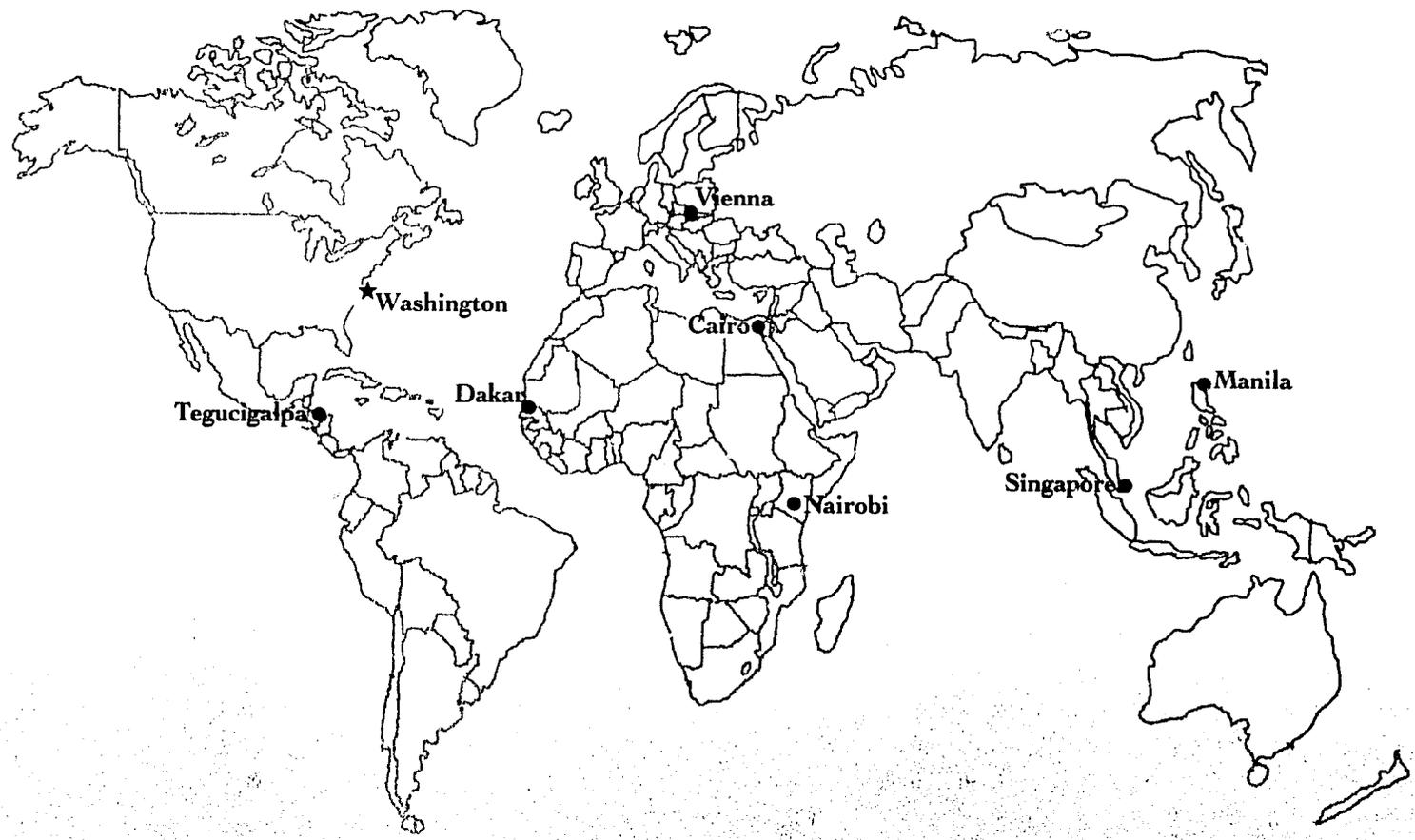


**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Costa Rica's
Agricultural Services Delivery System
Managed by the
American Institute for Free Labor Development
October 1, 1989 to June 30, 1991**

**Audit Report No. 1-515-92-36-N
June 23, 1992**



Contractor information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.



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

**Audit of USAID/Costa Rica's
Agricultural Services Delivery System
Managed by the
American Institute for Free Labor Development
October 1, 1989 to June 30, 1991**

**Audit Report No. 1-515-92-36-N
June 23, 1992**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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June 23, 1992

MEMORANDUM

TO: D/USAID/Costa Rica, Ronald F. Venezia

FROM: RIG/A/T Acting, Lou Mundy 

SUBJECT: Audit of USAID/Costa Rica's Agricultural Services Delivery System, Managed by the American Institute for Free Labor Development, October 1, 1989 to June 30, 1991

This report presents the results of a financial audit of USAID/Costa Rica's Agricultural Services Delivery System, Project No. 515-0226, managed by the American Institute for Free Labor Development (the Institute) for the period October 1, 1989 to June 30, 1991. The audit firm of KPMG Peat Marwick prepared the report dated March 27, 1992.

The purpose of the Project was to establish a private organization to promote agricultural diversification and marketing services for nontraditional crops to benefit farmers of limited resources affiliated with the National Confederation of Workers in Costa Rica. The Project budget provided for a total of \$2.0 million in grant funds from USAID/Costa Rica. The audit coverage included A.I.D. funds totaling \$429,528 provided to the Institute during the audit period.

The objectives of the audit were to determine whether: (1) the Institute's fund accountability statement presents fairly, in all material respects, the financial activities under the Project during the period audited, (2) the Institute's internal control structure was adequate to ensure appropriate control over the Project's activities, and (3) the Institute had complied, in all material respects, with the terms of the Project Agreement and applicable laws and regulations. The audit scope 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.

KPMG Peat Marwick found that the Institute's fund accountability statement presents fairly, in all material respects, the Project's financial activities for the period audited.

With respect to the Institute's internal control structure, the auditors did not identify any material weaknesses. In its review of the Institute's compliance with Agreement terms and applicable laws and regulations, KPMG Peat Marwick identified one material instance of noncompliance concerning employees' payroll taxes.

Since the Project has ended and, according to Mission officials, USAID/Costa Rica has no existing agreements with the Institute, we are not including the auditors' recommendation related to compliance in the Office of the Inspector General's recommendation follow-up system. However, in considering any future projects with the Institute, we strongly advise Mission management to obtain assurance during the evaluation process that the employee payroll tax issue has been resolved prior to the commitment of A.I.D. funds.

The report was discussed with the Institute's management and its comments are presented as a schedule to the audit report.

The report contains no findings and recommendations for inclusion in the Office of the Inspector General's audit recommendation follow-up system.

AUDIT OF THE AGRICULTURAL SERVICES
DELIVERY SYSTEM, USAID/COSTA RICA
PROJECT No.515-0226

Managed by the American Institute for
Free Labor Development

For the period from October 1, 1989
through June 30, 1991

**AUDIT OF THE AGRICULTURAL SERVICES DELIVERY
SYSTEM, USAID/COSTA RICA PROJECT No.515-0226**

Managed by the American Institute for Free Labor Development

For the period from October 1, 1989 through June 30, 1991

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Peat Marwick

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March 27, 1992

Mr. Reginald Howard
Regional Inspector General
United States of America Agency for
International Development

Tegucigalpa, Honduras

Dear Mr. Howard:

This report presents the audit results of the fund accountability statement for the period from October 1, 1989 through June 30, 1991 of the Agricultural Services Delivery System, USAID/Costa Rica Project 515-0226, managed by the American Institute for Free Labor Development.

BACKGROUND

On June 17, 1985 the United States of America Agency for International Development/Mission to Costa Rica (USAID/Costa Rica) and the American Institute for Free Labor Development (AIFLD), signed a grant agreement for \$250,000 for the period from June 17, 1985 through May 31, 1988 (the Agreement). On June 22, 1985 and 1988, AIFLD signed a sub-agreement with the National Confederation of Workers (CNT), as the sub-grantee, to manage and operate an Agricultural Services Delivery System for its farm union constituency (the Agricultural Services Delivery System), USAID/Costa Rica Project 515-0226 (the Project). Through subsequent amendments, the Agreement was increased to US\$2,000,000 and the date for conclusion of the Project was extended to June 15, 1991.

The purpose of the Project is to establish a private organization to promote the diversification of agricultural promotion and marketing services for non-traditional crops in a program managed by CNT for the benefit of affiliated farmers of limited resources.

Mr. Reginald Howard
Regional Inspector General

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March 27, 1992

The objective of the Project is to institutionalize various activities that were initiated in 1983, to increase rural income and employment opportunities, through a program managed by the Democratic Commercial Union Movement in Costa Rica. Specific objectives included:

- a) Change farmers dedicated to a traditional economic subsistence to an economy oriented towards production and marketing, through an improvement in commercial relations between Costa Rican agricultural companies and small farmers.
- b) Intensify and diversify non-traditional agricultural production.
- c) Strengthen the increasing democratization trend of commercial unions movement in selected rural areas in Costa Rica.

AUDIT OBJECTIVES AND SCOPE

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the fund accountability statement, our audit was conducted in accordance with generally accepted auditing standards and with the United States Comptroller General's Government Auditing Standards (1988 Revision). Those standards require that the audit be planned and performed 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 and significant estimates made by AIFLD, as well as evaluating the overall fund accountability statement. We consider that our audit provides a reasonable basis for our opinion.

Mr. Reginald Howard
Regional Inspector General

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March 27, 1992

Our audit objectives were to:

1. Determine if the fund accountability statement presents fairly, in all material respects, the funds provided by USAID/Costa Rica and the disbursements incurred by the Agricultural Services Delivery System, USAID/Costa Rica Project No.515-0226, during the period from October 1, 1989 through June 30, 1991, on the basis of cash receipts and disbursements.
2. Verify if the internal control structure established by AIFLD is adequate to manage the Project's operations. Compliance with this objective is limited to the consideration of such internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.
3. Determine if AIFLD has complied, in all material respects, with Agreement terms and with applicable laws and regulations. This includes a determination of possible questionable costs, if any. In accordance with applicable USAID regulations a questionable cost is that one explicitly ineligible because it is not project related, unreasonable or prohibited by the agreement or applicable laws and regulations; likewise, costs are considered questionable if they do not have supporting documentation or are not properly authorized.
4. Determine the condition of the steps taken by AIFLD regarding observations and recommendations expressed by Deloitte, Haskins and Sells on their financial and compliance report of USAID/Costa Rica Project No.515-0226 for the period from March 31, 1987 through September 30, 1989.

Scope of work consisted of the following:

A. Preliminary Steps

Review the following documents to become familiar with Project No.515-0226:

RMG Peat Marwick

Mr. Reginald Howard
Regional Inspector General

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March 27, 1992

1. The grant agreement between AIFLD and USAID/Costa Rica (the Agreement).
2. The agreement between AIFLD and CNT.
3. Memoranda and project implementation letters.
4. Deloitte, Haskins and Sell's audit report on financial and compliance issues for USAID/Costa Rica Project No.515-0226, period from March 1, 1987 through September 30, 1989.
5. USAID/Costa Rica: Review of Resolution of Audit Recommendations for American Institute for Free Labor Development and National Confederation of Workers, April 19, 1991.

B. Fund Accountability Statement

1. Verify the budgeted amounts by category with the information included in project implementation letters.
2. Review direct and indirect costs reimbursed by USAID/Costa Rica, and quantify questionable costs, if any.
3. Reconcile direct and indirect costs reimbursed by USAID/Costa Rica with Project accounting records.
4. Verify the reasonableness of foreign exchange rates used to determine the equivalent in US dollars, for monthly costs reported to USAID/Costa Rica.
5. Reconcile cash advances received with information located at USAID/Costa Rica, and verify supporting documentation to determine that all cash advances were deposited at Project bank account.
6. Determine whether salary rates are reasonable for similar positions in Costa Rica.

Mr. Reginald Howard
Regional Inspector General

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March 27, 1992

7. Inspect Project fixed assets, their physical condition and trace them to the accounting records.

C. Internal Control Structure

1. Obtain sufficient understanding of the internal control structure to assess audit risks and to determine the nature, timing and extent of audit tests to be performed.
2. Analyze policies and procedures related to the entity's ability to record, process, summarize and report financial data consistent with the assertions embodied in the fund accountability statement.
3. Evaluate AIFLD's purchasing procedures in order to determine if adequate commercial practices are followed and if they comply with AID regulations.
4. Evaluate the internal control system applicable to the credit fund.

D. Compliance with Agreement Terms and Applicable Laws and Regulations

1. Identify Agreement terms, and pertinent laws and regulations, and determine which of those if not observed could have a material effect on the Project's fund accountability statement.
2. Evaluate for each important requirement, the risk of non-compliance. This includes assessing internal controls in place to ensure compliance with Agreement terms and applicable laws and regulations.
3. Design steps and procedures to test compliance with Agreement terms and applicable laws and regulations to provide reasonable assurance of the detection of both institutional and noninstitutional instances of non-compliance that could have a material effect on the fund accountability statement.

Mr. Reginald Howard
Regional Inspector General

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March 27, 1992

E. Follow up to Prior Period Audit Recommendations

Review the steps taken by AIFLD regarding findings and recommendations included in the report issued as a result of a prior period audit (see preceding subpart A.4).

AUDIT RESULTS

1. Fund Accountability Statement

In our opinion, the fund accountability statement presents fairly, in all material respects, the funds provided by USAID/Costa Rica and the disbursements incurred by the Agricultural Services Delivery System, USAID/Costa Rica Project No.515-0226, for the period from October 1, 1989 through June 30, 1991, on the basis of cash receipts and disbursements.

2. Internal Control Structure

We noted certain matters involving the internal control structure and its operations 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 judgement, could adversely affect the ability of the AIFLD to record, process, summarize and report financial data in a manner consistent with the assertions of AIFLD in the fund accountability statement. Reportable conditions noted are discussed in findings No.1 through No.6 in section on internal control structure.

Mr. Reginald Howard
Regional Inspector General

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March 27, 1992

3. Compliance with Agreement Terms and Applicable Laws and Regulations

Except for the matter indicated in finding No.4 included in the internal control structure section (which relates to compliance with Agreement terms and applicable laws and regulations), with respect to items tested AIFLD had complied, in all material respects, with Agreement terms and applicable laws and regulations, during the period from October 1, 1989 through June 30, 1991.

Likewise, with respect to items not tested, nothing came to our attention that caused us to believe that AIFLD had not complied, in all material respects, with Agreement terms, and applicable laws and regulations.

4. Follow up to Prior Period Audit Findings and Recommendations

Except for the matters indicated in findings Nos. 1 to 3 of the follow up section to prior period audit findings and recommendations, the results of our follow up tests indicate that AIFLD has adopted adequate corrective measures regarding those recommendations.

MANAGEMENT COMMENTS

This report was discussed in draft form with the American Institute for Free Labor Development, who agreed with its content.

In addition, Schedule II contains comments of the American Institute for Free Labor Development.

* * * * *

This report is intended for the information of the American Institute for Free Labor Development and the United States of America Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General, is a matter of public record.

KPMG Peat Marwick



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**AUDIT OF THE AGRICULTURAL SERVICES DELIVERY
SYSTEM, USAID/COSTA RICA PROJECT NO.515-0226**

**Managed by the American Institute for Free
Labor Development**

For the period from October 1, 1989 through June 30, 1991

REPORT ON FUND ACCOUNTABILITY STATEMENT

Independent Auditors' Report

We have audited the accompanying fund accountability statement of the Agricultural Services Delivery System, USAID/Costa Rica Project No.515-0226, managed by the American Institute for Free Labor Development for the period from October 1, 1989 through June 30, 1991. This fund accountability statement is the responsibility of the Institute. Our responsibility is to express an opinion on this statement based on our audit. We have not audited the financial information accumulated at September 30, 1989 included in the fund accountability statement. Such financial information was audited by other auditors, which report dated February 26, 1990, included an opinion with the qualifications described in note 5. Therefore, our opinion refers only to the financial information for the period from October 1, 1989 through June 30, 1991 and not to the accumulated financial information at September 30, 1989 and its effect as of June 30, 1991.

Except as indicated in the following paragraph, 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 the evaluation of accounting principles used and significant estimates made by the Institute, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We do not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of chapter 3 of Government Auditing Standards because no such quality review program is offered by professional organizations in Costa Rica. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the KPMG Peat Marwick worldwide internal quality control program which requires the KPMG Peat Marwick-Costa Rica office to be subjected, every three years, to an extensive quality control review by audit partners and managers from other KPMG offices.

As indicated in note 3, the fund accountability statement has been 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 referred to above presents fairly, in all material respects, the funds provided by the United States of America Agency for International Development /Mission to Costa Rica and the disbursements incurred by the Agricultural Services Delivery System, USAID/Costa Rica Project No.515-0226, during the period from October 1, 1989 through June 30, 1991, on the basis of accounting described in note 3.

This report is intended for the information of the American Institute for Free Labor Development and the United States of America Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General, is a matter of public record.

KPMG Peat Marwick

November 22, 1991

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Agricultural Services Delivery System, USAID/Costa Rica
Project No.515-0226

Fund Accountability Statement

For the period from October 1, 1989 through June 30, 1991
(Expressed in US dollars)

	<u>Budget</u>	<u>Accumu- lated at 09/30/89</u>	<u>Executed during period</u>	<u>Accumu- lated at 06/30/91</u>
<u>Income:</u>				
Funds provided by USAID/Costa Rica	\$ <u>2,000,000</u>	<u>1,570,472</u>	<u>429,528</u>	<u>2,000,000</u>
<u>Disbursements</u>				
Salaries and rela- ted costs	863,788	614,990	248,797	863,788
Goods and supplies	282,044	259,075	22,969	282,044
Other expenses	446,588	364,957	81,631	446,588
Credit fund	253,733	205,306	48,428	253,733
Seminars	86,812	53,818	32,994	86,812
Consultants	67,035	52,640	14,395	67,035
	<u>2,000,000</u>	<u>1,550,786</u>	<u>449,214</u>	<u>2,000,000</u>
	\$ <u>-</u>	<u>19,686</u>	<u>(19,686)</u>	<u>-</u>

See accompanying notes to the fund accountability statement.

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Agricultural Services Delivery System, USAID/Costa Rica
Project No.515-0226

Notes to Fund Accountability Statement

(1) Nature of the Project

The purpose of the Project is to establish a private organization to promote the diversification of agricultural promotion and marketing services for non-traditional crops in a program operated by the National Confederation of Workers (CNT), a Costa Rican Labor Organization, for the benefit of affiliated farmers of limited resources.

The objective of the Project is to institutionalize several activities that were initiated in 1983, to increase rural income and employment opportunities, through a program operated by the Democratic Commercial Union Movement in Costa Rica. The specific objectives included: a) change those farmers dedicated to a traditional economic subsistence to an economy oriented towards production and marketing, through an improvement in commercial relations between Costa Rican agricultural companies and small farmers, b) intensify and diversify non-traditional agricultural production, and c) strengthen the increasing democratization trend of the commercial union movement in selected rural areas in Costa Rica.

(2) Currency and Exchange Regulations

The accounting records are maintained in colones (¢), the monetary unit of the Republic of Costa Rica. As of June 30, 1991, the official rate of exchange of the colon with respect to the US dollar was ¢20.00 per \$1.00, which has no commercial uses.

The Central Bank of Costa Rica has adopted several exchange measures and regulations on various dates; among them, the establishment of a commercial exchange rate which is used to settle all transactions in foreign currencies. As of June 30, 1991, the commercial exchange rate was established at ¢122.30 and ¢124.75 per \$1.00, for buying and selling foreign currency, respectively. Normally the Project does not incur in foreign currency transactions during the course of its activities.

(Continued)

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Agricultural Services Delivery System, USAID/Costa Rica
Project No.515-0226

Notes to Fund Accountabilty Statement

(3) Preparation of the Fund Accountability Statement

The fund accountability statement of the Agricultural Services Delivery System, USAID/Costa Rica Project No.515-0226, presents the funds provided by the United States of America Agency for International Development/Mission to Costa Rica, as well as the disbursements incurred by the Agricultural Services Delivery System as of June 30, 1991, on the basis of cash receipts and disbursements.

The fund accountability statement has been translated to US dollars at the commercial exchange rates in effect at the time advances in colones were received from USAID/Costa Rica.

(4) Qualifications to Prior Period Audit Report

The audit of the accumulated financial information as of September 30, 1989, included in the fund accountability statement was performed by other auditors, which report dated February 16, 1990 expressed an opinion with the following qualifications:

- . No tests were made of the existence of furniture and equipment.
- . The sale of a vehicle was not properly documented.
- . Income received from insurance on a totaled vehicle and for the sale of a vehicle, \$8,900 and \$7,600, respectively, were not credited to the goods and supplies accounts; but to another account.
- . Advances, amounting to \$28,994, made to suppliers and to National Confederation of Workers were not included in the fund accountability statement.
- . The fund accountability statement was prepared under the accounting practice of cash receipts and disbursements which differs from generally accepted accounting principles.



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AUDIT OF THE AGRICULTURAL SERVICES DELIVERY
SYSTEM, USAID/COSTA RICA PROJECT NO.515-0226

Managed by the American Institute for Free
Labor Development

For the period from October 1, 1989 through June 30, 1991

REPORT ON INTERNAL CONTROL STRUCTURE

Independent Auditors' Report

We have audited the fund accountability statement of the Agricultural Services Delivery System, USAID/Costa Rica Project No.515-0226, managed by the American Institute for Free Labor Development, for the period from October 1, 1989 through June 30, 1991 and have issued our report thereon dated November 22, 1991.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the fund accountability statement, 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 from material misstatements.

In planning and performing our audit, we considered the internal control structure established by the American Institute for Free Labor Development (AIFLD) during the period from October 1, 1989 through June 30, 1991, 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 AIFLD is responsible for establishing and maintaining an internal control structure for the management of the Agricultural Services Delivery System, USAID/Costa Rica Project No.515-0226. In fulfilling this responsibility, AIFLD must assess through estimates and judgements, expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide 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 AIFLD's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the basis of accounting described in note 3 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 significant internal control structure policies and procedures in the following categories:

- . Controls over funds disbursed in Project execution.
- . Controls over fixed assets.
- . Controls over the credit fund.

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they were put into operation and we assessed control risk.

We noted certain matters involving the internal control structure and its operations 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 judgement, could adversely affect the ability of AIFLD to record, process, summarize and report financial data in a manner consistent with the assertions of AIFLD in the fund accountability statement. Reportable conditions noted are discussed in findings No.1 through No.6 of this section.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the 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 considered material weaknesses as established by the American Institute of Certified Public Accountants. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to AIFLD in a separate letter dated March 27, 1992.

This report is intended for the information of the American Institute for Free Labor Development and the United States of America Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General, is a matter of public record.

KPMs Peat Marwick

November 22, 1991

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Agricultural Services Delivery System, USAID/Costa Rica
Project No.515-0226

FINDINGS ON INTERNAL CONTROL STRUCTURE

Finding No.1

Possible Collection Problems on Loans Made by National Confederation of Workers

Condition

Loans made in prior periods by National Confederation of Workers, with resources from the credit fund, for an aggregate amount of ₡2,214,969 (\$17,755 at the commercial rate of exchange at June 30, 1991), are in legal collection process and are considered by the lawyer as difficult to collect.

Criteria

As determined by the Agreement between USAID/Costa Rica and the American Institute for Free Labor Development, the credit fund shall be a revolving fund. That is, payment of loans shall be used to finance agricultural activities and as working capital for marketing activities in agroindustrial centers.

Cause

As a rule, loans are secured by crops, the only guarantee farmers may offer. However, the National Confederation of Workers did not obtain such guarantees in a timely manner. In accordance with the Costa Rican Code of Commerce, crop guarantees are valid for one year only.

Effect

Lack of timely reimbursement to the credit fund may threaten the objectives of the Project.

Recommendation

American Institute for Free Labor Development should encourage National Confederation of Workers to obtain the guarantees on crops in an expeditious and timely manner in accordance with the terms of the Costa Rican Code of Commerce. If possible, loans should be guaranteed by other goods, enabling the Project to ensure their collection.

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Agricultural Services Delivery System, USAID/Costa Rica
Project No.515-0226

Finding No.2

Subsidiary Ledger is not kept updated nor reconciled for Credit Fund Loans to Farmers

Condition

No subsidiary ledger for loans to farmers is maintained nor reconciled with the general ledger kept by the National Confederation of Workers. The last subsidiary ledger prepared is dated March 31, 1991, showing a balance of ₡15,808,305.30, while the general ledger at the National Confederation of Workers indicates a balance at that date of ₡10,026,408.75.

Criteria

A subsidiary ledger for loans made to farmers should be kept current and reconciled with the general ledger.

Cause

Neither the American Institute for Free Labor Development, nor the National Confederation of Workers, have established adequate procedures to assure the preparation of a subsidiary ledger for loans made to farmers with the credit fund and its reconciliation with the general ledger.

Effect

Information regarding loans made to farmers with the credit fund is not available in an adequate manner, thus reducing the effectiveness of collection efforts as well as impairing new loan procedures.

Recommendation

American Institute for Free Labor Development should request National Confederation of Workers to establish adequate procedures to ensure that a subsidiary ledger for loans to farmers is kept current and reconciled to the general ledger.

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Agricultural Services Delivery System, USAID/Costa Rica
Project No.515-0226

Finding No.3

Identification of Fixed Assets Acquired by the Credit Fund

Condition

Fixed assets acquired by the credit fund and located in the base groups of farm unions are not properly identified as Project property.

Criteria

All fixed assets acquired by the credit fund must be physically identified as such.

Cause

The American Institute for Free Labor Development has not established proper procedures to physically identify fixed assets acquired through the credit fund.

Effect

Physical identification of Project fixed assets is impaired; consequently, testing accurateness of the fixed assets subsidiary ledger kept at the National Confederation of Workers is not feasible. Also, there is a risk that such fixed assets may be mixed with fixed assets acquired by other sources of funds.

Recommendation

American Institute for Free Labor Development should request National Confederation of Workers to physically identify all fixed assets acquired under the credit fund with a metal tag indicating "Project No.512-0226".

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Agricultural Services Delivery System, USAID/Costa Rica
Project No.515-0226

Finding No.4

Payment to the Social Security Administration of Project Payroll Taxes and payroll withholdings from Employees

Condition

Social Security payroll taxes as well as payroll withholdings from employees of the Department of the National Agricultural Program (PAN), department in charge of the execution of the National Confederation of Workers' Project, are not paid on time to the Social Security Administration, for example:

- . On December 18, 1990, with check No.2398, the project paid social security taxes and payroll withholdings for the months of April through September 1990 amounting to ₡925,934 and ₡529,104.25, respectively.
- . The Project had not paid, as of June 30, 1991, payroll taxes and payroll withholdings for the months of October through December 1990, amounting to ₡449,651.35 and ₡256,943.45, respectively.

Criteria

Costa Rican law requires payroll taxes and payroll withholdings be paid to the Social Security Administration as indicated in the corresponding vouchers from the social security (before the end of the following month).

Cause

The American Institute for Free Labor Development has not established proper procedures to ensure the prompt payment of payroll taxes and payroll withholdings to the Social Security Administration by the National Confederation of Workers.

Effect

- . The National Confederation of Workers did not pay on time, to the Social Security Administration, payroll withholdings of ₡529,104.75, received from the American Institute for Free Labor during April through September 1990.

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Agricultural Services Delivery System, USAID/Costa Rica
Project No.515-0226

- . As of June 30, 1991, the National Confederation of Workers had not paid to the Social Security Administration payroll withholdings for ¢256,943.45, which had been received from the American Institute for Free Labor for the months of October, November and December 1990.
- . National Confederation of Workers has not paid on time, the employer social security payroll taxes.

Recommendation

In order to comply with Costa Rican laws, the American Institute for Free Labor Development should request National Confederation of Workers that Social Security payroll taxes and payroll withholdings be paid on time.

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Agricultural Services Delivery System, USAID/Costa Rica
Project No.515-0226

Finding No.5

Lack of Documented Evidence of Visits Made by the Agrarian Director of the American Institute for Free Labor Development to the Base Groups of Farm Unions

Condition

We did not obtain written evidence regarding the visits made by the Agrarian Director of the American Institute for Free Labor Development to the base groups of farm unions.

Criteria

In accordance with the terms of the agreement between USAID/Costa Rica and the American Institute for Free Labor Development, the latter must monitor Project execution in accordance with Project program. Written reports constitute adequate monitoring tools which serve to provide evidence of work performed and facilitate follow up.

Cause

The American Institute for Free Labor Development has not established the practice of evidencing in writing the objectives and results of visits made by its Agrarian Director to base groups of results of farm unions.

Effect

There is no documented evidence of the visits made by the Agrarian Director of the American Institute for Free Labor Development to the base groups of farm unions.

Recommendation

Written reports are to be prepared by the Agrarian Director of the American Institute for Free Labor Development, regarding the objectives and results obtained from his visits to the base groups of farm unions.

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Agricultural Services Delivery System, USAID/Costa Rica
Project No.515-0226

Finding No.6

Lack of Evidence that Monthly Bank Account Reconciliations are Reviewed by a Person Other than Preparer.

Condition

There is no evidence that reconciliations of account No.102842-9 at Banco Nacional de Costa Rica, managed by American Institute for Free Labor Development, were reviewed by a person other than the preparer.

Criteria

Bank account reconciliations should be reviewed by a person other than the one in charge of their preparation, to ensure effectiveness of the procedure.

Cause

No procedures were established by the American Institute for Free Labor Development towards the documentation of reviews of bank account reconciliations.

Effect

There is no evidence of reviews of bank account reconciliations by an employee other than the preparer.

Recommendation

Reviews of bank account reconciliations must be evidenced by the signature of the person responsible for such review.



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**AUDIT OF THE AGRICULTURAL SERVICES DELIVERY
SYSTEM, USAID/COSTA RICA PROJECT NO.515-0226**

**Managed by the American Institute for Free
Labor Development
For the period from October 1, 1989 through June 30, 1991**

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

Independent Auditors' Report

We have audited the fund accountability statement of the Agricultural Services Delivery System, USAID/Costa Rica Project No.515-0226, managed by the American Institute for Free Labor Development, for the period from October 1, 1989 through June 30, 1991 and have issued our report thereon dated November 22, 1991.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the fund accountability statement, 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 American Institute for Free Labor Development (AIFLD) is responsible for compliance with Agreement terms and applicable laws and regulations. As part of the process of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatements, we performed tests on AIFLD's compliance with certain provisions of the Agreement terms, and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of non-compliance are failure to follow requirements or violations of Agreement terms and laws and regulations that may cause 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 compliance tests disclosed, as indicated in finding No.4 included in the internal control structure section of this report, that social security payroll taxes as well as payroll withholdings from employees of the Departament of the National Agricultural Program (PAN), department in charge of the execution of the National Confederation of Workers' Project, are not paid on time to the Social Security Administration.

We considered that material instance of noncompliance in forming our opinion on whether the fund accountability statement of the Agricultural Services Delivery System, USAID/Costa Rica Project No.515-0226, for the period from October 1, 1989 through June 30, 1991, presents fairly, in all material respects, the funds provided by the United States of America Agency for International Development/Mission to Costa Rica and disbursements incurred by the Agricultural Services Delivery System during that period, in conformity with the basis of accounting described in note 3 to the Fund Accountability Statement. This report has no effect on our report on the fund accountability statement dated November 22, 1991.

We noted certain immaterial instances of noncompliance that we have reported to AIFLD in a separate letter dated March 27, 1992.

Except for the matter discussed in the fourth paragraph, the results of our tests on compliance indicate that, with respect to the items tested, AIFLD had complied, in all material respects, with the provisions indicated in the third paragraph. Likewise, with respect to items not tested, nothing came to our attention that caused us to believe that AIFLD had not complied, in all material respects, with those provisions.

This report is intended for the information of the American Institute for Free Labor Development and the United States of America Agency for International Development. This restriction is no intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General, is a matter of public record.

KPMG Peat Marwick

November 22, 1991



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AUDIT OF THE AGRICULTURAL SERVICES DELIVERY SYSTEM, USAID/COSTA RICA PROYECT NO.515-0226

Managed by the American Institute for Free
Labor Development

For the period from October 1, 1989 through June 30, 1991

REPORT ON FOLLOW UP TO PRIOR PERIOD AUDIT RECOMMENDATIONS

Independent Auditors' Report

We have audited the fund accountability statement of the Agricultural Services Delivery System, USAID/Costa Rica Project No.515-0226, managed by the American Institute for Free Labor Development, for the period from October 1, 1989 through June 30, 1991 and we have issued our report dated November 22, 1991.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the fund accountability statement, 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 from material misstatements.

As part of our audit procedures, we performed the follow up to findings and recommendations included in Deloitte, Haskins and Sell's report on their audit of project USAID/Costa Rica No.515-0226 for the period from March 1, 1987 through September 30, 1989, which could have a material effect on our audit, to determine if the American Institute for Free Labor Development (AIFLD) had taken adequate corrective measures.

We observed some instances in which AIFLD did not take adequate corrective measures, as indicated in findings Nos. 1 to 3 included in this section.

Except for the matters indicated in findings Nos. 1 to 3 included in this section, the results of our follow up tests indicate that AIFLD has adopted adequate corrective measures regarding the matters included in the third paragraph.

This report is intended for the information of the American Institute for Free Labor Development and the United States of America Agency for International Development. This restriction is no intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General, is a matter of public record.

RAMS Peat Marwick

November 22, 1991

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Agricultural Services Delivery System, USAID/Costa Rica
Project No.515-0226

Prior Period Audit Recommendations

1. Prior Period Audit Recommendation No.1.c

Written procedures regarding maintenance of vehicles are to be established, and followed in such a manner to ensure their adequate use. Also, funds should be allocated for necessary vehicle maintenance.

Present Condition

National Confederation of Workers has prepared a manual regarding the use of vehicles, which includes paragraphs regarding their maintenance. At November 22, 1991 three vehicles and two motorcycles were damaged and out of service due to mechanical problems. It was pointed out that this situations occurred because of lack of funds.

2. Prior Period Audit Recommendation No.2.a

A notes receivable subsidiary ledger should be set up. Such ledger should be reconciled on a monthly basis with the corresponding control account, with written evidence that such procedures had been complied with.

Present Condition

The National Confederation of Workers has prepared a subsidiary ledger for loans provided to workers with the credit fund. However, as indicated in finding No.3 in our report on internal control structure, at the time of our audit the subsidiary ledger had been updated through March 31, 1991 and showed a balance of ₡15,808,305.30. At that date the general ledger kept at the National Confederation of Workers indicated a balance of ₡10,026,408.75.

3. Prior Period Audit Recommendation No.2.b

Notes receivable not having all documentary evidence needed for collection rights must be corrected, including stamp taxes required by law.

AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

Agricultural Services Delivery System, USAID/Costa Rica
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Present Condition

The National Confederation of Workers has made an analysis of notes receivable issued in prior periods, to determine amounts collected, due, current and in arrears. Also, based on such analysis, collection efforts were initiated for amounts in arrears. Collection and settlement agreements were signed with the affiliates unions.

However, such analysis was not reviewed by an independent third party, to ensure its reasonability, integrity and accuracy.

SCHEDULE I-1

AUDIT OF THE AGRICULTURAL SERVICES DELIVERY
SYSTEM, USAID/COSTA RICA PROYECT NO.515-0226

Managed by the American Institute for Free
Labor Development

For the period from October 1, 1989 through June 30, 1991

List of Recommendations

Internal Controls Structure

Finding No.1

Recommendation

American Institute for Free Labor Development should encourage National Confederation of Workers to obtain the guarantees on crops in an expeditious and timely manner in accordance with the terms of the Costa Rican Code of Commerce. If possible, loans should be guarantee by other goods, enabling the Project to ensure their collection.

Finding No.2

Recommendation

American Institute for Free Labor Development should request National Confederation of Workers to establish adequate procedures to ensure that a subsidiary ledger for loans to farmers is kept current and reconciled to the general ledger.

Finding No.3

Recommendation

American Institute for Free Labor Development should request National Confederation of Workers to physically identify all fixed assets acquired under the credit fund with a metal tag indicating "Project No.512-0226".

SCHEDULE I-2

AUDIT OF THE AGRICULTURAL SERVICES DELIVERY
SYSTEM, USAID/COSTA RICA PROYECT NO.515-0226

Managed by the American Institute for Free
Labor Development

Finding No.4

Recommendation

In order to comply with Costa Rican laws, the American Institute for Free Labor Development should request National Confederation of Workers that Social Security payroll taxes and payroll withholdings must be paid on time.

Finding No.5

Recommendation

Written reports are to be prepared by the Agrarian Director of the American Institute for Free Labor Development, regarding the objectives and results obtained from his visits to the base groups of farm unions.

Finding No.6

Recommendation

Reviews of bank account reconciliations must be evidenced by the signature of the person responsible for such review.

SCHEDULE II

AUDIT OF THE AGRICULTURAL SERVICES DELIVERY SYSTEM, USAID/COSTA RICA PROJECT NO.515-0226

Managed by the American Institute for Free
Labor Development
For the period from October 1, 1989
through June 30, 1991

Managements' Comments

Findings on Internal Contro Structure

Finding No.1

Possible Collection Problems on Loans Made by National Confederation of Workers

National Confederation of Workers has several documents signed by the General Secretaries of the base groups of farm unions that are in charge of projects financed under Project No.515-0226. Loans were granted to peasants affiliated to such organizations with the purpose of diversifying their plantations. Being the guarantee on such loans a chattel mortgage guarantee, at the time of legalizing the credit, it was requested, that the General Secretaries would sign documents properly legalized, sealed and registered for the total amount of the loans, giving on guarantee assets owned by these organizations. The attorney consulted by the auditors, considers difficult the collection of loans the money from the peasants, and did not make any comments on the collection from the base groups of farm unions because he was not asked about it.

Therefore, we understand that from a legal point of view there are all the necessary guarantees to ensure the collection of such loans.

Finding No.2

Subsidiary Ledger is not kept updated nor reconciled for Credit Fund Loans to Farmers.

In an ocassion and as part of the previous audit, this same finding was discussed in the presence of the USAID Comptrollers' Department. In spite of several efforts made by National Confederation of Workers it was not possible to reconcile the balances. In this same ocassion, an approval from USAID/Costa Rica was requested to adjust such balance of the subsidiary ledger based on the amount recorded in the general ledger. As of today USAID/Costa Rica has not replied, consequently no change has been made.

SCHEDULE II-2

AUDIT OF THE AGRICULTURAL SERVICES DELIVERY
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The American Institute for Free Labor Development Director would request National Confederation of Workers officials to do as much as possible to reconcile those balances.

Finding No.3

Identification of Fixed Assets Acquired by the Credit Fund

All fixed assets acquired by National Confederation of Workers with project funds were properly identified as owned by National Confederation of Workers. In fact, there is no specific identification for assets acquired with Project No.515-0226 funds.

The Costa Rican National Program Director will request the General Secretary of National Confederation of Workers to identify with a metal tag the corresponding assets indicating "Project No.512-0226".

Finding No.4

Payment to the Social Security Administration of Project Payroll Taxes and Payroll withholdings from Employees

As we understand there is a legal action against Mr.Gilbert Young Brown, General Secretary of National Confederation of Workers to collect those taxes.

In the past and even now a days American Institute for Free Labor Development uses its own funds to help solve this type of problems. The Director for the Costa Rican National Program will request, once again, the General Secretary of National Confederation of Workers to pay to the Social Security Administration any unpaid taxes.

SCHEDULE II-3

AUDIT OF THE AGRICULTURAL SERVICES DELIVERY
SYSTEM, USAID/COSTA RICA PROYECT NO.515-0226

Managed by the American Institute for Free
Labor Development

For the period from October 1, 1989
through June 30, 1991

Finding No.5

Lack of Documented Evidence of Visits Made by the Agrarian
Director of the American Institute for Free Labor Development to
the Base Groups of Farm Unions.

American Institute for Free Labor Development has not adopted the practice of preparing written reports required by many organizations from the field visitors. The Head of Rural Projects meets with the National Director to communicate any findings, and these are included in a report that shows the national situation, which is then sent to the main offices. Such report specifies only the findings but not the details of each visit made.

Evidence of these visits are only available when they last more than one day, because a travel expense report is prepared. Likewise, "time sheets", that are sent directly to the main offices, indicate the visits made, as well as the place, date and time of such visits.

In any case, even if there is no documented evidence, we understand that the auditors made visits to the base groups of farm unions and that as a result they obtained sufficient verbal evidence of those visits from persons in charge of base groups.

Finding No.6

Lack of Evidence that Monthly Bank Account Reconcilizations are
Reviewed by a Person Other than Preparer.

Obviously, the project budget did not allow to hire another person to review the bank accountant reconciliations; however, an accountant for the project and a bilingual - accountant secretary were hired by the American Institute for Free Labor Development who reviewed independently all bank account reconciliations. Regarding to the recommendation, obviously there are no initials nor signatures in the bank account reconciliations, but as we understand this is not a major problem.

SCHEDULE II-4

AUDIT OF THE AGRICULTURAL SERVICES DELIVERY
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For the period from October 1, 1989
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Recommendations to Prior Audit

1. Recommendation to prior audit No.1-C

In fact, three vehicles and two motorcycles are out of order due to mechanical problems. The termination of the project did not leave any funds for such expenses; so, as the predecessor auditors recommended, USAID/Costa Rica did not approve budgetoverruns to face any unexpected expenses that would arise after the project funds had been exhausted.

2. Recommendation to prior audit No.2-A

Reply to this recommendation is included in reply to Finding No.2.

3. Recommendation to prior audit No.2-B

The termination of the project and the exhaustion of its funds did not allow to hire a person to review the integrity, accuracy and reasonableness of the efforts being accomplished by National Confederation of Workers to collect its loans.

APPENDIX

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