

Regional Inspector General for Audit
San José, Costa Rica

**Audit of USAID/Guatemala's
Basic and Integral Education Project
Activities Managed by the
Friends of the Country Association
July 31, 1987 to September 30, 1992**

**Audit Report No. 1-520-95-08-N
July 24, 1995**



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.



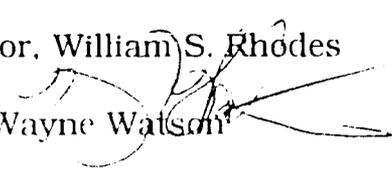
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
SAN JOSE, COSTA RICA

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

July 24, 1995

MEMORANDUM

TO: USAID/Guatemala Director, William S. Rhodes

FROM: RIG/A/San José Acting, Wayne Watson 

SUBJECT: Audit of USAID/Guatemala's Basic and Integral Education Project Activities, Managed by the Friends of the Country Association, July 31, 1987 to September 30, 1992

This report presents the results of a financial closeout audit of the grant agreement for the Basic and Integral Education Project activities, USAID/Guatemala Project No. 520-0364, managed by the Friends of the Country Association (Association), for the period July 31, 1987 to September 30, 1992. The accounting firm of Price Waterhouse prepared the report dated April 30, 1993.

The goal of the project was to assist the Association in implementing an informal education program within the private sector in order to improve the quality of life of the rural population and those living in the marginal urban areas.

The objectives of the audit were to determine whether: (1) the Association's fund accountability statement presents fairly, in all material respects, the agreement's financial situation, (2) the Association's internal control structure was adequate to manage its agreement activities, and (3) the Association complied with agreement terms and applicable laws and regulations. The scope of the audit included an examination of the Association's activities and transactions to the extent considered necessary to issue a report thereon for the period audited. The audit included coverage of \$1,146,675 of USAID/Guatemala disbursements to the project during the audited period.

Price Waterhouse was of the opinion that the fund accountability statement presents fairly, in all material respects, the Association's income and expenditures under the grant agreement, during the period audited, except for the effects of questionable costs amounting to \$10,965.

a

With respect to the Association's internal control structure, the auditors identified two material weaknesses: (1) the lack of implementation of certain of the Association's key internal control policies and procedures and (2) the lack of a uniform filing system for documents that support project activities and disbursements.

Regarding compliance with agreement terms and applicable laws and regulations, the auditors noted five material instances of noncompliance: (1) the initial advance received from USAID/Guatemala was not deposited in a separate bank account, (2) agreed-upon administrative and accounting procedures were not implemented, (3) certain provisions of the income tax and value-added tax laws were not followed, (4) USAID Handbook 13 was not complied with in the purchase of goods and the contracting of services, and (5) the evaluation report on the impact of project activities was not prepared and submitted to USAID/Guatemala upon completion of the project.

The project ended September 30, 1992, and according to USAID/Guatemala officials, the Mission does not plan to use the Association as an implementing entity in the future. Therefore, we are not recommending any action to correct procedural deficiencies identified by the auditors with respect to the Association's internal control structure and compliance.

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/Guatemala resolve the questionable costs of \$10,965 (\$ 3,609 questioned and \$7,356 unsupported) identified in the Price Waterhouse report dated April 30, 1993, and recover from the Fiends of the Country Association the amounts determined to be unallowable.

Recommendation No. 1 will be considered resolved upon USAID/Guatemala'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 USAID/Guatemala and the Association. Based upon their comments and further documentation provided, the final report was modified as deemed appropriate.

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/Guatemala's
Basic and Integral Education Project
Activities Managed by the
Friends of the Country Association
July 31, 1987 to September 30, 1992**

**Audit Report No. 1-520-95-08-N
July 24, 1995**

FINANCIAL CLOSE-OUT AUDIT OF THE BASIC AND INTEGRAL
EDUCATION PROJECT, PROJECT USAID/G-CAP No. 520-0364
MANAGED BY ASOCIACION DE AMIGOS DEL PAIS -AAP- FOR
THE PERIOD JULY 31, 1987 TO SEPTEMBER 30, 1992

d

**FINANCIAL CLOSE-OUT AUDIT OF THE BASIC AND INTEGRAL
EDUCATION PROJECT, PROJECT USAID/G-CAP No. 520-0364
MANAGED BY ASOCIACION DE AMIGOS DEL PAIS -AAP- FOR
THE PERIOD JULY 31, 1987 TO SEPTEMBER 30, 1992**

CONTENTS

	<u>PAGE</u>
Transmittal Letter	1 - 4
- Background	
- Audit Objectives and Scope	
- Results of Audit	
- Follow-Up on Prior Audit	
- Recommendations	
- Management Comments	
Fund Accountability Statement	5 - 12
- Independent Auditors' Report	
- Fund Accountability Statement	
- Notes to the fund accountability Statement	
Internal Control Structure	13 - 17
- Independent Auditors' Report	
- Findings	
Compliance with Agreement Terms and Applicable Laws and Regulations	18 - 24
- Independent Auditors' Report	
- Findings	
List of Report Recommendations	25 - 26
Annex I - Management Comments	

e

Price Waterhouse



November 21, 1994

Mr. Coinage N. Gothard
Regional Inspector General
for Audit (RIG/A/SJ)
San José, Costa Rica

Dear Mr. Gothard:

This report presents the results of our financial close-out audit of the Basic and Integral Education Project, USAID/G-CAP Project No. 520-0364, managed by Asociación de Amigos del País (AAP), for the period July 31, 1987 to September 30, 1992.

BACKGROUND

On July 31, 1987, the Mission to Guatemala of the United States Agency for International Development (USAID/G-CAP) signed a grant agreement with Asociación de Amigos del País (AAP) to execute the Basic and Integral Education Project (Proyecto de Educación Básica Integral -PEBI-), USAID/G-CAP Project No. 520-0364. Under this agreement, AAP would receive a grant of US\$ 1.5 million and would contribute Q 4.7 million (local currency) as counterpart funds. The project was intended to assist AAP in implementing an informal education program within the private sector in order to improve the quality of life of the rural population and those living in the marginal urban areas.

The project assistance completion date was established for September 30, 1992.

AUDIT OBJECTIVES AND SCOPE

We were engaged to carry out a financial close-out audit of the activities and components of the USAID/G-CAP Project No. 520-0364 managed by AAP for the period July 31, 1987 to September 30, 1992, in accordance with generally accepted auditing standards and the "Government Auditing Standards" issued by the Comptroller General of the United States. Our review included, therefore, the tests of the accounting records and other auditing procedures that we considered necessary in order to:

1. Express an opinion as to whether the fund accountability statement prepared by AAP for the project presents fairly, in all material respects, the cash received and the disbursements made, and if costs incurred were reasonable, allowable and allocable in conformity with agreement terms and applicable laws and regulations.
2. Obtain an adequate knowledge of the internal control structure applied by AAP to the project, to evaluate control risk and to identify reportable conditions, if any.
3. Determine if AAP complied, in all material respects, with agreement terms and applicable laws and regulations.
4. Determine if AAP had taken adequate steps to implement all prior audit recommendations.

RESULTS OF AUDIT

A. FUND ACCOUNTABILITY STATEMENT

AAP did not provide us with sufficient evidence to demonstrate that the first advance payment received from USAID/G-CAP, in the amount of Q. 609,318, had been deposited in the project's specific separate account.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the matter described in the preceding paragraph, and except for the effects of the questionable costs amounting to Q. 40,022 described in more detail in Note 3 to the fund accountability statement, the fund accountability statement examined by us present fairly, in all material respects, the cash receipts and disbursements of USAID/G-CAP Project 520-0364 managed by AAP for the period July 31, 1987 to September 30, 1992.

B. INTERNAL CONTROL STRUCTURE

In planning our audit of the fund accountability statement for USAID/G-CAP Project No. 520-0364 in accordance with generally accepted auditing standards and the "Government Auditing Standards" issued by the Comptroller General of the United States, we considered AAP's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement, and not to provide assurance on the internal control structure.

We noted certain matters involving the internal control structure and its operation that we considered to be material reportable conditions under standards established by the American Institute of Certified Public Accountants. These conditions are summarized below:

1. Some key controls in AAP's internal control structure have not been operative, as some policies and procedures contained in its corresponding manual were not adequately implemented.
2. AAP did not maintain a uniform filing system for the documents that support project activities and disbursements.

C. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

As part of our audit of the fund accountability statement we performed tests of AAP's compliance with certain provisions of laws, regulations, contracts, and grants.

Our tests revealed the following instances of noncompliance:

1. AAP could not demonstrate having deposited in a separate project account the initial advance received from USAID/G-CAP.
2. AAP did not adequately comply with the policies and procedures included in the administrative and accounting procedures manual approved and financed by USAID/G-CAP at the onset of the project.
3. AAP did not comply in full with certain provisions of the income tax and value-added tax laws.
4. AAP did not comply with all applicable regulations regarding the purchase of goods and the contracting of services contained in usaid Handbook 13.
5. AAP did not provide evidence of having prepared and submitted to USAID/G-CAP, upon completion of the project, the evaluation report on the impact of project activities.

In proportion to the actual grant payments made by USAID, our review of the counterpart contributions required by the agreement, disclosed AAP's general compliance thereon (see the schedule of counterpart contributions in Note 4 to the fund accountability statement).

D. FOLLOW-UP ON PRIOR AUDIT RECOMMENDATIONS

Our work in this respect indicates that AAP did not take corrective action to remedy the following conditions reported as findings in prior evaluation reports:

1. Failure to submit a final impact evaluation report of project and certain progress and financial reports required by the agreement.
2. Failure to apply consistently the administrative and control procedures included in the manual approved by USAID/G-CAP, especially with regards to some purchases, inventories, per diem allowances, and personnel management.

E. MANAGEMENT COMMENTS

On June 29, 1993, AAP's management supplied us with additional explanations and documents regarding some of the findings described in our draft report, and expressed general agreement with the other report findings. The additional information presented was analyzed by us and whenever appropriate, all necessary changes were incorporated in drafting this final report. An English translation of the full comments is attached herewith as Annex I.

Pricewaterhouse

BASIC AND INTEGRAL EDUCATION PROJECT, PROJECT
USAID/G-CAP No. 520-0364 MANAGED BY ASOCIACION
DE AMIGOS DEL PAIS -AAP- FOR THE PERIOD
JULY 31, 1987 TO SEPTEMBER 30, 1992

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying fund accountability statement for the activities and transactions of the Basic and Integral Education Project, USAID/G-CAP Project No. 520-0364, managed by Asociación de Amigos del País (AAP) for the period July 31, 1987 to September 30, 1992. This financial statement is the responsibility of AAP's management. Our responsibility is to express an opinion on this financial 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" 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

AAP did not provide us with sufficient evidence to demonstrate that the first advance payment received from USAID/G-CAP, in the amount of Q. 609,318, had been deposited in the project's specific separate bank account.

Notwithstanding the scope limitation mentioned in the preceding paragraph, our tests disclosed unsupported and questioned costs amounting to Q. 26,050 and Q. 13,172 respectively.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to

examine evidence regarding the matter described in the third paragraph, and for the effects of the questionable costs amounting to Q. 40,022 referred to in the preceding paragraph and described in more detail in Note 3 to the fund accountability statement, the fund accountability statement examined by us presents fairly, in all material respects, the cash receipts and disbursements of USAID/G-CAP Project 520-0364 managed by AAP for the period July 31, 1987 to September 30, 1992.

This report is intended for the information of AAP's management, and the United States Agency for International Development (USAID). This restriction does not intend to limit distribution of this report which, upon its acceptance by the USAID Office of the Regional Inspector General for Audit, is a matter of public record.

A handwritten signature in cursive script, appearing to read "Puce Watuluan". The signature is written in dark ink and is positioned above the date.

April 30, 1993

BASIC AND INTEGRAL EDUCATION PROJECT, PROJECT

 USAID/G-CAP No. 520-0364 MANAGED BY ASOCIACION

 DE AMIGOS DEL PAIS -AAP- FOR THE PERIOD

 JULY 31, 1987 TO SEPTEMBER 30, 1992

FUND ACCOUNTABILITY STATEMENT

 (expressed in Quetzales)

	10/87 TO 09/90		10/90 TO 12/90		01/91 TO 03/91		04/91 TO 06/91		07/91 TO 10/91	
	BUDGET	EXECUTED	BUDGET	EXECUTED	BUDGET	EXECUTED	BUDGET	EXECUTED	BUDGET	EXECUTED
INCOME										
Receipts										
July/87 to October/91	3,419,143.00	2,428,523.83	381,303.74	261,990.71	539,523.72	395,763.62	704,422.40	342,650.35	635,012.00	0.00
	3,419,143.00	2,428,523.83	381,303.74	261,990.71	539,523.72	395,763.62	704,422.40	342,650.35	635,012.00	0.00
Disbursements										
Salaries	1,020,255.77	976,001.98	166,020.73	122,375.57	132,020.72	90,049.23	170,976.37	104,000.05	256,226.00	156,752.73
Consulting	191,560.00	119,823.75	9,900.00	5,391.16	7,500.00	5,215.00	14,300.00	10,900.00	29,550.00	14,100.00
Travel	111,121.26	56,766.14	10,300.00	6,098.18	16,800.00	3,838.38	71,996.00	15,191.58	56,623.00	29,593.41
Furniture and equipmen	369,399.75	237,614.85	0.00	0.00	2,200.00	1,857.00	4,360.00	3,189.00	85,146.00	68,020.52
Training	868,548.64	474,217.06	88,598.60	66,409.73	301,888.00	29,314.46	86,800.00	188,401.13	97,950.00	7,253.34
Direct costs	575,452.26	228,098.15	84,085.00	27,595.13	48,500.00	33,680.84	312,695.00	58,242.34	64,451.00	19,389.90
Operating expenses	210,461.27	177,601.36	22,400.00	9,673.84	30,615.00	14,469.54	43,295.00	41,689.97	45,066.00	19,095.24
Promotional expenses	39,162.63	39,087.51	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	3,385,961.58	2,309,210.80	381,303.73	237,543.61	539,523.72	178,424.45	704,422.37	421,614.07	635,012.00	314,205.14
Cash available	33,181.42	119,313.03	0.01	24,447.10	0.00	217,339.17	0.03	(78,963.72)	0.00	(314,205.14)

BASIC AND INTEGRAL EDUCATION PROJECT, PROJECT

 USAID/G-CAP No. 520-0364 MANAGED BY ASOCIACION

 DE AMIGOS DEL PAIS -AAP- FOR THE PERIOD

 JULY 31, 1987 TO SEPTEMBER 30, 1992

FUND ACCOUNTABILITY STATEMENT

 (expressed in Quetzales)

	11/91 TO 02/92		03/92 TO 09/92		TOTAL ACCUMULATED		QUESTIONABLE COSTS	
	BUDGET	EXECUTED	BUDGET	EXECUTED	BUDGET	EXECUTED	QUESTIONED NOTE 3	UNSUPPORTED NOTE 3
Receipts								
November/87 to September/92	492,769.00	552,073.42	659,928.22	208,855.07	6,832,102.08	4,189,857.00		
	492,769.00	552,073.42	659,928.22	208,855.07	6,832,102.08	4,189,857.00		
Disbursements								
Salaries	256,057.00	217,426.07	210,633.36	181,388.27	2,212,189.97	1,847,993.90		6,450.00
Consulting	39,400.00	16,150.00	64,950.09	11,800.00	357,160.09	183,379.91	9,200.00	
Travel	42,221.00	11,456.51	67,112.31	19,478.97	376,173.57	142,423.17		
Furniture and equipment	5,200.00	550.00	11,750.63	10,718.78	478,056.38	321,950.15		
Training	23,050.00	7,992.02	44,896.13	5,890.55	1,511,730.77	779,478.29	3,972.00	
Direct costs	78,196.00	41,666.37	169,273.50	125,412.49	1,332,652.76	534,085.22		
Operating expenses	48,645.00	33,125.43	91,312.18	45,803.44	491,794.45	341,458.82		20,400.00
Promotional expenses	0.00	0.00	0.00	0.00	39,162.63	39,087.51		
	492,769.00	328,366.40	659,928.22	400,492.50	6,798,920.62	4,189,856.97	13,172.00	26,850.00
Cash available	0.00	223,707.02	0.00	(191,637.43)	33,181.46	0.03		

**BASIC AND INTEGRAL EDUCATION PROJECT, PROJECT
USAID/G-CAP No. 520-0364 MANAGED BY ASOCIACION
DE AMIGOS DEL PAIS -AAP- FOR THE PERIOD
JULY 31, 1987 TO SEPTEMBER 30, 1992**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - HISTORY AND OPERATIONS

On July 31, 1987, the Mission to Guatemala of the United States Agency for International Development (USAID/G-CAP) signed a grant agreement with Asociación de Amigos del País (AAP) to execute the Basic and Integral Education Project (Proyecto de Educación Básica Integral - PEBI-), USAID/G-CAP Project No. 520-0364. Under this agreement AAP would receive a grant of US\$ 1.5 million and would contribute Q. 4.7 million (local currency) as counterpart funds. Expenses for the project, out of the counterpart contributions were budgeted at Q. 4.1 million and the actual outlays during the period amounted to Q. 3.4 million. The project was intended to assist AAP in implementing an informal education program within the private sector in order to improve the quality of life of the rural population and those living in the marginal urban areas.

The project assistance completion date was established for September 30, 1992.

NOTE 2 - BASIS OF ACCOUNTING

The project activities and transactions are accounted for on the basis of cash receipts and disbursements, and therefore, revenues are recognized when collected and costs and expenses are recorded when paid.

Total cash received from USAID/G-CAP during the life of the project (unaudited) was reportedly recorded at the following rates of exchange:

<u>Date of advance</u>	<u>Quetzales</u>	<u>Rate of exchange</u>
November, 1987	609,318.00	2.70
September, 1988	112,474.79	2.70
February, 1989	563,644.24	2.70
July, 1989	379,911.38	2.70
January, 1990	140,025.81	3.75
March, 1990	209,988.00	3.75
April, 1990	<u>19,523.69</u>	3.75
Carried over...	2,034,885.91	

<u>Date of advance</u>	<u>Quetzales</u>	<u>Rate of exchange</u>
Brought forward...	2,034,885.91	
June, 1990	192,441.80	4.29
August, 1990	201,196.12	4.40
November, 1990	261,990.71	5.15
March, 1991	395,763.62	5.25
April/June, 1991	342,650.35	4.95
January/March, 1992	206,507.57 (*)	5.06
April/June, 1992	345,565.85 (*)	5.06
July/Sept., 1992	<u>208,855.07 (*)</u>	5.30
Total	<u>Q4,189,857.00 (**)</u>	

(*) For these cases, USAID/G-CAP switched from advances to expense reimbursement.

(**) By application of the several exchange rates used, it results that the grant payments made by USAID to the Project amount to US\$ 1,138,792 or 76% of the overall committed amount for US\$ 1.5 million.

NOTE 3 - QUESTIONABLE COSTS

Audit testing of Project No. 520-0364 transactions identified unsupported and questioned costs amounting to Q. 36,050 and Q. 3,972, respectively, for the reasons described below:

<u>Component</u>	<u>Questionable costs</u>	
	<u>Unsupported</u>	<u>Questioned</u>
a) <u>Salaries</u>		
Payment made to Mrs. Elizabeth Castillo de Lobo in addition to what is required by law upon termination, recorded as "additional bonus" (check No.232323 of July 5, 1989), not previously authorized by USAID.	Q. 6,450	
b) <u>Consulting</u>		
By checks Nos. 641276 and 1404607 of June, 1988 and 4647046 of March 1989, payment was made to Mr. Luis E. Orellana S. for a total Q.8,000, to be covered by an invoice for		
Carried over		6,450

Brought forward

6,450

this amount. Since, contrary to local legal regulations, the payee submitted an invoice for Q. 2,000 only, the unbilled difference for Q. 6,000 is considered to be a questionable cost until the pending invoice is submitted.

Q. 6,000

On July 30, 1992, check No. 5381165 was issued to the name of Ms. Irma Tárano O. for Q. 3,200. According to the current added-value tax law, the supporting documentation should have shown a charge for the corresponding tax for the pertinent bill to qualify as a fiscal evidential matter for the payment in question (and, although not chargeable to the project, according to grant regulations, the tax should have been paid by AAP in order to fully comply with the law).

Q. 3,200

c) Training

On June 7, 1988, AAP issued check No. 0641279 in payment of invoice No. 004096 for waiters, appetizers and bar services, which are non-allowable expenses for USAID purposes.

Q. 3,972

AAP made monthly payments of Q. 1,200 from April 1991 to July, 1992 as maintenance of the Executive Director's vehicle. No evidence could be obtained regarding the USAID/G-CAP approval of these costs.

20,400

Totals

Q 26,850

Q.13,172

NOTE 4 - COUNTERPART CONTRIBUTIONS

The counterpart contributions were originally established at Q. 4.7 million. However, upon execution this amount was reduced to Q. 4.1 million. In the following page is a detail of the related budget and actual disbursement items:

Schedule of Counterpart Contributions
(expressed in Quetzales)

<u>Explanations</u>	<u>Budget</u>	<u>Executed</u>	<u>Over (under) budget</u>
<u>Disbursement:</u>			
Salaries	603,620	469,897	(133,723)
Consulting services	166,168	71,310	(94,858)
Travel	211,171	66,527	(144,644)
Furniture and equipment	190,845	125,110	(65,735)
Training	431,152	1,164,604	733,452
Direct costs	752,435	287,013	(465,422)
Operating expenses	395,461	333,405	(62,056)
Promotional expenses	1,304,132	513,471	(790,661)
Non monetary (in kind) donations	<u>57,222</u>	<u>365,265</u>	<u>308,043</u>
 Totals	 <u>4,112,206</u>	 <u>3,396,602</u>	 <u>(715,604)</u>

The overall actual counterpart contributions (83%) compare with the committed USAID donation for US\$ 1.5 million which amounted to US\$ 1.1 million (or 24% below budget).

BASIC AND INTEGRAL EDUCATION PROJECT, PROJECT
USAID/G-CAP No. 520-0364 MANAGED BY ASOCIACION
DE AMIGOS DEL PAIS -AAP- FOR THE PERIOD
JULY 31, 1987 TO SEPTEMBER 30, 1992

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the activities and transactions under USAID/G-CAP Project No. 520-0364 managed by Asociación de Amigos del País (AAP) for the period July 31, 1987 to September 30, 1992, and have issued our report thereon dated April 30, 1993.

Except for the scope limitations referred to in our report 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 transactions and activities managed by AAP under USAID/G-CAP Project No. 520-0364 for the period July 31, 1987 to September 30, 1992, we considered the internal control structure applied by AAP to the project 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 AAP is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use of disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in

accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not to 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 of that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: Accounting, budget and information systems, procurement procedures and practices, cash management and bank reconciliations procedures, fixed assets, personnel costs, travel and per diem allowances.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions 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 financial statements. The reportable conditions disclosed by our audit are described under findings Nos. 1 and 2 in the following pages of this report.

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 could be material in relation to the financial statements 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. We believe, however, that the reportable conditions referred to above are material weaknesses.

This report is intended for the information of AAP's management, and the United States Agency for International Development (USAID). This restriction does not intend to limit distribution of this report which, upon its acceptance by the USAID Office of the Regional Inspector General for Audit, is a matter of public record.

April 30, 1993

Puce Waterhouse

BASIC AND INTEGRAL EDUCATION PROJECT, PROJECT
USAID/G-CAP No. 520-0364 MANAGED BY ASOCIACION
DE AMIGOS DEL PAIS -AAP- FOR THE PERIOD
JULY 31, 1987 TO SEPTEMBER 30, 1992

INTERNAL CONTROL STRUCTURE

FINDINGS

1. Some Key Controls in AAP's Internal Control Structure Have not Been Operative, as Some Policies and Procedures Contained in its Corresponding Manual Were not Adequately Implemented.

Condition:

Certain policies and procedures concerning procurement, receipts of goods, payments to suppliers and per diem expenses, established to promote better control over purchases and per diem allowances, and contained in the administrative procedures manual approved by USAID/G-CAP, were not adequately implemented.

Criteria:

AAP's management is responsible for maintaining an internal control structure adequate to safeguard project assets and to provide assurance that project funds are disbursed only for authorized purposes.

Cause:

It appears that the contents of the USAID/G-CAP approved manual were not sufficiently disseminated among AAP and project officers and employees.

Effect:

Errors and irregularities may occur and not be detected on a timely basis by employees in the normal course of performing their assigned functions. Also, the lack of detailed knowledge of established control procedures may give rise to costs being questioned for lack of sufficient documentation or prior approval, as in those cases more fully disclosed in Note 3 to the fund accountability statement.

Recommendation:

Although USAID/G-CAP project No. 520-0364 has already come to an end, AAP's management should seek to gather all documentation and obtain the necessary authorizations, as the case may require, with regards to the questionable costs described in Note 3.

2. AAP did not Maintain a Uniform Filing System for the Documents that Support Project Activities and Disbursements.

Condition:

AAP did not have the benefit of a consistently uniform filing system for the overall documentation of USAID/G-CAP project No. 520-0364.

Criteria:

AAP's management responsibility for establishing and maintaining an internal control structure for the project is also extended over the accounting records and the corresponding filing system. Also, maintaining adequate accounting records, supported by sufficient and competent documentation, is a requirement imposed upon AAP by the standard provisions attached to the project's grant agreement.

Cause:

The high staff turnover experienced by AAP may have been determinant in the different criteria applied regarding the organization and filing of project documents.

Effect:

The identification and location of Project documents is extremely cumbersome under the present conditions. Also, project costs may be disallowed for lack of adequate documentation.

Recommendation:

AAP's management should ensure that all project documentation is segregated from that belonging to other programs, in an attempt to comply with the provisions of the General Standards established by Annex III to the grant agreement, which require AAP to maintain all project documents in an orderly fashion for a period of three years after completion of the Project.

BASIC AND INTEGRAL EDUCATION PROJECT, PROJECT
USAID/G-CAP No. 520-0364 MANAGED BY ASOCIACION
DE AMIGOS DEL PAIS -AAP- FOR THE PERIOD
JULY 31, 1987 TO SEPTEMBER 30, 1992

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE
LAWS AND REGULATIONS

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the activities and transactions under USAID/G-CAP Project No. 520-0364 managed by Asociación de Amigos del País (AAP) for the period July 31, 1987 to September 30, 1992 and have issued our report thereon dated April 30, 1993.

Except for the scope limitations referred to in our report 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.

Compliance with laws, regulations, contracts, and grants applicable to Asociación de Amigos del País (AAP) is the responsibility of AAP's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of AAP's compliance with certain provisions of laws, regulations, contracts, and grants. 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 misstatement resulting from those failures or violations is material to the financial statements. The results of our test of compliance disclosed the material instances of noncompliance discussed in finding Nos. 1 to 5 in the following pages of this report.

We considered these material instances of noncompliance in forming our opinion on the reasonableness of AAP's financial execution of USAID/G-CAP Project No. 520-0364 for the period July 31, 1987 to September 30, 1992 and this report does not affect our opinion thereon dated April 30, 1993.

Except as described above, the results of our test of compliance indicate that, with respect to the items tested, AAP complied, in all material respects, with the provisions referred to in the third paragraph of this report. Because of the scope limitations mentioned in our report on the fund accountability statement, we are not in a position to provide, and we do not provide, assurances with respect to untested items.

This report is intended for the information of AAP's management, and the United States Agency for International Development (USAID). This restriction does not intend to limit distribution of this report which, upon its acceptance by the USAID Office of the Regional Inspector General for Audit, is a matter of public record.

April 30, 1993

A handwritten signature in cursive script that reads "Bruce Waterhouse". The signature is written in dark ink and is positioned to the right of the date.

BASIC AND INTEGRAL EDUCATION PROJECT, PROJECT
USAID/G-CAP No. 520-0364 MANAGED BY ASOCIACION
DE AMIGOS DEL PAIS -AAP- FOR THE PERIOD
JULY 31, 1987 TO SEPTEMBER 30, 1992

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE
LAWS AND REGULATIONS

FINDINGS

1. AAP Did Not Deposit in a Separate Bank Account the Initial Advance Received from USAID/G-CAP for Project Purposes.

Condition:

The project initial advance for Q609,318 was deposited On November 11, 1987 by AAP in a demand account with Banco Industrial, S. A. wherefrom transfers to a checking account (with the same bank) were made to defray project's disbursements. The first transfer (for Q40,000) and the last one (for Q18) were made on November 30, 1987 and April 4, 1989, respectively.

Criteria:

As required by section b) of Annex 1 to grant agreement No. 520-0364, AAP should have opened a separate bank account to the Project's name for deposit of the initial advance.

Cause:

It is not clear why AAP did not comply with this requirement.

Effect:

Violation of grant agreement provisions and possible lack of proper accountability over project funds as they were commingled with other AAP's financial resources.

Recommendation:

AAP's management should clear this situation to the satisfaction of USAID/G-CAP.

2. AAP did not Adequately Comply With the Policies and Procedures Included in the Administrative and Accounting Procedures Manual Approved and Financed by USAID/G-CAP at the Onset of the Project.

Condition:

The procedures approved by USAID/G-CAP for the recording and control of purchases of goods and services, and the payment of

travel and per diem allowances, were not adequately implemented, as evidenced by the deviations summarized in Note 3 to the fund accountability statement.

Criteria:

AAP was required to comply in full with Annex III - Standard Provisions - of the grant agreement, especially with sections 1 and 2 related to allowable costs and accounting, auditing, and accounting records for the project.

Cause:

Lack of supervision over the employees charged with the responsibility for implementing the accounting and administrative procedures designed for the project.

Effect:

Noncompliance with agreement terms and questionable costs, both questioned and unsupported, amounting to Q. 40,022, as summarized in Note 3 to the fund accountability statement.

Recommendation:

AAP's management should clear to the satisfaction of USAID/G-CAP the questioning of the costs for Q. 40,022, or reimburse that amount from its own funds.

3. AAP Did Not Comply in Full with Certain Provisions of the Income Tax and Value-Added Tax Laws.

Condition:

On more than one occasion, AAP failed to withhold the 4% tax that is required by the income tax law on fees for professional services, rents, commissions and other personal services, and also accepted documents which had not charged the 7% value added tax, required on all documents covering purchases and personal services other than from salaried people. Also, in certain cases it did not require from professionals rendering services to the project legal receipt forms or invoices duly authorized by the tax office.

Criteria:

AAP, as a tax withholding agent, was required to comply with all applicable laws and regulations, especially with those contained in Article 69 of Decree 59-87, income tax law in effect until June 30, 1992; article 64 of Decree 26-92 (new income tax law); and part 2 of Article 2 of Decree 27-92

(value-added tax law). This is apart from the fact that any taxes applicable to the project transactions are to be paid and absorbed by AAP itself, as grant funds do not cover tax payments.

Cause:

AAP may have felt that as a not for profit organization it was exempted from complying with its responsibilities as a withholding agent.

Effect:

The cases of noncompliance noted in the audit, summarized in Note 3 to the fund accountability statement, may represent actual tax liabilities for failing to comply with what is required by law.

Recommendation:

AAP's management should provide proper assurances to USAID/G-CAP regarding compliance with applicable laws and regulations and committing to deal, on its own, with all potential tax claims arising out of project transactions.

4. AAP did not Comply with all Applicable Regulations Regarding the Purchase of Goods and the Contracting of Services Contained in USAID Handbook 13.

Condition:

The following cases described in Note 3 to the fund accountability statement represent instances of noncompliance with agreement terms or applicable laws and regulations:

- a) Payment of non documented fees for Q. 6,000, which are part of a larger sum of Q. 8,000, supported by a bill for Q. 2,000 only.
- b) Payment of a bill for Q. 3,200 on which the current 7% value-added tax was not charged by the payee nor paid by the entity.
- c) Payment of non-allowable expenses (appetizers, waiters, and bar services) for Q. 3,972.
- d) Lack of authorization from USAID/G-CAP for the payment of fringe benefits in excess of amounts required by law (Q. 6,450).

Criteria:

AAP was required to comply with all applicable laws and regulations, with agreement terms and, especially with the provisions of USAID Handbook 13 on non-allowable goods and services and on procedures that need to be complied with in connection with the procurement function.

Cause:

Inconsistency in the application of specific norms established by Annex III to the grant agreement and procedures established in the entity's administrative procedures manual.

Effect:

The cases of noncompliance noted under the condition have resulted in questionable costs in the amounts mentioned.

Recommendation:

AAP's management should investigate further the cases of noncompliance mentioned and resolve them to the satisfaction of USAID/G-CAP, or alternatively, reimburse to USAID/G-CAP the amount of the costs in question.

5. AAP did not Provide Evidence of Having Prepared and Submitted to USAID/G-CAP, Upon Completion of the Project, the Evaluation Report on the Impact of Project Activities.

Condition:

There is no evidence of the preparation and submission to USAID/G-CAP of the evaluation report required at the completion of the project.

Criteria:

The second paragraph of section D of Annex 2 to the grant agreement No. 520-0364 requires that AAP prepares, at the completion of the project, a final evaluation report.

Cause:

AAP's management prepared a letter, on June 29, 1993, indicating that this final report would not be prepared as an evaluation had been made six months prior to the completion of the project.

Effect:

Lack of an assessment to indicate whether or not project goals and objectives established for the life of the project were obtained.

Recommendation:

AAP's management should formally request USAID/G-CAP's acceptance in writing of the report on the evaluation performed in December 1991 in lieu of the final report on the Project required by the agreement.

**FINANCIAL CLOSE-OUT AUDIT OF THE BASIC AND INTEGRAL
EDUCATION PROJECT, PROJECT USAID/G-CAP No. 520-0364
MANAGED BY ASOCIACION DE AMIGOS DEL PAIS -AAP- FOR
THE PERIOD JULY 31, 1987 TO SEPTEMBER 30, 1992**

LIST OF REPORT RECOMMENDATIONS

Internal Control Structure:

Recommendation 1:

Although USAID/G-CAP project No. 520-0364 has already come to an end, AAP's management should seek to gather all documentation and obtain the necessary authorizations, as the case may require, with regards to the questionable costs described in Note 3.

Recommendation 2:

AAP's management should ensure that all project documentation is segregated from that belonging to other programs, in an attempt to comply with the provisions of the General Standards established by Annex III to the grant agreement, which require AAP to maintain all project documents in an orderly fashion for a period of three years after completion of the Project.

**Compliance with Agreement Terms and
Applicable Laws and Regulations:**

Recommendation 1:

AAP's management should clear this situation to the satisfaction of USAID/G-CAP.

Recommendation 2:

AAP's management should clear to the satisfaction of USAID/G-CAP the questioning of the costs for Q. 40,022, or reimburse that amount from its own funds.

Recommendation 3:

AAP's management should provide proper assurances to USAID/G-CAP regarding compliance with applicable laws and regulations and committing to deal, on its own, with all potential tax claims arising out of project transactions.

Recommendation 4:

AAP's management should investigate further the cases of noncompliance mentioned and resolve them to the satisfaction of USAID/G-CAP, or alternatively, reimburse to USAID/G-CAP the amount of the costs in question.

Recommendation 5:

AAP's management should formally request USAID/G-CAP's acceptance in writing of the report on the evaluation performed in December 1991 in lieu of the final report on the Project required by the agreement.

FINANCIAL CLOSE-OUT AUDIT OF THE BASIC AND INTEGRAL
EDUCATION PROJECT, PROJECT USAID/G-CAP No. 520-0364
MANAGED BY ASOCIACION DE AMIGOS DEL PAIS -AAP- FOR
THE PERIOD JULY 31, 1987 TO SEPTEMBER 30, 1992

MANAGEMENT COMMENTS

(Translation of the Spanish letter PEBI-066-93, dated June 29, 1993 and signed by Ms. Irma Tarano, Executive Director of Asociación de Amigos del País).

Mr. Axel Castellanos
Price Waterhouse

RE: COMMENTS TO AUDIT REPORT ON
PEBI/USAID GUATEMALA PROJECT NO. 520-0364

In response to your letter, identified below, concerning the close-out audit of the Basic and Integral Education Project (PEBI), Project No. 520-0364 for the period July 31, 1987 to September 30, 1992, we present below our comments on each one of the points contained in your letter dated June 7, 1993:

A. FUND ACCOUNTABILITY STATEMENT:

1. We enclose a reconciliation of funds at 09-30-92 where it is demonstrated that Q. 12,409 (identified by you) were reconciled to Accounts Receivable and Payable and Expense Provisions. This reconciliation demonstrates that the funds pertain to the counterpart contribution account opened by to manage the funds paid y Asociación de Amigos del País to the PEBI/AID Project.
2. We enclose letter from Banco Industrial, S. A., dated June 8, 1993, whereby they notify us that Q. 609,318 were used to open and credit the deposits account No. 00-410441-0 (specific account designed to exclusively handle the funds pertaining to USAID/G-CAP Agreement No. 520-0364 of PEBI Project).

(Three is missing)

4. By regulations of the Asociacion's Board of Directors, the minutes of meetings can only be read with previous authorization from the Board and in the presence of its Executive Director. In view that

this audit was conducted under time limitations and that during the auditors' visit AAP was occupied in previously programmed own matters, it was not possible to make the minutes available for their browsing in the single and precise moment when they were required by the auditors; however, the minutes are now available for your review.

5. The 1992 audit report by LIZARRALDE, AYESTAS, ASTURIAS Y RAMOS was in process when it was requested by the PW auditors. It is now available for their review.

In addition to the foregoing and under paragraph E below, we clarify the costs for Q283,323 which were questioned by you.

B. INTERNAL CONTROL STRUCTURE:

1. and 2. It is worth mentioning that you are auditing a project in process during five years, and under the following stages:

- . Project design.
- . Preparation of materials and their agreement with the Literacy Methodology.
- . Validation of materials within the target population.
- . Application of materials to different areas.

Both A.I.D. and AAP sustained administrative changes and also several control systems, derived from project evaluations, were implemented for the project's better efficiency. The transactions, expansions and results obtained by PEBI during 1992/1993, with no USAID/G-CAP financial assistance, evidence that the changes in operations introduced throughout the project were aimed at better results as the project attained its objectives on a self-sufficient basis and even expanded itself towards subsequent periods.

C. COMPLIANCE WITH AGREEMENT TERMS, AND APPLICABLE LAWS AND REGULATIONS:

1. See attached herewith letter from Banco Industrial, S. A. dated June 8, 1993, mentioned in paragraph A, section 2, of this letter.

- 2.3.4 Although it is true that in certain cases the auditors did not find at a given moment certain supporting documentation, in my opinion throughout the project implementation the entity did comply with the provisions of the Administrative and Accounting Manual, and those of the Income and Value-Added Taxes Laws as well as with the USAID procurement and bidding procedures manual. For these purposes, please refer to the specific explanations in section E of this letter.
5. The final project report as at 31.12.91 was indeed submitted; however, on the basis of an additional six-month extension the subsequent project operations were approved by the Projects Official who used to approve the project plan and budget extension and consequently he also approved the AID funds, which after having been previously treated as advances they became reimbursements.

We have also on file a Report on Results from January to June 1992, the PEBI's paper for 1992 and an Evaluation of the Overall PEBI Project made by external consultants in January 1993.

D. FOLLOW UP TO PRIOR AUDIT REPORT RECOMMENDATIONS:

1. The project progress, evaluation of its impact and the related financial reports were submitted to AID by AAP during the project evaluation stage.
2. Our reply contained in paragraphs B (1) and C (2 and 4) applies to this point. Also, it should be pointed out that AID changed its Executive Officials assigned to the project, who in due course used to give guidelines to regulations that varied within USAID itself during the process five years.
3. The financial statements of prior years are signed by the project accountant and the Financial Statements Ledger is in process of final posting, which, to our judgment, pertains to a normal process of internal operations.

E. SUMMARY OF QUESTIONABLE COSTS:

We deem it convenient to clarify as follows the questionable and unsupported costs that were brought to our attention:

- a) The procedure surrounding salary payments was at all times subject to prior AID approval. Our files contain sufficient evidence in this respect.
- b) I am interested in clarifying that the questioned unsupported cost for Q. 3,200 mentioned by you refers to IVA taxes corresponding to Q. 32,00 and not to Q. 3,200.
- c) The purchase of the vehicle was made from VIMECO, S. A. according to established procedures. This company is neither registered nor recognized as a member of AAP's. The member Jorge A. Villanueva C. was recognized as such during the general meeting of March 31, 1992, or subsequent to the purchase of the vehicle. We attach herewith copy of both the price requests and the purchase invoice.
- d) Concerning the payment for Q. 3,972 covering bar, appetizers and barmen services, the AID regulations had not been made known to AAP, as it is attested by correspondence received from AID. This expenditure was made to attain project established procedures at that date.

The disbursement covered by check No. 5425 was made for Q. 37,211.36 against which a reimbursement for Q. 29,038.64 was received on February 4, 1992 and deposited in the counterpart bank account to cover subsequent project disbursements. These disbursements were made for a greater amount. We attach copy of the payments made and of the expenditures invoice.

To date, we have been unable to locate in our files the listings of the participants in the training events for Q. 15,472, because they pertain to a previous period. However, we believe that it is possible to locate them.

- e) The billings issued by Cámara de Industria de Guatemala for printing the journal RAICES for the period November 1987 through March 1988 do not accompany the voucher, but

the documentation which supports these expenditures consists of cash receipt forms issued by the Cámara de Industria de Guatemala itself, which we consider are sufficient evidence of the payments made.

- f) Although no original invoice accompanies the voucher, the expenditure is supported by a cash receipt form issued by Distribuciones y Promociones Comerciales. This payment represents a renewal of the initial agreement signed in February 1990. We attach copy of both the initial agreement and its renewal.

The payments made to the Executive Director were made according to the contract between the Board of Directors and Ms. Irma Tarano O., whose terms were approved in due time by AID.

Further to the explanations given in this letter, I should like to point out that this management is interested in going on with the process of clarification which fully responds to the questionings and doubts included in your audit report for the PEBI/AID period July 31, 1987 to September 30, 1992 because we consider that the audit covered a period of many commitments for both PEBI and AAP in the furtherance and continuity of the project initiated with AID support and that in view of the satisfactory attainment of its objects is presently self-sufficient.

Expecting your comments, I salute you

Sincerely,

Licda. Irma Tarano
Executive Director

IT/yf
Attachments

c.c.: Treasury Office Board of Directors