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

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**Audit of USAID/Guatemala's Small Farmer  
Diversification Systems Project  
Managed by the Institute of Agricultural  
Science and Technology  
July 1, 1987 to March 31, 1989**

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**Audit Report No. 1-520-92-18-N  
January 15, 1992**



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

**Audit of USAID/Guatemala's Small Farmer  
Diversification Systems Project  
Managed by the Institute of Agricultural  
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January 15, 1992**

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

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**AMERICAN EMBASSY**  
TEGUCIGALPA - HONDURAS

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January 15, 1992

**MEMORANDUM**

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

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

**SUBJECT:** Audit of USAID/Guatemala's Small Farmer Diversification Systems Project, Managed by the Institute of Agricultural Science and Technology, July 1, 1987 to March 31, 1989

This report presents the results of a financial close-out audit of the Institute of Agricultural Science and Technology (Institute) for the period July 1, 1987 to 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 December 20, 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.

An organizational part of the Government of Guatemala's Ministry of Agriculture, Livestock and Food, the Institute's general objective is to contribute to Guatemala's economic and social development through the generation, validation, and promotion of proper technology to increase agricultural and cattle production. The Institute's role in the Project was to perform research and adapt technology for improving fruits, vegetables, and cattle and to improve the related technical training provided to small farmers by two other implementing entities. The audit coverage included A.I.D. funds of \$136,385 provided to the Institute during the audit period.

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

**Arthur Andersen & Co. found that the Institute's fund accountability statement presents fairly, in all material respects, the financial activity under the Project for the period audited. Additionally, the auditors reported that as of the end of their work on February 8, 1991, Project expenditures incurred by the Institute but not reimbursed by USAID/Guatemala totaled \$30,224.**

**With respect to the Institute's internal control structure, the auditors identified four material weaknesses. The auditors reported that the Institute did not: (1) prepare periodic fund accountability statements, (2) maintain adequate control over loans made to the Project by the Institute, (3) perform periodic reconciliations of fixed asset subsidiary records to the Institute's general ledger, and (4) perform monthly bank reconciliations.**

**In their review of the Institute's compliance with Project Agreement terms and applicable laws and regulations, the auditors identified three instances of material noncompliance. The auditors found that the Institute did not: (1) comply with Section B.5 of the Project Agreement which requires that separate accounting records be maintained for Project transactions, periodic external audits of the Project be performed, periodic Project fund accountability statements be prepared, and technical reports describing the transfer of technology to the Project be prepared, (2) comply with Section 3.2 of the Project Agreement which requires that adequate accounting records supporting the amount of counterpart funds contributed to the Project be maintained, and (3) comply with Section 7.2 of the Project Agreement which requires that a system of control be established to assure Project funds are used only for approved Project activities.**

**The draft report was discussed with management officials of the Institute whose comments were considered in the final report. Institute officials disagreed with all of the report's findings. Management's comments and the auditors' response to these comments are included in Annexes I and II to the Arthur Andersen & Co. report.**

**Although this Project has ended, the Mission has an existing agreement with the Institute under the Highland Agricultural Development Project (USAID/Guatemala Project No. 520-0274). For this reason we suggest that USAID/Guatemala obtain assurance that the problems noted in this report concerning the Institute's**

**internal control structure and compliance with agreement terms are not evident in the Highland Agricultural Development Project.**

**This report does not contain 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 INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-  
FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

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AUDIT OF THE  
SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
THE INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-  
FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

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ARTHUR ANDERSEN & Co.

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December 20, 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 INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY (INSTITUTO DE CIENCIA Y TECNOLOGIA AGRICOLAS, -ICTA-), 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 -MFP); 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 (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 the date of the first disbursement, and subsequently using a 3% annual base, computed over the loan balance and interests 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 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 MFP, 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 -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 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 loan 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 close-out 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 report derived from the audits performed on each implementing entity by Touche Ross/ Guatemala 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. 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

The Review and evaluation entities' internal control structure related to the project's management as considered appropriate to comply with generally accepted auditing standards and to determine the nature, timely as extend of the audit tests. 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 oversights 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 contribution 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 mentioned in section II above, even though, we had the following findings 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 ICTA for the period from July 1, 1987 through March 31, 1989.

Internal control review

The current ICTA's internal control is based, in some cases, in mandatory manuals and procedures issued by: the Nation's Accounts Controllershship, the Ministry of Agriculture, Livestock and Food, and the Accounting of the Government. We considered these factors to make our evaluation. Such evaluation revealed the following reportable conditions:

**Financial report**

- Lack of preparation of the fund accountability statement.
- Lack of control over loans given to the project.

**Assets Control Fixed**

- Lack of reconciliation of fixed assets subsidiary records.

**Treasury**

- Uncleared bank reconciliation entries.

Compliance with legal agreement terms and applicable laws and regulations

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

**Agreement Terms**

ICTA did not comply with some of the accounting and financial terms of the loan agreement signed with USAID. These noncompliance situations are described as follows:

Section B.5 "Reports, records, inspections, audits", clause (b) annex 2

ICTA did not totally comply with this provision, due to the following:

- ICTA recorded the project transactions as a part of its overall operation and not independently. Its accounting records were not easy to identify.

- No independent and periodical audits were contracted to review the Project accounting records.
- ICTA did not periodically prepare the project fund accountability statement.
- By the date of this report, we were not furnished with the technical reports to prove the transfer of technology from ICTA to the Project.

Section 3.2 Borrower resources for the Project

- It was not possible for us to verify the compliance of this provision as ICTA does not have the necessary information to determine the amount that the Government of Guatemala should have furnished to the Project component as counterpart funds.

Section 7.2 Cost in Local Currency (Counterpart contribution)

- On January 22, 1988, the check No. 461646 was issued to Mr. Danilo Dardón, for Q 16,235 to cover expenses for a scholarship, of Master's studies, according to Management's authorization 080/88. Nevertheless, this type of disbursement is not contemplated in the project; consequently, the funds were used for objectives other than the ones pursued by the project.

V. MANAGEMENT COMMENTS:

ICTA comments were taken into consideration and are included in our final report. ICTA disagreed with all of the findings included in the report, regarding our opinions of the internal control structure, and the compliance with applicable laws. The whole text of ICTA's management comments is included in the Annex I of this report.

VI. AUDITORS RESPONSE

Upon receiving ICTA's management comments where appropriate, we revised the findings included in the report. Our response to ICTA's management comments is included in the Annex II of this report.

*Arthur Andersen & Co.*

ARTHUR ANDERSEN & Co.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
THE INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-

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

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 INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA- (a governmental entity which works attached to Ministry of Agriculture, Livestock and Food), for the period from July 1, 1987 through March 31, 1989. This fund accountability statement is responsibility of the ICTA'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 misstatements. 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 an significant estimates made by Administration, 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, ICTA keeps its accounting records on a cash basis which is a comprehensive basis of accounting other than generally accepted accounting principle. 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 INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-, for the period from July 1, 1987 through March 31, 1989 in conformity with the basis of accounting as described in Note 4a to the fund accountability statement.

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 Institute of Agricultural Science and Technology -ICTA-. 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

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-

FUND ACCOUNTABILITY STATEMENT

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

REVENUES:

Reimbursements received from USAID (Note 5)	Q 363,605
Total revenues	<u>363,605</u>

EXPENDITURES:

Material and supplies (Note 6)	246,180
Constructions (Note 6)	111,184
Total expenditures	<u>357,364</u>
Excess of current period revenues over current expenditures (Note 8)	Q <u>6,241</u>

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 INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-

FUND ACCOUNTABILITY STATEMENT

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

NOTES TO THIS FINANCIAL 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 (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 the date of the first disbursement and subsequently using a 3% annual base, computed over the loan balance and interests 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 Institute of Agricultural Science and Technology -ICTA- is a decentralized entity of the Ministry of Agriculture, Livestock and Food of the Government of Guatemala. 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. These activities were developed in the Production and Investigation Center of Labor Ovalle, located in Quetzaltenango, Guatemala.

(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

Basis of presentation

The project's accounting records are kept on a cash basis, which differs from the generally accepted accounting principles in the following aspects:

- 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, there are no liabilities recorded.

(5) Funds received from USAID

During the period from July 1, 1987 through March 31, 1989, the project received cash fund as follows:

<u>Reimbursement request No.</u>	<u>Reimbursement date</u>	<u>Amount</u>
30 y 31	06-08-87	Q 14,206
32	02-10-87	7,840
33	08-10-87	21,734
34 y 35	01-12-87	60,164
36	28-01-88	43,046
36-A	10-02-88	5,837
37	10-02-88	39,058
		<hr/>
	To page 16	Q 191,885

<u>Reimbursement request No.</u>	<u>Reimbursement date</u>	<u>Amount</u>
	From page 15	Q 191,885
38 - 39		
37	20-05-88	33,069
39 y 43	09-09-88	43,664
44	26-10-88	15,649
45	16-11-88	4,963
46	21-12-88	25,649
47	16-01-89	30,491
48 y 49	09-03-89	18,235
Approximately US\$ 136,385		Q 363,605

(6) Expenses reported to USAID for purchases of materials and supplies and constructions

During the period from July 1, 1987 through March 31, 1989, ICTA presented to USAID the following requirements of reimbursements of project expenses.

<u>Date</u>	<u>Require- ment No.</u>	<u>Disbursements made for</u>	
		<u>Materials and supplies</u>	<u>Construc- tions</u>
July 1987	34	Q 16,189	Q 11,119
August 1987	35	16,179	16,678
September 1987	36	6,818	36,228
September 1987	36-A	5,837	-
October 1987	37	8,037	38,674
November 1987	38	14,599	8,485
December 1987	39	23,023	-
January 1988	40	1,853	-
February 1988	41	13,614	-
March 1988	42	107	-
May 1988	43	7,436	-
June 1988	44	15,649	-
July 1988	45	4,963	-
August 1988	46	25,649	-
September 1988	47	30,491	-
October 1988	48	8,401	-
November 1988	49	18,250	-
December 1988	50	27,270	-
January to March 1989	51	1,815	-
		Q 246,180 a/	Q 111,184 b/

a/ Approximately US\$ 94,547

b/ Approximately US\$ 44,474

(7) Reimbursed by USAID

Per fund accountability statement-

Revenues received from USAID during audit period	Q	363,605
Project expenditures during audit period (funds disbursed by ICTA during audit period for project purposes but not necessarily reimbursed by USAID)		(357,364)
		<hr/>
Excess of current period revenues over current period expenditures	Q	6,241
		<hr/> <hr/>

ICTA conducts the project with its own funds; it pays the project expenses with its own funds and is later reimbursed by USAID. The reimbursement by USAID does not always occur in the same period as the expenditure. The following explains this situation:

Revenues received from USAID during audit period by ICTA	Q	363,605
Reimbursement of prior period project expenses initially funded by ICTA		(43,780)
Reimbursement of expenses incurred by ICTA during the audit period		(319,825)
		<hr/>

Q -  

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Accumulated project expenses funded by ICTA and not reimbursed by USAID as of July 1, 1987	Q	161,736
Accumulated project expenses funded by ICTA during the audit period and not reimbursed by USAID as of March 31, 1989		(155,495)
		<hr/>

Reduction in balance of project expenses funded by ICTA and not reimbursed by USAID	Q	6,241
		<hr/> <hr/>

Balance of project expenses funded by ICTA during prior period and not reimbursed by USAID as of July 1, 1987	Q	161,736
Prior period expenses funded by ICTA reimbursed during audit period by USAID		(43,780)
Project expenses funded by ICTA during audit period and not reimbursed by USAID as of March 31, 1989		37,539
		<hr/>

Balance of project expenses funded by ICTA and not reimbursed by USAID as of March 31, 1989	Q	155,495
		<hr/> <hr/>

(8) Subsequent events

(a) Subsequent transactions to March 31, 1989

Revenues

	<u>Date</u>	<u>Amount</u>
Reimbursements received from USAID for the requirements No. 50, 51, 51-A y 51-B	08-03-90 Q	<u>73,889</u>

As of the end of our audit fieldwork (February 8, 1991) the total project's expenditures incurred by ICTA and not reimbursed by USAID/Guatemala amounted to Q 81,606 (approximately equivalent to US\$ 30,224).

Expenditures

<u>Date</u>	<u>Beneficiary/concept</u>	<u>Amount</u>	<u>Included in reimbursement No.</u>
02-05-89	Dilab, S. A., - Purchases	Q 11,965 <u>1/</u>	51
01-06-89	BANDESA (Ing. Fernando Mansilla) - Payment of over-cost in construction of the project	10,000 <u>1/</u>	51-B
12-06-89	Tecún, S. A., - Purchases	24,653 <u>1/</u>	51-A
		<u>Q 46,618</u>	

1/ These payments correspond to purchases or contractings prior to the final date of assistance to project (March 31, 1989).

(b) Monetary unit

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 INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-

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 INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-, for the period from 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 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 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 INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-, for the period from 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 fund accountability statement and not to provide assurance on the internal control structure.

The Institute of Agricultural Science and Technology -ICTA-, 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) products and services acquisition and 4) assets control fixed.

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. 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 ICTA's ability to record, process, summarize, and report financial data consistent with the assertions of the Management in the fund accountability statement. Reportable conditions are described in findings from 1 to 4 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 Institute of Agricultural Science and Technology -ICTA-. 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

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-

INTERNAL CONTROL STRUCTURE  
FINDINGS

1. Lack of preparation of the fund accountability statement

Condition

ICTA did not periodically prepare the fund accountability statement of the project, nor reconcile the cash balances to the bank balances.

Criteria

Section B.5, clause (a) and (b), Annex 2 of the loan agreement, requires that the accounting records be designed to issue periodical reports on the economic operations and events of the entity, recorded in an accumulative basis.

Cause

Lack of an administrative and accounting procedures manual to record, accrue and report the project operations.

Effect

Because there was no control over the project's cash funds, funds could be misused.

Recommendation

We suggest that ICTA prepare an accounting procedures manual to realize USAID requirements, which should also include instructions for the preparation on a periodic basis of the fund accountability statement, showing a comparison between the balance according to the bank statements and the fund accountability statement.

2. Lack of control between ICTA and the project loans

Condition

There was no control of the loans for working capital given by ICTA to the Project, as well as on their corresponding amortization.

### Criteria

There should be a written agreement between ICTA and the project for the loans provided by ICTA regulating the loan amounts, conditions, maturity dates and manner of repayment. Also control procedures should have been implemented to keep track of repayments and the loan's balance.

### Cause

There were no written procedures providing the manner in which loans from ICTA to the projected were to be administered.

### Effect

It is not possible to verify the fairness of the transactions related to this loan that was received from ICTA, nor is it possible to verify the payments made to ICTA as repayment of the loan with the following checks.

<u>Check number</u>	<u>Date</u>	<u>Amount</u>
461531	04-09-87	Q 75,000
461647	28-01-88	25,000
14651	31-01-89	70,000
		<u>Q 170,000</u>

### Recommendation

We recommend that ICTA immediately resolve this situation and in the future maintain an adequate control over these transactions for each one of the projects managed.

### 3. Lack of reconciliation of fixed assets subsidiary records

#### Condition

There is no reconciliation of the fixed assets' subsidiary records to their corresponding ICTA's accounting general ledger.

#### Criteria

A periodic (twice a year at least) reconciliation should be performed between the individual records of fixed assets to the accounting general ledger.

#### Cause

Lack of an administrative and accounting procedures manual. The reports and certain accounts analysis are made only when required by the Management.

### Effect

It may be that transactions are recorded in the general ledger only or only in the subsidiary ledgers resulting in unreconciled items which cannot be easily resolved.

### Recommendation

We recommend that ICTA makes the necessary changes to the procedures issued by the Guatemalan Government to control and reconcile the fixed assets accounts to suit them to USAID requirements. One change could be that such accounts be periodically (four times a year i.e.) reviewed and reconciled between subsidiary records and general ledger.

## 4. Uncleared bank reconciliation entries

### Condition

In the bank reconciliation as of March 31, 1989, we noticed an unreconciled item amounting to Q 4,000. As of the date of this report, ICTA has not reconciled this difference.

### Criteria

As part of the internal control, and for a better control and safeguard of cash in banks, a review should be performed of all unusual entries when preparing the bank reconciliations.

### Cause

Lack of adequate internal control over bank reconciliations.

### Effect

Errors and shortages involving cash could go undetected and unresolved.

### Recommendation

We recommend that ICTA include in its manual of administrative and accounting procedures specific instructions as to how to proceed with unreconciled items.

ARTHUR ANDERSEN & Co.

SMALL FARMER DIVERSIFICATION SYSTEM PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
THE INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-

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 INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-, 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 our audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms and regulations applicable to the Institute of Agricultural Science and Technology -ICTA- is the responsibility of the Government of the Republic of Guatemala and the Institute of Agricultural Science and Technology -ICTA-. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the Institute of Agricultural Science and Technology -ICTA- 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 us 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 in findings Nos. 1 to 3 included in the following pages which in our opinion are of material effect.

We considered these material instances of noncompliance in forming our opinion on whether the Institute of Agricultural Science and Technology -ICTA- fund accountability statement is fairly presented, in all material respects, in conformity with the basis of accounting described in Note 4 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 Institute of Agricultural Science and Technology -ICTA- 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 Institute of Agricultural Science and Technology -ICTA- 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 Institute of Agricultural Science and Technology -ICTA-. 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 SYSTEM PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
THE INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-

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

ICTA did not totally comply with this provision, due to the following:

- ICTA recorded the project transactions as a part of its overall operation and not separately. Its accounting records were not easy to identify.
- No independent and periodical audits were contracted to review the Project accounting records.
- ICTA did not periodically prepare the project fund accountability statement.
- By the date of this report, we were not furnished with the technical reports to proof the transfer of technology from ICTA to the Project.

Criteria

According to the above mentioned clause, ICTA should have "Kept or make sure that accounting books and records related to the project and the agreement, were kept in accordance with generally accepted accounting principles, and in an appropriate manner to identify, without limitations delivery and use of property and services financed with loan funds. Such books and records will be submitted to periodical audits, which will be performed in accordance with generally accepted audit standards, and must kept for a period of three years after the date of the last disbursement made by USAID".

Cause

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

Effect

Non-compliance of clause (b) annex 2 of section B.5 Reports, record, inspections, audits.

Recommendation

We suggest that ICTA and the projects executor units establish the necessary procedures to comply with the agreements terms and provisions. Pertaining to the periodic preparation of a fund accountability statement, the obtaining of independent audits and the maintenance of an adequate accounting system.

2. In order to fulfill the requirements included  
in Section 3.2 Borrower resources for the  
Project

Condition

It was not possible for us to verify the compliance of this provision as ICTA does not have the necessary information to determine the amount that the Government of Guatemala should have furnished to the Project component as counterpart funds.

Criteria

According to the above mentioned clause, "The borrower (Government of the Republic of Guatemala) agrees to furnish or to verify the provision of all funds for the project, besides the ones proceeding from the loan, as well as all the additional necessary resources for the efficient and accurate project execution".

Cause

Lack of information concerning the counterpart funds provided by the GOG to each project's component.

Effect

Noncompliance of clause included in section 3.2 Borrower resources for the project.

Recommendation

We recommend that ICTA establish written procedures to assure that the Government of Guatemala informs each executor unit about the counterpart funds assigned to them, also that each entity maintain control over the management of such funds.

3. Non-fulfill of requirements included in  
Section 7.2 Cost in Local Currency

Condition

On January 22, 1988, the check No. 461646 was issued to Mr. Danilo Dardón, for Q 16,235 to cover expenses for a scholarship, of Master's studies, according to Management's authorization 080/88. Nevertheless, this type of disbursement of counterpart contributed funds is not contemplated in the project.

Criteria

According to Section 7.2 of the Project's Agreement, the funds assigned to the entity should only be used for the project activities, which have to be previously approved by USAID.

Cause

Lack of an adequate internal control for managing the project funds.

Effect

The funds were used for objectives other than the ones pursued by the project.

Recommendation

We recommend the establishment of written controls in order to assure the adequate management of the project funds. Such procedures must include the treatment that must be given to exceptions, as well as specify who, and at what level may authorize such exceptions.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT  
USAID/GUATEMALA PROJECT No. 520-0255  
COMPONENT MANAGED BY  
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LIST OF REPORT RECOMMENDATIONS

Internal control structure

1. We suggest that ICTA prepare an accounting procedures manual to realize USAID requirements, which should also include instructions for the preparation on a periodic basis of the fund accountability statement, showing a comparison between the balance according to the bank statements and the fund accountability statement.
2. We recommend that ICTA immediately resolve this situation and in the future maintain an adequate control over these transactions for each one of the projects managed.
3. We recommend that ICTA makes the necessary changes to the procedures issued by the Guatemalan Government to control and reconcile the fixed assets accounts to suit them to USAID requirements. One change could be that such accounts be periodically (four times a year i.e.) reviewed and reconciled between subsidiary records and general ledger.
4. We recommend that ICTA include in its manual of administrative and accounting procedures specific instructions as to how to proceed with unreconciled items.

Compliance with agreement terms and applicable laws and regulations

1. We suggest that ICTA and the projects executor units establish the necessary procedures to comply with the agreements terms and provisions. Pertaining to the periodic preparation of a fund accountability statement, the obtaining of independent audits and the maintenance of an adequate accounting system.
2. We recommend that ICTA establish written procedures to assure that the Government of Guatemala informs each executor unit about the counterpart funds assigned to them, also that each entity maintain control over the management of such funds.
3. We recommend the establishment of written controls in order to assure the adequate management of the project funds. Such procedures must include the treatment that must be given to exceptions, as well as specify who, and at what level may authorize such exceptions.

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Guatemala, C. A.

ANNEX 1  
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USAF-91-938  
Septiembre 24 de 1991

Señores  
Arevalo Pérez Aranky y Asociados  
P r e s e n t e

Por este medio me dirijo a ustedes, para hacer de su conocimiento que se ha tenido a la vista el borrador preliminar para discusión, el cual contiene el resultado de la auditoría al Proyecto AID-520-0255, por el período del 1 de julio de 1987 al 31 de marzo de 1989.

Habiendo hecho un análisis del mismo agradeceré a ustedes tomar en cuenta las siguientes observaciones:

- 1.- Para iniciar los gastos del Proyecto, AID no proporcionó ningún anticipo, por lo que fue necesario recurrir a los fondos del ICTA, para abrir la cuenta bancaria respectiva, habiendo efectuado un depósito inicial y posteriormente traslados de fondos para mantener disponibilidad, de manera que el reintegro de los Q 170,000.00 corresponden a los traslados o préstamos provenientes de otras cuentas de ICTA y que no fueron realizados - por ese monto en forma global.

El ICTA recibió los reintegros de fondos mediante liquidaciones de documentos debidamente justificados y que fueron aceptados plenamente por AID, lo anterior demuestra que AID hizo pagos a ICTA, únicamente contra liquidaciones de gastos, por lo anterior se considera que no afecta la ejecución del Proyecto por tratarse de reintegro de recursos internos que solamente sirvieron para agilizar en forma previa los gastos.

Por lo anterior se solicita que la observación de los Q 170,000.00 no se contemple en el informe.

- 2.- Con respecto al punto segundo en donde resulta una diferencia no aclarada de Q 4,237.00, se deduce que en el análisis que se hizo del movimiento de fondos, se tomaron como ingresos las liquidaciones No.30 a la 49, y como egresos las liquidaciones No. 34 a la 51, siendo incongruentes para comparación al haber traslape en las liquidaciones; en todo caso el saldo que resultare en la cuenta bancaria, es propiedad de ICTA, de acuerdo al punto anterior.

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USAF-91-938  
Hoja No.2

- 3.- Al no tener instrucciones al respecto y poco personal para llevar la contabilidad de toda la Institución; no se realizaron en forma separada los registros del Proyecto, los cuales facilmente se identifican, pero para integrarlos se requiere una labor minuciosa.
- 4.- De conformidad con el análisis que se hizo, entre el reporte de remesas de AID por Q 357,714.15 y el de la nota No.5 según páginas No.16 y 17 del informe preliminar por Q 363,605.00, resulta una diferencia de Q 5,981.00 que corresponde a la solicitud de reembolso No.30 la cual no forma parte del estado de cuenta de AID, según fotocopias adjuntas. Lo anterior aclara el punto 4 del citado informe.
- 5.- Con respecto a la nota No.4 (principales políticas contables) El ICTA sí lleva contabilidad basada en principios de Contabilidad Generalmente aceptados y está fundamentada en el Sistema de Contabilidad Integrada para el Estado y sus Entidades Descentralizadas.  
  
Su integración reúne tres grandes grupos financieros que son: "Ingresos y Egresos Presupuestarios, Cuentas de Resultados y Cuentas Patrimoniales", sus egresos son rebajados del Presupuesto, creando una obligación a favor de los proveedores y hasta el momento de hacer efectivo el pago, se - - saldan las acreedurías pendientes.
- 6.- En cuanto a la rendición del estado de cuentas del Proyecto, en cada liquidación (regularmente mensual) que se presentaba a UCPRODA, estaba conformada por el Public Voucher, el informe de desembolsos que contiene un resumen del movimiento, un resumen de los gastos según renglón presupuestario, un análisis de los pagos efectuados según fotocopias adjuntas.
- 7.- Con relación a la nota 7, tal como se indica en el punto primero de este oficio, esta información no afecta el resultado del Proyecto.
- 8.- Por falta de instrucciones no se realizó conciliación del Proyecto y no se preparó el Manual de Procedimientos Administrativos y Contables Específico para el Proyecto, sin embargo se tiene un Manual de Procedimiento Administrativo, Contable y de Auditoría para la Institución, el que permite llevar adecuadamente los registros.

En cuanto a la recomendación de preparar en forma escrita un Manual Específico para el Proyecto, se considera que a la fecha por haber finalizado el Proyecto, ya no es procedente.

SECTOR PUBLICO AGROPECUARIO Y DE ALIMENTACION  
**INSTITUTO DE CIENCIA Y TECNOLOGIA AGRICOLAS**

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Guatemala, C. A.

ANNEX 1  
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USAF-91-938  
Hoja No.3

- 9.- Con respecto al hallazgo No.2 de control interno, se considera aclarado en el punto 1 descrito anteriormente.
- 10.- Del hallazgo No.3 se indica, que la Sección de Inventarios cuenta con un Manual de Activos Fijos, que realiza dos inventarios generales físicos de todos los activos, además previo a pagarse la adquisición de los mismos la Auditoría Interna, exige que estén plenamente identificados y registrados en el mayor de inventarios y en la tarjeta de responsabilidad individual.

Para futuras ocasiones, en los registros de inventarios se agregará una identificación del origen del Proyecto.

- 11.- Con respecto al hallazgo No.4, el mismo queda aclarado, con lo indicado en el punto No.4 del presente oficio.
- 12.- Según el hallazgo No.5 de control interno, se aclara que la partida en conciliación por Q 4,000.00 es una operación incorrecta del Banco y que corresponde a ellos regularizarla. Se adjunta fotocopia de la última conciliación de la cuenta bancaria correspondiente

Hallazgo sobre el cumplimiento de aspectos legales

- 13.- Hallazgo No.1, referente a que ICTA no registró las transacciones del Proyecto en forma individual, tal situación se encuentra aclarada en el punto 3 de este oficio.
- Las auditorías independientes periódicas no se contrataron por falta de información.
- Con relación a la rendición de cuentas se aclaró en el punto 6 del presente oficio.
- 14.- Referente al hallazgo No.2 sobre los recursos de contrapartida para el Proyecto, los mismos sí fueron asignados por el Gobierno y se ejecutaron con el financiamiento 53 según fotocopias adjuntas.
- 15.- En su oportunidad le fueron entregados a uno de los Auditores de la firma Arevalo Pérez los tomos I y II de los trabajos técnicos del ICTA, dentro de los cuales se encuentra lo referente a la transferencia de tecnología por parte del ICTA al Proyecto, en esta oportunidad se adjunta otro juego de los tomos antes mencionados, para mayor información por tratarse de aspectos técnicos, se sugiere abocarse con el Director Técnico Vegetal del ICTA.

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SECTOR PUBLICO AGROPECUARIO Y DE ALIMENTACION  
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USAF-91-938  
Hoja No.4

- 16.- En cuanto al hallazgo No.3, costos en moneda local, se aclara de nuevo que USAID no asignó fondos al Proyecto en forma anticipada, además en cuanto al préstamo que se hizo a esta cuenta, para cubrir gastos de beca por Q 16,235.00 corresponden a fondos propios de esta Institución; habiéndose hecho la devolución según copia del reintegro adjunto.

En base a lo anteriormente aclarado, se requiere muy atentamente que el informe preliminar sea debidamente modificado, además se considera que sí es necesario llevar los registros en forma individual para futuros proyectos.

Deferentemente,

  
Lic. Rogelio Palacios Hernández  
Director de la Unidad de Servicios  
Administrativos y Financieros  
ICTA



cc: Gerencia General  
Subgerencia General  
Misión AID (Ing. Mario Aragón)  
Dirección Financiera  
Sección de Contabilidad  
PDA (Lic. Julio Pereira)

RPH/sdef.

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SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE INSTITUTE OF AGRICULTURAL SCIENCE AND TECHNOLOGY -ICTA-

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

AUDITORS' RESPONSE TO ICTA'S MANAGEMENT COMMENTS

I EXCEPTIONS TO THE FUND ACCOUNTABILITY  
STATEMENT

Based on our discussions with ICTA we agree that they did not receive USAID advances but refunds; data discussed in exceptions 1 and 2 of our draft report were in fact proper under the circumstances and we have removed these exceptions from our final report.

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

We did not obtain additional information and the comments we received from the auditee are not sufficient to eliminate the findings, so, we herein confirm them; consequently, ICTA should implement them in their entirety or to ask USAID for an authorization for not complying with some of them, explaining the reason for not implementing them.

## APPENDIX

### REPORT DISTRIBUTION

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