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Regional Inspector General for Audit
Tegucigalpa, Honduras

**Audit of USAID/Peru's
Agricultural Technology Transformation Project
Activities Managed by the
National Foundation for Agrarian Development
September 25, 1987 to June 30, 1991**

Audit Report No. 1-527-93-22-N
June 18, 1993



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

AGENCY FOR INTERNATIONAL DEVELOPMENT

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June 18, 1993

MEMORANDUM

TO: D/USAID/Peru, George Wachtenheim

FROM: RIG/A/T, Lou Mundy 

SUBJECT: Audit of USAID/Peru's Agricultural Technology Transformation Project, Activities Managed by the National Foundation for Agrarian Development, September 25, 1987 to June 30, 1991

This report presents the results of a financial audit of the Agricultural Technology Transformation Project, USAID/Peru Project No. 527-0282 (Project), covering those activities managed by the National Foundation for Agrarian Development (Foundation) for the period September 25, 1987 to June 30, 1991. The audit firm of KPMG-Oscar Caipo y Asociados, the Klynveld Peat Marwick Goerdeler affiliate in Peru, prepared the report dated April 28, 1993.

The purpose of the Project is to expand the scope and improve the quality and relevance of agricultural technology generated for agriculture, and of the technology transfer services being provided to Peruvian farmers in order to increase rural incomes and reduce unit costs of agricultural production, while increasing agricultural productivity and yields. The Foundation, a non-profit institution created by the Molina National Agrarian University for the management of resources from sources other than the public sector, is one of four entities implementing the Project.

The Foundation is responsible for Activity A of Component No. 3: *Human Resources Development*, which concerns the strengthening of the Molina National Agrarian University's administration and teaching program. The Project is estimated to be completed August 31, 1993. During the period audited the Foundation received A.I.D. funds of \$140,930 of which it reported disbursements of \$95,004 under the Project.

The objectives of the audit were to determine whether: (1) the Foundation's fund accountability statement presents fairly, in all material respects, the

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financial position of the Project for the period audited, (2) the Foundation's internal control structure was adequate to manage the Project, and (3) the Foundation had complied with agreement terms and applicable laws and regulations. The scope of the audit included an examination of the Foundation's activities and transactions to the extent considered necessary to issue a report thereon for the period audited.

KPMG-Oscar Caipo y Asociados concluded that, the Foundation's fund accountability statement presents fairly, in all material respects, the Project's receipts and expenditures for the period audited. The auditors did identify \$235 in questionable costs which did not affect their opinion on the fund accountability statement. The questionable costs concerned sales taxes paid with Project funds.

The auditors identified one material weakness concerning the Foundation's internal control structure. Specifically, the auditors reported that the Foundation did not perform periodic reconciliations comparing its records of Project advances and expenditures to records maintained by USAID/Peru.

Regarding the Foundation's compliance with agreement terms and applicable laws and regulations, the auditors identified four material instances of noncompliance. The auditors found that the Foundation did not: (1) deduct the payment of sales taxes from Project funds, (2) reimburse the Project bank account for \$22,611 in ineligible expenses not approved by USAID/Peru, (3) submit its requirements for fixed asset procurements in accordance with the terms of the Project Agreement, and (4) meet its counterpart contribution to the Project as specified in the Agreement (as of June 30, 1991 a shortfall of \$821,340).

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

Recommendation No. 1

We recommend that USAID/Peru resolve the questionable costs of \$235 (questioned) identified in the KPMG-Oscar Caipo y Asociados report dated April 28, 1993, and recover from the National Foundation for Agrarian Development the amounts determined to be unallowable.

Recommendation No.2

We recommend that USAID/Peru obtain evidence that the National Foundation for Agrarian Development has reimbursed the Agricultural Technology Transformation Project bank account for the \$22,611 in ineligible expenses not approved by USAID/Peru.

Recommendation No. 3

We recommend that USAID/Peru obtain evidence that the National Foundation for Agrarian Development has established procedures which will ensure that: (1) reconciliations of its records to those of USAID/Peru are performed periodically, (2) sales taxes are not paid with Project funds, (3) costs associated with expenses not approved for payment by USAID/Peru are reimbursed to the Project bank account timely, (4) submit its requirements for fixed asset procurements in accordance with the Project Agreement, and (5) agreed-to counterpart contributions are made available for Project purposes.

Recommendation No. 1 will be considered resolved upon USAID/Peru'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. Recommendation No. 2 can be resolved and closed when USAID/Peru provides acceptable evidence that the unapproved expenditures have been reimbursed to the Project bank account. Recommendation No. 3 can be resolved when USAID/Peru presents an acceptable firm plan of action to correct the reported deficiencies and can be closed when it presents acceptable evidence that the required procedures have been established.

The report was discussed with representatives from the Foundation who generally agreed with the findings and recommendations included in the report, but indicated that they wished to further negotiate the ineligible cost disallowances with USAID/Peru. The Foundation's comments are included as Exhibit I to the KPMG-Oscar Caiyo y Asociados report.

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.

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

**Audit of USAID/Peru's
Agricultural Technology Transformation Project
Activities Managed by the
National Foundation for Agrarian Development
September 25, 1987 to June 30, 1991**

**Audit Report No. 1-527-93-22-N
June 18, 1993**

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**AUDIT OF THE AGRICULTURAL TECHNOLOGY
TRANSFORMATION PROJECT**

**MANAGED BY THE NATIONAL FOUNDATION
FOR AGRARIAN DEVELOPMENT
USAID/PERU PROJECT Nº 527-0282**

**For the Period September 25, 1987
to June 30, 1991**

AUDIT OF THE AGRICULTURAL TECHNOLOGY TRANSFORMATION PROJECT
MANAGED BY THE NATIONAL FOUNDATION FOR AGRARIAN DEVELOPMENT
USAID/PERU PROJECT N° 527-0282
For the Period September 25, 1987 to June 30, 1991

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KPMG Oscar Caipo y Asociados

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Teléfono 336130
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April 28, 1993

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

Dear Mr. Mundy:

This report presents the result of our audit of the Agricultural Technology Transformation Project (ATT) for Activity A of Component N° 3: Human Resources Development, managed by The National Foundation for Agrarian Development, an entity created by the Molina National Agrarian University for the management of funds from the grants by USAID/Peru Project N° 527-0282 for the period September 25, 1987 to June 30, 1991.

BACKGROUND

On September 25, 1987, the Government of the United States of America, through its Agency for International Development, Mission to Peru (USAID/Peru), approved the Agricultural Technology Transformation Project (ATT), USAID/Peru Project N° 527-0282, which provided to the Government of Peru (GOP), represented by its Ministry of Agriculture, an amount of US\$ 52,000,000 including a USAID/Peru grant of US\$ 25,000,000 and a counterpart contribution from the GOP of US\$ 27,000,000, or its equivalent in local currency and contributions in kind. The project assistance completion date (PACD) is estimated at August 31, 1993.

The purpose of the project is to expand the scope and improve the quality and relevance of agricultural technology generated for agriculture, and of the technology transfer services being provided to Peruvian farmers in order to increase rural incomes and reduce unit costs of agricultural production, while increasing agricultural productivity and yields.

Four institutions are responsible for the administration of project funds, as well as for the coordination and management: The National Institute of Agricultural and Agro-Industrial Investigation of the Ministry of Agriculture (Instituto Nacional de Investigación Agropecuaria y Agroindustrial "INIAA"), the National Agrarian Organization (Organización Nacional Agraria "ONA"), The National Foundation for the Agrarian Development (Fundación para el Desarrollo Agrario) together with the Molina National Agrarian University "FDA/UNALM" and the Foundation for Agricultural Development (Fundación para el Desarrollo del Agro "FUNDEAGRO"). These institutions are incorporated into the Agricultural Technology Generation and Transfer System (ATGT). The Project Financial Plan for the four entities, including the corresponding amendments, is shown below:

ATT PROJECT FINANCIAL PLAN

	In thousands of US\$				
	Grant			Counterpart (GOP)	Total
	In US\$	In local currency	Total		
INIAA	-	3,200	3,200	21,030	24,230
ONA	-	1,171	1,171	-	1,171
FDA	-	200	200	1,250	1,450
FUNDEAGRO	-	9,910	9,910	-	9,910
TECHNICAL ASSISTANCE	5,861	-	5,861	-	5,861
OFFSHORE TRAINING	2,000	-	2,000	-	2,000
OFFSHORE PROCUREMENT	2,136	-	2,136	-	2,136
OTHERS	455	29	484	-	484
CONTINGENCY	38	-	38	4,720	4,758
TOTAL	10,490	14,510	25,000	27,000	52,000

Technical assistance, offshore training and offshore procurement were contracted directly by USAID/Peru with The North Carolina State University (NCSU). The project consists of three main components: Technology Generation, Technology Transfer, and Human Resources Development. The description of said components is as follows:

1. Technology Generation

The activities under this component are designed to improve the quality and relevance of research carried out by INIAA, as well as increase the research volume and expand the research opportunities by researchers. The following are the activities developed under this component:

Activity A: Consolidation and integration of research programs

Activity B: Strengthening of the Administration and Technical Management of the ATGT System.

Activity C: Expanding research opportunities

2. Transfer of Technology

This component serves a catalytic role for incentivating a greater participation by the public and private sectors in attaining an effective transfer of technology. The activities developed under this component are the following:

- Activity A: Establishing a technology transfer specialist program.
- Activity B: Stimulating private sector technology transfer activities.
- Activity C: Stimulating the production and distribution system of improved seeds.

3. Human Resources Development

The adequate development of the ATGT system largely depends on the capacity of Peru's institutions of higher education in agriculture to train professionals with the required technical quality to operate an efficient and effective system. The activities comprised under this component are concerned with the improvement of the quality of agricultural education at the post-graduate level and of the professionals working in the ATGT system. These activities are the following:

- Activity A: UNALM administration and teaching program strengthening.
- Activity B: Improvement of teaching and audio-visual materials for research, extension and teaching.
- Activity C: Competitive graduate study fellowships and participant training.

As indicated in the ATT Project Financial Plan, the funds budgeted for National Foundation for Agrarian Development (FDA/UNALM) amount to US\$ 200,000 and are executed in local currency.

The detailed budget broken down into headings for the five years the project will be in force is indicated below. This budget is restricted to activity A: UNALM administration and teaching program strengthening of Component N° 3: Human Resources Development:

ATT/FDA Project Budget

Activity A of Component N° 3 - Human Resources Development

Stated in thousands of US\$

	<u>Headings</u>	<u>Amounts</u>
1.	Personnel	41
2.	Operating expenses	86
3.	Training	73
		—
		200
		===

AUDIT OBJECTIVES AND SCOPE

We were engaged to perform a financial audit of the Agricultural Technology Transformation Project managed by four implementing entities, for the period September 25, 1987 to June 30, 1991.

Our audit corresponding to Activity A Molina National Agraria University administration and teaching program strengthening of Component No. 3: Human Resources Development, managed by FDA, was performed in accordance with generally accepted accounting standards and the Government Auditing Standards of the U.S. Comptroller General and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, to determine whether:

- The fund accountability statement presents fairly, in all material respects, the financial situation of activity A of Component N° 3 of the ATT Project managed by FDA at June 30, 1991; the costs reported as incurred and reimbursed by USAID/Peru during the period September 25, 1987 to June 30, 1991 are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations.
- The internal control structure of FDA is adequate to manage the project's operations.
- FDA complied with the agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs.

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

The scope of our work covered the following:

Fund Accountability Statement

- Reconciliation of funds received and liquidated as of June 30, 1991 with the accounting reports of USAID/Peru.
- Analysis of the discrepancies between actual expenses and budgeted amounts in order to identify and explain the main discrepancies.
- Review of the translation procedures into U.S. dollars for local currency expenses.
- Bank confirmations as of June 30, 1991.
- Review of expenses incurred for training, supervision and salaries, verifying its adequate recording, the corresponding approvals, the chronological correspondence with supporting documentation, and their conformity with agreement terms.

Internal Control Structure

- Compliance tests, in order to assess the internal control structure established by FDA for the reception of advances of funds and the liquidation of expenses in local currency.
- Compliance tests, in order to assess the internal control structure established by FDA for salary payrolls.
- Compliance tests, in order to assess the internal control structure established by FDA for the acquisition of local goods and supplies.

Compliance with Agreement Terms and Applicable Laws and Regulations

- Verification of the approval of transfers between budget components greater than 20% over the total budgeted by components as required by the agreement.
- Verification of the existence of accounting records exclusively used for the Project.
- Verification that expenses reported are allowable, allocable and reasonable for the Project.
- Verification of the establishment by FDA of quarterly and annual programmes for evaluating the Project on the basis of the attainment of goals and objectives.
- Review of the GOP counterpart contribution to verify whether:
 - . It was made according to the agreement terms and the ATT Project Financial Plan.
 - . Disbursements were appropriately and timely estimated and recorded.

AJJIT RESULTS

Fund Accountability Statement

The fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. In our opinion, the fund accountability statement presents fairly, in all material respects, the Project receipts and expenditures of Activity A of Component N° 3: Human Resources Development of the ATT Project, managed by FDA, for the period September 25, 1987 to June 30, 1991. Regarding project execution, our audit test disclosed costs of US\$235 which have been considered questionable for the reasons explained in note 6 to the fund accountability statement. These questionable costs do not affect our opinion on the fund accountability statement.

Internal Control Structure

In planning and performing our audit of the fund accountability statement, we considered the internal control structure of FDA for the purpose of expressing an opinion on the fund accountability statement.

Our evaluation of the internal control structure was conducted by means of compliance tests and substantial tests and included the internal control systems in the following categories:

- Advances and liquidations of funds for disbursements in local currency.
- Salary payrolls.
- Acquisition of local goods and supplies.

Except for the finding described in page 17, we did not identify any situation that could be considered a material weakness in the internal control structure of FDA.

Compliance with Agreement Terms and Applicable Laws and Regulations

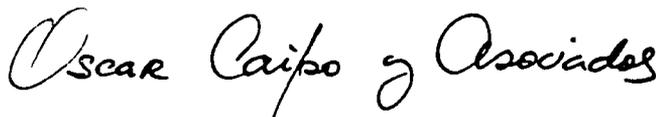
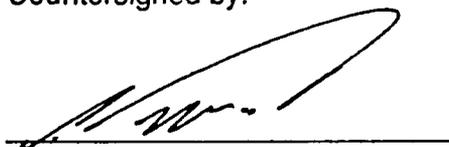
As part of obtaining reasonable assurance as to whether the fund accountability statement is free of material misstatement, and in order to have an opinion on compliance with agreement terms and applicable laws and regulations, we performed tests to make sure FDA complied with agreement terms and applicable laws and regulations which may affect the project goals and incurred costs.

Except for the findings 1 to 4 described on pages 20 to 23, the results of our tests of compliance indicate that, with respect to items tested, FDA complied, in all material respects, with the terms of the agreement and applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that FDA had not complied, in all material respects, with the terms of the agreement and applicable laws and regulations.

MANAGEMENT COMMENTS

This report has been discussed with the officials of FDA, one of the implementing entities of the ATT Project. In general FDA agrees with the information presented, however, FDA did indicate that it wished to further negotiate previous ineligible cost disallowances with USAID/Peru. Their comments are summarized in Exhibit 1.

Countersigned by:



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



Oscar Caipo y Asociados

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**AGRICULTURAL TECHNOLOGY TRANSFORMATION PROJECT
ACTIVITY A OF COMPONENT N° 3 : HUMAN RESOURCES DEVELOPMENT
MANAGED BY THE NATIONAL FOUNDATION FOR AGRARIAN DEVELOPMENT
USAID/PERU PROJECT N° 527-0282**

**Fund Accountabllity Statement
as of June 30, 1991**

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying fund accountability statement of the Agricultural Technology Transformation Project (ATT) for Activity A: Molina National Agrarian University administration and teaching program strengthening of Component N° 3: Human Resources Development, managed by The National Foundation for Agrarian Development, USAID/Peru Project N° 527-0282 for the period September 25, 1987 to June 30, 1991. The fund accountability statement is the responsibility of the management of the National Foundation for Agrarian Development. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

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

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

As described in Note 3 (a) 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.



Firma Miembro de
Klynveld Peat Marwick Goerdeler

**AGRICULTURAL TECHNOLOGY TRANSFORMATION PROJECT
ACTIVITY A OF COMPONENT N° 3 : HUMAN RESOURCES DEVELOPMENT
MANAGED BY THE NATIONAL FOUNDATION FOR AGRARIAN DEVELOPMENT
USAID/PERU PROJECT N° 527-0282**

**Fund Accountability Statement
as of June 30, 1991**

INDEPENDENT AUDITORS' REPORT (Continuation)

In our opinion, the accompanying fund accountability statement presents fairly, in all material respects, the situation of the Agricultural Technology Transformation Project for Activity A of Component N° 3 managed by the National Foundation for Agrarian Development, USAID Peru Project N° 527-0282 for the period September 25, 1987 to June 30, 1991, in conformity with the accounting practices described in Note 3 to the fund accountability statement. Regarding project execution, our audit test disclosed US\$235 which have been considered questionable for the reasons explained in note 6 to the fund accountability statement. These questionable costs do not affect our opinion on the fund accountability statement.

This report is intended solely for the use of the National Foundation for Agrarian Development 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.

October 2, 1992

Countersigned by:

Oscar Caipo y Cisavados



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

**AGRICULTURAL TECHNOLOGY TRANSFORMATION PROJECT
ACTIVITY A OF COMPONENT Nº 3 : HUMAN RESOURCES DEVELOPMENT
MANAGED BY THE NATIONAL FOUNDATION FOR AGRARIAN DEVELOPMENT
USAID/PERU PROJECT NO 527-0282**

**Fund Accountability Statement
for the period September 25, 1987 to June 30, 1991**

(Stated In U.S. Dollars)

<u>INCOME</u>	<u>Budget</u>	<u>Actual</u>	<u>Total Available</u>	<u>Questionable Costs (Note 6)</u>
Funds provided by USAID/Peru	200,000	140,930	59,070	-
Total income	<u>200,000</u>	<u>140,930</u>	<u>59,070</u>	<u>-</u>
 <u>DISBURSEMENTS</u>				
Personnel	40,800	9,500	31,300	-
Operating expenses	85,600	38,524	47,026	235
Training	73,600	46,980	26,620	-
Total disbursements	<u>200,000</u>	<u>95,004</u>	<u>104,996</u>	<u>235</u>
Balance	-	45,926	(45,926)	235
	=====	=====	=====	=====

See accompanying notes to the fund accountability statement.

**AGRICULTURAL TECHNOLOGY TRANSFORMATION PROJECT
ACTIVITY A OF COMPONENT N° 3: HUMAN RESOURCES DEVELOPMENT
MANAGED BY THE NATIONAL FOUNDATION FOR AGRARIAN DEVELOPMENT
USAID/PERU PROJECT NO 527-0282**

**Notes to the Fund Accountability Statement
as of June 30, 1991**

(1) Nature of Activities

The National Foundation for Agrarian Development (FDA) is a non-profit institution created by The Molina National Agrarian University (UNALM) for the management of resources from sources other than the public sector. FDA executes, enhances and promotes by means of direct action or through support for UNALM actions, studies, research projects, training programs and other activities orientated to support agricultural development in Peru.

On September 25, 1987 the Government of the United States, through its Agency for International Development, Mission to Peru (USAID/Peru) made an agreement with the Government of Peru (GOP) represented by its Ministry of Agriculture, to develop the Agricultural Technology Transformation Project (ATT) in order to assist the Peruvian institutions belonging to the Agricultural Technology Generation and Transfer System (ATGT) in strengthening their capacity to coordinate activities and effectively participate in the development of improved agricultural technology and its dissemination to Peruvian farmers.

Basically, the ATT Project comprises a series of institutional development activities designed to create a national system for the creation and transfer of agricultural technology by means of the strengthening of its component parts and the inter-relationships between the participating institutions, as well as between these institutions and the farmers using the technology. In the agreement and the Implementing Letters of the ATT Project, USAID and the Government of Peru had agreed to have four institutions sharing the main responsibility of managing the Project funds, as well as the coordination and implementation of the said project. These four institutions are: 1) The National Institute of Agricultural and Agro-Industrial Investigation of the Ministry of Agriculture (Instituto Nacional de Investigación Agropecuaria y Agroindustrial "INIAA" 2) The National Agrarian Organization (Organización Nacional Agraria "ONA"), 3) The National Foundation for the Agrarian Development (Fundación para el Desarrollo Agrario) together with the Molina National Agrarian University (FDA/UNALMA), and 4) The Foundation for Agricultural Development (Fundación para el Desarrollo del Agro "FUNDEAGRO").

Activity A: UNALM Administration and Teaching Program strengthening, of Component N° 3: Human Resources Development, is solely managed by FDA.

The purpose of this activity is to improve the efficiency and effectiveness of agricultural education, mainly at the post-graduate level, supporting the improvement of the managerial and administrative capacity of UNALM, the review of its syllabus, and the strengthening of the specialisation levels and field experience of the faculty of UNALM.

FDA will implement this activity during the time the ATT Project is in force, until August 31, 1993.

(2) Financing Sources for the Project

To assist the GOP in covering the development costs of the ATT project amounting to US\$ 52,000,000, USAID/Peru undertakes to provide a grant of US\$ 25,000,000. Likewise, the GOP undertakes to provide as a local counterpart, funds amounting to US\$ 27,000,000 or the equivalent in local currency.

The funds granted are to be used to finance costs to be incurred in U.S. dollars (direct costs) and costs to be incurred in local currency. Funds for direct costs are provided directly by USAID/Peru and are used mainly to cover costs corresponding to technical assistance, offshore procurement, offshore training, and others.

FDA is solely in charge of Activity A of Component N° 3 of the ATT Project, and USAID/Peru undertook to provide US\$ 200,000 for this activity until the project assistance completion date.

Funds for Activity A of Component N° 3 are local currency funds and are represented chiefly by Personnel, Operating and Training expenses.

(3) Significant Accounting Practices

(a) The fund accountability statement is prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

(b) Local currency costs were translated into U.S. dollars based on the date in which the advances were made.

(4) U.S. Dollar Costs and Local Currency Costs

Funds granted and budgeted for the ATT Project and amounting to US\$ 25,000,000 comprise US\$ 10,490,000 provided in U.S. dollars and US\$ 14,510,000 provided in local currency, as detailed below:

<u>Concept</u>	<u>Stated in thousands of U.S. dollars</u>		
	<u>US.\$ Costs</u>	<u>Local currency Costs</u>	<u>Total</u>
INIAA	-	3,200	3,200
ONA	-	1,171	1,171
FDA	-	200	200
FUNDEAGRO	-	9,910	9,910
TECHNICAL ASSISTANCE	5,861	-	5,861
OFFSHORE TRAINING	2,000	-	2,000
OFFSHORE PROCUREMENT	2,136	-	2,136
OTHER	455	29	484
CONTINGENCY	38	-	38
	<u>10,490</u>	<u>14,510</u>	<u>25,000</u>
	=====	=====	=====

As indicated in Note 2, the funds for activity B of Component N° 3, managed by FDA, represent local currency costs amounting to US\$ 200,000.

(5) Fixed Assets

The financial budget of the ATT Project estimates disbursements to cover acquisitions of fixed assets in the investment categories within the budgets of some of the implementing agencies. Additionally, the offshore procurement budget considers acquisitions abroad for US\$ 2,136,000 which were directly contracted by USAID/Peru with the North Carolina State University.

FDA did not include or execute within the budget of Activity A of Component N° 3 any disbursement for the acquisition of fixed assets. Additionally, the offshore procurement for FDA amounted to US\$ 330,000 which were not executed for any amount.

(6) Questionable Costs

According to USAID procedures, costs charged to projects must meet the following criteria in order to be allowable:

- (a) Be reasonable for the performance of the project. A cost is reasonable if, by its nature or amount, does not exceed what would be incurred by a prudent person under the same circumstances.
- (b) Be allocable to the project. A cost is allocable in accordance with the relative benefit received.
- (c) Be adequately documented.

There are two categories of questionable costs: (a) questioned costs, which are those costs unallocable or unallowable in accordance with agreement terms and applicable laws and regulations, and (b) unsupported costs, which are those costs not properly supported by adequate documentation or lacking the respective supporting documentation, are in excess of the budgeted items for activity A of Component N° 3: Human Resources Development, or are considered unreasonable under the circumstances.

Questionable costs amounting to US\$235 and determined to be questioned costs correspond to operating expenses related to sales taxes paid for local purchases. These are detailed below:

<u>Document</u>				<u>Equivalent</u>
<u>Date</u>	<u>Type</u>	<u>Nº</u>	<u>Concept</u>	<u>Amount in</u>
				<u>US\$</u>
Operating expenses				
04.90	Invoice	021397	General Sales Tax	26
10.31.90	Invoice	105217	General Sales Tax	40
10.31.90	Invoice	0647	General Sales Tax	24
11.30.90	Invoice	114485	General Sales Tax	24
12.04.90	Invoice	195633	General Sales Tax	33
Various	Invoices	Various	General Sales Tax	<u>88</u>
Total questioned costs				235
				===



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**AGRICULTURAL TECHNOLOGY TRANSFORMATION PROJECT
ACTIVITY A OF COMPONENT N° 3 : HUMAN RESOURCES DEVELOPMENT
MANAGED BY THE NATIONAL FOUNDATION FOR AGRARIAN DEVELOPMENT
USAID/PERU PROJECT N° 527-0282**

**Internal Control Structure
as of June 30, 1991**

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the Agricultural Technology Transformation Project (ATT) for activity A: Molina National Agrarian University administration and teaching program strengthening of Component N° 3: Human Resources Development, managed by The National Foundation for Agrarian Development, USAID/Peru Project N° 527-0282 for the period September 25, 1987 to June 30, 1991, and have issued our report thereon dated October 2, 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 Government Auditing Standards of the U.S. Comptroller General. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement of Activity A of Component N° 3 of the ATT Project, managed by the National Foundation for Agrarian Development, USAID/Peru Project N° 527-0282, for the period September 25, 1987 to June 30, 1991, we considered the internal control structure of the National Foundation for Agrarian Development 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 the National Foundation for Agrarian Development is responsible for establishing and maintaining an internal control structure to manage the operations of Activity A of Component N° 3 of the ATT Project. 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 objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management authorization and recorded properly to permit the preparation of the fund accountability statement in conformity with the accounting practices described in note 3 to the fund accountability



Firma Miembro de
Klynveld Peat Marwick Goerdeler

**AGRICULTURAL TECHNOLOGY TRANSFORMATION PROJECT
ACTIVITY A OF COMPONENT N° 3 : HUMAN RESOURCES DEVELOPMENT
MANAGED BY THE NATIONAL FOUNDATION FOR AGRARIAN DEVELOPMENT
USAID/PERU PROJECT N° 527-0282**

**Internal Control Structure
as of June 30, 1991**

INDEPENDENT AUDITORS' REPORT (Continuation)

statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

For the purposes of this report, we have classified significant internal control structure policies and procedures into the following categories: (1) Advance and liquidations of funds; (2) Salary payrolls; (3) Acquisition of local goods and supplies.

For all 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 have noticed 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 and the Government Auditing Standards of the U.S. Comptroller General. Reportable conditions include matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our own judgement, could adversely affect the capacity of the institution to record Management assertions in the fund accountability statement. The reportable condition is described in finding 1 on the page following this report.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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**Internal Control Structure
as of June 30, 1991**

INDEPENDENT AUDITORS' REPORT (CONTINUATION)

Our consideration of the internal control structure would not necessarily disclose all problems in the internal control structure that might be considered to be material weaknesses as defined above. However, we believe that the reportable condition on finding 1 is a material weakness.

This report is intended solely for the information and use of the National Foundation for Agrarian Development and of 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.

October 2, 1992

Countersigned by:

Oscar Caipo y Asociados



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

**AGRICULTURAL TECHNOLOGY TRANSFORMATION PROJECT
ACTIVITY A OF COMPONENT N° 3 : HUMAN RESOURCES DEVELOPMENT
MANAGED BY THE NATIONAL FOUNDATION FOR AGRARIAN DEVELOPMENT
USAID/PERU PROJECT N° 527-0282**

**Internal Control Structure
as of June 30, 1991**

Finding

- 1. THERE IS NO EVIDENCE THAT PERIODIC RECONCILIATIONS WERE MADE WITH USAID/PERU**

Condition

There is no evidence indicating that FDA made periodic reconciliations with USAID/Peru for advances or expenses.

Criteria

As a sound internal control measure, funds received, spent and available must be periodically reconciled with USAID/Peru, this procedure having to be adequately documented.

Cause

FDA did not consider it necessary to make periodic reconciliations.

Effect

This situation prevented a timely control of the advances and expenses of the Project.

Recommendation

We recommend that FDA make periodic reconciliations with USAID/Perú for advances or expenses corresponding to the Project.



B
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**AGRICULTURAL TECHNOLOGY TRANSFORMATION PROJECT
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USAID/PERU PROJECT N° 527-0282**

**Compliance with Agreement Terms and Applicable Laws and
Regulations
as of June 30, 1991**

INDEPENDENT AUDITORS' REPORTS

We have audited the fund accountability statement of the Agricultural Technology Transformation Project (ATT) for Activity A: Molina National Agrarian University administration and Teaching Program Strengthening, of Component N° 3: Human Resources Development, managed by the National Foundation for Agrarian Development, USAID/Peru Project N° 527-0282, for the period September 25, 1987 to June 30, 1991 and have issued our report thereon dated October 2, 1991.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards of the U.S. Comptroller General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

The National Foundation for Agrarian Development is responsible for compliance with the terms of the agreement and applicable laws and regulations. As part of obtaining reasonable assurance as to whether the fund accountability statement is free of material misstatement, we performed tests of compliance with certain agreement terms and applicable laws and regulations which may affect the project goals and incurred costs. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of non-compliance are failures to follow requirements contained in terms of the agreement and laws and regulations applicable to the project, or violations of said terms, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our test of compliance disclosed the material instances of non-compliance discussed in findings 1, 2, 3 and 4 described on the pages following this report.

We considered these material instances of non-compliance indicated in the preceding paragraph in forming our opinion on whether the fund accountability statement of Activity A of Component N° 3 of ATT Project managed by the National Foundation for Agrarian Development, USAID/Peru Project N° 527-0282 for the period September 25, 1987 to June 30, 1991 is presented fairly, in conformity with the basis of accounting described in Note 3 to the fund accountability statement.



Firma Miembro de
Klynveld Peat Marwick Goerdeler

**AGRICULTURAL TECHNOLOGY TRANSFORMATION PROJECT
ACTIVITY A OF COMPONENT N° 3 : HUMAN RESOURCES DEVELOPMENT
MANAGED BY THE NATIONAL FOUNDATION FOR AGRARIAN DEVELOPMENT
USAID/PERU PROJECT N° 527-0282**

**Compliance with Agreement Terms and Applicable Laws and
Regulations
as of June 30, 1991**

INDEPENDENT AUDITORS' REPORTS (Continuation)

Except as described above, the results of our test of compliance indicate that, with respect to items tested, the National Foundation for Agrarian Development complied, in all material respects, with the provisions referred to in the third paragraph of this report and, with respect to items not tested, nothing came to our attention that caused us to believe that the National Foundation for Agrarian Development had not complied, in all material respects, with those provisions.

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

October 2, 1992

Countersigned by:



Oscar Caipo y Asociados

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

**AGRICULTURAL TECHNOLOGY TRANSFORMATION PROJECT
ACTIVITY A OF COMPONENT N° 3 : HUMAN RESOURCES DEVELOPMENT
MANAGED BY THE NATIONAL FOUNDATION FOR AGRARIAN DEVELOPMENT
USAID/PERU PROJECT N° 527-0282**

**Compliance with Agreement Terms and Applicable Laws and Regulations
as of June 30, 1991**

Findings

1. QUESTIONED COSTS

Condition

As a result of our selective review of expenses we identified questioned costs for US\$ 235 concerning general sales tax.

Criteria

In accordance with attachment 2, section B.4 of the agreement, amounts received from the grant will be exempt from any duties or taxes levied under Peruvian laws.

Cause

Amounts corresponding to the general sales tax were not subtracted when expenses for the acquisition of goods and services were reported to USAID/Peru.

Effect

As a result of the above-mentioned, ineligible costs for US\$ 235 were identified.

Recommendation

We recommend that FDA should not include taxes in liquidation of funds, as they are not accepted under the applicable terms of the agreement, otherwise according to OMB Circular A-122 questioned costs must be reimbursed to USAID/Peru.

2. DIFFERENCE BETWEEN BANK BALANCES AND THE NET BALANCE OF INCOME AND DISBURSEMENTS

Condition

A discrepancy of 11,652 nuevos soles (US\$ 22,610.76) has been determined from the reconciliation between the Project bank account balance and the net balance of income and disbursements as of June 30, 1991.

This amount resulted because USAID/Peru did not accept any disbursements ineligible noted in nine liquidations. We estimate that this amount is equivalent to US\$22,610, following the USAID procedures for liquidation of expenses respecting translation from local currency to US\$ dollars. These ineligible costs are not included in the fund accountability statement and have not been reimbursed by FDA to the Project bank account.

Criteria

The amount received from USAID/Perú less the costs incurred, should reconcile with the balance in bank accounts at the end of the period.

Cause

USAID/Peru made a series of observations respecting the fund accountability statement submitted by FDA up to June 30, 1991; these observations becoming ineligible costs. These ineligible costs were incurred in local currency with funds from the advances received from the grant of USAID/Peru.

Effect

The ATT Project bank account balance does not show the actual advances made for USAID/Perú pending of liquidation because there are US\$22,610 in defect pending of reimbursement by FDA.

Recommendation

We recommend that FDA reimburse to the ATT Project bank account the funds corresponding to ineligible expenses (approximately US\$ 22,610) that were not approved by USAID/Peru.

3. NON-COMPLIANCE WITH DELIVERY OF FIXED ASSETS ACCORDING TO THE TERMS OF THE AGREEMENT

Condition

The Project financial budget considered US\$ 330,000 for offshore procurement destined for the implementing entity FDA under the advice of the North Carolina State University (NCSU).

Criteria

Under the terms of the agreement, FDA ought to have submitted its requirements to NCSU through USAID/Peru to make offshore procurements.

Cause

The necessary transactions for acquisitions of the fixed assets were not completed, because USAID/Peru did not get the requirements for the acquisitions.

Effect

Non-compliance with the clauses in the agreement regarding offshore procurement and the corresponding repercussions in complying with the Project objectives.

Recommendation

We recommend that FDA complete the requirements for offshore procurement of fixed assets for the ATT/FDA Project.

4. NON-COMPLIANCE WITH THE DELIVERY OF COUNTERPART FUNDS

Condition

Counterpart funds budgeted for Activity A of Component N° 3 managed by the National Foundation for Agrarian Development amounting to US\$821,340 as of June 30, 1991 (US\$ 308,600 for the year 1990 and amounting to US\$ 512,740 for the first half of 1991), were not provided to FDA by INIAA.

Criteria

According to the 1990 and 1991 operating plans, approved by USAID/Peru and the GOP, funds from the PL-480 ought to have been assigned to FDA in the indicated amounts.

Cause

Since FDA is a private organization, the GOP cannot assign counterpart resources directly ; therefore, it was agreed that those funds would be assigned through the Instituto Nacional de investigacion Agraria y Agroindustrial (INIAA). The INIAA ought to have subscribed a specific agreement with the Universidad Nacional Agraria La Molina (UNALM) representing FDA; this specific agreement has not been subscribed as of the date of this report.

Effect

Non-compliance with goals and objectives due to a total lack of counterpart funds for activities under the management of FDA.

Recommendation

We recommend that FDA complete the necessary transactions for the signing of specific agreement by INIAA and FDA/UNALM, to evaluate the scope and consequences of this non-compliance and to request the regularization of the said situation by the last period before the termination of the agreement (August, 1993).

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USAID/PERU PROJECT N° 527-0282**

List of Report Recommendations

Internal Control Structure

1. THERE IS NO EVIDENCE THAT PERIODIC RECONCILIATIONS WERE MADE WITH USAID/PERU

We recommend that FDA make periodic reconciliations with USAID/Peru for advances or expenses, corresponding to the Project.

Compliance with Agreement Terms and Applicable laws and Regulations

1. QUESTIONED COSTS

We recommend that FDA should not include taxes in liquidation of funds, as they are not accepted under the applicable terms of the agreement, otherwise according to OMB Circular A-122 questioned costs must be reimbursed to USAID/Peru.

2. DIFFERENCE BETWEEN BANK BALANCES AND THE NET BALANCE OF INCOME AND DISBURSEMENTS

We recommend that FDA reimburse to the ATT Project bank account the funds corresponding to ineligible expenses (approximately US\$ 22,610) that were not approved by USAID/Peru.

3. NON-COMPLIANCE WITH THE DELIVERY OF FIXED ASSETS ACCORDING TO THE TERMS OF THE AGREEMENT

We recommend that FDA complete the requirements for offshore procurement of fixed assets for the ATT/FDA Project.

4. NON-COMPLIANCE WITH THE DELIVERY OF COUNTERPART FUNDS

We recommend that FDA complete the necessary transactions for the signing of specific agreement by INIAA and FDA/UNALM, to evaluate the scope and consequences of this non-compliance and to request the regularization of the said situation by the last period before the termination of the agreement (August 31, 1993).

EXHIBIT I

**AGRICULTURAL TECHNOLOGY TRANSFORMATION PROJECT
ACTIVITY A OF COMPONENT N° 3 : HUMAN RESOURCES DEVELOPMENT
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Management Comments

1. Finding 1: Questionable costs

As a result of the audit, the existence of questioned expenses amounting to US\$235 and corresponding to the acquisition of goods and services (according to page 12 of the report) with General Sales Tax (IGV) was determined.

We have verified some of the documents indicated (others are not clearly specified) and this tax is not mentioned in some of them. We request this observation to be rectified.

2. Finding 2: Discrepancy between the bank balance and the available balance.

The difference of S/.11,652.00 arising from the reconciliation of the Bank account balance with the balance available as of June 30, 1991 was caused by the FDA balances including expenses suspended and/or questioned by USAID (S/.4,163.73 and S/.7,488.27). We are requesting the corresponding review of these expenses in order to accept them as eligible expenses.

This difference will be considerably reduced once every questioned document is properly supported.

These documents include disbursements accepted in certain months as valid expenses while in others they are considered ineligible despite having been used for the same purpose. Example: Payment for services to J. Huamani and G. Collazos. Additionally, some provisions for severance indemnities were considered ineligible but were later paid to the Project secretaries.

3. Internal Control: There is no evidence of periodic reconcillatlons with USAID

We have accepted the recommendation on the necessity of reconciliating balances with USAID.

However, it was not possible to perform this reconciliation during the first working months because USAID did not possess the proper information from the accounting report of advances and fund accountability statements. This information was verbally requested to Miss Rosa M. Chávez during the first coordination meetings.

Additionally, we have received the following comments from Dr. Carlos Lescano, Project Execution Manager:

- 1.- With regard to the non-compliance by NCSU with the procurement of fixed assets abroad for US\$330,000.00. We have been informed that this budget has been used up, and we know that, to date, NCSU no longer participates in the ATT Project. As a result, the purchasing of fixed assets is being made with PL - 480 funds, through the INNIA.
- 2.- With regard to the handing of Counterpart funds from PL-480, these funds were paid in October, 1992 for a total of S/. 670,000.00. No problem in handing the budgeted amounts is anticipated for 1993. Apparently, this is a case that has been solved.

APPENDIX I

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