

PL 7185-085

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

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**Audit of  
USAID/Peru's Cooperative Agreement Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
Managed by Fe y Alegría  
September 28, 1990 to February 28, 1993**

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**Audit Report No. 1-527-94-12-N  
July 29, 1994**



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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.

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AGENCY FOR INTERNATIONAL DEVELOPMENT  
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July 29, 1994

**MEMORANDUM**

TO: Director USAID/Peru, George Wachtenheim

FROM: RIG/A/San José, *Coinage N. Gothard*  
Coinage N. Gothard

SUBJECT: Audit of USAID/Peru's Cooperative Agreement Nos. 527-0061-A-00-0367 and 527-0061-A-00-1256, Managed by Fe y Alegría, September 28, 1990 to February 28, 1993

This report presents the results of a financial audit of cooperative agreement Nos. 527-0061-A-00-0367 and 527-0061-A-00-1256, managed by Fe y Alegría for the period September 28, 1990 to February 28, 1993. The audit firm of KPMG-Oscar Caipo y Asociados prepared the report dated June 23, 1994.

The purpose of the agreements was to assist Fe y Alegría in continuing and expanding its community-based developmental activities, vocational training, and training in production activities for low-income communities. USAID/Peru entered into two cooperative agreements of \$100,000 each with the organization. The first agreement covered the period September 28, 1990 to March 31, 1992 while the second covered the period August 29, 1992 to February 28, 1993. The audit covered the \$200,000 spent under the agreements.

The specific objectives for both agreements were basically the same. Fe y Alegría was to implement approximately 14 small subprojects which would respond to community-based initiatives in the areas of vocational education, training for production, employment generation, or social initiatives as a mechanism for responding to the developmental initiatives of the low-income sectors of Peru.

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

KPMG-Oscar Caipo y Asociados were of the opinion that the fund accountability statement presents fairly, in all material respects, Fe y Alegría's receipts and expenditures under the cooperative agreements. No questionable costs were noted.

Regarding the internal control structure, the auditors identified one material weakness: Fe y Alegría did not maintain supporting documentation to verify the value of its cost-sharing contributions. However, as an alternative verification procedure the auditors physically inspected certain of the subprojects financed under the agreements and verified that they had been completed.

The above material weakness in the internal control structure was considered to be a material instance of noncompliance with the terms of the agreements and applicable laws and regulations as it violated the agreements' standard provisions and Office of Management and Budget Circular No. A-110. No other material instance of noncompliance was noted during the auditors' testing.

The report was discussed with representatives of Fe y Alegría who acknowledged the lack of documentation to support the reported cost-sharing contributions but gave assurances that the contributions had been much greater than required by the agreements.

Since the auditors verified the completion of a sample of subprojects from both agreements, there is evidence that cost-sharing contributions were provided to complete those subprojects. Although the value of the contributions is not properly supported with documentation, we are not making a recommendation. **However, we suggest that in any future projects of a similar nature, USAID/Peru ensure that the cost-sharing contributions are supported with documentation meeting the requirements of the standard provisions and applicable Government regulations.**

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

**Audit of  
USAID/Peru's Cooperative Agreement Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
Managed by Fe y Alegría  
September 28, 1990 to February 28, 1993**

**Audit Report No. 1-527-94-12-N  
July 29, 1994**

**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRIA**

**For the Period September 28, 1990 to February 28, 1993**

**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRIA**

**For the Period September 28, 1990 to February 28, 1993**

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# **KPMG** Oscar Caipo y Asociados

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Apartado 3146 Lima 1, Perú

Teléfono 336130  
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June 23, 1994

**Mr. Coinage N. Gothard**  
Regional Inspector General for Audit  
**United States Agency for International Development**  
San José, Costa Rica

Dear Mr. Gothard:

This report presents the results of our financial audit of cooperative agreement Nos. 527-0061-A-00-0367 and 527-0061-A-00-1256 managed by Fe y Alegría for the period September 28, 1990 to February 28, 1993.

## **BACKGROUND**

Fe y Alegría is a religious-based movement of popular, integral education which works in both the formal and non-formal educational tracks. Founded in 1955, it is dedicated to providing educational services to the poorest areas of the dozen Central and South America and Caribbean countries it serves. Fe y Alegría started its operations in Peru in 1966 and now operates 43 primary and secondary education centers servicing more than 47,000 people in Peru's rural and marginal urban areas.

In order to assist Fe y Alegría to continue and expand its community-based developmental activities, vocational training, and training in production activities for low-income communities of Lima and other cities of Peru, USAID/Peru entered into two cooperative agreements of US\$ 100,000 each with the organization:

(1) agreement No. 527-0061-A-00-0367 - Fe y Alegría - Vocational Training Project in the Pueblos Jovenes of Peru, covering the period September 28, 1990 to March 31, 1992, and

(2) agreement No. 527-0061-A-00-1256 - Fe y Alegría - Special Development Activities in Low-Income Areas of Peru, covering the period August 29, 1992 to February 28, 1993.

In addition to the USAID/Peru contribution, the agreements additionally estimated that cost sharing contributions with equivalent values of US\$ 54,000 and US\$ 56,000 respectively would be received from the beneficiaries of small projects to be implemented under each agreement.

The specific objectives of each agreement were basically the same. For each agreement, Fe y Alegría was to implement approximately 14 small projects. All these subprojects were to respond to community-based initiatives in the areas of vocational

education, training for production, employment generation, or social services initiatives as a mechanism for responding to the developmental initiatives of the low-income sectors of Peru.

Funds from each agreement could be used to provide tools, equipment, construction materials, technical assistance, and didactic and complementary supplies to implement the projects. Also, for projects involving production activities, an initial stock of materials to produce the goods could be purchased with agreement funds, with the sales proceeds of goods produced being used to finance future training activities.

## **AUDIT OBJECTIVES AND SCOPE**

We were engaged to perform a financial audit of cooperative agreement Nos. 527-0061-A-00-0367 and 527-0061-A-00-1256 managed by Fe y Alegría for the period September 28, 1990 to February 28, 1993. Our audit was performed in accordance with generally accepted auditing standards and the Government Auditing Standards of the United States 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 the agreement activities managed by Fe y Alegría for the period September 28, 1990 to February 28, 1993 and costs reported as incurred and reimbursed by USAID/Peru during the period are allowable, allocable and reasonable in accordance with the terms of the agreements, and applicable laws and regulations.
- The internal control structure of Fe y Alegría is adequate to manage its activities under the agreements.
- Fe y Alegría complied with terms of the agreements and applicable laws and regulations which may affect the agreements' goals and incurred costs.

Additionally, 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 Accountability Statement**

- Reconciliation of funds received and liquidated as of February 28, 1993 with the accounting reports of USAID/Peru.
- Verification that expense reports are duly supported by original documents properly recorded according to components and captions of the agreements and

that expenses incurred correspond to the period being liquidated and are related to the agreement objectives .

- Review of the translation procedures for local currency expenses into US dollars .
- Bank confirmations as of February 28, 1993.
- Physical inspection of fixed assets acquired with agreement funds.

#### **Internal Control Structure**

- Compliance tests, to assess the internal control structure established by Fe y Alegría for the receipt of fund advances and the liquidation of expenses.
- Verification that Fe y Alegría deposited the funds received into a bank account exclusively set up for the agreements.

#### **Compliance with the Terms of the Agreements and Applicable Laws and Regulations**

- Verification of the existence of accounting records exclusively used for the agreements.
- Verification that expenses reported are allowable, allocable and reasonable for the agreements.
- Review of the cost sharing contribution, to verify whether:
  - it was made in accordance with the terms of the agreements, and
  - it achieved the goals for which it was proposed.

#### **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, the fund accountability statement presents fairly, in all material respects, Fe y Alegría's receipts and expenditures under cooperative agreement Nos. 527-0061-A-00-0367 and 527-0061-A-00-1256, for the period September 28, 1990 to February 28, 1993, in accordance with the cash basis of accounting.

### Internal Control Structure

In planning and performing our audit of the fund accountability statement, we considered the internal control structure of Fe y Alegría 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 and substantive tests and included the internal control systems with respect to the following areas:

- Advances and liquidations of funds in US dollars.
- Cost sharing contributions.

The results of our study and evaluation of Fe y Alegría's internal control structure disclosed the following reportable condition which we consider to be a material weakness.

- Cost sharing contributions were not supported by accounting records.

### Compliance with Agreement Terms and Applicable Laws and Regulations

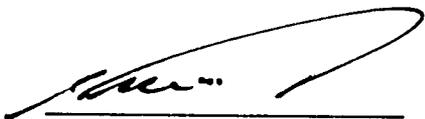
As part of obtaining reasonable assurance as to whether the fund accountability statement is free of material misstatement, we performed tests to determine whether Fe y Alegría complied with the terms of the agreements and applicable laws and regulations which may affect the agreements' goals and incurred costs.

The results of our tests of compliance indicate that, with respect to items tested, except for the noncompliance aspects of the reportable condition in the entity's internal control structure mentioned above, Fe y Alegría complied, in all material respects, with the terms of the agreements and applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that Fe y Alegría did not comply, in all material respects, with the terms of the agreements and applicable laws and regulations.

### MANAGEMENT COMMENTS

This report was discussed with the officials of Fe y Alegría on April 12, 1994. In general terms, Fe y Alegría agrees with this report. Specific comments are reproduced in Exhibit 1 of this report.

Countersigned by:



*Oscar Caipo y Asociados.*

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

**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRÍA**

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**Report on the Fund Accountability Statement  
for the period September 28, 1990 to February 28, 1993****INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying fund accountability statement for cooperative agreement Nos. 527-0061-A-00-0367 and 527-0061-A-00-1256, managed by Fe y Alegría, for the period September 28, 1990 to February 28, 1993. The fund accountability statement is the responsibility of the management of Fe y Alegría. 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 United States 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 did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in 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 2, the fund accountability statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRIA**

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**Report on the Fund Accountability Statement  
for the period September 28, 1990 to February 28, 1993**

**INDEPENDENT AUDITOR'S REPORT (Continued)**

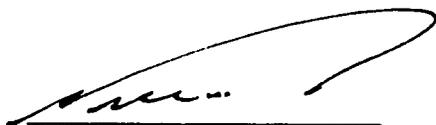
In our opinion, the accompanying fund accountability statement presents fairly, in all material respects, Fe y Alegria's receipts and expenditures under cooperative agreement Nos. 527-0061-A-00-0367 and 527-0061-A-00-1256 for the period September 28, 1990 to February 28, 1993, in conformity with the accounting basis described in Note 2 to the fund accountability statement.

This report is intended solely for the use of Fe y Alegría 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.

September 10, 1993

Countersigned by:

*Oscar Caipo y Asociados.*



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

**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRIA**

**Fund Accountability Statement  
for the period September 28, 1990 to February 28, 1993**

(Stated in US Dollars)

<u>INCOME</u>	<u>Budget</u>	<u>Actual</u>	<u>Total Available</u>	<u>Questionable Costs</u>	
				<u>Questioned</u>	<u>Unsupported</u>
Funds provided by USAID/Peru	200,000	200,000	-	-	-
<b>Total income</b>	<u>200,000</u> =====	<u>200,000</u> =====	<u>-</u> =====	<u>-</u> =====	<u>-</u> =====
 <u>DISBURSEMENTS</u>					
Cooperative Agreement Nº 527-0061-A-00-0367 (note 5)	100,000	100,000	-	-	-
Cooperative Agreement Nº 527-0061-A-00-1256 (note 6)	100,000	100,000	-	-	-
<b>Total disbursements</b>	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balance</b>	<u>-</u> =====	<u>-</u> =====	<u>-</u> =====	<u>-</u> =====	<u>-</u> =====

See accompanying notes to the fund accountability statement.

**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRÍA**

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**Notes to the Fund Accountability Statement  
for the period September 28, 1990 to February 28, 1993**

**(1) Nature of Activities**

In order to assist Fe y Alegría to continue and expand its community-based developmental activities, vocational training, and training in production activities for low-income communities of Lima and other cities of Peru, USAID/Peru entered into two cooperative agreements of US\$ 100,000 each with the organization:

(1) agreement No. 527-0061-A-00-0367 - Fe y Alegría - Vocational Training Project in the Pueblos Jovenes of Peru, covering the period September 28, 1990 to March 31, 1992, and

(2) agreement No. 527-0061-A-00-1256 - Fe y Alegría - Special Development Activities in Low-Income Areas of Peru, covering the period August 29, 1992 to February 28, 1993.

In addition to the USAID/Peru contribution, the agreements additionally estimated that cost sharing contributions with equivalent values of US\$ 54,000 and US\$ 56,000 respectively would be received from the beneficiaries of small projects to be implemented under each agreement.

The specific objectives of each agreement were basically the same. For each agreement, Fe y Alegría was to implement approximately 14 small projects. All these subprojects were to respond to community-based initiatives in the areas of vocational education, training for production, employment generation, or social services initiatives as a mechanism for responding to the developmental initiatives of the low-income sectors of Peru.

Funds from each agreement could be used to provide tools, equipment, construction materials, technical assistance, and didactic and complementary supplies to implement the projects. Also, for projects involving production activities, an initial stock of materials to produce the goods could be purchased with agreement funds, with the sales proceeds of goods produced being used to finance future training activities.

**(2) Significant Accounting Practices**

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.

**(3) Costs in US Dollars**

Disbursements under the agreements were made both in US dollars and local currency. Whenever disbursements were made in local currency, they were translated into US dollars at the exchange rate on the date of the disbursement.

**(4) Fixed Assets**

The acquisition of machinery and tools was made in US dollars. These assets are now in operation in each of the small projects executed under the agreements.

**(5) Cooperative Agreement N° 527-0061-A-00-0367**

<u>Project N°</u>	<u>Beneficiary</u>	<u>US\$ Amount</u>
90-01	Colegio Fe y Alegría N° 17 y 23	7,234
90-02	Colegio La Inmaculada	9,500
90-03	Colegio Fe y Alegría N° 26	7,234
90-04	Colegio Fe y Alegría N° 18 y 19	8,981
90-05	Colegio Fe y Alegría N° 32,33 y 37	8,369
90-06	Colegio Fe y Alegría N° 21	9,742
90-07	Colegio Fe y Alegría N° 16	5,742
90-08	Colegio Fe y Alegría N° 2, 3, 5, 11, 12 y 13	6,695
90-09	Colegio Fe y Alegría N° 20	7,875
90-10	Colegio Fe y Alegría N° 35	8,835
90-11	CEO Santa Rafaela María	8,500
90-12	Comunidad Salesiana	8,500
90-13	Parroquia San Antonio de Padua	1,000
90-14	Centro de Apoyo al Sector Informal	1,793
		-----
		100,000
		=====

**(6) Cooperative Agreement N° 527-0061-A-00-1256**

<u>Project N°</u>	<u>Beneficiary</u>	<u>US\$ Amount</u>
91-01	Asentamiento Humano Cerro el Pino	8,000
91-02	Colegio Santiago Antunez de Mayolo	7,000
91-03	Centro Ocupacional Obra de Jesús	3,000
91-04	Centro Hualcor	6,000
91-05	Escuela N° 1106	2,000
91-06	Colegio Fe y Alegría N° 36	6,000
91-07	Colegio Fe y Alegría N° 33	6,000
91-08	Colegio Fe y Alegría N° 32	4,000
91-09	Colegio Fe y Alegría N° 34	5,900
91-10	Asentamiento Humano E. Montenegro	9,000
91-11	Centro Educativo Cuna-Jardín Bethania	1,600
91-12	Centro Artesanal Nueva Esperanza	5,960
91-13	Colegio Fe y Alegría N° 35	5,636
91-14	Centro Cristo Rey del Niño Trabajador	8,300
91-15	Colegio Fe y Alegría N° 40	8,400
91-16	Asentamiento Humano Santa Rosa de Piérola	8,632
91-17	Colegio El Retablo	2,200
91-18	Oficina Central-Manuales Técnicos	2,372
		-----
		100,000
		=====

**(7) Exchange Rates**

The exchange rates for the US dollar corresponding to the period from September, 1990 to February, 1993 were as follows:

September	1990	US\$ 1 = I/. 445,570 (intis)
January	1991	The Peruvian currency was changed from intis (I/.) to intis millon (I/M) resulting in an exchange rate of US\$ 1 = I/M 0.52
July	1991	The Peruvian currency was changed from intis millon (I/M) to nuevos soles (S/.). The new exchange rate was US\$ 1 = S/, 0.80
February	1993	US\$ 1 = S/. 1.78

**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRÍA**

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**Report on the Internal Control Structure  
for the period September 28, 1990 to February 28, 1993**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the fund accountability statement for cooperative agreement Nos. 527-0061-A-00-0367 and 527-0061-A-00-1256, managed by Fe y Alegría, for the period September 28, 1990 to February 28, 1993 and have issued our report thereon dated September 10, 1993.

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 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 cooperative agreement Nos. 527-0061-A-00-0367 and 527-0061-A-1256, managed by Fe y Alegría, for the period September 28, 1990 to February 28, 1993, we considered the internal control structure of Fe y Alegría 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.

Fe y Alegría is responsible for establishing and maintaining an internal control structure to manage the operations of the agreements. 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's authorization and recorded properly to permit the preparation of the fund accountability statement in conformity with the accounting basis described in note 2 to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure 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.

**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRIA**

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**Report on the Internal Control Structure  
for the period September 28, 1990 to February 28, 1993**

**INDEPENDENT AUDITOR'S REPORT (Continued)**

For the purposes of this report, we have classified the significant internal control structure policies and procedures into the following categories: (1) advances and liquidations of funds, and (2) cost sharing contributions.

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

We noted one matter involving the internal control structure and its operations that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement. The reportable condition noted is described as finding No. 1 in the following pages.

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

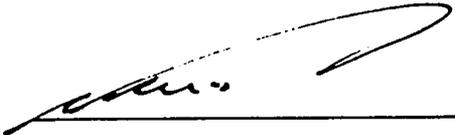
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined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

This report is intended solely for the information and use of Fe y Alegría 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.

September 10, 1993

*Oscar Caipo y Asociados.*

Countersigned by:



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

**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRIA**

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**Report on the Internal Control Structure  
for the period September 28, 1990 to February 28, 1993**

**Finding**

**1. COST SHARING CONTRIBUTIONS WERE NOT SUPPORTED BY ACCOUNTING RECORDS**

**Condition**

In our review of the cost sharing contributions made by the beneficiaries of the small projects funded under the agreements, we noted that Fe y Alegría did not maintain accounting documentation to support the claimed value of the contributions.

**Criteria**

Office of Management and Budget (OMB) Circular A-110 requires that cost sharing contributions be supported with adequate accounting records to the same degree as required to account for the US Government funds provided under the agreements. The agreements' standard provision regarding cost sharing specifies the requirements for cost sharing contributions including guidelines for valuing and documenting in-kind contributions.

**Cause**

Fe y Alegría apparently was not aware of the requirement to fully support claimed cost sharing contributions with accounting documentation and instead submitted its estimates of the value of beneficiary contributions, which were mainly made in-kind rather than in cash.

**Effect**

The claimed cost sharing contributions under the agreements are not properly supported with documentation as specified in the agreement standard provisions which could give rise to USAID/Peru questioning the amount of such contributions. However, as an alternative verification procedure we did physically inspect certain of the small projects financed under the agreements and verified that they had been completed.

**Recommendation**

We recommend that on future agreements with USAID/PERU that Fe y Alegría obtain accounting documentation sufficient to meet the requirements of OMB Circular A-110 and the agreements' standard provisions to properly support the claimed cost sharing contributions under the agreements.

**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRÍA**

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**Report on Compliance with Agreement Terms  
and Applicable Laws and Regulations  
for the period September 28, 1990 to February 28, 1993****INDEPENDENT AUDITOR'S REPORT**

We have audited the fund accountability statement for cooperative agreement Nos. 527-0061-A-00-0367 and 527-0061-A-00-1256, managed by Fe y Alegría, for the period September 28, 1990 to February 28, 1993 and have issued our report thereon dated September 10, 1993.

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 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.

Fe y Alegría is responsible for compliance with the terms of cooperative agreement Nos. 527-0061-A-00-0367 and 527-0061-A-00-1256 and with 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 Fe y Alegría's compliance with significant agreement terms and applicable laws and regulations which may affect the agreements' goals and incurred costs. However, the objective of our audit of the fund accountability statement 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 described in finding No.1 of our Report on the Internal Control Structure.

We considered the above-mentioned material instance of noncompliance in forming our opinion on whether Fe y Alegría's fund accountability statement for cooperative agreement Nos. 527-0061-A-00-0367 and 527-0061-A-00-1256 is fairly presented in conformity to the basis of accounting described in Note 2 to the fund accountability statement, and this report does not affect our report dated September 10, 1993 on that fund accountability statement.



**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRIA**

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**Report on Compliance with Agreement Terms  
and Applicable Laws and Regulations  
for the period September 28, 1990 to February 28, 1993**

**INDEPENDENT AUDITOR'S REPORT (Continued)**

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, Fe y Alegría complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that Fe y Alegría did not comply, in all material respects, with those provisions.

This report is intended solely for the information and use of Fe y Alegría and 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.

September 10, 1993

Countersigned by:

*Oscar Caipo y Asociados.*



Oscar Caipo (Partner)  
Peruvian Public Accountant  
Registration Nº 2782

**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRIA**

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**List of Report Recommendations  
for the period September 28, 1990 to February 28, 1993**

**Internal Control Structure**

**1. COST SHARING CONTRIBUTIONS WERE NOT SUPPORTED BY ACCOUNTING RECORDS**

We recommend that on future agreements with USAID/PERU that Fe y Alegría obtain accounting documentation sufficient to meet the requirements of OMB Circular A-110 and the agreements' standard provisions to properly support the claimed cost sharing contributions under the agreements.

**AUDIT OF COOPERATIVE AGREEMENT Nos.  
527-0061-A-00-0367 and 527-0061-A-00-1256  
MANAGED BY FE Y ALEGRIA**

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**Exhibit**

**MANAGEMENT COMMENTS**

We know AID accepts the documentation as it has been submitted and considers that the demand to submit supporting documents for the counterpart contributions should be implemented in the next projects. However, we can assure them that our contribution has been much greater than that which we were requested.

**APPENDIX I**

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AIG/I&S	1
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