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**REGIONAL OFFICE FOR CENTRAL AMERICAN PROGRAMS  
ROCAP  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

**REGIONAL EXPORT MANAGEMENT TRAINING  
No. 596-0124  
PROJECT ASSISTANCE COMPLETION REPORT  
ADDENDUM**

March 4, 1993

PACR ADDENDUM

**AUDIT**

Close-out audits of a number of projects, including the Export Management Training Project, were undertaken for the year ending August 31, 1991 by Arthur Anderson and Co., Guatemala, dated July 17, 1992. Based upon a review of these audits, on December 18, 1992, RIG/A/T, sent a memorandum to the Director of ROCAP, titled "Recipient Contracted Audit Report No. 1-596-93-07-R, Audit of ROCAP Project Funds, Managed by the Central American Institute for Business Administration, for the Year Ending August 31, 1991" (copy attached numbered "A"). This document makes the following recommendations, Numbered 1 and 2, with regard to these audits.

"Recommendation No. 1

We recommend that the Regional Office for Central American Programs obtain evidence that the Central American Institute for Business Administration has established procedures to (1) maintain separate accounting records for each project; (2) perform periodic reconciliations of ROCAP's and the Institute's financial information; and (3) contract an annual financial audit of its AID projects.

Recommendation No. 2

We recommend that the Regional Office for Central American Programs obtain evidence that the Central American Institute for Business Administration has provided documentation of its compliance with the five agreement terms described in finding No. 1 of the Report on Compliance in the audit report for Project No. 596-0124. In the event that compliance cannot be demonstrated by the Institute, ROCAP should determine if a claim against the Institute is warranted and if so, execute the claim.

Recommendation No. 1 can be resolved when ROCAP presents an acceptable firm plan of action to correct the reported deficiencies and can be closed when ROCAP presents acceptable evidence that the deficiencies have been corrected. Recommendation No. 2 can be resolved when ROCAP obtains evidence of compliance or if not obtainable when ROCAP determines its legal course of action. It can be closed when ROCAP determines that the evidence of compliance is acceptable or when it completes the legal action deemed necessary for noncompliance."

With particular regard to the RIG Recommendation No. 2, which singles out audit Recommendation No. 1 for Project No. 596-0124, the audits identified one material issue of noncompliance comprising five requirements, as follows:

- Documentation evidencing the change of preliminary plans for expansion of the building.
- Announcement of opportunities under sponsored research.
- Diagnosis and annual plan of university teacher program.
- Research grants made.
- Plan for development of a Master's Degree in Business Administration and Entrepreneurial Economy.

ROCAP responded to the RIG recommendations in a memo dated February 8th, 1993 (attached). The recommendations which were made specifically in regards to Project 596-0124 were addressed by ROCAP; pertinent documentation was sent to the RIG and closure of these recommendations was requested. The RIG, in unclassified cable, Tegucigalpa 2133, dated March 4, 1993, (attached) informed ROCAP that Recommendations Nos. 1.3 and 2 are closed and that Recommendation Nos. 1.1 and 1.2 are considered resolved. The Controller's office will track the recommendation until closed.

#### DEOBLIGATION

The unliquidated balance of \$360,695 was deobligated and recorded in Journal Voucher 52050162-3 dated Nov. 19, 1992.

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**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
ROCAP**

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**REGIONAL OFFICE FOR CENTRAL AMERICAN PROGRAMS**

**DATE:** February 8, 1993

**FROM:** Irenenaree Castillo, ROCAP/DIRECTOR

**SUBJECT:** Audit Recommendations from Recipient Contracted Audit Report 1-596-93-07-R, "Audit of ROCAP Project Funds, Managed by the Central American Institute of Business Administration, for the Year Ending August 31, 1991".

**PROJECTS:** Export Management Training (596-0124)  
CA Shelter and Urban Development (596-0143)  
Economic Policy Research (596-0147)

**TO:** Lou Mundy, RIG/A/T

We provide the following information in response to subject audit report.

**Recommendation No. 1**

**"We recommend that the Regional Office for Central American Programs obtain evidence that the Central American Institute for Business Administration has established procedures to:**  
**(1) maintain separate accounting records for each project;**  
**(2) perform periodic reconciliations of ROCAP's and the Institute's financial information; and (3) contract an annual audit of its A.I.D. projects."**

**ACTIONS TAKEN**

**Recommendation 1 (Part 1):** The Central American Institute for Business Administration (INCAE) has contracted with the audit firm KPMG Peat Marwick to design and implement a new financial

management system using its own funds. This system is in the final phase of implementation and testing and is expected to be fully operational by March 31, 1993. The system will include maintenance of separate accounting records for each project. ROCAP Controller staff will review INCAE's financial management system for certification and will determine if a system of separate accounting records has been put in place at that time. Upon certification of the system, ROCAP will request closure of the recommendation.

Current ROCAP Status: Resolved.

Recommendation 1 (Part 2): ROCAP is preparing a letter to INCAE to inform them that ROCAP will send its financial reports of active projects (MACS Report No. P19) to INCAE every month and request them to reconcile differences and report any discrepancies between ROCAP and INCAE financial information. When the letter is issued, ROCAP will request closure of the recommendation.

Current ROCAP Status: Resolved.

Note: A ROCAP financed financial analyst is working at INCAE to provide technical assistance related to the establishment of the financial management system and to review all claims and supporting documentation prior to submission to AID for processing.

Recommendation 1 (Part 3): INCAE was one of the first ROCAP organizations to contract for a recipient audit when the requirement was established. INCAE contracted for this audit and the audit of its fiscal year 1992 operations as required. The 1992 audit has been completed and the draft report is currently with INCAE for comment. We anticipate receiving the final report in February, 1993. INCAE has complied completely and quickly with the audit requirements. Based on the fact that they have complied with the requirements, the recommendation should be closed.

Current Status: Closed.

RIG/A/T Action Requested:

Based on the above actions taken by INCAE, ROCAP requests that parts 1 and 2 of this recommendation be considered resolved. ROCAP requests that part 3 of the recommendation be closed.

Recommendation No. 2

"We recommend that the Regional Office for Central American Programs obtain evidence that the Central American Institute for Business Administration has provided documentation of its compliance with five agreement terms described in Finding No. 1 of the Report on Compliance in the audit report for Project No.

596-0124. In the event that compliance cannot be demonstrated by the Institute, ROCAP should determine if a claim against the Institute is warranted and if so, execute the claim."

Recommendation 2 (Part 1):

INCAE could not provide evidence of compliance with agreement clauses requiring documentation evidencing the change of preliminary plans for expansion of the building.

ACTIONS TAKEN

ROCAP reviewed its Export Management Training (596-0124) files and offers the following comments on Finding No. 1:

The Project Paper for Export Management Training, Section III., B.4.d., Additions to the Physical Plant, states that the project will fund the construction of a one-story expansion (approximately 200 square meters) of Building No. 2, using expansion plan blueprints originally prepared prior to the authorization of Project 596-0124. This space was to be divided into five faculty office spaces, a secretarial area for two secretaries, and six student study rooms. Contract No. 596-0124-C-00-6063-00 with INCAE called for the construction identified in the Project Paper, at a cost of \$122,929, but did not state the dimensions, nor did it mention that the then extant blueprints were to be utilized. ROCAP files contain copies of the blueprints, approval by A.I.D. of the blueprints for the construction of approximately 200 square meters of office space, and procedures followed for the selection of the construction contractor. The construction was completed on schedule and the vouchers for the full amount of \$122,929 for the construction were paid by A.I.D. (final voucher was processed in March 1987).

INCAE submitted its workplan for Sub-component IV-B Construction in a letter dated January 28, 1986. In that workplan, INCAE stated that the objective of the physical plant expansion was to create additional faculty office space, secretarial space, and temporary study rooms. The letter clearly states that the entire expansion area would in the end be used as faculty office space.

ROCAP Project Manager's letter No. 19, dated January 12, 1987, approves the budget and workplans for the four project components for 1986-1987, without noting any exceptions to that approval.

Copies of the above mentioned documents are attached.

Based on the above, ROCAP requests <sup>ed</sup> closure of this recommendation.

**Recommendation 2 (Parts 2-5):**

Non-compliance with Agreement terms requiring announcement of opportunities under sponsored research; diagnosis and annual plan of the university teacher program; research grants made; and plan for development of a Master's Degree in Business Administration and in Entrepreneurial Economy.

**ACTIONS TAKEN**

Documents and correspondence in ROCAP's files from INCAE provided details concerning each of these areas. This information, which demonstrates INCAE compliance with the contract terms, was submitted by INCAE to ROCAP during implementation of the project in its annual workplans, as well as in separate reports. In these reports, INCAE has demonstrated that it indeed announced the availability of opportunities under sponsored research, that it regularly submitted diagnosis and annual plans of the university teacher's program, and not only developed but implemented and refined the MBA program and created a Master's program in Entrepreneurial Economy. Copies of the documents are attached to this letter.

**RIG/A/T ACTION REQUESTED**

Based on the above information and attached documentation, ROCAP requests that RIG close this recommendation.

Attachments: Six

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MAILING ADDRESS:  
RIG/T  
PO. MIAMI 34022

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY  
TEGUCIGALPA - HONDURAS

"A"  
TELEPHONE  
32-9987 - 31  
FAX No. (504)

December 18, 1992

**MEMORANDUM**

TO: D/ROCAP, Irenemaree Castillo

FROM: RIG/A/T, Lou Mundy 

SUBJECT: Recipient Contracted Audit Report No. I-596-93-07-R, "Audit of ROCAP Project Funds, Managed by the Central American Institute for Business Administration, for the Year Ending August 31, 1991"

Enclosed are five copies of the three final reports for the subject recipient contracted financial audit. The audit was done to comply with the requirements of the audit provisions contained in the Agreements between the Regional Office for Central American Programs (ROCAP) and the Central American Institute for Business Administration (Institute) as well as with the requirements contained in the A.I.D. Office of the Inspector General's "Guidelines for Financial Audits Contracted by Foreign Recipients" (Guidelines).

The public accounting firm of Arthur Andersen & Co. performed the audit which included \$1.0 million<sup>1</sup> disbursed by the Institute during the year ended August 31, 1991 under the Export Management Training Project (ROCAP Project No. 596-0124), Central American Shelter and Urban Development Project (ROCAP Project No. 596-0143), and Economic Policy Research Project (ROCAP Project No. 596-0147).

We reviewed the audit reports and found them to be generally in accordance with the requirements of the Guidelines. The results of our review were transmitted to the Institute by Recipient Contracted Audit Report No. I-596-93-07-R (enclosed) issued by our office on December 18, 1992. As mentioned in our letter to the Institute, there were several deficiencies in the audit reports which we have requested be taken into consideration by the auditors during the next audit of the Institute.

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<sup>1</sup> This figure excludes indirect costs of \$186,629 which were not included in the scope of this audit.

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## **REPORTS ON THE FUND ACCOUNTABILITY STATEMENT**

Arthur Andersen & Co. determined that the Institute's fund accountability statements for all three Projects, with the exception of indirect costs charged to the Projects which were not reviewed by the auditors, present fairly, in all material respects, the Projects' financial activities for the period audited. Indirect costs were not reviewed, as there were other independent auditors contracted to perform this review.

## **REPORTS ON INTERNAL CONTROLS**

With respect to the Institute's internal controls for the Projects' activities, the auditors identified four reportable conditions that applied to all three Projects. We have asked that the Institute request its auditors, during their next audit, to verify and report on whether appropriate corrective action has been taken concerning the matters addressed in these findings.

The auditors identified three of the reportable conditions as material weaknesses, none of which were reported as corrected by the Institute. These weaknesses concerned the lack of: (1) separate accounting records for each Project, (2) periodic reconciliations of ROCAP's and the Institute's financial information, and (3) annual Project audits.

## **REPORTS ON COMPLIANCE**

With respect to the Institute's compliance with Agreement terms and applicable laws and regulations, the auditors identified one material instance of noncompliance that applied to Project No. 596-0124. The instance of noncompliance, described in Finding No. 1 of the Report on Compliance was not reported as corrected by the Institute.

The matters addressed in the finding concern a lack of evidence by the Institute to demonstrate its compliance with Agreement terms regarding the: (1) change of preliminary plans for expansion of the building, (2) announcement of opportunities under sponsored research, (3) diagnosis and annual plan of the university teacher program, (4) research grants made, and (5) plan for development of a Master's Degree in Business Administration and in Entrepreneurial Economy. Although Project No. 596-0124 terminated on August 31, 1991 we have included a recommendation for ROCAP to followup on these specific issues in the event there might be some legal claim against the Institute due to its noncompliance.

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

**Recommendation No. 1**

We recommend that the Regional Office for Central American Programs obtain evidence that the Central American Institute for Business Administration has established procedures to: (1) maintain separate accounting records for each project; (2) perform periodic reconciliations of ROCAP's and the Institute's financial information; and (3) contract an annual financial audit of its A.I.D. projects.

**Recommendation No. 2**

We recommend that the Regional Office for Central American Programs obtain evidence that the Central American Institute for Business Administration has provided documentation of its compliance with the five agreement terms described in Finding No. 1 of the Report on Compliance in the audit report for Project No. 596-0124. In the event that compliance cannot be demonstrated by the Institute, ROCAP should determine if a claim against the Institute is warranted and if so, execute the claim.

Recommendation No. 1 can be resolved when ROCAP presents an acceptable firm plan of action to correct the reported deficiencies and can be closed when ROCAP presents acceptable evidence that the deficiencies have been corrected. Recommendation No. 2 can be resolved when ROCAP obtains evidence of compliance or if not obtainable when ROCAP determines its legal course of action. It can be closed when ROCAP determines that the evidence of compliance is acceptable or when it completes the legal action deemed necessary for noncompliance.

The audit report is being transmitted to you for your action. Please advise us within 30 days of the actions planned or taken to resolve and close the recommendation.

Enclosures: a/s

- Documentation evidencing the change of preliminary plans for expansion of the building.
- Announcement of opportunities under sponsored research.
- Diagnosis and annual plan of university teacher program.
- Research grants made.
- Plan for development of a Master's Degree in Business Administration and Entrepreneurial Economy.

ROCAP responded to the RIG recommendations in a memo dated February 8th, 1993 (attached). The recommendations which were made specifically in regards to Project 596-0124 were addressed by ROCAP; pertinent documentation was sent to the RIG and closure of these recommendations was requested. The RIG, in unclassified cable, Tegucigalpa 2133, dated March 4, 1993, (attached) informed ROCAP that Recommendations Nos. 1.3 and 2 are closed and that Recommendation Nos. 1.1 and 1.2 are considered resolved. The Controller's office will track the recommendation until closed.

DEOBLIGATION

The unliquidated balance of \$360,695 was deobligated and recorded in Journal Voucher 52050162-3 dated Nov. 19, 1992.

Drafted by AZucca In draft

Clearances:

OREAT:UErnst	<u>In draft</u>
PRG:REduardo	<u>In draft</u>
PRG:NHooff	<u>In draft</u>
PDO:AVollbrecht	<u>In draft</u>
PDO:JGoodson	<u>In draft</u>
CONT:GByllesby	<u>In draft</u>
ADIR:LKlassen	<u>UK 3/17</u>

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- Documentation evidencing the change of preliminary plans for expansion of the building.
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DDIR:LKlassen	<u>                    </u>
DIR:ICastillo	<u>                    </u>

*JA dr*

January 25, 1993

PACR ADDENDUM

AUDIT

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- Announcement of opportunities under sponsored research.
- Diagnosis and annual plan of university teacher program.
- Research grants made.
- Plan for development of a Master's Degree in Business Administration and Entrepreneurial Economy.

~~ROCAP is taking action responding to both RIG recommendations. Their resolution will be handled by the Office of the Controller.~~

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Drafted by AZucca

*[Signature]*

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*1/29/93*  
*1/31/93*  
*filed w/changes 3/3/93*

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