

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

**Audit of USAID/Bolivia's
Chapare Regional Development Project
Managed by the National Roads Service
January 1, 1991 to December 31, 1991**

**Audit Report No. 1-511-92-50-N
August 25, 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**

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Chapare Regional Development Project
Managed by the National Roads Service
January 1, 1991 to December 31, 1991**

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August 25, 1992**

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

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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

August 25, 1992

MEMORANDUM

TO: D/USAID/Bolivia, Carl H. Leonard

FROM: RIG/A/T Lou Mundy 

SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project, Managed by the National Roads Service, January 1, 1991 to December 31, 1991

This report presents the results of a financial audit of the Chapare Regional Development Project (Project), USAID/Bolivia Project No. 511-0543, managed by the National Roads Service for the year ended December 31, 1991. The audit firm of Coopers & Lybrand prepared the report dated July 3, 1992.

The Project is a complementary part of the host government's program to reduce the coca plantings in Bolivia. The Project consists of an integrated package of financing and technical assistance for the small farmers of Bolivia's Chapare Region and associated high valley sub-regions related to production, agroindustry development and marketing, and institutional development activities. The National Roads Service, one of several entities implementing the Project, is responsible for the Project component comprising the construction and improvement of rural roads and supervision of bridge construction by private firms. The audit coverage included A.I.D. funds of \$757,806 provided to the National Roads Service during the audit period.

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

The auditors concluded that the fund accountability statement presents fairly, in all material respects, the financial position of the National Roads Service relative to its Project operations during the period audited. Also, the Coopers & Lybrand audit

reported no material internal control weaknesses or material instances of noncompliance with Project Agreement terms and applicable laws and regulations.

The report was discussed with National Roads Service officials who expressed general agreement with the content of the audit report. Management comments are included as an annex to the audit report.

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

AUDIT OF THE CHAPARE REGIONAL DEVELOPMENT PROJECT
USAID/BOLIVIA PROJECT No. 511-0543
MANAGED BY THE NATIONAL ROADS SERVICE
FOR THE YEAR ENDING DECEMBER 31, 1991

AUDIT OF THE CHAPARE REGIONAL DEVELOPMENT PROJECT

USAID/BOLIVIA PROJECT No. 511-0543

MANAGED BY THE NATIONAL ROADS SERVICE

FOR THE YEAR ENDING DECEMBER 31, 1991

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**Coopers
& Lybrand**

auditores
consultores en
administración

Edificio Herrmann
Plaza Venezuela 5° Piso

Casilla de Correo 14393
La Paz - Bolivia

teléfonos: 356898, 356899
391307

telex: BV 3361
fax: 369904

Edificio Oriente
2° Piso Of. 206

Casilla 1674
Santa Cruz - Bolivia
teléfono 346171

firma miembro de
Coopers & Lybrand
(International)

July 3, 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 financial audit of the activities of the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, managed by the National Roads Service (SNC), for the year ended December 31, 1991.

BACKGROUND

On August 12, 1983, the Republic of Bolivia and the United States of America, acting through the U.S. Agency for International Development Mission to Bolivia (USAID/Bolivia), signed a loan and grant agreement to implement the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, which consisted of an integrated package of financing and technical assistance for small farmer related production, agroindustry development/marketing and institutional development support activities to be carried out by Bolivian public and private institutions for development of the Chapare region and associated high valleys sub-regions.

The project is a complementary part of the Government of Bolivia (GOB)'s program to reduce coca plantings in Bolivia, and includes different activities and sub-projects designed to focus development resources on Bolivia's principal transitory coca growing area which is used for illicit purposes, the Chapare region. Due to different causes, the implementation of project activities had to be delayed and the project itself was significantly modified. The amended project concentrates on four principal development areas: 1) agriculture and forestry production; 2) rural industry and marketing; 3) productive and transport infrastructure; and 4) a project investment fund. Each area includes activities of immediate impact and applied research components to support medium and long-term activities.



The Project Assistance Completion Date, which originally was scheduled for August 31, 1988 was amended to May 31, 1992.

The purpose of the project is to modify and improve the agricultural and forestry systems of farmers in the Chapare and Associated High Valleys (AHV) sub-regions of the Department of Cochabamba to respond better to diverse, profitable marketing opportunities under sustained, environmentally compatible, medium technology production models. In addition, the GOB will contribute to the program \$2,000 per hectare of its own resources as payments to farmers that voluntarily reduce their coca plantings. The major implementing units are:

1. SUBDESAL

This organization is a sub-secretariat of the Ministry of Agriculture and Campesino Affairs located in La Paz. SUBDESAL provides overall direction and policy guidance for the project and works closely with PDAR.

2. PDAR

At the Cochabamba level, PDAR is responsible for both technical and financial control of the entire project.

3. IBTA

IBTA/Chapare is responsible for providing agricultural research and extension services in the Chapare reform, especially to those former coca growers that have legally reduced their coca plantings. IBTA maintains two Agricultural experimental farms - one in La Jota and the other in Chipiriri. IBTA's basic activities include managing the two experimental stations, performing research on new seeds, providing on-site training to farmers and running small productive farms.

IBTA is responsible for the sale of genetic material (plants and seeds) to campesino farmers for carrying out alternative planting and sale of crops, cattle, hogs, chicken and subproducts.

IBTA operates with the funds it requests and receives through PDAR.

4. S.N.C.

SNC was legally created in 1964 and functions as a decentralized institution of the Ministry of Transportation and Communications with relative technical and administrative autonomy. Its basic function is to control and supervise Bolivia's national road system with regard to studies, construction, improvements and maintenance.

SNC's project-related activities are financed by the financing entities through PDAR.

Within the SNC organizational structure at a national level exists the "Camino Vecinales" (CCVV) division which is currently working under the Chapare Regional Development Project (CRDP) in Cochabamba.

SNC through its CCVV unit is responsible for construction and improvement of rural roads and also supervises the construction of bridges in the Associated High Valleys (AHVs) through private firms. Its activity in the Chapare area is constrained to the coca crops reduction conditionality.

5. EXECUTIVE SECRETARIAT PL-480 (ES)

The Executive Secretariat, PL-480, is the principal GOB counterpart financing organization through which the resources flow to the project implementing agencies to cover costs of some project components. It is important to clarify that those resources are not managed by the ES but by PDAR which is responsible for their accountability.

The ES as a GOB counterpart financing organization also provides and manages funds in local currency to implement the project's Agricultural Credit component in the Chapare area and in the Associated High Valleys of Cochabamba.

6. DIRECO

The National Directorate for the Control of Coca Production (DIRECO) is a decentralized institution coming under SUBDESAL. Its activities defined in Ministerial Resolution No. 81/90 dated May 22, 1990, Title VII, Article 26 are the following:

- a) Execute coca crops eradication following policies and instructions prepared by SUBDESAL.

- b) Provide continued, systematic and updated information on production, quantities eradicated, prices, incomes, and other information regarding coca production in Bolivia through a data bank.
- c) Prepare strategies and policies for coca crop eradication.
- d) Prepare a census of farmers participating in reduction programs.
- e) Programming and execution of coca reduction payments.
- f) Issuance of certificates to farmers who have voluntarily reduced their coca crops in order to enable them to receive other alternative development program benefits.

The project has five components:

- A. Administration: The key administrative role for the project is provided by the Regional Alternative Development Project (PDAR) which reports to the Subsecretary for Alternative Development and Coca Crop Substitution (SUBDESAL), a Subsecretary of the Ministry of Agriculture and Campesino Affairs (MACA).
- B. Agriculture and Forest Production Component: The Chapare based research and extension activities and this project are carried out principally by the Bolivian Institute of Agricultural Technology (IBTA/Chapare). This activity includes adaptive research, demonstration farms, nurseries, support for community extension councils, agricultural credit, farmer training, and research facilities and vocational school construction.
- C. Rural Industry and Marketing Component: This component funds specified agro-industrial and complementary marketing activities in the Chapare and are expanded to fund similar activities in the AHV sub-regions of the Cochabamba Department. The project will execute sub-agreements with public and private institutions to carry out activities under this component, which among others include:

1. Rural industry pre-investment studies,
2. Marketing studies, and
3. Rural industry credit.

D. Production, Transport, and Community Infrastructure Component: This component will fund activities to improve and/or contract for production, transport, and community infrastructure such as:

- Rehabilitation of existing irrigation systems, studies and designs of irrigation works, etc. These are implemented through arrangements to be made by PDAR.
- Implementation of improved transportation infrastructure in the AHV sub-regions through the National Roads Service (SNC).
- Funding of community infrastructure, potable water, rural sanitation through the Ministry of Health (MOH) and improvement of existing electrification through the National Electrification Institute (INE).

E. Pilot Investment Fund: This fund permits PDAR to underwrite the work of institutions and communities with successful records in promoting development activities in the target regions. PDAR will receive solicited and unsolicited proposals from Private Voluntary Organizations, other institutions, and community groups to conduct specific development projects at the local level.

F. Coca Reduction Payments: The GOB will pay each farmer in the Chapare \$2,000 for each hectare of coca plants that is voluntarily reduced. This component is managed by the Direccion Nacional de Reconversion Agricola (DIRECO).

AUDIT OBJECTIVES AND SCOPE

The objective of the mandate was to conduct a financial audit of the Chapare Regional Development Project activities managed by the National Roads Service (SNC) for the year ended December 31, 1991. The audit included the operations carried out by each administrative unit under the loan and grant agreement signed between the Government of Bolivia and USAID/Bolivia, and their corresponding fund accountability statement.

In regards to the disbursement of funds up to December 31, 1990, we based ourselves on the opinion without reservation expressed by other auditors on February 15, 1991, over the audit conducted in the above mentioned Organization for the 1990 agreement.

Except for not conducting an external quality control review by an unaffiliated audit organization 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) and accordingly included such tests of the accounting records and documentation, evaluation of the internal control structure and other auditing procedures as we considered necessary in the circumstances to determine whether:

1. The fund accountability statement of the project activities managed by SNC fairly presents in all material respects, the cash receipts and disbursements for the year ended December 31, 1991;
2. SNC's internal control structure is adequate for project purposes; and
3. SNC complied, in all material respects, with agreement terms, project implementation letters, and applicable laws and regulations.

The scope of our work included:

- Reviewing the accounting records and bank accounts used by SNC to record the receipt of funds.
- Confirming the funds received for the project with the records of the funding agencies, USAID/Bolivia, PL-480 Executive Secretariat and DIFEM.
- Reviewing the support documentation for the principal disbursements made by SNC. This test covered 78% of the amount spent during the year, and its objective was to determine whether the documentation, were properly supported with documentation, were made to achieve the objectives of the project and in accordance with agreement terms and project implementation letters, and that the recording was adequate.

- Obtaining direct confirmation on SNC bank account balances as of December 31, 1991,, and reviewing the corresponding bank reconciliations.
- Obtaining a complete understanding of the control environment, accounting system and control procedures used by SNC to account for project funds. For this purpose we evaluated the following significant categories: cash receipts and disbursements, budgeting controls, bank accounts and funds controls, inventory management and procurement system.
- Reviewing and evaluating SNC's compliance with agreement terms, implementation letters, and applicable laws and regulations.

During our work we were alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

RESULT OF AUDIT

Fund Accountability Statement

The National Roads Service (SNC) recorded its operations on the basis of cash receipts and disbursements; consequently, revenues are recognized when received rather than when earned and expenditures are recognized when paid rather than when the obligation is incurred. This is a comprehensive basis of accounting for cash transactions other than generally accepted accounting principles.

In our opinion, the fund accountability statement audited by us fairly presents, in all material respects, the cash receipts and disbursements of the activities managed by the National Roads Service (SNC), for the year ended on December 31, 1991, under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, on the accounting basis described in the preceding paragraph.

Internal Control Structure

Our study and evaluation of SNC's internal control structure disclosed the following reportable conditions that we do not consider to be material weaknesses:

1. Balance with PDAR not reconciled
2. Lack of uniformity in the information issued by the various Chapare Regional Development Project entities

Compliance with Agreement terms and applicable laws and regulations

The results of our tests indicate that, with respect to items tested, the National Roads Service complied, in all material respects with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the National Roads Service had not complied, in all material respects, with those provisions.

MANAGEMENT COMMENTS

This report was discussed with the SNC's management on May 13, 1992 who generally agreed with the audit findings and the contents of this report. Specific comments are reproduced in Annex 1 of this report.

Cooper & Lybrand

**Coopers
& Lybrand**

auditores
consultores en
administración

Edificio Herrmann
Plaza Venezuela 5° Piso

Casilla de Correo 14393
La Paz - Bolivia

teléfonos: 356898, 356699
391307

telex: BV 3361
fax: 369904

Edificio Oriente
2° Piso Of. 206

Casilla 1674
Santa Cruz - Bolivia
teléfono 346171

firma miembro de
Coopers & Lybrand
(International)

CHAPARE REGIONAL DEVELOPMENT PROJECT
ACTIVITIES MANAGED BY THE NATIONAL ROADS SERVICE
USAID/BOLIVIA PROJECT No. 511-0543

FOR THE YEAR ENDED DECEMBER 31, 1991

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities managed by the National Roads Service (SNC) for the year ended December 31, 1991. The fund accountability statement is the responsibility of SNC's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

In regards to the payment of funds up to December 31, 1990, we based ourselves on the opinion without reservation expressed by other auditors on February 15, 1991, over the audit conducted in the above mentioned Organization for the 1990 agreement.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Bolivia. We believe that the effect of this departure from the

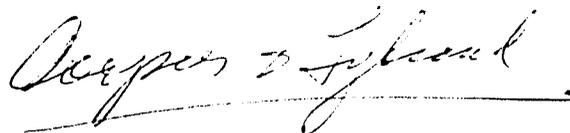


financial audit requirements of Government Auditing Standards is not material because we participated in the Coopers & Lybrand worldwide internal quality control program which requires the Coopers & Lybrand Bolivia office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers & Lybrand offices.

As described in Note 2, the fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the fund accountability statement referred to above fairly presents, in all material respects project revenues collected and expenses paid for the year ended December 31, 1991 in accordance with the accounting basis described in Note 2.

This report is intended solely for the use of SNC and the U.S. Agency for International Development. 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.

A handwritten signature in cursive script, reading "Coopers & Lybrand", with a horizontal line underneath it.

February 28, 1992

CHAPARE REGIONAL DEVELOPMENT PROJECT
ACTIVITIES MANAGED BY THE NATIONAL ROADS SERVICES (SNC)
USAID/BOLIVIA PROJECT No. 511-0543

FUND ACCOUNTABILITY STATEMENT AS OF DECEMBER 31, 1991

(Expressed in Dollars - Note 3)

	<u>Budget</u>	<u>Actual</u>	<u>Available</u>
INCOME			
Funds provided by USAID/Bolivia	<u>6.827.000</u>	<u>757.806</u>	<u>6.069.194</u>
	6.827.000 =====	757.806 =====	6.069.194 =====
DISBURSEMENTS			
Training, studies and communications	20.000	0	20.000
Construction	220.000	0	220.000
Machinery and materials	2.342.000	432.535	1.909.465
Operating costs	<u>4.245.000</u>	<u>390.584</u>	<u>3.854.416</u>
	6.827.000 =====	823.119 =====	6.003.881 =====
Beginning Balance		66.242	
Ending Balance		929 =====	

CHAPARE REGIONAL DEVELOPMENT PROJECT
ACTIVITIES MANAGED BY THE NATIONAL ROADS SERVICE (SNC)
USAID/BOLIVIA PROJECT No. 511-0543

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 1991

NOTE 1: DESCRIPTION OF THE PROJECT AND NATURE OF OPERATIONS

On August 12, 1983, the Republic of Bolivia and the United States of America acting through the U.S. Agency for International Development Mission to Bolivia (USAID/Bolivia), signed a loan and grant agreement to implement the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, which consisted of an integrated package of financing and technical assistance for small farmer related production, agroindustry development/marketing and institutional development support activities to be carried out by Bolivian public and private institutions for development of the Chapare region and associated high valleys sub-regions.

The project is a complementary part of the Government of Bolivia (GOB)'s program to reduce coca plantings in Bolivia, and includes different activities and sub-projects designed to focus development resources on Bolivia's principal transitory coca growing area which is used for illicit purposes, the Chapare region. Due to different causes, the implementation of project activities had to be delayed and the project itself was significantly modified. The amended project concentrates on four principal development areas: 1) agriculture and forestry production; 2) rural industry and marketing; 3) productive and transport infrastructure; and 4) a project investment fund. Each area includes activities of immediate impact and applied research components to support medium and long-term activities.

SNC's project-related activities are road and bridge construction, repair and maintenance to improve access to the Chapare area and thus facilitate the marketing of the area's produce.

CHAPARE REGIONAL DEVELOPMENT PROJECT
ACTIVITIES MANAGED BY THE NATIONAL ROADS SERVICE (SNC)
USAID/BOLIVIA PROJECT No. 511-0543

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 1991

NOTE 2: SUMMARY OF ACCOUNTING POLICIES

The fund accountability statement has been prepared on the cash basis of accounting. Consequently, income is recognized when received rather than when earned and expenditures are recognized when paid rather than when the obligation is incurred.

The costs of fixed assets are charged directly to the project and are not depreciated. Using the same procedure, materials and supplies are charged directly to the project when the payment is made and not when the goods are used.

The fund accountability statement includes only the income and expenditures related to the special account, which includes only the funding provided to SNC and does not include the direct payments made by USAID/Bolivia and the Government of Bolivia on behalf of the project. Those payments consist principally of technical assistance, equipment and supplies procured directly by USAID/Bolivia and the Government of Bolivia.

NOTE 3: EXCHANGE RATES

The fund accountability statement is presented in Dollars. During 1991 the Bolivian currency devalued against the United States dollar from Bs3.40 per US\$ 1 at January 1, 1991 to Bs3.75 at December 31, 1991.

The aforementioned budget execution was made by Coopers & Lybrand in relation to the monthly average rate of exchange in which each cash transaction took place.

**Coopers
& Lybrand**

auditores
consultores en
administración

Edificio Herrmann
Plaza Venezuela 5° Piso

Casilla de Correo 14393
La Paz - Bolivia

teléfonos: 356898, 356899
391307

telex: BV 3361
fax: 369904

Edificio Oriente
2° Piso Of. 206

Casilla 1674
Santa Cruz - Bolivia
teléfono 346171

firma miembro de
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CHAPARE REGIONAL DEVELOPMENT PROJECT
ACTIVITIES MANAGED BY THE NATIONAL ROADS SERVICE (SNC)
USAID/BOLIVIA PROJECT No. 511-0543

FOR THE YEAR ENDED DECEMBER 31, 1991

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities of the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543 managed by the National Roads Service (SNC) for the year ended December 31, 1991, and have issued our report thereon dated February 28, 1992.

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 Government Auditing Standards, issued by the Comptroller General of the United States (1988 revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of SNC for the year ended December 31, 1991, we considered its 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 management of SNC is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments 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 in accordance with the accounting basis described in Note 2 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 in future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Cash receipts and disbursements,
- Budgeting controls,
- Bank accounts and funds controls,
- Inventories management, and
- Procurement system

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

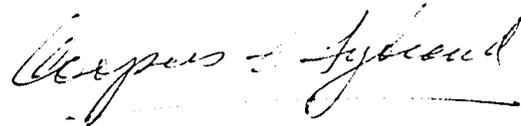
We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involved matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that in our judgement, could adversely affect SNC's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted are described in findings 1 to 2 in the following pages.

A material weakness is a reportable condition in which the design or operation of one or more 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 statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We noted certain matters involving the internal control structure and its operation that we have reported to the management of SNC in a separate letter dated February 28, 1992.

This report is intended solely for the information of the management of the National Roads Service and the United States Agency for International Development. 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.



February 28, 1992

CHAPARE REGIONAL DEVELOPMENT PROJECT
ACTIVITIES MANAGED BY THE NATIONAL ROADS SERVICE (SNC)
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1991

REPORT ON INTERNAL CONTROL STRUCTURE

FINDINGS

1. Balance with PDAR not reconciled

Condition:

We verified that SNC does not periodically reconcile the Regional Development Alternative Program (PDAR) balance, resulting from funds transfers by PDAR and charges for payments PDAR makes on SNC's behalf.

Criteria:

SNC should reconcile its balance with that of PDAR at least once every quarter.

Cause:

The situation arose due to the lack of an internal control and information system which allows to cross reference the information provided by all entities involved.

Effect:

The lack of this reconciliation results in there being no assurance as to the balance's integrality and accuracy and may further result in accounting information errors.

Recommendation:

We recommend that SNC make these reconciliations monthly or quarterly with a view to strengthen integrality and accuracy controls over the balance and in addition, the financing institution should advise SNC on the amounts and dates on which transfers of funds for SNC are made.

2. Lack of uniformity in the information issued by the various Chapare Regional Development Project entities

Condition:

We established that the information issued by the various Chapare Regional Development entities, lacks uniformity in both content and form (for example: budget execution control, financial statements, accounting of funds, etc).

Criteria:

There should be a pre-established format for the elaboration of the information submitted by all entities of the Chapare Regional Development Project.

Cause:

This situation arose for not having previously foreseen the need for such uniformity.

Effect:

This deficiency makes it difficult for the financing institutions to control the implementing agencies and will be an obstacle for the latter to enter into an integrated computerized system.

Recommendation

Given the legal status of the entity, we recommend that SNC apply SAFCO law provisions.

**Coopers
& Lybrand**

auditores
consultores en
administración

Edificio Herrmann
Plaza Venezuela 5° Piso

Casilla de Correo 14393
La Paz - Bolivia

teléfonos: 356898, 356899
391307

telex: BV 3361
fax: 369904

Edificio Oriente
2° Piso Of. 206

Casilla 1674
Santa Cruz - Bolivia
teléfono 346171

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CHAPARE REGIONAL DEVELOPMENT PROJECT
ACTIVITIES MANAGED BY THE NATIONAL ROADS SERVICE (SNC)
USAID/BOLIVIA PROJECT No. 511-0543

FOR THE YEAR ENDED DECEMBER 31, 1991

COMPLIANCE WITH AGREEMENT TERMS, PROJECT IMPLEMENTATION

LETTERS, AND APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities of the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, managed by the National Roads Service for the year ended December 31, 1991 and have issued our report thereon dated February 28, 1992.

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.

Compliance with laws, regulations, contracts and grants applicable to this portion of the Chapare Regional Development Project is the responsibility of the National Roads Service's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of SNC's compliance with certain provisions of laws, regulations, and agreement terms. However, the objective of our audit was not to provide an opinion on overall compliance with such terms and provisions.

The results of our test of compliance indicate that, with respect to the items tested, the National Roads Service complied in all material respects with the terms and provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the National Roads Service had not complied, in all material respects, with those terms and provisions.



This report is intended solely for the information of the management of the National Roads Service and the U.S. Agency for International Development. 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.

Coopers & Lybrand

February 28, 1992

CHAPARE REGIONAL DEVELOPMENT PROJECT
ACTIVITIES MANAGED BY THE NATIONAL ROADS SERVICE (SNC)
USAID/BOLIVIA PROJECT No. 511-0543

FOR THE YEAR ENDED DECEMBER 31, 1991

LIST OF REPORT RECOMMENDATIONS

REPORT ON INTERNAL CONTROL STRUCTURE

Recommendation No. 1:

We recommend that SNC make these reconciliations monthly or quarterly with a view to strengthen integrality and accuracy controls over the balance and in addition, the financing institution should advise SNC on the amounts and dates on which transfers of funds for SNC are made.

Recommendation No. 2:

Given the legal status of the entity, we recommend that SNC apply SAFCO law provisions.

CHAPARE REGIONAL DEVELOPMENT PROJECT

ACTIVITIES MANAGED BY THE THE NATIONAL ROADS SERVICE (SNC)

USAID/BOLIVIA PROJECT No. 511-0543

FOR THE YEAR ENDED DECEMBER 31, 1991

FOLLOW-UP ON PREVIOUS YEAR RECOMMENDATIONS

We have audit the fund accountability statement of the Chapare Regional Development Project activities managed by the National Roads Service (SNC), for the year ended December 31, 1991.

The scope of our work included a follow-up on the recommendations to improve the Internal Control Structure and Compliance with Agreement Terms, Project Implementation Letters, and Applicable Laws and Regulations presented by the prior external auditor, covering the period January 1, 1990 through December 31, 1990 and presented on February 15, 1991.

During the course of our follow up we reviewed the support documentation for the more important questioned costs (\$us.1.969; Bs6.695); this documentation was also reviewed by USAID/Bolivia.

The following is a summary of our follow-up work:

REPORT ON INTERNAL CONTROL STRUCTURE

FINDINGS

1. Differences between goods received and the goods charged by USAID/Bolivia to SNC were not properly investigated

Recommendation:

SNC should establish procedures to ensure that differences between the goods received and the goods charged in direct account are properly investigated and satisfactorily cleared.

Present Condition:

USAID/Bolivia contracted the services of a Mechanical Engineer (Mr. Ernesto Vargas) to perform the following duties:

- Evaluate equipment condition
- Inspect SNC's various stations
- Verify the quality of equipment maintenance
- Prepare requisitions for the purchase of spare parts, accessories, etc.
- Supervise repair work performed on equipment and machinery.

During the course of our audit, we verified that this work was executed.

2. Deficiencies in the "Villa Granado" Warehouse

Recommendation:

SNC should issue instructions to be followed when the original request is modified and that supporting documentation is properly filed.

Present Condition:

- a) Our review of project files showed that documents are reasonably well filed and that there are no handwritten corrections made thereon.
- b) Movements of materials are now supervised by the Engineer contracted by USAID/Bolivia.

We verified the above on the basis of samples taken while carrying out our audit work.

3. Incomplete information in the quarterly reports

Recommendation:

SNC in conjunction with USAID/Bolivia must establish procedures and standards so that there is full accountability for the use of funds and so that the information received is useful in taking management decisions. These procedures should require that there be proper coordination between entities to obtain accurate information to prepare accurate accounts.

Present Condition:

During 1991 USAID/Bolivia entered into direct contracts with contractors for infrastructure construction work.

ESTRUCTURA DE CONTROL INTERNO

ANEXO 1: COMENTARIOS DE LA GERENCIA

Los comentarios en español efectuados oportunamente por la Gerencia de la Entidad son los siguientes:

1. El Servicio Nacional de Caminos efectúa conciliaciones de fondos con las entidades bancarias. Se tomará en cuenta la observación.
2. El S.N.C. cumple con la elaboración de informes de acuerdo a modelos y reglamentos de los financiadores.

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