

**Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Peru's Agricultural Planning
and Institutional Development Project
Managed by the Ministry of Agriculture
August 25, 1983 to December 31, 1990**

**Audit Report No. 1-527-92-12-N
December 17, 1991**



**Inspector General for Audit
Tegucigalpa, Honduras**

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and Institutional Development Project
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December 17, 1991**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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December 17, 1991

MEMORANDUM

TO: D/USAID/Peru, Craig Buck
FROM: RIG/A/T Acting, Lou Mundy *Lou Mundy*
SUBJECT: Audit of USAID/Peru's Agricultural Planning and Institutional Development Project, Managed by the Ministry of Agriculture, August 25, 1983 to December 31, 1990

This report presents the results of a financial audit of USAID/Peru's Agricultural Planning and Institutional Development Project (Project), USAID/Peru Project No. 527-0238 managed by the Ministry of Agriculture of Peru (Ministry) for the period August 25, 1983 to December 31, 1990. The accounting firm of Klynveld Peat Marwick Goerdeler (KPMG) prepared the report which is dated September 18, 1991 but was not received by our Office until December 6, 1991.

The purpose of the Project is to assist the Government of Peru in strengthening its capacity to formulate sound agricultural sector policies and effectively manage the implementation of those policies. The Project budget provides for a total of \$26.2 million, of which USAID/Peru is to provide grant and loan funds of \$17.7 million and the Government of Peru the balance of \$8.5 million. The audit coverage included A.I.D. funds of \$15.1 million provided to the Ministry during the audit period.

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

Although KPMG identified certain questionable costs of \$626,000 due to a lack of supporting documentation, they concluded that the Ministry's fund accountability statement presents fairly, in all material respects, the financial activities of the Project for the period audited.

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With respect to the internal control structure of the Ministry, KPMG identified four material weaknesses. The auditors reported that the Ministry did not have: (1) adequate supporting documentation for certain project expenses; (2) a current physical inventory of the Project's fixed assets; (3) insurance coverage on fixed assets acquired with Project funds; and (4) physical control over the Project's fixed assets. We believe, however, that the report more correctly identifies only two material weaknesses, i.e. inadequate documentation for certain expenses and inadequate controls over fixed assets.

In their review of the Ministry's compliance with Agreement terms and applicable laws and regulations KPMG identified two areas of material noncompliance. The auditors found that the Ministry did not maintain their accounting records in compliance with generally accepted accounting principles nor properly account for the funds contributed to the Project by the Government of Peru. The latter problem resulted in a \$2.4 million overstatement of the amount claimed as contributed by the Government of Peru. This overstatement was caused by ineligible expenses (\$100,829), lack of supporting documentation (\$1,527,506) and use of incorrect monetary exchange rates (\$798,000).

The report was discussed with management officials of the Ministry who expressed general agreement with the auditors' findings and conclusions except for those concerning funds contributed to the Project by the Government of Peru. Management's comments are presented in Annex 1 to the KPMG report.

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

Recommendation No. 1

We recommend that USAID/Peru resolve the questionable costs of \$626,000 (unsupported) identified in the Klynveld Peat Marwick Goerdeler audit report dated September 18, 1991 and recover all amounts determined to be unallowable from the Government of Peru.

Recommendation No. 2

We recommend that USAID/Peru, in conjunction with the Ministry of Agriculture, develop a plan, including a timetable for implementation, for developing procedures to: (1) ensure that supporting documentation for expenses is properly maintained; (2) require periodic physical inventories of fixed assets; (3) ensure that accounting records are maintained in accordance with generally accepted accounting principles; and (4) ensure that funds contributed by the Government of Peru are expended for eligible purposes and properly recorded.

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

**AUDIT OF THE AGRICULTURAL PLANNING
AND INSTITUTIONAL DEVELOPMENT PROJECT**
Managed by the Ministry of Agriculture of Peru

USAID/PERU Project Nº 527-0238

From August 25, 1983 to December 31, 1990

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**ADIT OF THE AGRICULTURAL PLANNING
AND INSTITUTIONAL DEVELOPMENT PROJECT
Managed by the Ministry of Agriculture of Peru**

USAID/Peru Project N° 527-0238

From August 25, 1983 to December 31, 1990

TABLE OF CONTENTS

	<u>Page</u>
Transmittal Letter and Summary	
. Background	1-3
. Audit objectives and scope	3-5
. Results of audit	5-7
. Comments of the APID Project Coordination Unit	7
Fund Accountability Statement	
. Independent auditors' report	8
. Fund accountability statement	9
. Notes to the fund accountability statement	10-11
Internal Control Structure	
. Independent auditors' report	12-14
. Findings	15-18
Compliance with Agreement Terms and Applicable Laws and Regulations	
. Independent auditors' report	19-20
. Findings	21-24
List of Report Recommendations	25-26
Annex 1 - Comments of the APID Project Coordination Unit	

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September 18, 1991

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

Dear Mr. Howard:

This report presents the results of our audit of the Agricultural Planning and Institutional Development Project, USAID/Peru Project N° 527-0238, managed by the Ministry of Agriculture of Peru from August 25, 1983 to December 31, 1990.

BACKGROUND

On August 25, 1983 the Government of the United States of America, acting through the Agency for International Development Mission to Peru (USAID/Peru), signed an agreement with the Government of Peru (GOP) represented by its Ministries of Economy and Agriculture to develop the Agricultural Planning and Institutional Development Project (APID), USAID/Peru Project N° 527-0238. After amendments the agreement provides US\$ 26,150,000 from August 1983 to December 31, 1991 to assist the Government of Peru in strengthening its capacity to formulate sound agricultural sector policies and effectively manage the implementation of those policies.

The project funding was provided by USAID/Peru through a grant of US\$ 6,650,000 and a loan of US\$ 11,000,000 and also by the Government of Peru through a counterpart contribution of US\$ 8,500,000.

The project includes implementing institutions from the Ministry of Agriculture (MOA), the National Agrarian University (NAU), the National Weather Service (NWS), the National Institute of Statistics and Information (NISI) and the Ministry of Economy and Finance (MEFC).

The project financed the creation of a Group for Agricultural Policy Analysis (GAPA) to provide analytical services to the Ministry of Agriculture and the creation of an APID Project Coordination Unit to provide coordination of technical, administrative and financial services to the implementing institutions and USAID/Peru. Likewise, the APID Project Coordination Unit is in charge of maintaining the accounting records of the project on a cash basis.



Components	In thousands of US dollars			
	USAID/Peru		GOP	Total
	Loan	Grant	Counterpart	
. Agricultural Policy				
Analysis	2,867	3,445	2,088	8,400
. Information	2,875	1,237	1,421	5,533
. Management	624	1,645	1,790	4,059
. Human Resources				
Development	4,634	28	2,354	7,016
. Coordination and Evaluation	-	295	847	1,142
	11,000	6,650	8,500	26,150
	=====	=====	=====	=====

In its initial stage, up to 1988, the project comprised four components and eleven activities duly interconnected. The description of those components and activities is as follows:

Agricultural Policy Analysis

Oriented to the strengthening of the Ministry of Agriculture's capacity for analyzing and evaluating alternative agricultural policies. This component comprises three activities:

- . Group for Agricultural Policy Analysis (GAPA).
- . Support to the Economic Studies Division of the Ministry of Economy and Finance.
- . Support to the monitoring and evaluating capacity of the Agricultural Sector Planning Office (ASPO).

Information

Oriented to the establishment of a better information basis for designing agricultural policies. This component comprises three activities:

- . National Rural Household Survey.
- . Continuous System of Area Production Statistics.
- . Agroclimatic Impact Assessment.

Management

Oriented to the improvement of the management of the public agricultural sector on behalf of the Ministry of Agriculture. This component comprises three activities:

- . MOA Management improvement.
- . Salary support for Agricultural Sector.
- . Strengthening of National Institute for Agricultural Research and Extension (INIPA).

Human Resources Development

Oriented to enlarge the human resource base of the Ministry of Agriculture in relation to its technical and administrative capacity. This component comprises two activities:

- . Advance training.
- . Support to the National Agrarian University.

During the extension period of the project (January 1989 to December 1990) its structure was re-designed, taking into consideration institutional needs; being then reduced to two components and five activities.

Agreement terms consider December 31, 1988 as the termination date. The project was initially extended to December 31, 1990 because there were still some activities to be carried out. Finally, the project was extended to December 31, 1991. These extensions were approved by USAID/Peru by Implementation Letters Nos. 39 and 55 respectively, which do not provide additional funds.

AUDIT OBJECTIVES AND SCOPE

We were engaged to perform a financial audit of the Agricultural Planning and Institutional Development Project Nº 527-0238 for the period August 25, 1983 to December 31, 1990. Our audit was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision) and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary to determine whether:

- . The Fund Accountability Statement of the APID project for the period August 25, 1983 to December 31, 1990 presents fairly in all material respects the financial activities of the project; the costs reported as incurred and reimbursed by USAID/Peru during the period are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations.
- . The internal control structure of the implementing institutions is adequate to manage the project's operations.
- . The implementing institutions complied with agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs.

We have been alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

In accordance with your instructions the disbursements for costs made in US dollars (Loan and Grant funds) were not examined by us since they were directly financed by USAID/Peru and USAID/Washington. In consequence, our

work was limited to the physical inspection of the fixed assets acquired with such funds and to verify compliance with the work contract terms by persons granted a scholarship for training courses abroad.

The scope of our audit was limited to the following:

1. To examine the use of funds granted by USAID for the project costs in local currency. The review performed included:
 - . Review of the procedures established by the APID Project Coordination Unit to control advances of funds received by the implementing institutions, as well as those established for the liquidation of expenses.
 - . Review of the procedures established by the implementing institutions to maintain solid, competitive and reasonable commercial practices and the verification of controls for the goods and services received.
 - . The physical inspection of fixed assets acquired for the project with loans and grant funds, including those acquired directly by USAID/Peru.
 - . Verify that advances granted by USAID/Peru for costs in local currency are duly recorded and deposited in bank accounts exclusively set up for the project.
 - . Verify whether the charges for costs and salaries are reasonable in relation to those current in Peru, and if they are supported by official payrolls.
 - . Review of the procedures established by the implementing institutions for the handling and control of funds disbursed to the project beneficiaries, also verifying that the funds disbursed are in conformity with what is stipulated in the Agreement and in the Project's Operating Plan.
 - . Determine whether advances of funds are duly supported by adequate documents. Determine the existence of reconciliations of funds advanced and funds disbursed between USAID/Peru and the APID Project Coordination Unit.
 - . Review of bank reconciliations of the implementing institutions.
 - . Verify the adequate recording of the disbursements in accounting records, considering the nature and the activity of the project.
 - . Evaluate the main job descriptions of the Consultants of the APID Project Coordination Unit.
 - . Review the procedures for translating local currency disbursements into US dollars.

2. The scope of our work included a review of the GOP Counterpart Contribution to verify the following:
 - . The GOP Counterpart Contribution is made according to the Agreement terms and the Project's Operating Plan.
 - . The disbursement is appropriately estimated and recorded, as also the timing of each contribution.
 - . The disbursement made in local currency is reasonably translated into US dollars.
3. Review and evaluation of the internal control structure of the APID Project Coordination Unit and of the implementing institutions to determine their adequacy for managing the project funds; as well as the conduct of preliminary and compliance tests to determine the extent established procedures and controls are functioning as intended.

RESULTS OF AUDIT

Fund Accountability Statement

The Fund Accountability Statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Based on work performed as summarized above, in our opinion the Fund Accountability Statement as of December 31, 1990 presents fairly the financial activities of the project at that date and the costs reported as incurred and reimbursed by USAID/Peru during the period August 25, 1983 to December 31, 1990 are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs.

As stated in the Fund Accountability Statement, costs of US\$ 626,000 are considered questionable (unsupported). These costs relate to supporting documents not found in the Ministry of Agriculture files which prior to their filing were liquidated and approved by the APID Project Coordination Unit and USAID/Peru.

Internal Control Structure

In planning and performing our audit of the Fund Accountability Statement, we considered the internal control structure of the APID Project Coordination Unit in order to determine our auditing procedures for the purpose of expressing an opinion on the Fund Accountability Statement. With regard to the implementing institutions internal control structure we only obtained information on their main controls in order to guarantee compliance with the agreement, covering the scope of our work with more substantive tests.

Our evaluation of the internal control structure included the internal control systems respecting:

- . Advances and liquidation of funds for local currency disbursements.
- . Salary payrolls.
- . Evaluation of the consulting staff of the APID Project Coordination Unit.
- . Adequacy of accounting records relating to the project.
- . Physical controls over goods directly purchased by USAID/Peru.
- . Procedures established by the implementing institutions for maintaining competitive and solid commercial practices.

Except for the questionable costs (unsupported) totalling US\$ 626,000 included under Questionable Cost caption in the Fund Accountability Statement, the documents of which were not located in the MOA files, and the findings described in pages 15 through 18, we did not find any matter involving the internal control structure of the implementing institutions that could be considered as a material weakness.

Compliance with Agreement Terms, Applicable Laws and Regulations

As part of obtaining reasonable assurance as to whether the Fund Accountability Statement is free of material misstatement and in order to form an opinion on compliance with agreement terms and applicable laws and regulations, we performed tests to ensure that the Ministry of Agriculture and other implementing institutions complied with the agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs. Our tests of compliance disclosed the following instances of noncompliance:

- . The Ministry of Agriculture has not updated the project accounting records on the basis of generally accepted accounting principles as required by the agreement terms. These records must be audited annually. The accounting records of the project are prepared by the APID Project Coordination Unit on a cash basis and are utilized to prepare the Fund Accountability Statement.
- . Noncompliance with the work contracts by some of the scholars that participated in the program.
- . Payment of salaries to some APID Project personnel are not related to APID project activities.
- . Funds corresponding to the GOP counterpart contribution amounting to approximately US\$ 101,000, which should have been used by the MOA, have been utilized in certain constructions. These expenses have not been approved in the Operating Plan of the APID Project.
- . Questionable costs (unsupported) for US\$ 1,528,000, related to expense liquidation documents not located in the MOA files. These documents correspond to the GOP counterpart contribution.

- . Overstatement of the GOP counterpart contributions as a result of using an annual exchange rate for the translation to US dollars of the Local Currency Contribution. The amount involved is US\$ 798,000.

These instances of noncompliance do not materially affect the project's goals and incurred costs. The results of our tests of compliance indicate that, with the exception of the instances of material noncompliance discussed in findings 1 and 3 in pages 21 and 23, with respect to items tested, the Ministry of Agriculture and the other implementing institutions have complied, in all material respects, with agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs. With respect to items not tested, nothing came to our attention that caused us to believe that the Ministry of Agriculture and the other implementing institutions had not complied, in all material respects, with the terms of the agreement and applicable laws and regulations which may affect the project's goals and incurred costs.

COMMENTS OF THE APID PROJECT COORDINATION UNIT

This report has been discussed with the officials of the APID Project Coordination Unit. The comments are briefly summarized in Annex 1.

May 31, 1991

Countersigned by:

Oscar Caipo s' Asociados



Oscar Caipo (Partner)
Peruvian Public Accountant
Registration N° 2782

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**AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT
MANAGED BY THE MINISTRY OF AGRICULTURE OF PERU
USAID/PERU PROJECT N° 527-0238**

**Fund Accountability Statement
As of December 31, 1990**

Independent Auditors' Report

We have audited the accompanying Fund Accountability Statement of the Agricultural Planning and Institutional Development Project, managed by the Ministry of Agriculture, USAID/Peru Project N° 527-0238 as of December 31, 1990. This Fund Accountability Statement is the responsibility of the Ministry of Agriculture of Peru. 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 as to whether the Fund Accountability Statement is free of material misstatement. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. Our audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Fund Accountability Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

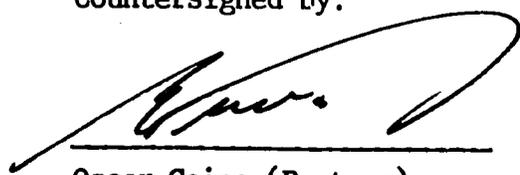
As described in Note 3, the Fund Accountability Statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the Fund Accountability Statement audited by us presents fairly, in all material respects, the fund position of the Agricultural Planning and Institutional Development Project managed by the Ministry of Agriculture, USAID/Peru Project N° 527-0238 at December 31, 1990 and the fund activity for the period August 25, 1983 to December 31, 1990, on the basis of accounting described in Note 3.

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

May 31, 1991

Countersigned by:



Oscar Caipo y Asociados

Oscar Caipo (Partner)
Peruvian Public Accountant
Registration N° 2782

AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT
 Managed by the Ministry of Agriculture of Peru
 USAID/PERU Project N° 527-0238

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FUND ACCOUNTABILITY STATEMENT
 For the Period August 25, 1983 to December 31, 1990
 (Stated in thousands of U.S. Dollars)

COMPONENTS/Activities	BUDGET			ACTUAL			QUESTIONABLE COSTS (Note 5)	AVAILABLE		
	USAID/PERU		TOTAL	USAID/PERU		TOTAL		USAID/PERU		TOTAL
	LOAN	GRANT		LOAN	GRANT			LOAN	GRANT	
I. AGRICULTURAL POLICY ANALYSIS										
• Group for Agricultural Policy Analysis	2,264	2,570	4,834	2,226	2,011	4,237	43	38	559	597
• Economic Studies Division - MEF	95	364	459	71	364	435	-	24	-	24
• Agricultural Sector Planning Office	329	413	742	195	413	608	32	134	-	134
• APID Project Coordination Unit	180	241	421	94	203	297	-	86	38	124
	<u>2,868</u>	<u>3,588</u>	<u>6,456</u>	<u>2,586</u>	<u>2,991</u>	<u>5,577</u>	<u>75</u>	<u>282</u>	<u>597</u>	<u>879</u>
II. INFORMATION										
• National Rural Household Survey	662	505	1,167	651	505	1,156	322	11	-	11
• Continuous System of Area and Production Statistics	1,301	732	2,033	1,081	732	1,813	134	220	-	220
• Agroclimatic Impact Assessments	912	-	912	634	-	634	27	278	-	278
	<u>2,875</u>	<u>1,237</u>	<u>4,112</u>	<u>2,366</u>	<u>1,237</u>	<u>3,603</u>	<u>483</u>	<u>509</u>	<u>-</u>	<u>509</u>
III. MANAGEMENT										
• MOA Management Improvement	576	1,093	1,669	311	992	1,303	12	265	101	366
• Public Agricultural Sector - Salary Support	48	-	48	-	-	-	-	48	-	48
• INIPA Strengthening	-	457	457	-	457	457	-	-	-	-
	<u>624</u>	<u>1,550</u>	<u>2,174</u>	<u>311</u>	<u>1,449</u>	<u>1,760</u>	<u>12</u>	<u>313</u>	<u>101</u>	<u>414</u>
IV. HUMAN RESOURCES DEVELOPMENT										
• Advanced Training	1,455	-	1,455	1,082	-	1,082	56	373	-	373
• National Agrarian University Support	3,178	28	3,206	2,876	20	2,896	-	302	8	310
	<u>4,633</u>	<u>28</u>	<u>4,661</u>	<u>3,958</u>	<u>20</u>	<u>3,978</u>	<u>56</u>	<u>675</u>	<u>8</u>	<u>683</u>
COORDINATION AND EVALUATION	-	247	247	-	200	200	-	-	47	47
	<u>11,000</u>	<u>6,650</u>	<u>17,650</u>	<u>9,221</u>	<u>5,897</u>	<u>15,118</u>	<u>626</u>	<u>1,779</u>	<u>753</u>	<u>2,532</u>
	*****	*****	*****	*****	*****	*****	***	*****	***	*****

Notes 1 to 5 form an integral part of this Fund Accountability Statement.

**AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT
MANAGED BY THE MINISTRY OF AGRICULTURE OF PERU
USAID/PERU PROJECT N° 527-0238**

**Notes to the Fund Accountability Statement
As of December 31, 1990**

1. Nature of Activities

On August 25, 1983, the Government of the United States of America acting through the Agency for International Development Mission to Peru (USAID/Peru) signed an agreement with the Government of Peru (GOP) represented by its Ministries of Economy and Agriculture to develop the APID project in order to assist the GOP in strengthening its capacity to formulate sound agricultural sector policies and effectively manage the implementation of those policies. The APID project considered funds for a total of US\$ 26,150,000. Besides the Ministry of Agriculture of Peru, four other implementing institutions took part in the project. In addition an APID Project Coordination Unit was created to coordinate services between implementing institutions and USAID/Peru.

The initial termination date of the project was set at December 31, 1988; but it has been extended to December 31, 1991.

2. Project Financing Sources

USAID/Peru provided GOP with funds totalling US\$ 17,650,000 by means of a grant of US\$ 6,650,000 and a loan of US\$ 11,000,000. The GOP agreed to provide the project with funds for an amount of no less than US\$ 8,500,000 as a local counterpart contribution.

The Grant and Loan funds are to be used to finance project costs in US dollars (Direct Costs) and costs in local currency. The Direct Costs are directly executed by the USAID/Peru and are mainly used for technical assistance and evaluation fee payments (Grant Source), for the purchase of goods abroad and professional training and assistance (Loan Source).

The costs in local currency are mainly represented by equipment purchases, materials, service payments, salaries and training expenses.

3. Significant Accounting Practices

- (a) The Fund Accountability Statement is prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

- (b) Direct Costs represent disbursements actually incurred in US dollars by USAID/Peru and USAID/Washington.
- (c) Local Currency costs are incurred in Intis and the procedure for translating them into US dollars is based on the oldest advance of funds pending liquidation. The US dollar equivalent is determined by USAID/Peru at the moment the remittance of funds is granted to the project implementing unit.
- (d) GOP Counterpart Contribution is made in local currency. Translation into US dollars is made based on annual average exchange rates.

4. Local Currency and Direct Costs

As of December 31, 1990 the actual disbursements for local currency and direct costs are as follows:

<u>Components</u>	<u>ACTUAL (US\$ 000's)</u>		
	<u>Local currency costs</u>	<u>Direct costs</u>	<u>Total</u>
I. Agricultural Policy Analysis	1,373	4,204	5,577
II. Information	1,572	2,031	3,603
III. Management	299	1,461	1,760
IV. Human Resources Development	1,543	2,435	3,978
Coordination and Evaluation	-	200	200
	<u>4,787</u>	<u>10,331</u>	<u>15,118</u>
	=====	=====	=====
<u>Financing Source</u>			
Grant	20	5,877	5,897
Loan	<u>4,767</u>	<u>4,454</u>	<u>9,221</u>
	<u>4,787</u>	<u>10,331</u>	<u>15,118</u>
	=====	=====	=====

5. Questionable Costs (Questioned and Unsupported)

Questioned costs are those costs not allowable under the Agreement terms. Unsupported costs are those costs not fully supported by adequate documentation and/or not located in the Ministry of Agriculture files. As of December 31, 1990 the questionable costs refer mainly to unsupported costs which are expense liquidation documentation not located in the MOA files. The amount involved is US\$ 626,000.

**AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT
MANAGED BY THE MINISTRY OF AGRICULTURE OF PERU
USAID/PERU PROJECT Nº 527-0238**

**Internal Control Structure
As of December 31, 1990**

Independent Auditors' Report

We have audited the Fund Accountability Statement of the Agricultural Planning and Institutional Development Project managed by the Ministry of Agriculture, USAID/Peru Project Nº 527-0238 as of December 31, 1990 and for the period August 25, 1983 to December 31, 1990 and have issued our report thereon dated May 31, 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.

In planning and performing our audit of the Fund Accountability Statement for the Agricultural Planning and Institutional Development Project managed by the Ministry of Agriculture USAID/Peru Project Nº 527-0238 for the period August 25, 1983 to December 31, 1990, we considered APID Project Coordination Unit's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The Ministry of Agriculture and the other implementing institutions are responsible for establishing and maintaining an internal control structure to manage the project's operations. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management authorization and recorded properly to permit the preparation of the Fund Accountability Statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.



**AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT
MANAGED BY THE MINISTRY OF AGRICULTURE
USAID/PERU PROJECT N° 527-0238**

**Internal Control Structure
As of December 31, 1990**

Independent Auditors' Report (continued)

For the purpose of this report we have classified significant internal control structure policies and procedures into the following categories: (1) advances and liquidations of funds for local currency disbursements; (2) salary payrolls; (3) evaluation of the consulting staff of the APID Project Coordination Unit; (4) adequacy of accounting records relating to the project; (5) physical controls over goods directly purchased by USAID; (6) procedures established by the implementing institutions for maintaining competitive and solid commercial practices.

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

We noted certain matters involving the APID Project Coordination Unit control structure and 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 judgement, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the Fund Accountability Statement. The reportable conditions are described in findings 1, 2, 3 and 4 on the following pages to this report.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce the risk that errors or irregularities in 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 problems in the internal control structure that might be reportable conditions and that are also considered to be material weaknesses as defined above. However, we believe that, except for findings 1, 2, 3 and 4 on the following pages, none of the reportable conditions described above are material weaknesses.

**AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT
MANAGED BY THE MINISTRY OF AGRICULTURE OF PERU
USAID/PERU PROJECT Nº 527-0238**

**Internal Control Structure
As of December 31, 1990**

Independent Auditors' Report (continued)

We also noted other matters involving the internal control structure and its operations that we will report to the APID Project Coordination Unit in a separate letter dated September 5, 1991.

This report is intended solely for the information and use of the United States Agency for International Development and the Ministry of Agriculture of Peru. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

May 31, 1991

Countersigned by:

Oscar Caipo & Asociados



Oscar Caipo (Partner)
Peruvian Public Accountant
Registration Nº 2782

**AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT
 MANAGED BY THE MINISTRY OF AGRICULTURE OF PERU
 USAID/PERU PROJECT Nº 527-0238**

**Report on Internal Control Structure
 As of December 31, 1990**

Findings

**1. LIQUIDATIONS OF PROJECT EXPENSES NOT LOCATED IN THE MINISTRY OF
 AGRICULTURE FILES**

Condition

Liquidation documentation of project expenses totalling US\$ 626,000 were not found in the Ministry of Agriculture files. The said liquidation of expenses corresponds mainly to the budgeted fiscal years 1984 and 1985 and were recorded as liquidated by the APID Project Coordination Unit before being filed, since they had already been approved by USAID/Peru.

The summary of expense liquidations of project activities not located is as follows:

<u>ACTIVITY</u>	<u>US\$ 000's</u>
. Group for Agricultural Policy Analysis (GAPA)	43
. Agricultural Sector Planning Office	32
. National Rural Household Survey	322
. Continuous System of Area and Production Statistics	134
. Agroclimatic Impact Assesment	27
. MOA Management Improvement	12
. Advanced Training	<u>56</u>
	626
	===

Criteria

In accordance with Appendix 2, Section B.5 of the Agreement, the Ministry of Agriculture must maintain adequately its documents for expenses for a period of three years after the date of the last disbursement made by USAID to the project, that is until the year 1994.

Cause

- . Lack of administrative autonomy of the APID Project Coordination Unit to assume responsibility for the filing of liquidations of expenses. They depend on the MOA.
- . The Ministry of Agriculture did not appoint a person to be solely responsible for the custody of the liquidations of project expenses.
- . Lack of an appropriate physical environment in the files of the Ministry of Agriculture to store the project liquidations of expenses.
- . The project pay vouchers are filed jointly with those of the Ministry of Agriculture.

Effect

Limitations on the conduct of audit reviews and consequent inability to determine the adequacy of expenses incurred.

Recommendation

The MOA and the APID Project Coordination Unit should implement the following recommendations:

- . Expense vouchers should have, exclusively, a unique numbering for the files. They must be kept separately and independently from those utilized by the Ministry of Agriculture.
- . All expense vouchers should be in the custody of the Coordination Units until termination of the project. Then, they are to be returned to the Ministry of Agriculture for permanent filing.

2. LACK OF UPDATED PHYSICAL INVENTORIES OF PROJECT FIXED ASSETS

Condition

The Ministry of Agriculture has no updated physical inventory of fixed assets acquired for the project with loan and grant funds. The last inventory was taken in 1987.

Criteria

In conformity with internal regulations of the Ministry of Agriculture, at the closing of each fiscal year, a fixed assets physical inventory is taken in the different areas of the implementing institutions.

Cause

Lack of continuing attention to this matter by the Ministry of Agriculture.

Effect

Since no updated identification of the users of the goods exists in the MOA, the said goods may be misplaced; especially in cases where the fixed assets are distributed to the various locations of each implementing institution and are subject to constant transfers to other areas.

Recommendation

The APID Project Coordination Unit in coordination with the Ministry of Agriculture should take periodic physical inventory counts of the goods in order to keep an adequate control on them.

LACK OF INSURANCE FOR FIXED ASSETS ACQUIRED BY THE PROJECT FOR THE NAU AND NWS

Condition

Fixed assets acquired with project funds for NAU and NWS are not insured against any type of risk.

Criteria

According to the supplementary agreements (sub-convenios) subscribed among them and the APID Project Coordination Unit, the NAU and NWS are responsible for adopting measures for the custody, conservation, maintenance of, and insurance against all types of risk for the fixed assets destined for their use.

Cause

Allocations of fiscal resources granted by the GOP to public agencies are each time more exiguous and reduced, thus not permitting insurance expenses.

Effect

Government agencies are currently being targets for terrorist attacks and vandalism, thus it is imperative to insure fixed assets against all risks. In addition, equipment for approximately US\$ 6,700 was stolen from the NAU premises.

Recommendation

NAU and NWS in coordination with the APID Project Coordination Unit should inform the highest government authorities (Dirección General de Presupuesto Público) of the necessity of insuring fixed assets because of their economic value and the benefit expected to be obtained from them in the development of activities in the Agricultural sector.

4. FIXED ASSETS NOT PHYSICALLY LOCATED

Condition

As a result of our physical inspection conducted on a test basis in the GAPA and ASPO facilities of the Ministry of Agriculture, it was established that computing equipment with a value of US\$ 23,912 could not be physically located because the equipment had been moved to various areas in the Ministry.

<u>Quantity</u>	<u>Items</u>	<u>Location according to records</u>
03	Matrix printers, 80 CPS Mod. PC. - PM010	GAPA
03	Matrix printers, 20 CPS Mod. PC. - PM012	GAPA
02	CPU with 256 Kb of Memory Mod. PC. - 00.5A - B	ASPO

Criteria

Adequate and current records that describe the movement of fixed assets within the various offices of MOA should be kept.

Cause

Lack of communication with the person in charge of control of fixed assets on the internal movement of goods transferred from one area to another.

Effect

Fixed assets could be misplaced and used for purposes other than those for which they were acquired.

Recommendation

The Equity Control Unit of the Ministry of Agriculture and the APID Project Coordination Unit must implement control measures stating that the transfer of goods to other areas is to be reported for recording prior to their transfer. Periodic physical inventories are to be taken.



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**AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT
MANAGED BY THE MINISTRY OF AGRICULTURE OF PERU
USAID/PERU PROJECT N° 527-0238**

**Compliance with Agreement Terms
And Applicable Laws and Regulations
As of December 31, 1990**

Independent Auditors' Report

We have audited the Fund Accountability Statement of the Agricultural Planning and Institutional Development Project managed by the Ministry of Agriculture, USAID/Peru Project N° 527-0238 as of December 31, 1990 and for the period August 25, 1983 to December 31, 1990 and have issued our report thereon dated May 31, 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.

The Government of Peru, represented by the Ministry of Agriculture, is responsible for compliance with the terms of the agreement and applicable laws and regulations. As part of obtaining reasonable assurance as to whether the Fund Accountability Statement is free of material misstatement, we performed tests of compliance by the Ministry of Agriculture and the APID Project Coordination Unit with agreement terms and applicable laws and regulations which may affect the project goals and incurred costs. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of non-compliance are failures to follow requirements contained in the terms of the agreement and laws and regulations applicable to the project. The result of our tests of compliance disclosed the material instances of noncompliance that are described in findings 1 and 3 in the following pages.

We considered these material instances of noncompliance in forming our opinion on whether the Fund Accountability Statement of the Agricultural Planning and Institutional Development Project, managed by the Ministry of Agriculture, USAID/Peru Project N° 527-0238 as of December 31, 1990 and for the period August 25, 1983 to December 31, 1990 is presented fairly, in all material respects, in conformity with the basis of accounting described in Note 3 to the Fund Accountability Statement, and this report does not affect our report dated May 31, 1991 on that Fund Accountability Statement.



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Klynveld Peat Marwick Goerdeler

**AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT
MANAGED BY THE MINISTRY OF AGRICULTURE OF PERU
USAID/PERU PROJECT Nº 527-0238**

**Compliance with Agreement Terms
And Applicable Laws and Regulations
As of December 31, 1990**

Independent Auditors' Report (continued)

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Government of Peru represented by the Ministry of Agriculture complied, in all material respects, with the provisions referred to in the third paragraph of this report and, with respect to items not tested, nothing came to our attention that caused us to believe that the Ministry of Agriculture had not complied, in all material respects, with those provisions.

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

May 31, 1991

Countersigned by:

Oscar Caipo y Asociados



Oscar Caipo (Partner)
Peruvian Public Accountant
Registration Nº 2782

**AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT
MANAGED BY THE MINISTRY OF AGRICULTURE OF PERU
USAID/PERU PROJECT N° 527-0238**

**Report on Compliance with Agreement Terms
And Applicable Laws and Regulations
As of December 31, 1990**

Findings

1. SPECIAL PROJECT ACCOUNTING RECORDS TO BE UPDATED

Condition

From 1983 through 1986 the project's accounting records were maintained both on a cash basis and on a basis in accordance with Generally Accepted Accounting Principles (GAAP). But from 1986 through 1990 the accounting records were maintained only on a cash basis. At the present time the accounting records are not being maintained on the basis of the GAAP.

Criteria

According to Appendix II, Section B.5 of the Agreement, "Reports, Records, Inspections and Audits", the Peruvian government shall keep, according to generally accepted accounting principles, records and books relating to the project, which must be audited annually by firms designated by the Peruvian government.

Cause

The delay in the accounting records is the result of having rescinded the contracts of the personnel in charge of project accounting.

Effect

Not to show promptly the economic and financial situation of the APID project according to generally accepted accounting principles and integrated government accounting norms (Treasury, General Accounting, Supplies, Budget).

Recommendation

The APID Project Coordination Unit in coordination with the Ministry of Agriculture should hire a team of accountants for the updating of the project accounting records. Likewise, the Ministry should request an independent audit of the project's financial statements for all the years for which this has not yet been performed (since the calendar year 1987).

2. SCHOLARS NON-COMPLIANCE WITH WORK CONTRACT TERM

Condition

(a) As a part of the training program established in the project agreement, and in order to develop the Agricultural Policy Analysis activity (GAPA), USAID/Peru granted full scholarships for post-graduate studies in Economics in U.S. universities to six professionals. Three of them, after taking their degree, did not honor their promise to work for the Peruvian Government (GOP) for the agreed length of time. The amount invested in them by the project amounted to US\$ 224,055.

Scholars	Scholarship cost in US\$	Obligatory work period	Actual period worked
Luis A. Gonzalez Zúñiga	73,701	72 months	18 months
Justo Manrique Gutierrez	76,653	72 months	2 months
Daniel de la Torre Ugarte	<u>73,701</u>	72 months	-
	<u>224,055</u> =====		

(b) According to the Public Prosecutor in charge of legal matters of the Ministry of Agriculture, legal proceedings have been filed in only two cases. No legal action has been taken in the case of Daniel de la Torre Ugarte due to the background of the legal case not having been received by the Public Prosecutor.

Criteria

According to the work contracts, scholars, upon completion of their studies should work for the Peruvian government (GOP) during a period twice as long as their studies (72 months). Otherwise they must reimburse the invested amount.

Cause

It is assumed that higher salary offers made to these individuals by private entities were the cause of this non-compliance.

Effect

In the case of the three scholars mentioned above, the objectives stated in the Agreement have not been met. The recovery of the said investment is difficult due to bureaucratic inefficiency and the slowness of the Judiciary in Peru.

Recommendation

We recommend that future agreements of USAID/Peru and GOP consider other measures for ensuring compliance with work contracts on the part of individuals receiving a scholarship.

3. OVERSTATEMENT, INELIGIBLE COSTS AND UNSUPPORTED COSTS OF THE GOP CONTRIBUTION

Condition

At December 31, 1990, the overstatement, ineligible costs and unsupported costs of the GOP contribution amount to US\$ 2,426,335.

Criteria

GOP should make its contributions to the project according to the amounts and timing agreed in the contract terms.

Cause

The overstatement is due to:

	<u>US\$</u>
(a) Overstatement in the use of an annual exchange rate to translate the local currency contribution into US dollars. The excess amount compared to our calculations amounts to	798,000
(b) Ineligible expenses refer to the constructions of certain buildings corresponding to MOA. These expenses are not considered in the Project Operating Plan and amount to	100,829
(c) Lack of supporting documentation	<u>1,527,506</u>
	<u>2,426,335</u> =====

The funds used for the construction of certain buildings not related to the project's activities can be summarized as follows:

	<u>US\$</u>
. Construction and conditioning of a classroom of the <u>E</u> lementary School for MOA workers	38,196
. Construction of "Dressing rooms" and a "Multiple use livingroom" in the La Molina-Recreational Center of the MOA workers	56,895
. Construction of a Chapel for the agrarian sector for the use of the MOA workers and relatives	<u>5,738</u>
	<u>100,829</u> =====

The detail of the supporting documentation not located in the MOA files can be summarized as follows:

	<u>US\$</u>
. Documents and expense reports not located in MOA files	1,430,606
. Payment vouchers with no supporting documents	58,997
. Payment vouchers with partial supporting documents	<u>37,903</u>
	<u>1,527,506</u> =====

Effect

Overstatement, ineligible costs and unsupported costs for US\$ 2,426,335.

Recommendation

We recommend that:

- (a) The APID Project Coordination Unit restates the GOP contribution using monthly exchange rates instead of annual average exchange rates to translate local currency into US dollars, in order to reestablish the real GOP contribution.
- (b) The Government of Peru is requested to provide additional contributions to the project to substitute the ineligible costs of US\$ 100,829.
- (c) The Government of Peru is requested to provide USAID/Peru with adequate documentation for the unsupported counterpart contribution of US\$ 1,527,506.

4. PAYMENT OF SALARIES TO STAFF NOT RELATED WITH APID PROJECT ACTIVITIES (GOP - GOVERNMENT CONTRIBUTION)

Condition

Staff specially hired for project's activities are not fulfilling their duties since they are working for MOA activities other than the project's. As an example, 23 persons were hired for the Advance Training activity and 12 of them are engaged in different activities.

Criteria

Article 52 of Legislative Decree N° 556 - Budget Law of the Republic of Peru, forbids the use of investment project funds (USAID/Peru) for activities not related with the project.

Cause

Lack of administrative autonomy of the APID Project Coordination Unit.

Effect

Creation of ineligible expenses for the project.

Recommendation

We recommend that the Ministry of Agriculture compute the amount of money involved in the payment of salaries of certain individuals hired by the project but serving other purposes. In addition, the Ministry of Agriculture should request the Government of Peru to provide additional contributions to the project to substitute such ineligible cost.

**AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT
MANAGED BY THE MINISTRY OF AGRICULTURE OF PERU
USAID/PERU PROJECT Nº 527-0238**

**List of Report Recommendations
As of December 31, 1990**

Internal Control Structure

1. LIQUIDATIONS OF PROJECT EXPENSES NOT LOCATED IN THE MINISTRY OF AGRICULTURE FILES

The MOA and the APID Project Coordination Unit should implement the following recommendations:

- . Project expense vouchers should have, exclusively, a unique numbering for the files. They must be kept separately and independently from those utilized by the Ministry of Agriculture.
- . All expense vouchers of the project should be in the custody of the Coordination Units until termination of the project. Then, they are to be returned to the Ministry of Agriculture for permanent filing.

2. LACK OF UPDATED PHYSICAL INVENTORIES OF PROJECT FIXED ASSETS

The APID Project Coordination Unit in coordination with the Ministry of Agriculture should take periodic fixed assets physical inventories in order to establish an adequate control on them.

3. LACK OF INSURANCE FOR FIXED ASSETS ACQUIRED FOR THE PROJECT

NAU and NWS, in coordination with the APID Project Coordination Unit should inform the highest government authorities (Dirección General de Presupuesto Público) of the necessity of insuring fixed assets because of their economic value and the benefit expected to be obtained from them in the development of activities in the Agricultural Sector.

4. FIXED ASSETS NOT PHYSICALLY LOCATED

The Equity Control Unit of the Ministry of Agriculture and the APID Project Coordination Unit must implement control measures stating that the transfer of goods to other areas is to be reported for recording prior to their transfer; as well as periodic physical inventories.

Compliance with Agreement Terms and Applicable Laws and Regulations

5. SPECIAL PROJECT ACCOUNTING RECORDS TO BE UPDATED

The APID Project Coordination Unit in coordination with the Ministry of Agriculture should hire a team of accountants for the updating of the project accounting records. Likewise, the Ministry should request an independent audit of the project's financial statements for all the years for which this has not yet been performed (since the calendar year 1987).

6. SCHOLARS NON-COMPLIANCE WITH WORK CONTRACT TERMS

We recommend that future agreements of USAID/Peru and GOP consider other measures for ensuring compliance with work contracts on the part of individuals receiving a scholarship.

7. OVERSTATEMENT, INELIGIBLE COSTS AND UNSUPPORTED COSTS OF THE GOP CONTRIBUTION

We recommend that:

- (a) The APID Project Coordination Unit restates the GOP contribution using monthly exchange rates instead of annual average exchange rates to translate local currency into US dollars, in order to reestablish the real GOP contribution.
- (b) The Government of Peru is requested to provide additional contributions to the project to substitute the ineligible costs of US\$ 100,829.
- (c) The Government of Peru is requested to provide USAID/Peru with adequate documentation for the unsupported counterpart contribution of US\$ 1,527,506.

8. PAYMENT OF SALARIES TO STAFF NOT RELATED WITH APID PROJECTS ACTIVITIES (GOP - GOVERNMENT CONTRIBUTION)

We recommend that the Ministry of Agriculture compute the amount of money involved in the payment of salaries of certain individuals hired by the project but serving other purposes. In addition, the Ministry of Agriculture should request the Government of Peru to provide additional contributions to the project to substitute such ineligible cost.

**AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT
MANAGED BY THE MINISTRY OF AGRICULTURE OF PERU
USAID/PERU PROJECT N° 527-0238**

**Comments of the APID Project
Coordination Unit**

The APID Project Coordination Unit has made the following comments in connection with the findings listed on the left.

<u>Finding N°</u>	<u>Comments</u>
<u>Internal Control Structure</u>	
1, 2, 3	Agreed. However, we believe that the Ministry of Agriculture should be exclusively in charge of carrying out such recommendation.
4	Not commented.
<u>Compliance with Agreement Terms and Applicable Laws and Regulations</u>	
1	Agreed. But it is our understanding that the Ministry of Agriculture should be in charge of carrying out such recommendation.
2	Not commented.
3	Regarding recommendations a) and b), we are in disagreement due to the following reasons: <ul style="list-style-type: none"> a) The exchange rate for translation should be established and coordinated by USAID/Peru. b) It is our interpretation that such constructions are eligible costs, in accordance with what is stated in the Agreement and in the Operating Plan of the Project. We agree with point c) of this finding.
4	We are in disagreement with this finding because we consider, in our judgement, that such workers are indeed doing work tasks related to the APID Project.

APPENDIX

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