

PD-ABH-910

Regional Inspector General for Audit
San José, Costa Rica

**Audit of USAID/Peru's
Strengthening of Caritas del Peru Project
Managed by Catholic Relief Services
July 26, 1989 to April 30, 1991**

**Audit Report No. 1-527-94-03-N
February 28, 1994**



Financial 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.

INSPECTOR
GENERAL



AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
SAN JOSE, COSTA RICA

Unit 2521
APO AA 34020
Telephone 220 4545
FAX: (506) 220-3573

February 28, 1994

MEMORANDUM

TO: D/USAID/Peru, George Wachtenheim
FROM: RIG/A/San José, *Coinage N. Gothard* Coinage N. Gothard
SUBJECT: Audit of USAID/Peru's Strengthening of Caritas del Peru Project, Managed by Catholic Relief Services, July 26, 1989 to April 30, 1991

This report presents the results of a financial audit of the Strengthening of Caritas del Peru Project, USAID/Peru Project No. 527-0329 (Project), managed by Catholic Relief Services (CRS) for the period July 26, 1989 to April 30, 1991. The audit firm of KPMG-Oscar Calpo y Asociados, the Klynveld Peat Marwick Goerdeler affiliate in Peru, prepared the report dated July 6, 1993.

The purpose of the Project was to strengthen the administrative, managerial, and technical capability of Caritas del Peru in planning, implementing, monitoring, and evaluating a development-oriented food aid program. The Project Assistance Completion Date was April 30, 1991. From the beginning of the Project through April 30, 1991, CRS disbursed the equivalent of \$359,415 in Project funds.

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

a

KPMG-Oscar Caipo y Asociados qualified their opinion on the Project's fund accountability statement due to their identification of \$37,440 in questionable costs. Although the audit firm classified all these costs as unsupported, we have categorized \$3,739 of the amount, relating to duplicate salary liquidations, as questioned costs.

The auditors did not report any material weaknesses in the internal control structure established for the Project. However, they considered the lack of adequate supporting documentation for expenses claimed to be material noncompliance with agreement terms and applicable laws and regulations.

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

Recommendation No. 1

We recommend that USAID/Peru resolve the questionable costs of \$37,440 (\$3,739 questioned and \$33,701 unsupported) identified in the KPMG-Oscar Caipo y Asociados report dated July 6, 1993, and recover from Catholic Relief Services the amounts determined to be unallowable.

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

The report was discussed with CRS representatives who indicated that they disagreed with the auditors' interpretation of the inadequacy of the documentation for the unsupported costs identified by the auditors and stated that the questioned duplicate salary liquidations were more than covered by legitimate expenses not presented to A.I.D. prior to the termination of the grant. Comments from CRS officials are included as Exhibit 1 to the KPMG-Oscar Caipo audit 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 recommendation.

**Regional Inspector General for Audit
San José, Costa Rica**

**Audit of USAID/Peru's
Strengthening of Caritas del Peru Project
Managed by Catholic Relief Services
July 26, 1989 to April 30, 1991**

**Audit Report No. 1-527-94-03-N
February 28, 1994**

C

**CLOSE-OUT FINANCIAL AUDIT OF USAID/PERU'S
STRENGTHENING OF CARITAS DEL PERU
MANAGED BY CATHOLIC RELIEF SERVICES (CRS)**

**USAID/PERU PROJECT Nº 527-0329
For the period July 26, 1989 to April 30, 1991**



**CLOSE-OUT FINANCIAL AUDIT OF USAID/PERU'S
STRENGTHENING OF CARITAS DEL PERU**

**MANAGED BY CATHOLIC RELIEF SERVICES (CRS)
USAID/PERU PROJECT Nº 527-0329**

FOR THE PERIOD JULY 26, 1989 TO APRIL 30, 1991

TABLE OF CONTENTS

	<u>Page</u>
Transmittal Letter and Summary	
. Background	1
. Audit objectives and scope	3
. Results of audit	4
. Management Comments	5
 Fund Accountability Statement	
. Independent auditors' report	6
. Fund accountability statement	8
. Notes to the fund accountability statement	9
 Internal Control Structure	
. Independent auditors' report	13
 Compliance with Agreement Terms and Applicable Laws and Regulations	
. Independent auditors' report	15
. Finding	17
 List of Report Recommendation	20
 Exhibit 1 - Management Comments	21

e



Oscar Caipo y Asociados

Av. República de Chile 388 - 7 piso
Apartado 3146 Lima 1, Perú

Teléfono 336130
Telefax 312893

July 6, 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 results of our close-out financial audit of USAID/Peru's Strengthening of Caritas del Peru, USAID/Peru Project N° 527-0329 managed by Catholic Relief Services (CRS) for the period July 26, 1989 to April 30, 1991.

BACKGROUND

On July 26, 1989 the U.S. Agency for International Development Mission to Peru (USAID/Peru) approved the Strengthening of Caritas del Peru, USAID/Peru Project N° 527-0329, which provided US\$ 497,000 in grant funds to CRS for strengthening Caritas del Peru. The Project Assistance Completion Date (PACD) was estimated to be December 31, 1990. Through subsequent amendments the PACD was extended to April 30, 1991.

CRS and Caritas del Peru, its local counterpart agency and the social action arm of the Catholic Church, have been jointly responsible for implementing the PL 480 Title II food assistance program in Peru for over 30 years. Traditionally, the focus of the program activities has been of a social welfare nature involving a little more than the simple distribution of food commodities, with only isolated attempts to enhance the development impact of the program, or to measure the progress in attaining the program's stated primary goal of improving nutritional status. At the end of 1988, CRS announced its decision to withdraw from its role as U.S. cooperating sponsor for Caritas del Peru starting on December 31, 1990. However, USAID/Peru, CRS and Caritas del Peru recognized the need to reinforce Caritas del Peru operations in a number of key areas to ensure the smooth transfer of the PL 480 Title II program management responsibility. Accordingly, the parties agreed to provide CRS with the necessary resources to strengthen the organization of Caritas del Peru.

The purpose of this grant is to strengthen the administrative, managerial and technical capability of Caritas del Peru to plan, implement, monitor and evaluate a development-oriented food-aid program.

As of April 30, 1991, USAID/Peru has committed the amount of US\$ 497,000 and disbursements amount to US\$ 359,415.



The project budget is comprised of four components. The description of those components and its activities are shown below:

<u>COMPONENTS</u>	<u>Budget</u> <u>In U.S. dollars</u>
CARITAS DEL PERU	130,200
CARITAS DIOCESANA	270,400
AUDIT AND EVALUATION	60,000
OVERHEAD	36,400

	497,000
	=====

Caritas del Peru

This budget component is orientated to the institutional strengthening of Caritas del Peru and comprises the following activities:

- . Remuneration of the technical team
- . Transportation and travelling expenses
- . Preparation of seminars
- . Acquisition of a vehicle and computers

Caritas Diocesana

This budget component is orientated to strengthening the child survival program of 33 dioceses and the execution of development projects which have the purpose of promoting agricultural production and improvement of rural ecology. This component comprises the following activities:

- . Development of the child survival program, including expenses for training, remuneration and supervision of the promoters.
- . Development of projects for programs having the objective of promoting and strengthening Caritas offices in the dioceses selected.

Audit and Evaluation

This budget component refers to the evaluation of the project's objectives and, additionally, includes funds for the carrying out of financial audits.

Overhead

It is agreed between the Grantor and the Grantee that a rate of 8.5 percent be charged to this Grant to cover overhead costs of CRS as project sponsore. The base for the overhead are the expenses already incurred and posted in proper accounts.

AUDIT OBJECTIVES AND SCOPE

We were engaged to perform a close-out financial audit of USAID/Peru's Strengthening of Caritas del Peru, USAID/Peru Project N° 527-0329 for the period July 26, 1989 to April 30, 1991. Our audit was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision) and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary to determine whether:

- . The fund accountability statement presents fairly, in all material respects, the financial activities of the project managed by CRS at April 30, 1991; the costs reported as incurred and reimbursed by USAID/Peru during the period are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations.
- . The internal control structure of CRS is adequate to manage the project's operations.
- . CRS complied with the agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs.

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

The scope of our work covered the following:

Fund Accountablilty Statement

- . Confirmation of fund balances received and liquidated by USAID/Peru at the closing date of the project.
- . Analysis of the fluctuations of actual versus budget expenses to determine and explain main fluctuations.
- . Review of the procedures utilized for the translation of local currency expenses into U.S. dollars.
- . Bank confirmations, both for CRS and Caritas del Peru, in order to verify the final balances at the closing date of the project.
- . Physical inspection of fixed assets, verifying the proper maintenance, use and accounting treatment, in accordance with the provisions of the agreement.

- . Reviews of travelling, training, supervision, salaries and development project expenses; verifying adequate recording corresponding to approvals, and supporting documentation as required in the terms of the agreement.

Internal Control Structure

- . Compliance tests to evaluate the internal control structure established by CRS for advances of funds received and for the liquidation of local currency expenses.
- . Verify that CRS has deposited the funds received in a bank account exclusively set up for the project.
- . Review of the internal control structure of CRS established for controlling technical team payrolls.

Compliance with Applicable Terms of the Agreement and Applicable laws and Regulations

- . Verification of transfers between budget items components.
- . Verification of the existence of accounting records for the exclusive use of the project.
- . Verification that the expenses reported are allowable, necessary and reasonable for the project.

RESULTS OF THE AUDIT

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, except for the effect of questionable costs amounting to US\$ 37,440, the fund accountability statement presents fairly in all material respects, the project's receipts and expenditures for the period July 26, 1989 to April 30, 1991.

Internal Control Structure

In planning and performing our audit of the fund accountability statement, we considered the internal control structure of CRS and Caritas del Peru in order to determine our audit procedures for the purpose of expressing an opinion on the fund accountability statement.

Our evaluation of the internal control structure was carried out by means of compliance tests and substantial tests and included the internal control system with respect to the following categories:

- . Receipt of funds
- . Salary and wage payrolls
- . Liquidation of funds

We did not identify any situation in CRS or Caritas del Peru that could be considered a material weakness in the internal control structure.

Compliance with the Terms of the Agreement and Applicable Laws and Regulations

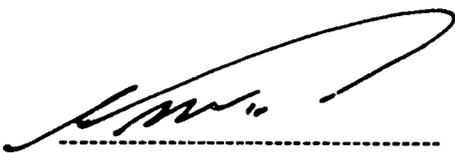
As part of obtaining reasonable assurance as to whether the fund accountability statement is free of material misstatement and in order to form an opinion on compliance with agreement terms and applicable laws and regulations, we performed tests to ensure that CRS and Caritas del Peru complied with the agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs.

Except for the finding described on pages 17 to 19, we did not identify any situation that could be considered material or important that might affect compliance with the terms of the agreement and applicable laws and regulations.

MANAGEMENT COMMENTS

This report has been discussed with the officials of CRS, the institution managing the Strengthening of Caritas del Peru, USAID/Peru Project N° 527-0329. Their comments are briefly summarized in Exhibit I.

Countersigned by:



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





Oscar Caipo y Asociados

6-

Av. República de Chile 388 - 7 piso
Apartado 3146 Lima I, Perú

Teléfono 336130
Telefax 312893

**STRENGTHENING OF CARITAS DEL PERU PROJECT
MANAGED BY CATHOLIC RELIEF SERVICES
USAID/PERU PROJECT Nº 527-0329**

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

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the Strengthening of Caritas del Peru, USAID/Peru Project Nº 527-0329, managed by Catholic Relief Services for the period July 26, 1989 to April 30, 1991. The fund accountability statement is the responsibility of the management of Catholic Relief Services. 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 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 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 the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the KPMG Peat Marwick worldwide internal quality control program which requires 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

As described in Note 7, our audit disclosed unsupported costs for US\$ 37,440 which have been considered questionable in accordance with the project agreement terms.



Firma Miembro de
Klynveld Peat Marwick Goerdeler

**STRENGTHENING OF CARITAS DEL PERU PROJECT
MANAGED BY CATHOLIC RELIEF SERVICES
USAID/PERU PROJECT N° 527-0329**

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

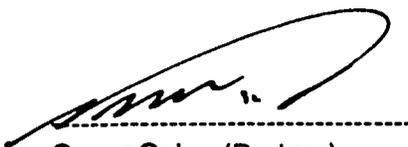
INDEPENDENT AUDITORS' REPORT (Continued)

In our opinion, except for US\$ 37,440 of questionable costs as mentioned in the preceding paragraph, the fund accountability statement presents fairly, in all material respects, the Strengthening of Caritas del Peru, USAID/Peru Project N° 527-0329, managed by Catholic Relief Services for the period July 26, 1989 to April 30, 1991, in conformity with the basis of accounting described in Note 3.

This report is intended solely for the use of Catholic Relief Services 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.

June 5, 1992

Countersigned by:



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

**Strengthening of Caritas del Peru
USAID/Peru Project N° 527-0329
Managed by Catholic Relief Services**

**Fund Accountability Statement
For the period July 26, 1989 to April 30, 1991
(Stated in U.S. dollars)**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>AVAILABLE</u>	<u>UNSUPPORTED COSTS (Note 7)</u>
<u>INCOME</u>				
Funds provided by USAID/Peru (Note 2)	497,000	359,415	137,585	-
	-----	-----	-----	-----
	497,000	359,415	137,585	-
	-----	-----	-----	-----
<u>DISBURSEMENTS</u>				
I. CARITAS DEL PERU				
. Technical team remunerations	50,500	46,597	3,903	6,965
. Travelling expenses	15,200	5,573	9,627	-
. Seminars	32,500	21,995	10,505	1,508
. Vehicle (Note 6)	20,000	21,510	(1,510)	-
. Computers (Note 6)	12,000	12,000	-	-
	-----	-----	-----	-----
	130,200	107,675	22,525	8,473
	-----	-----	-----	-----
II. CARITAS DIOCESANA				
. Child survival	144,900	128,247	16,653	3,793
. Development projects	125,500	85,511	39,989	25,174
	-----	-----	-----	-----
	270,400	213,758	56,642	28,967
	-----	-----	-----	-----
III. AUDIT AND EVALUATION	60,000	12,450	47,550	-
	-----	-----	-----	-----
IV. OVERHEAD (Note 5)	36,400	25,532	10,868	-
	-----	-----	-----	-----
TOTAL DISBURSEMENTS	497,000	359,415	137,585	37,440
	-----	-----	-----	-----
BALANCE	-	-	-	-
	=====	=====	=====	=====

See accompanying notes to the fund accountability statement.

**STRENGTHENING OF CARITAS DEL PERU PROJECT
MANAGED BY CATHOLIC RELIEF SERVICES
USAID/PERU PROJECT Nº 527-0329**

**Notes to the Fund Accountablilty Statement
as of April 30, 1991**

(1) Nature of Activltes

On July 26, 1989, the U.S. Agency for International Development Mission to Peru (USAID/Peru) approved the Strengthening of Caritas del Peru, USAID/Peru Project Nº 527-0329 which provided US\$ 497,000 in grant funds to the Catholic Relief Services (CRS) for strengthening Caritas del Peru. The purpose of this grant is to strengthen the administrative, managerial and technical capacity of Caritas del Peru to plan, implement, monitor and evaluate a development-oriented food-aid program.

The project's initial termination date was December 31, 1990; but it was extended to April 30, 1991 according to amendment Nº 2.

(2) Project Financing Sources

Grant of US\$ 497,000 provided by the U.S. Agency for International Development Mission to Peru. The grant funds in U.S. dollars were used for the acquisition of a vehicle and computers and to cover training expenses and overhead.

The costs in local currency were mainly incurred for technical team's and promoters' salaries, travelling expenses, and diocesan development projects.

(3) Signiflcant 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) Costs incurred in local currency were translated into U.S. dollars based on the date of the advance of funds pending liquidation.

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

As of April 30, 1991, actual disbursements in local currency and in U.S. dollars are as follows:

<u>Components</u>	<u>In U.S. dollars</u>		
	<u>Local currency</u>	<u>U.S. dollar</u>	<u>Total</u>
I. Caritas del Peru	72,318	35,357	107,675
II. Caritas Diocesana	213,758	-	213,758
III. Audit and Evaluation	12,450	-	12,450
IV. Overhead	-	25,532	25,532

	298,526	60,889	359,415
	=====	=====	=====

Components I. and II. were carried out by Caritas del Peru and Caritas Diocesana, respectively, while the components III. and IV. were carried out by CRS.

(5) Overhead

It is agreed between the Grantor and the Grantee that a rate of 8.5 percent be charged to this Grant to cover already incurred overhead costs of CRS as project sponsor. The base for the overhead are the expenses already incurred and posted in the appropriate accounts.

(6) Assets

Acquisitions of a vehicle and computers were executed in US dollars. These assets are actually operating in Caritas del Peru headquarters.

(7) Questionable Costs (Unsupported)

According to USAID procedures, costs charges 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 the recipient, are in excess of the budgeted line items, or are considered unreasonable under the circumstances.

The following project costs incurred by the Catholic Relief Services amounting to US\$ 37,440 for which no adequate documentation was available, are determined to be questionable (unsupported).

<u>Document</u>			<u>Concept</u>	<u>Costs</u>	
<u>Date</u>	<u>Type</u>	<u>Nº</u>		<u>In Local Currency</u>	<u>Equivalent in US\$</u>
Caritas del Peru					
Technical Team Remuneration:					
Sep/03/90	Voucher	527-90-3898	Duplication in Technical Team Remuneration as indicated in finding 1A about Compliance with Agreement Terms and Laws and Regulations	1,660	3,739

<u>Document</u>			<u>Concept</u>	<u>Costs</u>	
<u>Date</u>	<u>Type</u>	<u>Nº</u>		<u>In Local Currency</u>	<u>Equivalent in US\$</u>
Technical Team Remuneration:			Caritas del Peru		
Various	Voucher	Various	Differences in expenses report See finding 1b in our report on Compliance with Agreement Terms and Applicable Laws and Regulations.	<u>24</u>	<u>3,226</u>
				<u>1,684</u>	<u>6,965</u>
Seminars:					
Jun/25/90	Receipt	11987	Payments made to the Archbishopric of Lima for the purchase of two airline tickets. Original invoice is required.	<u>97</u>	<u>1,508</u>
				<u>97</u>	<u>1,508</u>
			Total Caritas del Peru	<u>1,781</u>	<u>8,473</u>
			Caritas Diocesana		
Child Survival:					
Jul/30/90	Liquidation	W/N	Expenses related to training in Child Survival, executed in July 1990. There is no supported documentation.	170	2,698
Various	Vouchers	Various	Other minor expenses related to Child Survival Activity without supported documentation.	<u>22</u>	<u>1,095</u>
				<u>192</u>	<u>3,793</u>
Development Projects:					
Nov/90	Liquidation	W/N	Wages and office equipment acquisition from Huacho project Office. There is no supported documentation except, an account statement between Caritas Huacho and Caritas del Peru.	640	1,432
Dec/90	Receipts	Various	Expenses supporting activities in IST Saposoa. There are many receipts without all legal requirements.	1,990	4,452

<u>Document</u>			<u>Concept</u>	<u>Costs</u>	
<u>Date</u>	<u>Type</u>	<u>Nº</u>		<u>In Local Currency</u>	<u>Equivalent in US\$</u>
Development Project:			Caritas Diocesana		
Nov/1/90	Invoice	079/90	Building materials for the Development Project for the improvement of water supply of Llamellin. The invoice does not meet the established legal requisites.	4,629	10,355
Dec/90	Voucher	0446/0551	Various purchases made for the Alto Moche Development Project. There are no invoices for the purchases.	1,405	3,144
Dec/90	Voucher	0438/0445	Various purchases made for the Chicama Development Project. There are no invoices for the purchases.	2,378	5,319
Various	Various	Various	Other minor expenses from development Project activity without supported documentation.	<u>13</u>	<u>472</u>
				<u>11,055</u>	<u>25,174</u>
			Total Caritas Diocesana	<u>11,247</u>	<u>28,967</u>
			Total Questionable Costs	<u>13,028</u>	<u>37,440</u>
				=====	=====



**STRENGTHENING OF CARITAS DEL PERU PROJECT
MANAGED BY CATHOLIC RELIEF SERVICES
USAID/PERU PROJECT N° 527-0329**

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

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the Strengthening of Caritas del Peru, USAID/Peru Project N° 527-0329 managed by Catholic Relief Services for the period July 26, 1989 to April 30, 1991 and have issued our report thereon dated June 5, 1992 in which we qualified our opinion.

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 issued by the Comptroller General of the United States. 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 the fund accountability statement for the Strengthening of Caritas del Peru, USAID/Peru Project N° 527-0329 managed by Catholic Relief Services for the period July 26, 1989 to April 30, 1991, we considered the internal control structure of Catholic Relief Services in order to determine our auditing procedures for purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

Catholic Relief Services is responsible for establishing and maintaining an internal control structure to manage the project's operations. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The 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 accordance with the bases of accounting described in note 3 to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operations of policies and procedures may deteriorate.

For the purpose of this report, we have classified significant internal control structure policies and procedures into the following categories: (1) receipt of funds; (2) salary and wage payrolls; (3) liquidation of funds.



**STRENGTHENING OF CARITAS DEL PERU PROJECT
MANAGED BY CATHOLIC RELIEF SERVICES
USAID/PERU PROJECT N° 527-0329**

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

INDEPENDENT AUDITORS' REPORT (Continued)

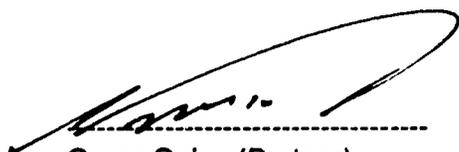
For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weakness under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of a specific internal control structure elements do not reduce the risk that errors or irregularities in amounts that might be important 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 assign functions. We noted no matters involving the internal control structure and its operations that we considered to be material weakness as defined above.

This report is intended solely for the use of the Catholic Relief Services 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.

June 5, 1992

Countersigned by:



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





Oscar Caipo y Asociados

Av. República de Chile 388 - 7 piso
Apartado 3146 Lima 1, Perú

Teléfono 336130
Telefax 312893

STRENGTHENING OF CARITAS DEL PERU PROJECT MANAGED BY CATHOLIC RELIEF SERVICES USAID/PERU PROJECT Nº 527-0329

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

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the Strengthening of Caritas del Peru, USAID/Peru Project Nº 527-0329, managed by Catholic Relief Services for the period July 26, 1989 to April 30, 1991 and have issued our report dated June 5, 1992 in which we qualified our opinion.

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 issued by the Comptroller General of the United States. 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.

Catholic Relief Services 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 our tests of the Catholic Relief Services 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. Accordingly we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the material instance of noncompliance discussed in the following pages as finding 1.

We considered this material instance of non-compliance in forming our opinion on whether the fund accountability statement of the Strengthening of Caritas del Peru Project, managed by the Catholic Relief Services for the period July 26, 1989 to April 30, 1991 is presented fairly, in all material respects, in conformity with the basis of accounting described in Note 3 to the fund accountability statement, and this report does not affect our report dated June 5, 1992 or the fund accountability statement.

Except as described above, the result of our test of compliance indicate that, with respect to items tested, Catholic Relief Services 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 Catholic Relief Services had not complied, in all material respects, with those provisions.



Firma Miembro de
Klynveld Peat Marwick Goederle

**STRENGTHENING OF CARITAS DEL PERU PROJECT
MANAGED BY CATHOLIC RELIEF SERVICES
USAID/PERU PROJECT N° 527-0329**

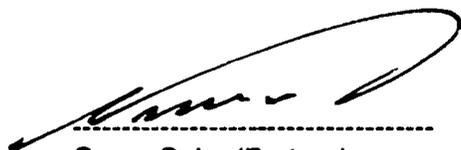
**Compliance with Agreement Terms and Applicable Laws and Regulations
as of April 30, 1991**

INDEPENDENT AUDITORS' REPORT (Continued)

This report is intended solely for the information and use of the Catholic Relief Services 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.

June 5, 1992

Countersigned by:



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

**STRENGTHENING OF CARITAS DEL PERU PROJECT
MANAGED BY CATHOLIC RELIEF SERVICES
USAID/PERU PROJECT N° 527-0329**

**Report on the Compliance with Agreement terms and Applicable Laws and Regulations
as of April 30, 1991**

Finding

1. LACK OF ADEQUATE SUPPORTING DOCUMENTATION

Condition

CRS did not control adequately the documentation of certain components for the USAID/Peru's Strengthening of Caritas del Peru, as follows:

- (a) Duplication in technical team remunerations' liquidations.

Reference:

<u>Voucher N°</u>	<u>Date</u>	<u>Amount</u>		<u>Period</u>
		<u>In nuevos soles</u>	<u>In US\$</u>	
527-90-3898	Sep/03/90	1,660	3,739	July 1990

- (b) Differences in expenses report according to Caritas del Peru records and liquidations submitted by CRS in the Technical team Remuneration component.

Reference:

<u>Liquidation voucher to USAID</u>	<u>Date</u>	<u>Amount in nuevos soles according to</u>		<u>Difference</u>	
		<u>CRS</u>	<u>Caritas</u>	<u>In nuevos soles</u>	<u>In US\$</u>
527-90-0710	Nov/10/89	10	-	10	2,163
527-90-1751	Feb/16/90	43	26	17	1,283
527-90-1752	Feb/16/90	25	28	(3)	(220)
		-----	-----	-----	-----
		78	54	24	3,226
		=====	=====	=====	=====

c) Existences of other unsupported costs.

Reference:

<u>COMPONENTS/Activity</u>	<u>Costs</u>	
	<u>In Local Currency</u>	<u>Equivalent in US\$</u>
CARITAS DEL PERU		
. Seminars	97	1,508
 CARITAS DIOCESANA		
. Child survival	192	3,793
. Development projects	<u>11,055</u>	<u>25,174</u>
	<u>11,344</u>	<u>30,475</u>
	=====	=====

Criteria

- a) Expenses must be reported only once.
- b) CRS should consider the information provided by Caritas del Peru. This information should correspond to what was reported by CRS in the fund accountability statement.
- c) According to OMB Circular A-122, Appendix A, expenses made for the execution of the project must be adequately documented.

Cause

- a) Involuntary mistakes in identifying documents already included in other liquidations.
- b) Documentation supporting expenses was lost.
- c) It was difficult to obtain documentation because some dioceses are located in far away areas.

Effect

- a) Overstatement in the liquidation of expenses reported by CRS amounting to US\$ 3,739.
- b) Difference between the reports prepared by Caritas del Peru and CRS amounting to US\$ 3,226.
- c) Non compliance with OMB Circular A-122, Appendix A, and the existence of inadequately documented expenses amounting to US\$ 30,475.

Recommendation

We recommend that CRS in any future projects: (1) correct the liquidation in which the expenses were duplicated, (2) Jointly with Caritas del Peru analyze the information corresponding to the technical team remunerations to determine the cause of the differences identified, and (3) establish procedures to allow adequate supervision of the documentation that supports the expenditures.

**STRENGTHENING OF CARITAS DEL PERU PROJECT
MANAGED BY CATHOLIC RELIEF SERVICES
USAID/PERU PROJECT N° 527-0329**

**List of Report Recommendations
as of April 30, 1991**

Compliance with Agreement Terms and Applicable Laws and Regulations

1. LACK OF ADEQUATE SUPPORTING DOCUMENTATION

We recommend that CRS in any future projects: (1) correct the liquidation in which the expenses were duplicated, (2) Jointly with Caritas del Peru analyze the information corresponding to the technical team remunerations to determine the cause of the differences identified, and (3) establish procedures to allow adequate supervision of the documentation that supports the expenditures.

EXHIBIT I

**STRENGTHENING OF CARITAS DEL PERU PROJECT
MANAGED BY CATHOLIC RELIEF SERVICES
USAID/PERU PROJECT Nº 527-0329**

**Management Comments
as of April 30, 1991**

ACCORDING TO CRS' LETTER DATED OCTOBER 29, 1992

Compliance with Agreement Terms and Applicable Laws and Regulations

1. LACK OF ADEQUATE SUPPORTING DOCUMENTATION

- a) With regard to double liquidation of the activity Technical Team Remunerations corresponding to July, 1990, amounting to 1,660 nuevos soles (US\$ 3,739), CRS admit that it was caused by mistake in their accounting records.
- b) With regard to the discrepancies between the amounts in CRS liquidations and Caritas' records for 24 nuevos soles (US\$ 3,226), what was liquidated by CRS correspond to salaries for the months September to December, 1989 according to Caritas management information, supported by documentation in the Caritas files located inside a container. Investing some time (man-hours) in its search, it could be found.
- c) With respect to the lack of adequate supporting documentation, we are willing to prepare a detailed, supporting analysis to assist in obtaining a greater reasonable certainty on the expenses incurred and, therefore, on the Fund Accountability Statement.

CRS would like to stress that, due to the nature of the expenses and the places where they are made, as well as to the counterpart institutions in charge of disbursements (diocesis), CRS has considered as valid the supporting documents reasonably submitted by said institutions, provided the disbursements were used to achieved the goals proposed and were within the budget. We have been able to verify that, in all cases, the activities funded and the goals achieved amply support the expenses the documentation of which lacks some formal requisite.

**STRENGTHENING OF CARITAS DEL PERU PROJECT
MANAGED BY CATHOLIC RELIEF SERVICES
USAID/PERU PROJECT N° 527-0329**

**Management Comments
as of April 30, 1991**

ACCORDING TO CRS' LETTER DATED APRIL 29, 1993

Compliance with Agreement Terms and Applicable Laws and Regulations

Reiterating CRS's previous comments on the Draft Audit Report contained in our letters dated 16 December 1992 and 14 January 1993, and in our numerous meetings with your auditors, I must insist on our clarification that except for one item (first point below, an accounting error), the entire sum of the costs described as "questionable" (unsupported) in the Draft Report is adequately supported by documentation confirming that these costs were legitimately included within the approved OPG budget lines. Please find below a summary table which summarizes the documentation presented for the expense listed in the Draft Audit Report as "questionable".

**STRENGTHENING OF CARITAS DEL PERU PROJECT
MANAGED BY CATHOLIC RELIEF SERVICES
USAID/PERU PROJECT No.527-0329**

ACCORDING TO CRS' LETTER DATED APRIL 29, 1993 (Continuation)

<u>Date</u>	<u>Document Number</u>	<u>Concept</u>	<u>Local currency</u>	<u>Equivalent in US\$</u>	<u>Existing document</u>	<u>Approved budget</u>
Remuneration Technical Team:						
09/90	Voucher 527-90-3898	Double register salary payments to TT members	1,660	3,739	Accounting error, CRS	N/A
Various	Various	Differences in expenses reported by Caritas and CRS registers	24	3,226	Caritas financial management summary report on CRS/OPG Funds for period	Yes
Seminars						
06/90	Receipt 11987	Payment to Archbishop's travel office in Lima for 2 return tickets to Santo Domingo Food Logistics Seminary	97	1,508	Receipt, voucher LC conversion, LC liquidation of travel advance	Yes
Child Survival						
07/90	Liquidation Receipt	Training expenses promoters refresher course in July, 1990	170	2,698	Caritas receipt approved by General Secretary	Yes
Various	Various	Other minor expenses	22	1,095	Legal Declaration of Expenditures /Receipts approved by General Secretary	Yes
Development Projects						
11/90	Liquidation Bill of Sale	Salaries and furnitures equipment Caritas Huacho Projects Office	640	1,432	BOS Hiraoka #0675113, Parahogar 3193 & various receipts	Yes
12/90	Receipts	Expenses supporting production activities IST Saposa	1,990	4,452	Receipts signed by Caritas General Secretary	Yes
11/90	Bill of Sale 079/90	Construction material for potable water Lamellin	4,629	10,355	BOS #079/90 paid by Huarí Prelature/ Bishop	Yes
12/90	Voucher 0446 to 0551	Diverse purchases for Alto Moche Project	1,405	3,144	Receipts signed by Caritas General Secretary List BOS #S for BOS lost in mail	Yes
12/90	Voucher 0438 to 0445	Diverse purchases for Chicama Project	2,378	5,319	Receipts signed by Caritas General Secretary List BOS #S for BOS lost in mail	Yes
Various	Various	Remunerations, viaticos, small truck rental	13	472	Receipts signed by Caritas General Secretary	Yes
	Total		13,028	37,440		

**STRENGTHENING OF CARITAS DEL PERU PROJECT
MANAGED BY CATHOLIC RELIEF SERVICES
USAID/PERU PROJECT N° 527-0329**

**Management Comments
as of April 29, 1993**

ACCORDING TO CRS' LETTER DATED APRIL 29, 1993, (Continuation)

Based on the above information, CRS sustains that the items under note No. 8 "Questionable costs" (Unsupported) on pages 10, 11 and 12 of the English Draft Audit Report are adequately supported and documented. Specifically, this is not an issue of missing documentation, but rather an interpretation by your auditors, apparently based on local Peruvian tax regulations, regarding the validity of the supporting documentation presented by CRS and Caritas. CRS is in agreement with the Draft Audit Report on the documentation issue only in the case of the double register and liquidation of Technical Team remunerations. In reference to this last point, CRS is able to present for liquidation legitimate costs superior to this twice-registered amount incurred in the implementation of the CRS/Caritas OPG, but which were not presented to AID prior to the termination of Grant activities due to delays in the presentation of supporting documentation by some of the Diocesan Caritas offices to the National Caritas office.

Finally, Catholic Relief Services would like to underscore that the implementation of project activity in 19 dioceses throughout Peru present a myriad of formidable logistical and communication difficulties, difficulties in institutional and human resource capacity, and difficulties stemming from the generalized lack of clear standards for legal expense documentation in Peru during the 1989-90 period. In this situation, Catholic Relief Services judged supporting documentation adequate if it constituted reasonable proof or guarantee that the expense was made as reported, and that it qualified as a legitimate Grant expense under approved budget lines. Catholic Relief Services and the KPMG auditors have confirmed that the activities which were financed via the expenses judged in the Draft Report as "unsupported" did indeed take place, and that the objectives achieved through these activities fully justify the expenditures made. It is also important to put the supporting documentation issue into the perspective of the internal control systems of both CRS and Caritas of Peru, which the Draft report considered to be void of any material weaknesses (page 5).

It is our understanding that the full and complete comments contained in this letter will be included as an integral part of the final draft report of the "Close-out Financial Audit of USAID/Peru's Strengthening of Caritas of Peru Managed by Catholic Relief Services".

Auditors comments

We have included in this report the letter sent by CRS as it was agreed with USAID/Peru and CRS program Director in the Exit Conference. It does not mean that we concur with this letter. As auditors we have to be satisfied that all the expenses and disbursements have an adequate documentation.

25

APPENDIX I

REPORT DISTRIBUTION

U.S. Ambassador to Peru	1
D/ USAID/Peru	5
AA/LAC	1
LAC/SAM	1
LPA/XA/PR	1
LPA/LEG/CL	1
GC	1
AA/M	1
M/FA/FM	1
PPC/POL/CDIE/DI	1
M/FA/MC	1
IG	1
AIG/A	1
AIG/I&S	1
D/AIG/A	1
IG/A/SPEC RPTS	2
IG/LC	1
IG/RM/GS	5
IG/A/PSA	1
IG/A/FA	1
RIG/A/Eur/W	1
RIG/A/Bonn	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
IG/I/JFO	1