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

**Audit of USAID/Guatemala's
Expansion of Family Planning Services
Project Activities Managed by the
Guatemalan Association for Sexual Education
January 1 to August 31, 1992**

**Audit Report No. 1-520-95-10-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

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July 24, 1995

MEMORANDUM

TO: Director USAID/Guatemala, ~~William S. Rhodes~~

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

SUBJECT: Audit of USAID/Guatemala's Expansion of Family Planning Services Project Activities, Managed by the Guatemalan Association for Sexual Education, January 1 to August 31, 1992

This report presents the results of a financial closeout audit of a grant agreement for the Expansion of Family Planning Services Project activities, USAID/Guatemala Project No. 520-0288, managed by the Guatemalan Association for Sexual Education (Association), for the period January 1 to August 31, 1992. The accounting firm affiliate of Price Waterhouse in Guatemala prepared the report dated January 10, 1994.

The goal of the project was to expand the Association's activities from one center in the capital city to five additional centers in the department capitals throughout Guatemala, together with a rural education program in the Mayan language. The grant also supported an ongoing rural education program in fifteen communities.

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, in all material respects, 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 \$164,863 of USAID/Guatemala disbursements to the project during the audited period.

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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 agreement, during the period audited, except for the effects of: (1) questionable costs amounting to \$953, (2) adjustments that may have been necessary had a fund balance reconciliation been performed, and (3) lack of information regarding the value of equipment and technical services provided directly by USAID/Guatemala in the fund accountability statement. The report also identified an outstanding fund balance of \$26,332.

With respect to the Association's internal control structure, the auditors identified two material weaknesses: (1) a lack of organizational, administrative, and financial procedures manuals and (2) a lack of an adequate filing system for documents that support project activities and disbursements.

Regarding compliance with agreement terms and applicable laws and regulations, the auditors noted four material instances of noncompliance: (1) lack of adequate determination of actual ending fund balance for the fund accountability statement, (2) project funds were commingled with other funds, (3) IVA taxes were charged to the project, and, (4) prior audits of the project were not contracted according to the required guidelines.

The project ended August 31, 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 recommendations 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 \$953 (questioned) identified in the Price Waterhouse report dated January 10, 1994, and recover from the Guatemalan Association for Sexual Education the amounts determined to be unallowable.

Recommendation No. 2

We recommend that USAID/Guatemala resolve the outstanding fund balance of \$26,332 identified in the Price Waterhouse audit report, and recover from the Guatemalan Association for Sexual Education the amounts determined to be unallowable.

Recommendations No. 1 and No. 2 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 draft report was discussed with representatives from USAID/Guatemala and the Association. Based upon the 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 recommendations.

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

**Audit of USAID/Guatemala's
Expansion of Family Planning Services
Project Activities Managed by the
Guatemalan Association for Sexual Education
January 1 to August 31, 1992**

**Audit Report No. 1-520-95-10-N
July 24, 1995**

CLOSE OUT AUDIT OF THE EXPANSION OF FAMILY PLANNING
SERVICES PROJECT, USAID/G-CAP PROJECT No. 520-0288,
MANAGED BY THE GUATEMALAN ASSOCIATION FOR SEXUAL
EDUCATION (ASOCIACION GUATEMALTECA DE EDUCACION
SEXUAL - AGES) FOR THE PERIOD JANUARY 1
TO AUGUST 31, 1992

CLOSE OUT AUDIT OF THE EXPANSION OF FAMILY PLANNING
SERVICES PROJECT, USAID/G-CAP PROJECT No. 520-0288,
MANAGED BY THE GUATEMALAN ASSOCIATION FOR SEXUAL
EDUCATION (ASOCIACION GUATEMALTECA DE EDUCACION
SEXUAL - AGES) FOR THE PERIOD JANUARY 1
TO AUGUST 31, 1992

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Price Waterhouse



November 17, 1994

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

Dear Mr. Gothard:

This report presents the results of our close out audit of the Expansion of Family Planning Services project, USAID/G-CAP Project No. 520-0288, managed by the Guatemalan Association for Sexual Education (Asociación Guatemalteca de Educación Sexual -AGES-), during the period January 1 to August 31, 1992.

BACKGROUND

On August 27, 1982, USAID/G-CAP approved the Expansion of Family Planning Services Project (No. 520-0288), whereby US\$ 3,175,200 were to be donated to the Guatemalan Association for Sexual Education (AGES). The general purpose of the grant was to expand AGES' Young Adult Family Life Education and Family Planning Counseling Programs to eleven rural predominantly-Indian departments in Guatemala.

The project intended to expand AGES' activities from an urban center in the capital city to the opening of five additional centers in the capital city of the departments, together with a rural education program in Maya language. The grant would also support an ongoing rural female education program in fifteen communities. AGES has conducted research activities in rural communities for the design of educational materials in both Spanish and Maya on family life and the spacing of pregnancies. AGES' educational activities do complement the activities of other project implementing units, by supplying family planning and mother health services, together with referral services. On December 27, 1991 amendment 11 was issued and established the Project Assistance Completion Date (PACD) at August, 31 1992.

AGES is an association with its own legal personality, whose bylaws were approved on June 20, 1979. AGES is a not-for-profit entity which gathers together anyone interested in the dissemination of sexual education oriented towards family life, and is fully devoted to sexual education in all its aspects.

AUDIT OBJECTIVES

The objectives of the close out audit of the Expansion of Family Planning Services Project, USAID/G-CAP Project No. 520-0288, which was conducted in accordance with generally accepted auditing standards and the "Government Auditing Standards" issued by the Comptroller General of the United States, were the following:

1. Express an opinion on whether the fund accountability statement for the USAID/G-CAP funded programs and projects presents fairly, in all material respects, project receipts and costs incurred for the period January 1 to August 31, 1992, in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis and modifications thereof.
2. Evaluate and obtain a sufficient understanding of AGES' internal control structure, assess control risk, and identify reportable conditions, including material internal control weaknesses, if any.
3. Perform tests to determine whether AGES complied, in all material respects, with agreement terms and applicable laws and regulations, and express positive assurance on those items tested and negative assurance on items not tested, identifying all material instances of noncompliance and all indications of illegal acts.
4. Determine whether AGES had adopted adequate corrective action on prior audit report recommendations.

AUDIT SCOPE

As a basis for our audit program and examination, we reviewed all project financial and progress reports, charts of accounts, organization chart, accounting systems descriptions, procurement policies and procedures, and receipt, warehousing and distribution procedures, as necessary, together with the applicable agreements, contracts, budgets, project implementation letters and circulars on OMB and USAID standards.

Our tests were specifically designed to meet audit objectives, as described above, and to conform with the application of generally accepted auditing standards and the "Government Auditing Standards."

RESULTS OF WORK

A. Fund Accountability Statement

- Neither the beginning cash on hand balance for Q.122,411, nor the ending cash balance were properly reconciled with

respect to own and project funds; consequently, it was not possible to determine the exact amount that should have been reimbursed to USAID/G-CAP at the project's completion; therefore, both the ending cash on hand balance and the related amount reimbursed to USAID/G-CAP should be cleared.

- AGES was not supplied with either documentation or data on the procurement and technical assistance directly provided by USAID/G-CAP; consequently, the related amounts have not been disclosed in the fund accountability statement examined by us.
- Our audit identified questionable costs for Q. 4,899 (note 7 to the fund accountability statement). These costs pertain to some value-added (IVA) taxes paid by AGES and which do not qualify as eligible project expenses.

In our opinion, except for the effects of the matters discussed in the preceding three paragraphs, the fund accountability statement examined by us presents fairly, in all material respects, the receipts and disbursements of the Expansion of Family Planning Services Project, USAID/G-CAP Project No. 520-0288, managed by the Guatemalan Association for Sexual Education (AGES), during the period January 1 to August 31, 1992, in conformity with the basis of accounting described in Note 2 to the fund accountability statement.

B. Internal Control Structure

We noted certain matters involving the internal control structure and its operation that we consider to be material reportable conditions in accordance with standards established by the American Institute of Certified Public Accountants. These conditions are summarized as follows:

- Some administrative controls were not put in place for establishing and maintaining an adequate internal control structure to meet USAID/G-CAP requirements.
- The system for filing the project activities and transactions' related documentation was not adequate.

C. Compliance with Agreement Terms and Applicable Laws and Regulations

Our tests and procedures disclosed the following instances of noncompliance:

- The project cash on hand balances were not adequately disclosed in the fund accountability statement and

accumulated information on the project financial execution as at december 31, 1991 was not prepared by AGES.

- Project funds were commingled with other funds
- IVA taxes were charged to the project.
- The project transactions for 1991 were not audited per USAID's Guidelines for Financial Audits Contracted by Foreign Recipients.

D. Follow-up on Prior Audit Recommendations

Prior audit report recommendations were submitted to AGES with respect to the entity taken as a whole and not specifically in relation to Project No. 520-0288. Our follow-up on those recommendations did not disclose anything that might lead us to believe that such recommendations had not been implemented.

MANAGEMENT COMMENTS

Management comments, in writing, were supplied to us on June 21, 1994 and they have been taken into consideration in the preparation of this final report. The comments in question assisted us in determining which findings were to be considered as closed and which ones should remain open for further clarification. The comments are detailed in Annex I to this report and are summarized below:

1. The questioned costs for Q. 4,899 pertaining to IVA taxes paid with grant funds are immaterial to the fund accountability statement. These taxes were at all times charged to the project and were never disallowed, despite that these payments were clearly disclosed in the reports submitted to AID.
2. Regarding the internal control structure it is necessary to clarify that the 1992 budget, jointly prepared with AID, contained 50% less allocations than in prior years. This reduction, in fact, amounted to 75% as the activities covered by the grant were financed only as from June 1992, which meant that a small clerical staff worked to close out the project.
3. The remark concerning the filing system, contained in the Results of Work section of the report, should be deleted because the system is considered functional and is in place since the implementation of the AID and AGES approved manuals, recommended by the accounting firm of Praun & Reyes in 1988.
4. With respect to the commingling of funds mentioned under the Compliance section of the report, we acknowledge that the commingling happened because in some occasions AID was tardy in delivering the grant monies. For the entity it was

preferably to borrow other receipts rather than stop the merits of the project because of the delay in the delivery of funds, including service contracts paid to the entity by AID.

5. The assertion that the project transactions for 1991 were not audited according to USAID guidelines on the matter should be deleted because such guidelines were not applicable at the time. AGES was informed on the new audit requirements in November 1991 and we understood that these requirements were applicable to the grant activities from 1992 onwards.

Steve Waterhouse



EXPANSION OF FAMILY PLANNING SERVICES PROJECT,
USAID/G-CAP PROJECT No. 520-0288 MANAGED BY THE
GUATEMALAN ASSOCIATION FOR SEXUAL EDUCATION (ASO-
CIACION GUATEMALTECA DE EDUCACION SEXUAL (AGES)
FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying fund accountability statement of the Expansion of Family Planning Services Project, USAID/G-CAP Project No. 520-0288, managed by the Guatemalan Association for Sexual Education (Asociación Guatemalteca de Educación Sexual - AGES), during the period from January 1 to August 31, 1992. This statement is the responsibility of AGES' management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as explained in the third and fourth paragraphs below, our audit was conducted 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 presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

AGES did not supply us with sufficient and competent documentary evidence for us to determine the project and other funds on hand which were part of the beginning cash balance at January 1, 1992 for Q. 122,411. Consequently, the cash on hand balance at the end of the period (August 31, 1992), and the reimbursement thereof made to USAID/G-CAP are not adequately disclosed in the fund accountability statement. In view of this scope limitation, our audit procedures were not sufficient for us to satisfy ourselves regarding the cash balances at the above mentioned dates or with respect to the reasonableness of the reimbursement to USAID/G-CAP.

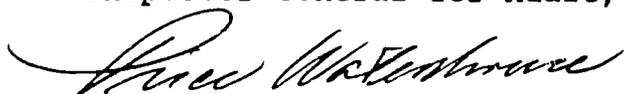
Also, our tests revealed some questionable costs pertaining to value-added (IVA) taxes in the amount of Q. 4,899 (note 7), paid by the entity and which do not qualify as proper project expenses. This sum does not include other IVA payments that could have been made in prior years, whose determination is beyond the scope of our work.

AGES was not supplied with either documentation or data on the procurement and technical assistance directly provided by USAID/G-CAP and consequently, the related amounts were not disclosed in the fund accountability statement examined by us.

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.

In our opinion, except for (a) the questioned costs mentioned in the third paragraph, (b) the effects of the adjustments, if any, that might had been determined as necessary had the beginning cash on hand balance for Q. 122,411, the cash on hand at the end of the period, and the reimbursement made to USAID/G-CAP been properly reconciled with respect to own and project funds, and (c) the effects of not including information regarding the procurement and technical assistance directly provided by USAID/G-CAP, the fund accountability statement examined by us presents fairly, in all material respects, the cash receipts and disbursements of the Expansion of Family Planning Services Project, USAID/G-CAP Project No. 520-0288, managed by the Guatemalan Association for Sexual Education (AGES) during the period from January 1 to August 31, 1992, in conformity with the basis of accounting described in Note 2 to the fund accountability statement.

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



January 10, 1994

EXPANSION OF FAMILY PLANNING SERVICES PROJECT,
USAID/G-CAP PROJECT No. 520-0288 MANAGED BY THE
GUATEMALAN ASSOCIATION FOR SEXUAL EDUCATION (ASO-
CIACION GUATEMALTECA DE EDUCACION SEXUAL (AGES)
FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

FUND ACCOUNTABILITY STATEMENT
(Expressed in Quetzales)

	<u>BUDGET</u> <u>1,992</u>	<u>ACTUAL</u>	<u>QUESTIONED</u> <u>COSTS</u>
Balance January 1, 1992		Q122,411	
1992 Receipts		<u>860,328</u>	
<u>Total cash available</u>		<u>982,739</u>	
<u>DISBURSEMENTS:</u>			
Salaries	487,269	488,085	
Technical Assistance	19,000	21,116	
Training	5,000	2,719	
Travel/Per Diem	64,613	71,595	
Equipment/Vehicles	25,200	29,784	
Promotion/Publicity	17,900	20,683	
Administrative Costs	99,280	94,162	
Evaluation/Audit	10,000	9,095	
Special Programs	<u>129,085</u>	<u>110,155</u>	
<u>Total disbursements</u>	<u>857,347</u>	<u>847,394</u>	4,899
Excess receipts over disbursements, (see Note 4, and also finding No. 1 in the Compliance Section)		135,345 =====	

The accompanying notes are an integral part of
the fund accountability statement

EXPANSION OF FAMILY PLANNING SERVICES PROJECT,
USAID/G-CAP PROJECT No. 520-0288 MANAGED BY THE
GUATEMALAN ASSOCIATION FOR SEXUAL EDUCATION (ASO-
CIACION GUATEMALTECA DE EDUCACION SEXUAL (AGES)
FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - HISTORY AND OPERATIONS

On August 27, 1982, USAID/G-CAP approved the Expansion of Family Planning Services Project No. 520-0288, whereby US\$3,175,200 were to be donated to the Guatemalan Association for Sexual Education (Asociación Guatemalteca de Educación Sexual - AGES). The general purpose of the grant was to expand AGES' Young Adult Family Life Education and Family Planning Counseling Programs to eleven rural predominantly-Indian departments in Guatemala. The project intended to expand AGES' activities from an urban center in the capital city to the opening of five additional centers in the capital city of selected departments, together with a rural education program in Maya language. The grant would also support an ongoing rural female education program in fifteen communities. AGES has conducted research activities in rural communities for the design of educational materials in both Spanish and Maya on family life and the spacing of pregnancies. AGES' educational activities do complement the activities of other project implementing units, by supplying family planning and mother health services, together with referral services.

The main activities covered by the project's budget are the following:

1. Salaries and Wages	US\$ 1,152,703
2. Technical Assistance	232,617
3. Training	153,356
4. Travel and Per Diem Expenses	570,261
5. Equipment/Vehicles	414,194
6. Promotion/Publicity	187,654
7. Administrative Costs	109,778
8. Supplies	90,836
9. Evaluations and Audit	41,360
10. Special Programs	133,980
11. Other Direct Costs	88,460
TOTAL	<u>US\$ 3,175,199</u>

Grant agreement amendment No. 11, dated December 27, 1991, established the Project Assistance Completion Date (PACD) at August, 31 1992.

AGES is a legal entity whose bylaws were approved on June 20, 1979. The entity is a non-profit organization which gathers together anyone interested in the dissemination of sexual education oriented towards family life and is fully devoted to sexual education in all its aspects.

NOTE 2 - BASIS OF ACCOUNTING

The fund accountability statement was prepared on the cash basis, whereby receipts are recorded when collected and disbursements are recognized when paid, and not when incurred.

NOTE 3 - RATE OF EXCHANGE

The local currency of Guatemala is the quetzal, denoted by the symbol Q. The functional exchange rate with respect to the U. S. dollar at the end of period was Q. 5.14 to US\$ 1.00.

NOTE 4 - EXCESS RECEIPTS OVER DISBURSEMENTS AT THE END OF THE PERIOD

The excess receipts of Q. 135,345 over the disbursements made during the period ended on August 31, 1992 was disposed of by AGES as follows:

Bank deposits with:

Banco Uno (including interest for Q. 1,430 earned with BANEX)	Q. 61,430
Banco Metropolitano	6,668
BANDESA	<u>5,232</u>
Total deposited in banks	73,330
Investment in PROBURSA's securities	<u>120,000</u>
Subtotal	193,330
Deduct:	
- Amount returned to USAID/G-CAP on October 2, 1992 (see Note 5)	(54,007)
- Uncleared difference (see finding No. 1 of the Compliance section)	<u>(3,978)</u>
	<u>Q 135,345</u>
	=====

NOTE 5 - INVENTORY OF NONEXPENDABLE PROPERTY

Nonexpendable property acquired under the agreement is not disclosed in the fund accountability statement. However, subsidiary records are maintained for control purposes and footed at the end of period. The balance of these inventories as at August 31, 1992 approximately amounts to Q. 511,000, and according to the pertinent listings supplied such balance is broken-down as follows:

Number of items exceeding Q. 100 each	744
Number of items not exceeding Q. 100 each	<u>1,859</u>
	2,603
Number of items with no value	<u>776</u>
Total items on hand at August 31, 1992	3,379
	=====

NOTE 6 - SUBSEQUENT EVENTS

Reimbursement of Grant Funds -

Funds were supplied to the project by way of cash advances, whereby any unspent sums at the project completion were to be returned to USAID/G-CAP. Consistent with this provision, on October 2, 1992 AGES reimbursed Q54,007 to USAID/G-CAP for the sums not used for project purposes. This amount is not reflected in the fund accountability statement.

NOTE 7 - COUNTERPART CONTRIBUTIONS

No counterpart contributions were paid to the project by AGES in view that such payments were not required by the related grant agreement.

NOTE 8 - QUESTIONED COSTS

Questioned costs are those costs that are not allowable on the grounds that they are not related to the program, are not reasonable, or are prohibited by the agreement or applicable laws and regulations. Unsupported costs are those costs not supported by adequate documentation or that lack prior required approvals.

Our review disclosed questionable costs for Q. 4,899 pertaining to IVA taxes not allowed by the grant agreement. These costs cannot be disclosed per component in the fund accountability statement because they are too numerous and small per individual transaction. These costs are equivalent to US\$ 953 at an exchange rate of Q. 5.14 to US\$ 1.00.



EXPANSION OF FAMILY PLANNING SERVICES PROJECT,
USAID/G-CAP PROJECT No. 520-0288 MANAGED BY THE
GUATEMALAN ASSOCIATION FOR SEXUAL EDUCATION (ASO-
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FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying fund accountability statement of the Expansion of Family Planning Services Project, USAID/G-CAP Project No. 520-0288, managed by the Guatemalan Association for Sexual Education (Asociación Guatemalteca de Educación Sexual - AGES) during the period January 1 to August 31, 1992, and have issued our report thereon dated January 10, 1994. Counterpart contributions were not required by the related grant agreement.

Except for the scope limitation concerning the determination of the project's beginning and ending cash balances, and the sum returned to USAID/G-CAP at the project completion, described 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 of the Expansion of Family Planning Services Project, USAID/G-CAP Project No. 520-0288, managed by the Guatemalan Association for Sexual Education (AGES) during the period from January 1 to August 31, 1992, we considered the internal control structure established by AGES 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 AGES 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 or 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 the basis of accounting used by the entity. 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 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: a) accounting, budget, and financial information systems; b) procurement and contracting procedures and practices; c) cash management and bank reconciliation procedures; and d) procedures to assure that project charges are adequately documented.

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 had 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 fund accountability statement. These reportable conditions are described in 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 would be material in relation to the financial statements 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 material weaknesses 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 reportable conditions described as findings Nos. 1 and 2 are material weaknesses.

This report is intended for the information of AGES management and the United States Agency for International Development (USAID). This restriction does not intend to limit distribution of this report which, upon 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 "Lisa Waterhouse".

January 10, 1994

EXPANSION OF FAMILY PLANNING SERVICES PROJECT,
USAID/G-CAP PROJECT No. 520-0288 MANAGED BY THE
GUATEMALAN ASSOCIATION FOR SEXUAL EDUCATION (ASO-
CIACION GUATEMALTECA DE EDUCACION SEXUAL (AGES)
FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

INTERNAL CONTROL STRUCTURE

FINDINGS

1. Some Administrative Controls Were Not Put in Place for Establishing and Maintaining an Adequate Internal Control Structure to Meet USAID/G-CAP Requirements.

Condition:

AGES did not have in place organization and administrative and financial procedure manuals (budget and financial accounting) to provide adequate guidelines for complying with USAID/G-CAP purposes, and to establish separate controls over cash (bank reconciliations and control over receipts), acquisition of goods and services, fixed assets, and other policies and procedures related to the USAID/G-CAP provided funds.

Criteria:

Per USAID Handbook 13, all implementing units are required to function under clear and well defined responsibilities, duly coordinated, and to establish sufficient documentation systems for the entities, including policies and procedure manuals, charts of organization, flow-charts and all other documents which describe the entity's organizational structure and systems and procedures in force.

Cause:

Management considered that its current instructions, such as those related to the computer accounting system and administrative procedures (which do not provide for the USAID required controls) were appropriate for maintaining an adequate internal control structure suitable to generate grant financial data and to comply with USAID/G-CAP requirements.

Effect:

The absence of proper guidelines increases the possibility that significant errors or irregularities might occur and not be opportunely detected by officers and employees or by the entity's control and verification units.

Recommendation:

Management should take the necessary action to put in place an organization and administrative/accounting procedures manual adapted to the entity's and project's needs, in order to ensure that an adequate internal control structure (control environment, accounting system, and control procedures) is in operation for current operations and for future projects with USAID/G-CAP.

2. The System for Filing the Project Activities and Transactions' Related Documentation was Not Adequate.

Condition:

The filing system which controls the project activities and transactions was inadequate, as it does not permit easy access to the vouchers and other documentation for their review or further consultation.

Criteria:

Annex III to the grant agreement requires that AGES maintains on file the documentation and other evidence which support all charges to the grant.

Cause:

The personnel turnover in the administrative and accounting areas facilitated the application of different criteria and filing systems. Also, in some cases, the employees leaving AGES did not explain the positions' responsibilities to their successors.

Effect:

Untimeliness and difficulties for the entity to locate and submit the project documentation whenever it is requested to do so.

Recommendation:

Management should endeavor to locate and maintain the project related documentation in good order and on file for a period of not less than three years after the project assistance effective completion date.



EXPANSION OF FAMILY PLANNING SERVICES PROJECT,
USAID/G-CAP PROJECT No. 520-0288 MANAGED BY THE
GUATEMALAN ASSOCIATION FOR SEXUAL EDUCATION (ASO-
CIACION GUATEMALTECA DE EDUCACION SEXUAL (AGES)
FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the Expansion of Family Planning Services Project, USAID/G-CAP Project No. 520-0288, managed by the Guatemalan Association for Sexual Education (Asociación Guatemalteca de Educación Sexual - AGES), during the period January 1 to August 31, 1992, and have issued our report thereon dated January 10, 1994. Counterpart contributions were not required by the related grant agreement.

Except for the scope limitation concerning the determination of the project's beginning and ending cash balances, and the sum returned to USAID/G-CAP at the project completion, described 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 AGES is the responsibility of AGES' management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of AGES'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 misstatements resulting from those failures or violations is material to the fund accountability statement.

The results of our tests of compliance disclosed the material instances of non compliance described in the following pages and identified as findings 1, 2, 3 and 4.

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement of the Expansion of Family Planning Services Project, USAID/G-CAP Project No. 520-0288 managed by AGES, for the period from January 1 to August 31, 1992 is presented fairly, in all material respects, in conformity with the basis of accounting described in Note 2 to the fund accountability statement, and this report does not affect our report on the fund accountability statement dated January 10, 1994.

Except as described above, the results of our tests of compliance indicate that with respect to the items tested, AGES 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 AGES had not complied, in all material respects, with those provisions.

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


January 10, 1994

EXPANSION OF FAMILY PLANNING SERVICES PROJECT,
USAID/G-CAP PROJECT No. 520-0288 MANAGED BY THE
GUATEMALAN ASSOCIATION FOR SEXUAL EDUCATION (ASOCIACION
GUATEMALTECA DE EDUCACION SEXUAL (AGES)
FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

FINDINGS

1. The Project Cash on Hand Balances Were Not Adequately Disclosed in the Fund Accountability Statement and Accumulated Information on the Project Financial Execution as at December 31, 1991 Was Not Prepared by AGES.

Condition:

- The beginning cash balance shown in the fund accountability statement was not adequately determined and consequently it was not possible to establish whether the balance of Q. 122,411 reported by AGES was reasonably presented, causing uncertainties with regards to the correctness of both the cash balance at the end of period and the subsequent reimbursement to USAID/G-CAP.
- The following additional non-audited financial data submitted by AGES in support of the beginning cash balance for 1991 does not clarify the matter:

Balance for 1990 fourth quarter	Q.	175,000
1991 first quarter		503,409
1991 second quarter		378,034
1991 third quarter		474,611
1991 fourth quarter		624,124
Balance 1991 fourth quarter		<u>160,734</u>
Total receipts 1991		<u>Q.2,315,912</u>
USAID/G-CAP adjustment		17,072
Balance December 31, 1990		<u>102,704</u>
Cash available		Q 2,435,688
Disbursed during 1991	Q	2,351,761
Supplement for 1990		<u>62,381</u>
Ending balance 1991		<u>2,414,142</u>
Balance shown in the Fund Accountability Statement (*)		<u>Q 122,411</u>
Difference Pending Clarification		<u>Q 100,865</u>

- (*) Deposited in a bank account where it is not clear if the balance in question covers own funds, and project or other project funds (see Cause, below).
- The amount of Q. 54,007 returned by AGES to USAID/G-CAP on October 2, 1992, by check No. 111611, was not disclosed in the fund accountability statement prepared by AGES.
- No financial information for its presentation as an annex to the fund accountability statement in relation to the project budget execution as at December 31, 1991, was submitted by AGES.

Criteria:

Section 2, paragraph a) 2 and paragraph a) 4 of the USAID Manual 3 (General provisions for non-U.S. grantees), and Handbook 13 require that appropriate records should be maintained to adequately identify the source and application of funds for USAID programs, together with a comparison of actual disbursements with the budgeted amounts.

Cause:

Project funds were commingled with other USAID/G-CAP funded programs and funds, and the filing system was deficient.

The commingling is confirmed by management in its comments on the draft audit report submitted to us on June 21, 1994 (Annex 1) wherefrom we quote: "...we acknowledge that the commingling happened because in some occasions AID was tardy in delivering the grant monies."

Effect:

Uncertainty with respect to the exact amount to be returned to USAID/G-CAP for the funds not spent in project activities, because it was not possible to determine the reasonableness of both the project beginning and ending cash balances and the reimbursement to USAID/G-CAP.

Recommendation:

AGES should properly determine the project beginning cash balance so as to clarify to the satisfaction of USAID/G-CAP whether this balance, and that at the end of the period, together with the amount returned are correct. Management should also submit to USAID/G-CAP the accumulated financial information on the budget execution for the project up to December 31, 1991.

2. Project Funds Were Commingled With Other Funds.

Condition:

Grant or project funds were commingled with other USAID/G-CAP projects and non project funds. However, some ledgers were maintained for cash on hand control purposes.

Criteria:

AGES was required to comply with Annex III to the grant agreement, which states that USAID funds should not be commingled with grantees' own funds or controlled by them.

Cause:

Unawareness of the USAID provisions and regulations on the matter, coupled to a conscious decision regarding project obligations, as confirmed by management in its comments of June 21, 1994 on the draft audit report (summarized in Annex 1).

Effect:

Inadequate presentation of the project beginning and ending cash balances in the fund accountability statement subject to audit; scope limitation in our work for determining the reasonableness of the mentioned cash balances and of the reimbursement made to USAID/G-CAP at the project completion.

Recommendation:

Management should attempt to clear the above mentioned balances in order to properly determine the amounts which actually pertain to the project and other funds, so that the reasonableness of both the returned amount to USAID/G-CAP and the differences noted can be established.

3. IVA Taxes Were Charged to the Project.

Condition:

Value-added (IVA) taxes for Q. 4,899 were paid with project funds during the eight-month period under review. This amount excludes any IVA taxes that may have been paid with grant funds in prior periods.

Criteria:

Taxes are beyond the agreement as project eligible costs.

Cause:

Management's unawareness of grant agreement terms concerning this type of disbursements.

Effect:

Questioning of Q4,899 of tax payments (IVA) as project unallowable costs.

Recommendation:

AGES should determine the total IVA taxes paid and collected from USAID/G-CAP during the project life, in order to reimburse the amount of all unallowable (ineligible) costs.

4. The Project Transactions for 1991 Were Not Audited Per USAID's Guidelines for Financial Audits Contracted by Foreign Recipients.

Condition:

The audits of the project conducted in the past (1991, included) were not contracted according to the required guidelines.

Criteria:

AGES was required to comply with amendment No. 10 dated October 31, 1991, which establishes that project audits are to be conducted according to the USAID's Guidelines for Financial Audits Contracted by Foreign Recipients.

Cause:

Management claims that prior to October 1991, pursuant to the grant agreement, the entity was not required to contract this type of audits. Nevertheless, although the audit for 1991 was contracted without reference to the above mentioned guidelines, a copy of the related audit report was supplied to USAID/G-CAP.

Effect:

Possibility that potential non-compliance instances and questioned costs might had not been detected prior to 1992, because the related audits were presumably performed under an approach different from that required by the guidelines.

Recommendation:

Management should provide USAID/G-CAP with the pertinent explanations on the matter so that the audit reports for 1991 and prior to that year are ultimately accepted by USAID/G-CAP. With respect to any future agreements with USAID/G-CAP, management should be aware that the projects' audits are to be contracted according to USAID requirements, in order to preclude any non-compliance with agreement terms.

CLOSE OUT AUDIT OF THE EXPANSION OF FAMILY PLANNING SERVICES PROJECT, USAID/G-CAP PROJECT No. 520-0288, MANAGED BY THE GUATEMALAN ASSOCIATION FOR SEXUAL EDUCATION (ASOCIACION GUATEMALTECA DE EDUCACION SEXUAL - AGES) FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

LIST OF REPORT RECOMMENDATIONS

Internal Control Structure

Recommendation 1:

Management should take the necessary action to put in place an organization and administrative/accounting procedures manual adapted to the entity's and project's needs, in order to ensure that an adequate internal control structure (control environment, accounting system, and control procedures) is in operation for current operations and for future projects with USAID/G-CAP.

Recommendation 2:

Management should endeavor to locate and maintain the project related documentation in good order and on file for a period of not less than three years after the project assistance effective completion date.

Compliance With Agreement Terms And Applicable Laws And Regulations

Recommendation 1:

AGES should properly determine the project beginning cash balance so as to clarify to the satisfaction of USAID/G-CAP whether this balance, and that at the end of the period, together with the amount returned are correct. Management should also submit to USAID/G-CAP the accumulated financial information on the budget execution for the project up to December 31, 1991.

Recommendation 2:

Management should attempt to clear the above mentioned balances in order to properly determine the amounts which actually pertain to the project and other funds, so that the reasonableness of both the returned amount to USAID/G-CAP and the differences noted can be established.

Recommendation 3:

AGES should determine the total IVA taxes paid and collected from USAID/G-CAP during the project life, in order to reimburse the amount of all unallowable (ineligible) costs.

Recommendation 4:

Management should provide USAID/G-CAP with the pertinent explanations on the matter so that the audit reports for 1991 and prior to that year are ultimately accepted by USAID/G-CAP. With respect to any future agreements with USAID/G-CAP, management should be aware that the projects' audits are to be contracted according to USAID requirements, in order to preclude any non-compliance with agreement terms.

CLOSE OUT AUDIT OF THE EXPANSION OF FAMILY PLANNING SERVICES PROJECT, USAID/G-CAP PROJECT No. 520-0288, MANAGED BY THE GUATEMALAN ASSOCIATION FOR SEXUAL EDUCATION (ASOCIACION GUATEMALTECA DE EDUCACION SEXUAL -AGES-) FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

MANAGEMENT COMMENTS

(Free translation of letter No. 82-94, dated June 21, 1994 and signed by Mr. Eduardo Sacayon, Project Director, that contains AGES' comments and explanations concerning the contents of the draft audit report for the period from January 1 to August 31, 1992).

Mr.
Oscar Cordon,
Price Waterhouse
Guatemala

Following are our comments on the draft audit report on USAID/-Guatemala Project No. 520-0288 for the period from January 1 to August 31, 1992, managed by Asociación Guatemalteca de Educación Sexual (AGES). It is noteworthy to state that upon our getting hold of the draft we sought a meeting with the audit responsible staff with no success.

To begin with we request more precision and clarity in the statements and wording used in the report, for which purposes we suggest the corresponding modifications and changes thereon.

In view that the main components of the USAID financed project are still in force and are under execution by our entity through other sources and grants, we take exception to what it is stated in the background section on the first page, which reads as follows:

"...The project attempted to expand AGES' activities from an urban center in the capital city to the opening of five additional centers in the capital city of the departments, together with a rural education program in Maya language. The grant would also support a rural female education program..." (emphasis supplied).

The sentence should have read "... The project intended (as well as) the grant supported..."

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With respect to the RESULTS OF AUDIT, paragraph A: FUND ACCOUNTABILITY STATEMENT: we disagree with the opinion regarding the IVA taxes. These questioned costs for Q4,899.00 pertaining to IVA taxes are immaterial to the overall disbursements reported in said statement. Also, these taxes were at all times charged to the AID financing and were never disallowed, despite that these payments were clearly disclosed in the fiscal reports submitted monthly to AID.

Concerning the reconciliation of the beginning cash balance for Q122,411, our Accounting Department has on file the bank reconciliations that prove said beginning balance. Also, the Accounting Department performed other tests that permitted us to prepare an adequate reconciliation with respect to project and other own funds (attached to this report).

Regarding paragraph B: INTERNAL CONTROL STRUCTURE, page 4, we disagree with the remarks that the auditors summarize as follows:

"No administrative tools were put in place for establishing and maintaining an adequate internal control structure to meet USAID/Guatemala requirements".

We suggest that the paragraph be amended as follows:

"Some administrative tools were not put in place... (etc)..."

It is necessary to clarify that AGES prepared, jointly with AID, a budget for the year 1992 with 50% less allocations than prior years. However, the actual reduction amounted to 75%, as the activities covered by the grant were financed only as from June 1992. During July and August of that year, a small clerical staff worked to close out the project.

This meant a staff cut and changes in the project's administrative structure that affected the application of some internal control tools, nevertheless AGES maintained in place an adequate internal control in conformity with the new administrative structure (we attach copy of grant amendment No. 11, dated December 27, 1991, signed by Mr. John P. McAvoy).

The AID strategy for 1992 envisaged a progressively higher budget reduction, from January to June, for AGES to be able to seek new financial sources in order to continue and go on with the project's main components that in the absence of AID assistance would have been canceled.

The strategy was successful as AGES did find new financing for what was INTENDED AND SUPPORTED by grant 520-0288 (see Background, page 1 of the report commented upon).

In fact, AGES has in place an urban center in the capital city and 4 additional centers in Chimaltenango, Huehuetenango, San Marcos and Quetzaltenango, where a Maya language rural education program is in process.

Also, to date AGES manages a rural female education program in 13 Indian communities in the country's western highlands.

Furthermore, AGES maintains an editorial and printing service for the public as well as for the design and printing of its own educational material related to reproductive health, spacing of pregnancies, mother-child health, AIDS prevention and environmental protection (we attach herewith an evaluation of the studies pouch project's impact and that of the grant on the young promoters project, performed with international donor institutions).

With respect to the second remark of RESULTS, paragraph B, Internal Control Structure, page 4, that reads:

"The system for filing the project activities and transactions' related documentation is not adequate."

We request that the remark be deleted, because the filing system is functional and is in place since the implementation of the AID and AGES approved manuals, recommended by the accounting firm of Praun and Reyes, in 1988.

Thus, all the accounting documentation was shown to the officers responsible for the audit in question.

Also, we showed them the documentation between AID and AGES related to the technical reports required by the agreement, such as the quarterly reports on the entity's activities, scope of goals, annual papers, budget authorizations and changes, authorization of purchases, travel and scholarships abroad, as well as monthly expense reports and liquidations, etc.

Otherwise, we cannot explain ourselves, how could the auditors satisfy themselves on the amounts disclosed in the fund accountability statement for the period under audit?. In this sense, all the receipts and expenses documentation was submitted in the most adequate form.

What we at present lack is supporting staff, to the extent that neither the Director nor the Financial-Administrative Chief have a secretary. This was the cause for our delays and that we were not punctual in submitting some information concerning the AGES/AID agreement, particularly the remotest one.

With respect to section C. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS, page 4, where it is stated:

"Grant or project funds were commingled with other non project and other funds."

we request that this paragraph be improved as follows:

"AGES commingled grant or project funds with other project and other funds. Nevertheless, AGES did maintain subsidiary records to permit the follow up and evaluation of said funds."

In this sense, we acknowledge that the commingling happened because in some occasions AID was tardy in delivering the grant monies. For us it was preferably to borrow other receipts rather than stop the merits of our projects because of the delay in the delivery of funds, including service contracts paid to us by AID itself, such as in the case of the CONFERENCE "WE WILL ATTAIN THE DEVELOPMENT OF GUATEMALA BY EDUCATING THE GIRL".

Concerning the second paragraph, of section C, page 4 where it is stated that:

"AGES used to pay IVA taxes with grant funds; the amount established for the eight project final months is Q4,899."

We wish to clarify that at all times AGES submitted monthly the expense liquidations accompanied by both their respective listings and copy of the documentation for their review and approval by the AID's controller's office and we were never disallowed any expense (we accompany copy of forms SF-1034, duly reviewed and approved by the respective AID offices, during 1992), which were also shown to the auditors in due time.

Concerning the last paragraph of Section C, p. 4, that states:

"The project transactions for 1991 were not subject to audit, at variance with USAID's Guidelines for Financial Audits Contracted by Foreign Recipients."

We request that the preceding assertion be deleted, as this was not applicable nor it was in force at that time. In fact, AGES was informed on the new Audit requirements in November 1991, per amendment No. 10, by letter dated October 31, 1991 signed by Mr. John P. McAvoy (copy attached herewith). We understood that these requirements were applicable to the grant activities from 1992 onwards.

Sincerely,

ASOCIACION GUATEMALTECA DE EDUCACION SEXUAL, A.G.E.S.

Lic. Eduardo E. Sacayon Manzo
General Director