

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

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**Audit of  
USAID/Peru's Institutional and Research  
and Reform Activities Support Project, Managed  
by the Institute of Liberty and Democracy  
June 20, 1985 to March 31, 1989**

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**Audit Report No. 1-527-92-43-N  
August 12, 1992**



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**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.**

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

**Audit of  
USAID/Peru's Institutional and Research  
and Reform Activities Support Project, Managed  
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**Audit Report No. 1-527-92-43 N  
August 12, 1992**

# AGENCY FOR INTERNATIONAL DEVELOPMENT

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August 12, 1992

## MEMORANDUM

TO: D/USAID/Peru, Craig G. Buck

FROM: RIG/A/T, Lou Mundy 

SUBJECT: Audit of USAID/Peru's Institutional and Research and Reform Activities Support Project, Managed by the Institute of Liberty and Democracy, June 20, 1985 to March 31, 1989

This report presents the results of a financial audit of the Institutional and Research and Reform Activities Project (Project), USAID/Peru Project No. 527-0298, managed by the Institute of Liberty and Democracy (Institute) for the period June 20, 1985 to March 31, 1989. The audit firm of Price Waterhouse prepared the report dated June 1, 1992.

The purpose of the Project was to provide institutional support to continue research and analyses of the informal sector and to examine the economic and legal relationship between the formal and informal sectors. The Project budget provided for a total of \$1,941,400, all of which was to be provided by USAID/Peru. The audit coverage included USAID/Peru funds of \$1,926,164 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 of the Project for the period audited, (2) the Institute's internal control structure was adequate to manage Project operations, and (3) the Institute had complied with Project Agreement terms and applicable laws and regulations. The scope of the audit included an examination of the Institute's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

As a result of the Institute's inadequate accounting system and its weak internal control structure, the auditors were unable to obtain sufficient and competent information concerning a substantial amount of the Project's expenditures. Because of these scope limitations the auditors were unable to render an opinion on the Institute's fund accountability statement, and identified specific questionable costs totaling \$74,701 for the period audited.

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The auditors also stated in their disclaimer of opinion on the Institute's fund accountability statement that they were unable to obtain sufficient and competent information to satisfy themselves as to the reasonableness of \$1,761,314 of payments made for research salaries and administration and operative expenses during the audit period. The auditors did not specify, either in the fund accountability statement or accompanying notes, that these payments are questionable costs. However, we do consider these amounts, net of the \$63,286 of questionable costs specifically identified by the auditors in these cost categories, to be additional questionable costs. Therefore, the total amount of questionable costs identified in the audit report is \$1,772,729.

In addition to its conclusion that the Institute's overall internal control system was weak, Price Waterhouse identified seven specific areas of material internal control weaknesses. These items related primarily to the Institute's poor internal control environment, ineffective management information system, weak management structure, and inadequate budgetary and accounting systems.

With respect to the Institute's compliance with agreement terms and applicable laws and regulations, Price Waterhouse identified two material instances of noncompliance concerning the Institute's failure to implement all required Project Agreement provisions, as well as the absence of effective corrective actions in response to recommendations made by various consultants concerning the Project's organization, finance, accounting, and control systems.

Although this Project has ended, Mission officials informed us that USAID/Peru has an existing agreement with the Institute under the Private Sector Reform Activities Project (Project No. 598-0772). For this reason we strongly suggest that USAID/Peru obtain assurance that the problems noted in this report concerning the Institute's internal control structure and compliance with Agreement terms are not evident in the Private Sector Reform Activities Project.

The report was discussed with the Institute's management, and the Institute also provided written comments which questioned the validity of the costs questioned. Price Waterhouse disagreed with the Institute's comments. Due to the volume of the Institute's comments they were not included in this report but were provided to USAID/Peru for their information and use.

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

**Recommendation No. 1**

**We recommend that USAID/Peru resolve the questionable costs of \$1,772,729 (\$4,389 questioned and \$1,768,340 unsupported) identified in the Price Waterhouse audit report dated June 1, 1992 and recover from the Institute of Liberty and Democracy all amounts determined to be unallowable.**

**Recommendation No. 1 will be considered resolved upon the Mission's determination of the amount of recovery, and will be considered closed upon the recovery of funds, offset of funds or issuance of a Bill for Collection.**

**This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.**

AUDIT OF THE INSTITUTIONAL AND RESEARCH  
AND REFORM ACTIVITIES SUPPORT PROJECT,  
USAID/PERU PROJECT No.527-0298, MANAGED  
BY THE INSTITUTE OF LIBERTY AND DEMOCRACY  
- ILD FOR THE PERIOD JUNE 20, 1985 TO  
MARCH 31, 1989

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**AUDIT OF THE INSTITUTIONAL AND RESEARCH  
AND REFORM ACTIVITIES SUPPORT PROJECT,  
USAID/PERU PROJECT No.527-0298, MANAGED  
BY THE INSTITUTE OF LIBERTY AND DEMOCRACY  
- ILD FOR THE PERIOD JUNE 20, 1985 TO  
MARCH 31, 1989**

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# *Price Waterhouse*



June 1, 1992

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 Institutional and Research and Reform Activities Support Project USAID/Peru Project No.527-0298, managed by the Institute of Liberty and Democracy - ILD for the period June 20, 1985 to March 31, 1989.

## I BACKGROUND

The Institute of Liberty and Democracy - ILD is a civil association established in Peru on January 30, 1980, significantly contributing to political and intellectual debate related to the informal sector in Peru.

On June 20, 1985, the ILD signed a cooperative agreement with the United States Agency for International Development in Peru - USAID/Peru Project No.527-0298 Institutional and Research and Reform Activities Support Project. According to the amendment dated December 30, 1988, the project assistance completion date was March 31, 1989.

The United States Government through its Agency for International Development in Lima, Peru, USAID/Peru has granted funds to the Institutional and Research and Reform Activities Support Project, USAID/Peru Project No.527-0298 since April 1985, with the purpose of providing support to ILD to continue its research and analyses of the informal sector and the economic and legal relationship between formal and informal sectors.

These activities are based on investigations supported by USAID/Peru and other funding sources, giving emphasis to the legal and regulatory framework and actions to improve this area, rather than on further studies and analysis.

Areas of activities supported by this grant included:

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**Institutional support -**

Consists of providing institutional support, technical assistance, information and advice to Peruvian public sector institutions, formal sector entities, informal sector business entities, universities, newspapers and political parties.

**Industry -**

Consists of the implementation of methods (including legislation and regulation) of eliminating or simplifying steps to legally establish a small industry in Peru, thus establishing a less complex, and costly process.

**Personal identity documents -**

Consists of proposing and assisting in the implementation of regulation to simplify the formalities of acquiring personal identity documents.

**Commerce (ambulantes) -**

Consists of implementation methods of formalizing commercial activities carried out informally in Peru.

**Housing -**

Consists of proposing regulations concerned with property legislation and integrating the formal and informal housing sector in Peru.

**Economic studies -**

Consists of quantifying ILD's work in the informal sector.

According to the original project agreement, agreement terms dated June 20, 1985 and the subsequent amendments dated March 27, 1986, June 23, 1986, September 30, 1987 and February 29, 1988 the final budget of the Project under examination amounts to US\$1,941,400.

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The aforementioned budget is as follows:

	US\$
Research salaries	1,384,567
Travel expenses	137,619
Administration	229,670
Operative expenses	99,319
Publications	58,264
Equipment	<u>31,961</u>
Total	<u>1,941,400</u>

## II OBJECTIVES AND SCOPE

We were engaged to perform a close-out financial audit of the Institutional and Research and Reform Activities Support Project, managed by the Institute of Liberty and Democracy - ILD, for the period June 20, 1985 to March 31, 1989. 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 presents fairly in all material respects the financial situation of the project's activities managed by the Institute of Liberty and Democracy - ILD, for the period June 20, 1985 to March 31, 1989 and costs reported as incurred and reimbursed by USAID/Peru during the period June 20, 1985 to March 31, 1989 were allowable, allocable and reasonable in accordance with the agreement terms and applicable laws and regulations.
- The internal control structure of the ILD is adequate to manage the Project's operations.
- ILD has complied with agreement terms and applicable laws and regulations which may affect the Project's goals and incurred costs.

The scope of our work consisted of:

1. Reviewing Institute of Liberty and Democracy - ILD utilization of funds, commodities and supplies provided under the program agreement. Our review included:
  - Performing selective review of the project related documentation of accounting records and the internal control structure.

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- Reviewing the project's procurement procedures used to determine that sound commercial practices were used, including competition, reasonable prices and adequate qualities as agreed in the project's agreement.
  - Reviewing the procedures used to control the project's fund.
- 2 Examining the fund accountability statement of the implementing agency during the period June 20, 1985 to March 31, 1989. Reviewing for any costs which were not fully supported with adequate records or which were not allowable or reasonable under the term of the agreement. This work included:
- a) Determining whether advances of the project's funds were justified with documentation, including reconciliation of funds advanced, disbursed and available.
  - b) Reviewing costs billed to USAID/Peru identifying and quantifying any questionable costs.
  - c) Reviewing bank accounts and their related controls. Obtaining confirmation of balances.
- 3 Reviewing and evaluating ILD's internal control structure to manage the program. Conducting preliminary compliance tests to determine the extent to which established procedures and controls are functioning as intended.
- 4 The scope of our audit work included verification of receipts of funds from USAID/Peru and ensuring the proper accounting treatment and banking of those receipts. We examined supporting documentation for payments on a test basis as considered appropriate in the circumstances.
- 5 We have been alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

### III RESULTS OF AUDIT

As a general conclusion of the close-out financial audit performed of the activities of the Institute and Research and Reform Activities Support Project USAID/Peru Project No.527-0298, managed by the Institute of Liberty and Democracy for the period June 20, 1985 to March 31, 1989, we observed important situations which are described below and constitute the basis of the audit reports that are presented in the following section of this document:

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- a) The internal control environment during the course of the Project was weak. ILD's Director's Office and management paid more attention to the development and control of the operative areas, neglecting the administrative and accounting areas.
- b) An internal control system and management information system had not been established that permits the effective operation of the Project's administrative, financial and accounting activities, as well as ensuring ILD's compliance with agreement terms and USAID/Peru applicable laws and regulations.
- c) Although the Project and ILD, as an institution, were evaluated at various times, during the course of the Project, by different consultants with very unsatisfactory results in the areas of organization, control, finance and accounting, there were no changes and/or quick responses to the recommendations received.
- d) The Project institutional structure did not clearly establish management's authority limits and responsibilities related to decisions making, nor did it establish policies and procedures for the normal development of its activities.
- e) The Project's administrative and accounting personnel, during the course of the Project, in most cases, did not have sufficient knowledge and experience to keep an adequate accounting system and internal control system for recording their operations.
- f) The fund accountability statement included in this report, was prepared based on information from ILD's budget area maintained outside the formal accounting system.
- g) The performance and budgetary control of the Project were inadequate.
- h) ILD did not have a clear understanding of the agreement terms and applicable laws and regulations.

**Fund accountability statement -**

The fund accountability statement was prepared on a cash basis of accounting from records and documentation maintained outside the formal accounting system.

As a result of the inadequate accounting system of ILD and its weak internal control structure, we were unable to obtain sufficient and competent information that supports the payments made during the period June 20, 1985 to March 31, 1989, for research salaries amounting to US\$1,421,857. This amount represents 73% of the Project's total disbursements. Additionally, due to the lack of adequate internal

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control procedures that permit the payment of ILD's administrative expenses from all of ILD's financial sources, we were unable to satisfy ourselves of the reasonableness of the amounts assigned to the budgetary lines of administration and operative expenses which amount to US\$339,457, representing 18% of total amount disbursed by the Project.

Due to the importance of the scope limitations described in the previous paragraph, the scope of our work was not sufficient to enable us to express and we do not express an opinion on the fund accountability statement for USAID/Peru Project No.527-0298 managed by ILD, during the period June 20, 1985 to March 31, 1989.

Additionally, our audit determined the existence of specifically identified questionable costs of US\$4,389 and unsupported costs of US\$70,312 (See Annex 2 in this report).

#### Internal control structure -

Our close-out financial audit considered the internal control structure implemented by ILD in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement.

Our evaluation of the internal control structure included the following specific categories:

- Legal aspects
- Financial aspects
- Treasury (receipts and custody of funds)
- Liquidations (includes procurement and payments for goods and services)
- Salaries

For all of the components described above, we obtained an understanding of the transactions and most relevant aspects in order to determine the control risks.

As a result of our selective tests performed of the components described above, we noted situations reportable under the standards of the American Institute of Certified Public Accountants related with; a lack of an adequate control environment in respect to the administrative and accounting areas; lack of a simplified policies and procedures handbook; lack of an adequate chronological filing of the Project's documents; lack of an adequate budgetary and accounting system; lack of a bank current account exclusive for the Project; lack of periodic reconciliation; and lack of the effective response to the recommendations received for the several external consultants.

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These situations, summarized in Annex 3, had a material negative effect on our opinion of ILD's internal control structure and, therefore, disclaim issuing an opinion on the funds accountability statement. In our accompanying internal control structure report, we detail the audit findings corresponding to the Project's reportable condition.

**Compliance with agreement terms and applicable laws and regulations -**

According to the results of our tests of compliance, we consider that ILD has not complied with the agreement terms and applicable laws and regulations. Situations noted include; not carrying out an effective budgetary control; inadequate procedures to control the Project's funds; lack of an accounting system for the Project; and lack of periodic reconciliation of balances with USAID/Peru (Annex 3 summarizes our recommendations).

Questionable costs of US\$4,389 and unsupported costs of US\$70,312 resulted from this noncompliance. In our accompanying report on compliance with agreement terms and applicable laws and regulations, we detail the audit findings corresponding to the Project's reportable condition.

Additionally, we were unable to determine whether the amounts reported as disbursed in the budgetary lines, research salaries, administration and operative expenses were reasonable.

**MANAGEMENT COMMENTS**

The contents of the report have been discussed with ILD's Controller on April 22, 1992, who recognized that ILD, during the course of the Project was an Institution that in the administrative, financial and accounting matters was in process of consolidation and had certain problems that were originated due to the unawareness of the Standard Provisions of the Project's Agreement, which originated the questionable costs and the auditing findings.

At the date, ILD's Controller stated that several of these findings have been overcome. ILD presented two documents where the nature of the activities of ILD are widely considered, as well as its actual situation, from the organizational, administrative, financial and accounting point of view. At this respect, we disagree with the comments referring to the validity of the questionable costs determined in our audit. Due to the volume of this documents, they have been given directly to USAID/Peru mission for their follow-up and are not part of the contents of this report.

*Price Waterhouse*

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*Price Waterhouse*



**AUDIT OF THE INSTITUTIONAL AND RESEARCH  
AND REFORM ACTIVITIES SUPPORT PROJECT,  
USAID/PERU PROJECT No.527-0298, MANAGED  
BY THE INSTITUTE OF LIBERTY AND DEMOCRACY  
- ILD FOR THE PERIOD JUNE 20, 1985 TO  
MARCH 31, 1989**

**FUND ACCOUNTABILITY STATEMENT**

**INDEPENDENT AUDITORS' REPORT**

December 12, 1991

- 1 We were engaged to audit the fund accountability statement of the Institutional and Research and Reform Activities Support Project, USAID/Peru Project No.527-0298 managed by the Institute of Liberty and Democracy for the period June 20, 1985 to March 31, 1989. This fund accountability statement is the responsibility of the Institute of Liberty and Democracy. Our responsibility is to express an opinion on this fund accountability statement based on our audit.
- 2 As described in Note 2, the fund accountability statement was prepared on the cash basis of accounting.
- 3 The Institute of Liberty and Democracy - ILD, during the period June 20, 1985 to March 31, 1989, did not establish an accounting system nor an internal control structure that guarantees the integrity and adequate accounting of the transactions of the Institutional and Research and Reform Support Project USAID/Peru Project No.527-0298. The amounts described in the accompanying fund accountability statement arise from records and documentation maintained outside the formal accounting system. As a result of this, and ILD's and the Project's weak internal control structure, we were unable to apply alternative auditing procedures, consequently, we have been unable to satisfy ourselves of the reasonableness of the amounts described as disbursed in the budgetary lines: research salaries, administrative and operative expenses, that amount to US\$1,761,314 (approximately 91% of the total Project disbursements).



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- 4 Due to the importance of the scope limitations described in the preceding paragraph, we were unable to perform sufficient work to enable us to express and we do not express an opinion on the fund accountability statement of the Institutional and Research and Reform Activities Support Project, USAID/Peru Project No.527-0298 managed by the Institute of Liberty and Democracy, for the period June 20, 1985 to March 31, 1989.
- 5 As indicated in Note 4, the accompanying fund accountability statement includes specifically identified questionable costs and unsupported costs of US\$4,389 and US\$70,312, respectively.
- 6 This report is intended solely for the use of the United States Agency for International Development and the Institute of Liberty and Democracy - ILLD. 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.

*Price Waterhouse*

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**AUDIT OF THE INSTITUTIONAL AND RESEARCH  
AND REFORM ACTIVITIES SUPPORT PROJECT,  
USAID/PERU PROJECT No.527-0298, MANAGED  
BY THE INSTITUTE OF LIBERTY AND DEMOCRACY  
- ILD FOR THE PERIOD JUNE 20, 1985 TO  
MARCH 31, 1989**

**FUND ACCOUNTABILITY STATEMENT**

	<u>Budget</u>	<u>Actual</u>		<u>Avai-</u>	<u>Questionable costs</u>	
	US\$	US\$		lable	<u>Question-</u>	<u>Unsu-</u>
				US\$	able	pported
					US\$	US\$
<b>INCOME -</b>						
Funds received	<u>1,941,400</u>	<u>1,938,929</u>	(1)	<u>2,471</u>	-	-
<b>DISBURSEMENTS -</b>						
Research salaries	1,384,567	1,421,857	(1)	(37,290)	-	37,290
Travel expenses	137,619	94,648		42,971	-	1,674
Administration	229,670	241,668		(11,998)	2,518	16,987
Operation expenses	99,319	97,789		1,530	1,871	4,620
Publications	58,264	39,687		18,577	-	380
Equipment	<u>31,961</u>	<u>40,477</u>		<u>( 8,516)</u>	-	<u>9,361</u>
	<u>1,941,400</u>	<u>1,936,126</u>		<u>5,274</u>	<u>4,389</u>	<u>70,312</u>
Excess (deficit) of income over disbursements	-	<u>2,803</u>	(1)	<u>( 2,803)</u>		

(1) Includes direct payments made to consultants of US\$12,765.

Notes 1 to 5 form an integral part of this fund accountability statement.

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**AUDIT OF THE INSTITUTIONAL AND RESEARCH  
AND REFORM ACTIVITIES SUPPORT PROJECT,  
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- ILD FOR THE PERIOD JUNE 20, 1985 TO  
MARCH 31, 1989**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT**

**1 NATURE OF ACTIVITIES**

The Institute of Liberty and Democracy - ILD is a non-profit civil association, established on January 30, 1980 with the purpose of investigating the legal institutions' economic development impact. During later years it has conducted extensive investigations in the informal sector.

On June 20, 1985, the ILD signed a cooperative agreement with the United States Agency for International Development in Peru - USAID/Peru Project No.527-0298 Institutional and Research and Reform Activities Support Project. According to the amendment dated December 30, 1988, the project assistance completion date was March 31, 1989.

The purpose of the Project was to provide institutional support to continue with the investigation and analysis on the informal sector and the economic and legal relationship between the formal and informal sectors, with emphasis on the legal and regulatory framework and actions to alter this framework.

The areas of activity supported by this Project are: institutional support, industry, personal identity documents, commerce (ambulantes), housing and economic studies.

**2 ACCOUNTING PRACTICES**

The fund accountability statement was prepared using the accounting practices described below:

**a) Basis of cash -**

The fund accountability statement is prepared on the cash basis of accounting.

Revenues and expenditures are recorded at the time they take place, that is, when they are received or disbursed.

Since there are no estimations or provisions made, there are no liabilities recorded.

b) Translation into foreign currency -

In accordance with current Peruvian legislation, the accounting operations are recorded in local currency. The amounts in U.S. dollars shown in the fund accountability statement are translated based on first-in-first-out, applying the prevailing exchange rate on the date the funds were transmitted.

3 EXCHANGE RATES

The exchange rates applied to translate the amounts shown in the fund accountability statement have been those ruling on the date the advances were give to ILD. The exchange rates applied during the period June 20, 1985 to March 31, 1989 fluctuated from S/.0.000015 to S/.0.0017.

4 QUESTIONABLE COSTS

Questionable costs are costs which are not considered appropriate to be charged to the Project under the terms of the agreement, applicable laws and regulations, and those that lack documentation, do not seem reasonable or were not authorized (unsupported). The questionable costs amount to US\$74,701 and mainly comprise:

	US\$
Budgetary overdraft	57,804
Unsupported purchase of goods and services	4,134
Unsupported travel expenses	1,674
Purchase of goods and services without purchase order and price quotation	6,700
Unreasonable administrative and operative expenses	4,293
Other unreasonable expenses (tax)	<u>96</u>
	<u>74,701</u>

5 TAX SITUATION

ILD has received official recognition from the Peruvian tax authorities that it is a non-taxable organization.

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*Price Waterhouse*



**AUDIT OF THE INSTITUTIONAL AND RESEARCH  
AND REFORM ACTIVITIES SUPPORT PROJECT,  
USAID/PERU PROJECT No.527-0298, MANAGED  
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- ILD FOR THE PERIOD JUNE 20, 1985 TO  
MARCH 31, 1989**

**INTERNAL CONTROL STRUCTURE**

**INDEPENDENT AUDITORS' REPORT**

We were engaged to audit the fund accountability statement of the Institutional and Research and Reform Activities Support Project, USAID/Peru, Project No.527-0298, managed by the Institute of Liberty and Democracy for the period June 20, 1985 to March 31, 1989 and have issued our report thereon dated December 12, 1991, in which we disclaim an opinion.

In planning and performing our audit of the fund accountability statement for Institutional and Research and Reform Activities Support Project, USAID/Peru, Project No.527-0298, managed by the Institute of Liberty and Democracy - ILD for the period June 20, 1985 to March 31, 1989, we considered the Institute of Liberty and Democracy - ILD 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 Institute of Liberty and Democracy - ILD is 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's 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.



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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.

For the purpose of this report we have classified significant policies and procedures into the following categories: i) legal aspects; ii) accounting and financial aspects; iii) treasury (receipts and custody of funds); iv) liquidations (includes purchase of goods and services); and v) salaries.

For all of the 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 inherent control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect ILLD's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement for the period June 20, 1985 to March 31, 1989.

Those reportable conditions are as follows:

- a) The internal control environment during the course of the Project was weak. ILLD's Director's Office and management paid more attention to the development and control of the operative areas, neglecting the administrative and accounting areas.
- b) An internal control and management information system had not been established that permits the effective operation of the Project's administrative, financial and accounting activities, as well as ensuring ILLD's compliance with agreement terms and applicable laws and regulations.



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- c) Although the Project and ILD, as an institution, were evaluated at various times during the course of the Project by different consultants with very unsatisfactory results in the areas of organization, control, finance and accounting, there were no changes and/or quick responses to the recommendations received.
- d) The Project institutional structure did not clearly establish management's authority limits and responsibilities related to decisions making, nor did it establish policies and procedures for the normal development of its activities.
- e) The Project's administrative and accounting personnel, during the course of the Project, in most cases, did not have sufficient knowledge and experience to keep an adequate accounting system and internal control system for recording their operations.
- f) The fund accountability statement included in this report, was prepared based on information from the ILD's budget area maintained outside the formal accounting system.
- g) The performance and budgetary control of the Project were inadequate.

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 time period by employees in the normal course of performing their assigned functions.

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



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We also noted other matters involving the internal control structure and its operation that we reported to ILD's management in a separate letter dated December 12, 1991.

This report is intended solely for the information and use of the United States Agency for International Development and the Institute of Liberty and Democracy- ILD. 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.

December 12, 1991

Price Waterhouse

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**AUDIT OF THE INSTITUTIONAL AND RESEARCH  
AND REFORM ACTIVITIES SUPPORT PROJECT,  
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BY THE INSTITUTE OF LIBERTY AND DEMOCRACY  
- ILD FOR THE PERIOD JUNE 20, 1985 TO  
MARCH 31, 1989**

**INTERNAL CONTROL STRUCTURE**

**AUDIT FINDINGS**

**General aspects -**

- 1 The Project's administrative and accounting control environment was weak.

**Condition -**

The Director's Office and executive officers did not establish clearly and concisely the levels of authority and responsibilities of the Project's personnel of the administrative and accounting areas.

**Criteria -**

The Project Director's Office and executive officers should have created an adequate control environment to ensure the normal development of the Project activities.

**Cause -**

More emphasis was put on the operative areas of the Project than on the administrative and accounting area.

**Effect -**

This weakness adversely affected the Project's internal control structure.

**Recommendation -**

We recommend ILD, in future USAID projects, assure that the Project Director's Office and executive officers establish an adequate control environment in respect to the administrative and accounting areas for the normal management of the activities. This environment should be intended to achieve the equilibrium with the operative areas of the Project.

- 2 The Project did not have an adequate policies and procedures handbook.

**Condition -**

The assignment of work tasks were verbally given to the personnel who worked based on their own criteria.

**Criteria -**

Every Project should have a policies and procedures handbook which clearly specifies the steps to follow so that personnel can efficiently accomplish their assigned work tasks. This handbook should clearly state obligations and restrictions required by the granting entity.

**Cause -**

Lack of time and experienced personnel to prepare this handbook in writing.

**Effect -**

The Project's personnel have performed their work based on their own experience and criteria, contributing to ILLD's noncompliance with laws and regulations applicable to the Project.

**Recommendation -**

We recommend ILLD, in all future USAID projects, design and implement simplified policies and procedures handbook that clearly describes their duties and responsibility levels, as well as, obligations and restrictions mandated by USAID/Peru.

3 The Project's filing system was inadequate.

**Condition -**

During our review we had serious difficulties in finding documentation relating to the Project.

**Criteria -**

All the information relating to the Project should have been chronologically filed for easy access.

**Cause -**

More attention was paid to the operating activities than to the administrative and accounting activities, especially filing.

**Effect -**

Loss of information which could have, as a consequence, questionable costs.

**Recommendation -**

We recommend ILD, in all future USAID projects, design and implement procedures to guarantee the custody and chronological filing of the Project's documents.

**Accounting and financial aspects -**

- 4 **Budgetary or accounting system for the Project was not established.**

**Condition -**

During our examination, we observed that a budgetary or accounting system for recording of the operations had not been established. There was no internal budgetary system that considered the corresponding accounts at detailed levels and periods (monthly, quarterly, etc.). The Project's transactions were maintained outside the formal accounting system. During the years 1985 and 1986, the Project's operations were recorded in a bank register commingled with other projects. As of 1987, a mechanized system for recording the transactions was implemented. This system was neither designed at institutional level nor for each individual financial entity.

**Criteria -**

The Project should have had a detailed budgetary system and an accounting system that guaranteed the entire, opportune and true recording of their transactions.

**Cause -**

Weak internal control environment, administrative and accounting areas overworked and unawareness of the "Standard Provisions" by the ILD executive officers. It was considered sufficient maintaining information manually outside the formal accounting system.

**Effect -**

Noncompliance with the applicable Project's laws and regulations. Due to this situation, the budgetary account for equipment had an overdraft of approximately 27% at March 31, 1989.

**Recommendation -**

We recommend ILD, in all future USAID projects, design and implement a budgetary and accounting system to facilitate the control of the Project's operations. This system should have include at least:

- The design of a trial balance in accordance with the Project's needs.
- An accounting system for the Project.
- Implementation of an adequate budgetary control system that can periodically analyze significant variances between budget and actual figures.

5 **There was an inadequate management information system.**

**Condition -**

We observed the following situations:

- Detailed Project budgets were not prepared.
- Fund accountability statements were not prepared. One was prepared at March 31, 1989 at our request.
- Project cash flows were not prepared.
- A detailed list of the Project's fixed assets indicating their code, description, acquisition date, location, conservation state, etc.
- There was no detailed summary of the Project's hired personnel indicating their name, position, salary or fee, contract expiring date and if they worked for other Project and at what percentage, etc.

**Criteria -**

A management information system should have been established as a tool for the direction of the Project in order to facilitate the decision making process.

**Cause -**

This system was considered unnecessary due to inexperienced personnel and unawareness of the "Standard Provisions".

**Effect -**

The absence of financial information did not permit an appropriate administrative and accounting control of the Project. Most of the expenses were totally charged to USAID because insufficient information prevented the accurate calculation of the components of each expense.

**Recommendation -**

We recommend ILD, in all future USAID projects, establish a management information system.

- 6 There is no written evidence of periodic reconciliations of the amounts consigned by the ILD's records maintained outside the formal accounting system and those controlled by USAID/Peru during the course of the Project.

**Condition -**

According to information received from ILD executive officers, periodic reconciliations were made between the ILD records maintained outside the formal accounting system and the USAID/Peru records. However, there is no written evidence of such reconciliations, except for one made at the end of the Project.

**Criteria -**

Periodic reconciliation of the fund's accounts with USAID/Peru should have been made and written evidence should have been kept.

**Cause -**

Lack of knowledge of and/or negligence on behalf of the ILD Directors in this control procedure.

**Effect -**

A difference of the total advances and liquidations of the Project at March 31, 1989 amounting to US\$2,803. This difference was returned to USAID/Peru on January 29, 1990.

**Recommendation -**

We recommend ILD, in all future USAID projects, make periodic reconciliations of ILD and USAID/Peru records, leaving evidence of this work.

**Treasury -**

7 The Project's current bank account was not exclusively used for the record of its transactions.

**Condition -**

During the years 1985 and 1986, ILD administrated the Project funds in a bank account in Banco Continental which also received funds from other granting entities. During 1987, this current bank account was exclusively used for the transactions of the Project under examination. However, during our audit, we observed that the Project's funds were deposited in other ILD's current bank accounts.

**Criteria -**

The Project's funds should be managed in a current account, limiting its use to the Project's transactions.

**Cause -**

Negligence and/or lack of knowledge of ILD in connection to the "Standard Provisions". Due to the inefficiency of the ILD's administrative and accounting personnel, the funds from USAID/Peru were generally received at the end of each month. This situation resulted in loans between Projects.

**Effect -**

The Project's bank account had movements of funds from other financial entities. This situation weakens the internal control related to treasury. Utilization of USAID funds in other projects might result in these funds not being refunded. As well as noncompliance with the Standard Provisions established by USAID.

Due to the absence of order in the management of these bank accounts, some errors might occur in the accounting of disbursements made with USAID project's funds.

**Recommendation -**

We recommend ILD, in all future USAID projects, design and establish procedures assuring the adequate use of the Project's current bank account and the obtainment of the necessary funds in an opportune manner.

- 8 The ILD's procedures for preparing bank reconciliations were not for the most part adequate for the control of Project's funds.

Condition -

During our examination we observed the following situations:

- Until 1987 bank reconciliations were prepared according to the amounts recorded in the bank register, which includes transactions of other projects.
- In some cases, the bank reconciliations were prepared by the cashier.
- The bank reconciliations did not record written evidence of the Accountant's revision.

Criteria -

ILD should have established adequate procedures for the preparation of bank reconciliations.

Cause -

Administrative and accounting personnel did not have instructions in this respect.

Effect -

Bank reconciliations were prepared with delay and/or with potential mistakes.

Recommendation -

We recommend ILD, in all future USAID projects, design and implement clear and detailed policies and procedures for the preparation of the Project's bank reconciliations.

- 9 Fund advances were not presented opportunely to USAID/Peru.

Condition -

Our examination revealed that the fund advances were received by ILD the last days of the month for which they were requested and/or the first days of the following month.

The following examples are presented:

<u>Request date</u>	<u>Voucher No.</u>	<u>Period covered</u>	<u>Amount</u> US\$	<u>Deposit date</u>
27.05.87	527-87-4454	May-June-July 87	117,439	09.07.87
03.10.86	527-87-1249	October-November 86	88,823	13.11.86
21.06.85	527-85-4913	June-July 85	110,377	09.07.85

**Criteria -**

The funds must be opportunely requested to USAID/Peru.

**Cause -**

Little personnel dedicated to administrative and accounting tasks.

**Effect -**

The Project disbursements were attended, in many cases, with funds from other entities that finance ILD.

**Recommendation -**

We recommend ILD, in all future USAID projects, request opportunely funds to USAID/Peru, not later than the last week of the preceding month to which the funds are requested for.

10 Procurement procedures are not adequate.

**Condition -**

As a result of our test of liquidations, we observed the following situations:

- A consistent procedure for the issue of purchase orders and request for price quotations was not established.
- Authorization limits for the approval of purchases of goods and services were not established.

**Criteria -**

Purchases of goods and services should be made under free competition, analyzing different alternatives, and choosing the most reasonable.

**Cause -**

Director's Office was unaware of the "Standard Provisions". Personnel in charge worked according to their own experience and criteria. This area was not given much importance as most of the costs were small purchases, although there were many.

**Effect -**

Noncompliance with applicable laws and regulations. Our evaluation determined the existence of questionable costs of US\$10,834.

**Recommendation -**

We recommend ILD, in all future USAID projects, design and implement procedures for purchasing of goods and services that guarantee the compliance with applicable laws and agreement regulations.

- 11 Travel advances were not adequately or opportunely authorized, documented or liquidated.

**Condition -**

As a result of our liquidations' test we observed that, generally, the supporting documentation for travel expenses was not authorized nor sufficiently explained (it should include name of airline used, reason for travelling, etc.).

**Criteria -**

Travel expenses should have been adequately authorized and supported.

**Cause -**

There were no control procedures. Lack of knowledge and/or negligence in complying with the "Standard Provisions".

**Effect -**

Unsupported travel expenses could exist.

**Recommendation -**

We recommend ILD, in all future USAID projects, design and implement control policies and procedures for the adequate support and approval of travel expenses.

- 12      Payments made with the Project funds did not record, in all cases, evidence of the general manager's and financial manager's approval.

**Condition -**

Disbursements related to the Project should have recorded Project's executives approval evidence. This was carried out, but there is no evidence of its approval.

**Cause -**

In some cases, this was due to the executive's continuous travels. In other cases, it was due to the lack of internal control procedures.

**Effect -**

Risk that some unauthorized payments may have been made with the Project's funds.

**Recommendation -**

We recommend ILD, in all future USAID projects, design and implement procedures to ensure that disbursements made with the Project's fund are reviewed and approved by responsible executives leaving evidence of their work.

- 13      Lack of control and reasonable determination of the Project's administrative and operative expenses.

**Condition -**

During the course of the Project, most of the ILD's administrative expenses such as telephone, telex, electricity, water, subscriptions and legal expenses, etc., have been absorbed by the Project. During the said period, ILD had other projects which were financed by other financial entities which could have absorbed a portion of the said expenses.

**Criteria -**

A control procedure and/or mechanism that allows a more equal distribution of the ILD's institutional administrative expenses should have been established.

**Cause -**

ILD's management considered that the budgetary account for administrative and operative expenses approved by USAID/Peru for the Project was big enough to absorb all of the expenses. The institution did not have sufficient financial and accounting information to equally determine the distribution of the said expenses.

**Effect -**

USAID/Peru has reimbursed to ILD all the administrative and operative expenses during the course of the Project. We consider that due to the existence of other projects not financed by USAID/Peru, it is not reasonable that this Project should absorb all the administrative expenses. However, due to the lack of a control procedure and/or mechanism, it is impossible to quantify the excessive administrative expenses charged to the Project under examination. This situation represents a limitation to the scope of our examination, which we report in our Funds Accountability report dated October 12, 1991.

**Recommendation -**

We recommend ILD, in all future USAID projects, establish policies and/or procedures that allow an adequate analysis of the shared costs, in order to assign to the Project only those belonging to its approved activities.

**Personnel -**

- 14 ILD did not establish adequate policies and procedures in the personnel area. Especially related to control payments to personnel who worked in the Project during its course.

**Condition -**

We observed the following situations:

- During April through August 1988 personnel with fixed period contracts were working without contract.
- In some cases, the work contracts are not signed by the employee nor by ILD's representative. Additionally, personal files including basic information, such as identification card, tax card, address, etc., were not kept.
- ILD did not have a list of the Project's employees indicating employee's name, period of work, position, salary, etc.

- No salary policies that indicated the levels of remuneration and the increases and adjustments were established.
- In some cases, full time employees received their remunerations from funds from more than one grantee.
- There was no adequate and consistent procedure for recruiting personnel. The personnel hired for the Project were acquaintances or trust-worthy people. The professional level in the administrative and accounting level, in general terms, was low.

**Criteria -**

The Project should have had adequate internal control policies and procedures in the Project's personnel area that ensure the entire and opportune record of disbursement for salaries and generation of the permanent records that permit reviewing the reasonableness of such costs. Additionally, the Project's recruiting process should have been more formal and technical.

**Cause -**

There were no control procedures. Lack of knowledge and/or negligence in complying with elemental criteria of internal control.

**Effect -**

Personnel who did not work for the Project could had been paid with the Project funds. Limitation to our audit scope. We do not have sufficient and competent evidence to conclude about the reasonableness of these expenses.

**Recommendation -**

We recommend ILD, in all future USAID projects, establish internal control procedures for the personnel area, especially related to the design of a data base and/or records that allow keeping a detailed control of all the personnel working in this Project and the total amount paid to them.

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*Price Waterhouse*



**AUDIT OF THE INSTITUTIONAL AND RESEARCH  
AND REFORM ACTIVITIES SUPPORT PROJECT,  
USAID/PERU PROJECT No. 527-0298, MANAGED  
BY THE INSTITUTE OF LIBERTY AND DEMOCRACY  
- ILD FOR THE PERIOD JUNE 20, 1985 TO  
MARCH 31, 1989**

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

**INDEPENDENT AUDITORS' REPORT**

We were engaged to audit the fund accountability statement of the Institutional and Research and Reform Activities Support Project, USAID/Peru Project No. 527-0298, managed by the Institute of Liberty and Democracy - ILD for the period June 20, 1985 to March 31, 1989 and have issued our report thereon dated December 12, 1991, in which we disclaim an opinion.

The Institute of Liberty and Democracy - ILD is responsible for compliance with the terms of the agreement and applicable laws and regulations. In obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of compliance by the ILD agreement terms and applicable laws and regulations which may affect the Projects's goals and incurred costs. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in statutes, regulations, contracts or grants, that cause us to conclude that the aggregate of the misstatements resulting from those failures or violators are material to the fund accountability statement. The results of our tests indicated the following instances of material noncompliance:

- a) During the course of the Project, the "Standard Provisions" described in the agreement, Annex 1, title F, were not taken into account, among other, basically in the aspects relating to the maintenance of an accounting system and budgetary control of the Project's transactions. At respect, the fund accountability statement included in this report, was prepared based on information from the ILD's budget area maintained outside the formal accounting system.



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- b) Although the Project and ILD, as an institution, were evaluated at various times during the course of the Project by different consultants with very unsatisfactory results in the areas of organization, finance, accounting and control systems, there were no changes and/or quick responses to the recommendations received.

In our opinion, due to the importance of the effect of the situations described in the previous paragraphs, related to items tested, the Institute of Liberty and Democracy - ILD had not complied in all material respects, with the terms of the agreement and applicable laws and regulations, originating questionable costs and unsupported costs of US\$4,389 and US\$70,312, respectively, in the period from June 20, 1985 to March 31, 1989.

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

December 12, 1991

*Price Waterhouse*

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**AUDIT OF THE INSTITUTIONAL AND RESEARCH  
AND REFORM ACTIVITIES SUPPORT PROJECT,  
USAID/PERU PROJECT No.527-0298, MANAGED  
BY THE INSTITUTE OF LIBERTY AND DEMOCRACY  
- ILD FOR THE PERIOD JUNE 20, 1985 TO  
MARCH 31, 1989**

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

**AUDIT FINDINGS**

1 The "Standard Provisions" described in Annex 1, caption F, were not considered by the ILD during the course of the Project.

**Condition -**

As we described in the audit findings section of the internal control structure report, captions 2, 4, 7, 10 and 11, we noted the following situations:

- The Project's personnel worked based on their own experience.
- An effective budgetary control was not carried out.
- The procedures used to control the Project's funds were not adequate.
- Price quotations were not included in ILD's procurement process.
- In some cases, travel expenses were not adequately or opportunely documented.

**Criteria -**

The "Standard Provisions" of the Agreement applicable to this Project were not followed.

**Cause -**

Lack of knowledge of the Agreement requirements and/or negligence of ILD.

**Effect -**

Limitations to our audit scope in relation with the budgetary lines research salaries and administration and operation expenses, that represent approximately 91% of the Project's total funds. In addition we determined that the fund accountability statement includes

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questionable cost and unsupported expenses of US\$4,389 and US\$70,312, respectively. Also, the equipment account has an overdraft, in relation to the budget, of approximately 27%.

**Recommendation -**

We recommend ILD, in all future USAID projects, coordinate with the USAID/Peru employees the obtainment and/or clear explanation of the "Standard Provisions" in order to avoid these situations.

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Annex 1

**AUDIT OF THE INSTITUTIONAL AND RESEARCH  
AND REFORM ACTIVITIES SUPPORT PROJECT,  
USAID/PERU PROJECT No.527-028, MANAGED  
BY THE INSTITUTE OF LIBERTY AND DEMOCRACY  
- ILD FOR THE PERIOD JUNE 20, 1985 TO  
MARCH 31, 1989**

**MANAGEMENT COMMENTS**

The General Directors of Institute of Liberty and Democracy - ILD have provided comments on this report, which due to the great volume of pages, have been supplied directly to the USAID/Peru Mission for its corresponding follow up.

**AUDIT OF THE INSTITUTIONAL AND RESEARCH  
AND REFORM ACTIVITIES SUPPORT PROJECT,  
USAID/PERU PROJECT No.527-028, MANAGED  
BY THE INSTITUTE OF LIBERTY AND DEMOCRACY  
- ILD FOR THE PERIOD JUNE 20, 1985 TO  
MARCH 31, 1989**

**QUESTIONABLE COSTS**

<u>Cash - Banks Vouchers</u> <u>Check</u>	<u>No.</u>	<u>Date</u>	<u>Concept</u>	<u>Comments</u>	<u>Questionable costs</u>	
					<u>Questionable</u> <u>US\$</u>	<u>Unsupported</u> <u>US\$</u>
Draft	114	27.06.85	Robert Crandall - ticket reimbursement - Baltimore, San Juan, Lima, Mexico, Washington.	Reason for stopping is not indicated, and its relation with the Project.		1,674
Various	Various	Various	Office supplies.	Price quotations were not requested.		5,855
Various	Various	Various	Administrative expenses - electricity - water, telephone, legal expenses, office maintenance.	Should have been distributed between the projects managed by other financial entities.	4,293	
Various	Various	Various	Office rent.	Only supported with a receipt lacking legal documentation (especie valorada).		4,134
Various	Various	Various	Sales tax.	Ineligible expense.	96	
8144983	76	26.09.85	Abraham Santos Rojas - Purchase of 5 desks, 5 chairs and a cabinet. Invoice No.5030.	Purchase orders were not issued. No price quotations were requested.		460
09815610	30	06.02.86	Elko Peruana - Purchase of 2 tension stabilizers 0.5 kw. for computer.	Purchase orders were not issued. No price quotations were requested.		385
			Budgetary overdrafts			
					-	57,804
					<u>4,389</u>	<u>70,312</u>
					=====	=====

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**AUDIT OF THE INSTITUTIONAL AND RESEARCH  
AND REFORM ACTIVITIES SUPPORT PROJECT,  
USAID/PERU PROJECT No.527-028, MANAGED  
BY THE INSTITUTE OF LIBERTY AND DEMOCRACY  
- ILD FOR THE PERIOD JUNE 20, 1985 TO  
MARCH 31, 1989**

LIST OF RECOMMENDATIONS

INTERNAL CONTROL STRUCTURE

- 1 We recommend ILD, in future USAID projects, assure that the Project Director's Office and executive officers establish an adequate control environment in respect to the administrative and accounting areas for the normal management of the activities. This environment should be intended to achieve the equilibrium with the operative areas of the Project.
- 2 We recommend ILD, in all future USAID projects, design and implement simplified policies and procedures handbook that clearly describes their duties and responsibility levels, as well as, obligations and restrictions mandated by USAID/Peru.
- 3 We recommend ILD, in all future USAID projects design and implement procedures to guarantee the custody and chronological filing of the Project's documents.
- 4 We recommend ILD, in all future projects design and implement a budgetary and accounting system to facilitate the control of the Project's operations. This system should have include at least:
  - The design of a trial balance in accordance with the Project's needs.
  - An accounting system for the Project.
  - Implementation of an adequate budgetary control system that can periodically analyze significant variation between budget and actual figures.
- 5 We recommend the ILD, in all future USAID projects, establish a management information system.
- 6 We recommend ILD, in all future USAID projects, make periodic reconciliations of the ILD and USAID/Peru records leaving evidence of their work.
- 7 We recommend ILD, in all future USAID projects, design and establish procedures assuring the adequate use of the Project's current bank account and the obtainment of the necessary funds in an opportune manner.

- 8 We recommend ILD, in all future USAID projects, design and implement clear and detailed policies and procedures for the preparation of the Project's bank reconciliations.
- 9 We recommend ILD, in all future USAID projects, request opportunely funds to USAID/Peru, not later than the last week of the preceding month to which the funds are requested for.
- 10 We recommend ILD, in all future USAID projects, design and implement procedures for purchasing of goods and services that guarantee the compliance with laws and the agreement regulations.
- 11 We recommend ILD, in all future USAID projects, design and implement control procedures for the adequate support and approval of travel expenses.
- 12 We recommend ILD, in all future USAID projects, design and implement procedures to ensure that disbursements made with the Project's fund are reviewed and approved by responsible executives leaving evidence of their work.
- 13 We recommend ILD, in all future USAID projects, establish policies and/or procedures that allow an adequate analysis of the shared costs, in order to assign to the Project only those belonging to its approved activities.
- 14 We recommend ILD, in all future USAID projects, establish internal control procedures for the personnel area, especially related to the design of a data base and/or records that allow keeping a detailed control of all the personnel working in this Project and the total amount paid to them.

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

- 1 We recommend ILD, in all future USAID projects, coordinate with the USAID/Peru employees the obtainment and/or clear explanation of the "Standard Provisions" in order to avoid these situations.

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