522	190	1,340
	<u>18,388</u>	<u>27,196</u>	<u>3,667</u>	<u>49,251</u>
To page 18	Q 18,388	Q 27,196	Q 3,667	Q 49,251

	Period			
	July through December 1987	January through December 1988 a/	January to March 1989 a/	Total
<u>Non-personal services</u>				
From page 17	Q 18,388	Q 27,196	Q 3,667	Q 49,251
Other chemical products	605	395	45	1,045
Cleaning accessories	265	514	84	863
Insecticides	48	274	-	322
Non-alcoholic beverages	120	132	23	275
Other metallic products	58	154	15	227
Electrical materials	79	34	91	204
Graphic art products	142	-	-	142
Tools	80	-	-	80
Other diverse products	-	62	-	62
Agricultural products	-	58	-	58
Plastic products	-	34	-	34
Educational materials	-	31	-	31
Wood materials	-	30	-	30
Glass materials	3	-	1	4
	19,788	28,914	3,926	52,628
Value added tax paid	1,283	1,700	216	3,199
Total period execution	Q 34,324	Q 48,464	Q 7,087	Q 89,875 <u>b/</u>

a/ The disbursements of these years were made through the bank account No. 58-21-002-2 of Banco del Café, S. A. belonging to USDA (Agricultural Department of the United States) and under the name of the Technical Assistance Team.

b/ Approximately US\$ 33,965

(7) Amount pending of reimbursement from the Government of the Republic of Guatemala

This amount corresponds to the VAT incurred by EAT in paying property and services related to the project which was of Q 3,199. This amount was financed with resources from the USDA Guatemalan Delegation grant, but it should have been reimbursed by the Guatemala Government by means of counterpart funds to USDA. As of the date of this report the Government of the Republic of Guatemala has not made the reimbursement to USDA.

(8) Subsequent events

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 as of February 8, 1991.

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.

ARTHUR ANDERSEN & Co.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
THE TECHNICAL ASSISTANCE TEAM -EAT-

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT, USAID/GUATEMALA PROJECT No. 520-0255, COMPONENT MANAGED BY THE TECHNICAL ASSISTANCE TEAM -EAT-, for the period July 1, 1987 through March 31, 1989, and we have issued our report dated February 8, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing, 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 fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT, USAID/GUATEMALA PROJECT No. 520-0255 COMPONENT MANAGED BY THE TECHNICAL ASSISTANCE TEAM -EAT- for the period July 1, 1987 through March 31, 1989, we considered its internal control structure in order to determine the nature timing and extend of our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The Technical Assistance Team -EAT- is responsible for establishing and maintaining an internal control structure. 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 fund accountability statement in accordance with the basis of accounting described in Note 4a to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following economic cycles:  
1) financial report, 2) treasury, 3) inventories procedures and; 4) products and services acquisition.

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 organization's ability to record, process, summarize, and report financial data consistent with the assertions of the Management of EAT in the fund accountability statement. 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 fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

This report is intended for the information of the United States Agency for International Development, the Government of the Republic of Guatemala and the Technical Assistance Team -EAT-. 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 3, 1991

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
THE TECHNICAL ASSISTANCE TEAM -EAT-

INTERNAL CONTROL STRUCTURE  
FINDINGS

1. Lack of periodical reconciliation of the funds received from USAID

Condition

EAT did not implement the practice of periodically reconciling the funds furnished by USAID to the funds received and recorded by this executor unit, so it was not possible for us to make this reconciliation for the audited period, and to assure us that all and only the funds received from USAID were recorded.

Criteria

To maintain an adequate system of internal control, the entity should periodically reconcile the funds received from USAID in order to be able to identify possible differences in relation to the accounting records of the project.

Cause

The entity lacks an administrative and accounting procedures manual for the project's execution.

Effect

Due to the lack of periodical reconciliation some important differences may arise between the records of USAID and the implementing entity, that can not be identified and resolved, including the funds received from USAID.

Recommendation

We recommend that EAT and/or the implementing entity design and implement written procedures to assure that periodic reconciliations between the funds received from USAID and its own accounting records are prepared.

2. Lack of formal accounting records

Condition

EAT did not have authorized and formal accounting records for the budget control accounts.

### Criteria

According to section B.5 clause (b), annex 2 of the loan agreement signed with USAID, the project must keep accounting books and records in accordance with generally accepted accounting standards, to allow the identification of property and services financed with the loan funds.

### Cause

Lack of an accounting procedures manual for the project execution.

### Effect

The fund accountability statement of the project is not properly supported with the authorized accounting records.

### Recommendation

We recommend that EAT due to its limited operations volume, design and implement a non-complex accounting procedures manual which include a description of the accounting records that should be maintained to control its accounting transactions as well as its budget.

### 3. Checks issued without two signatures

#### Condition

EAT did not use joint signatures for the issuing of checks, since the Administrative Director and the General Accountant signed checks individually separately.

#### Criteria

As an internal control for the safeguarding of cash. Joint signatures must be used for the checks issued.

#### Cause

Lack of an administrative and accounting procedure manual that prescribes the issuing checks procedure.

#### Effect

There is no previous authorization for each purchase. In addition, the consecutive numbering of the checks may be lost, since the check books are used by two authorized persons who individually sign.

Recommendation

We recommend that EAT require the used of joint signatures on all checks issued, as well as plan purchases and payments to be made, so that the use of such procedures do not interfere with the project development.

ARTHUR ANDERSEN & Co.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
THE TECHNICAL ASSISTANCE TEAM -EAT-

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE  
LAWS AND REGULATIONS

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT, USAID/GUATEMALA PROJECT No. 520-0255, COMPONENT MANAGED BY THE TECHNICAL ASSISTANCE TEAM -EAT- for the period July 1, 1987 through March 31, 1989, and we have issued our report 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 the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to the Technical Assistance Team -EAT- is the responsibility of the Government of the Republic of Guatemala and the Technical Assistance Team -EAT-. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the Technical Assistance Team -EAT- compliance with certain provisions agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that causes to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the finding included in the following pages which in our opinion is of material effect.

We considered these material instances of noncompliance in forming our opinion on whether the Technical Assistance Team -EAT- fund accountability statement is presented fairly, in all material respects, in conformity with the basis of accounting described in Note 4a to the fund accountability statement, and this report does not affect our report dated February 8, 1991 on that statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Technical Assistance Team -EAT-

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 Technical Assistance Team -EAT- 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 Technical Assistance Team -EAT-. 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 Inspector General.

*Arthur Andersen & Co.*

Guatemala, C. A.

February 8, 1991

THE SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
THE TECHNICAL ASSISTANCE TEAM -EAT-

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE  
LAWS AND REGULATIONS  
FINDINGS

**AGREEMENT TERMS**

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

Condition

EAT did not entirely comply with this provision, due to the following:

- Beginning January 1988, EAT used a different bank account from the one assigned to the Project, for the funds administration, which were under the name of USDA, managing both funds in a same account, and EAT did not have total control over the bank account.
- No independent and periodical audits were contracted to review the accounting records of the project.
- EAT did not keep authorized accounting records for the project operations.

Criteria

According to the above mentioned clause EAT must maintain or supervise the maintenance accounting books and records related to the project and the agreement, in conformity 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 will be submitted to periodical audits, which will be performed according to generally accepted audit principles and practices, and should be kept for a period of three years after the date of the last disbursement made by USAID.

Cause

Lack of an administrative and accounting procedures manual, and lack of funds to contract independent audits.

Effect

The noncompliance of the above mentioned clause, may jeopardize the achievement of the project's goals.

Recommendation

We recommend that both, the Government of the Republic of Guatemala and the project executor entities, establish the necessary procedures in order to comply with the agreement terms prior to its signature.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
THE TECHNICAL ASSISTANCE TEAM -EAT-

LIST OF REPORT RECOMMENDATIONS

Internal control structure

1. We recommend that EAT and/or the implementing entity design and implement written procedures to assure that periodic reconciliations between the funds received from USAID and its own accounting records are prepared.
2. We recommend that EAT due to its limited operations volume, design and implement a non-complex accounting procedures manual which include a description of the accounting records that should be maintained to control its accounting transactions as well as its budget.
3. We recommend that EAT require the use of joint signatures on all checks issued, as well as plan purchases and payments to be made, so that the use of such procedures do not interfere with the project development.

Compliance with agreement terms and applicable  
laws and regulations

1. We recommend that both, the Government of the Republic of Guatemala and the project executor entities, establish the necessary procedures in order to comply with the agreement terms prior to its signature.

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Quezaltenango, 7 de octubre 1991

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**Señores:**

Arevalo Pérez, Aranky  
y Asociados S.C.

**Estimados señores:**

Tengo el agrado de remitirles a ustedes, las respuestas pendientes de entrega al resultado de la auditoria efectuado al EQUIPO DE ASISTENCIA TECNICA, por el período del 1 de julio de 1987 al 31 de marzo de 1989.

RESPUESTAS A LA ESTRUCTURA DEL CONTROL INTERNO PAG. NO. 10

INFORME FINANCIERO:

--- En cuanto a los registros contables que el EAT llevo acabo, fueron apropiados ya que desde el principio fue recomendada por los auditores de la AID. Quienes afirman que para los efectos de AID el control y registro de fondos es satisfactoria, ya que el

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EAT registra el origen y se puede identificar con el gasto. Lo cuál era suficiente para aceptar el fiscal report para la liquidación y reembolso respectivo de los fondos.

#### RESPUESTA A TESORERIA

- En cuanto a las firmas no mancomunadas para la emisión de cheques fue decisión del jefe del proyecto, ya que con firmas mancomunadas sólo era pérdida de tiempo y atraso a la ejecución de las actividades del proyecto. Además todos los cheques fueron firmados por el jefe del EQUIPO DE ASISTENCIA TECNICA quien era el oficial de la AID.

#### RESPUESTAS AL TERMINO DE CONVENIO PAG. 10 Y 11.

- La causa principal de utilizar una cuenta distinta, se debió principalmente por la tardanza de la fluidez de los fondos causados por el atraso que siempre tienen las cartas de ejecución donde se asignan los fondos. y por la carencia de un fondo rotativo.

- Los registros utilizados por el EAT. Fueron formales y entendibles porque cuentan con una base solida de información, además los libros utilizados fueron autorizados por la gobernación departamental y fué donde se operaron las transacciones del Equipo de Asistencia Técnica, dichas transacciones fueron exclusivamente para materiales y suministros para la operación y funcionamiento del proyecto.

- En relación a las auditorías independientes, el EAT no pudo elaborarlas por la restricción de fondos que siempre tuvo para la ejecución de su funcionamiento.

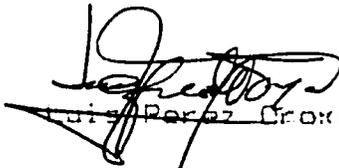
**RESPUESTA A LOS COSTOS CUESTIONABLES DEL PUNTO 7 PAG. 18 Y 19.**

- En relación a los comprobantes quiero aclarar que todos los comprobantes de gasto sí tuvieron una autorización, desde el momento en que los cheques fueron firmados por el jefe del proyecto para el pago respectivo de las compras, donde automáticamente son autorizados.

Por otro lado los gastos eran autorizados a través de un presupuesto de lo contrario jamás se obtendrían fondos sin su previa autorización, además son comprometidos a través de las cartas de ejecución emitidas por AID.

agradeciendo la atención a la presente, sin otro particular me suscribo de ustedes.

Atentamente:

  
~~Luis Pérez Croxom~~  
Contador Regional  
PDA.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
ROCAP



APO MIAMI, FL. 34024-0190

Telephones: 502-2-346761/62/63  
Fax: 502-2-348502  
Télex: 0372 3110 USAID GU

REGIONAL OFFICE FOR CENTRAL AMERICAN PROGRAMS

Guatemala,  
October 3, 1991

Arévalo Pérez y Aranky  
Ruta 4, 9-21 Zona 4  
Edificio Cámara de Industria  
5o. Nivel

TO WHOM IT MAY CONCERN:

Pertaining to the audit of EAT for the period 1 July, 1987 through 31 March, 1989, I was an assessor of EAT from 10 February, 1987 through September, 1989 and EAT team leader from 1 April, 1989 through September, 1989, so I am familiar with EAT auditing procedures.

The Technical Assistance Team (EAT) during this period had a system of control for all telephone calls, local, long distance and international. At the end of each month when the telephone bills were received, the team leader analyzed all phone calls to see if they matched the record books kept by the EAT secretaries.

If any personal calls occurred, they were paid by the individual who made them. All phone calls during this period were accounted for. All phone bills paid by EAT were for official business, whether local, long distance or international.

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The log book for the phone calls was showed to the auditors during the meeting of September 20, 1991 at the UAP offices, and was available to the auditors at the time of their audit but this information was not requested by them.

If I can help you in other matters concerning this audit, please call me.



Wayne T. Williams  
Regional Environmental Advisor

c.c. Blair Cooper, USAID

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