

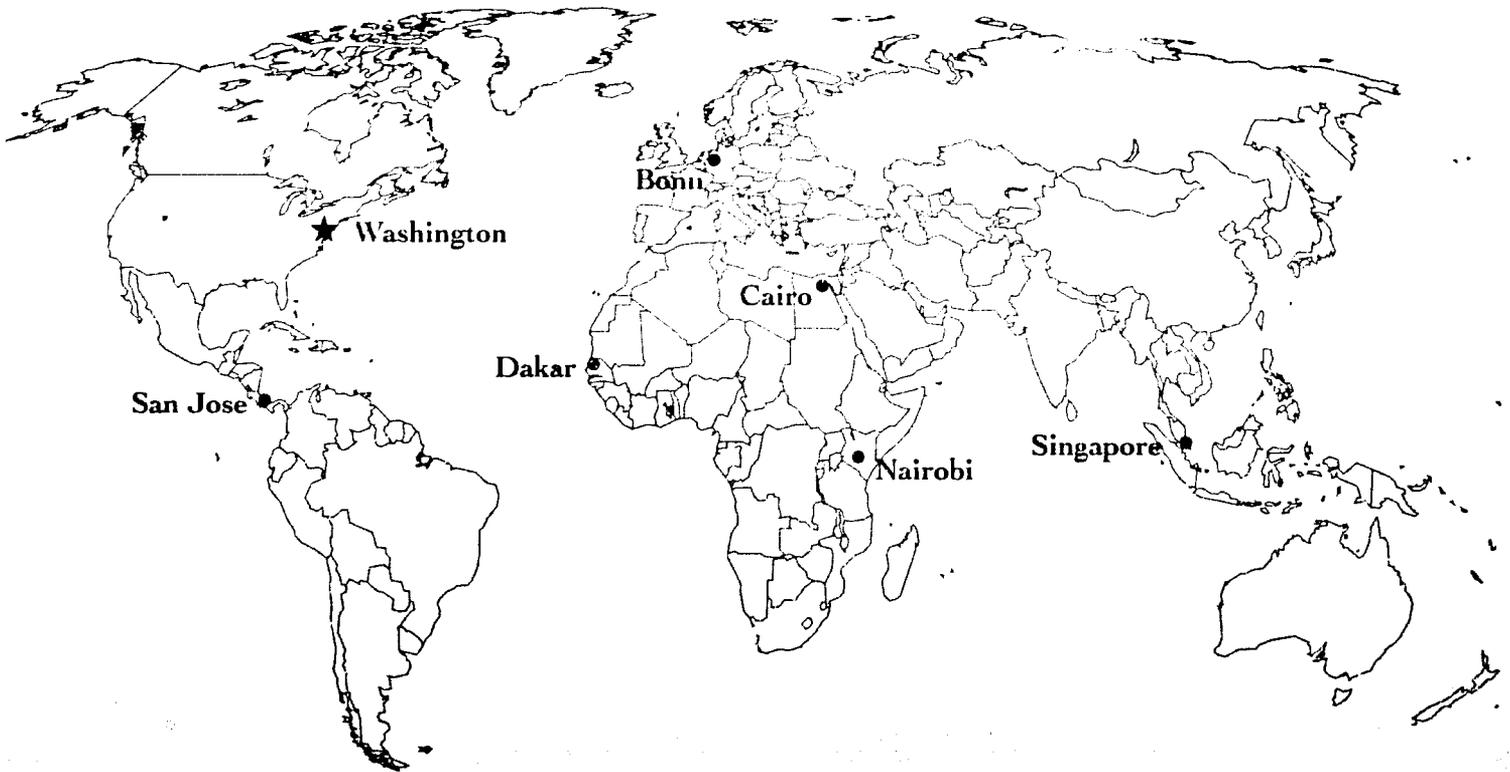
Regional Inspector General for Audit  
San José, Costa Rica

---

**Audit of USAID/Peru's  
Agricultural Planning and Institutional Development  
Project Activities Managed by the  
Ministry of Agriculture  
January 1, 1991 to December 31, 1991**

---

Audit Report No. 1-527-95-17-N  
September 18, 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 2501  
APO AA 34020  
Telephone 220-4545  
FAX: (506) 220-3573

September 18, 1995

**MEMORANDUM**

TO: Director USAID/Peru, George Wachtenheim

FROM: RIG/A/San José, *Wayne J. Watson*

SUBJECT: Audit of USAID/Peru's Agricultural Planning and Institutional Development Project Activities, Managed by the Ministry of Agriculture, January 1, 1991 to December 31, 1991

This report presents the results of a financial audit of the Agricultural Planning and Institutional Development Project, USAID/Peru Project No. 527-0238 managed by the Ministry of Agriculture of Peru (the Ministry), for the Period January 1, 1991 to December 31, 1991. The accounting firm of Oscar Caipo y Asociados prepared the report dated September 30, 1993.

The goal of the project was to assist the Government of Peru in strengthening its capacity to formulate sound agricultural sector policies and effectively manage the implementation of those policies. The project includes implementing institutions from the Ministry, the National Agrarian University, the National Weather Service, the National Institute of Statistics and Information, and the Ministry of Economy, Finance and Commerce. During the period audited, the project consisted of two components: (1) support to the institutionalization of the process of formulation, analysis and evaluation of agricultural policy, and (2) reinforcing the performing capacity of the agricultural sector.

The objectives of the audit were to determine whether: (1) the fund accountability statement for the period January 1 to December 31, 1991, presents fairly, in all material respects, the financial activities of the project, and costs reported as incurred and reimbursed by USAID/Peru are allowable, allocable, and reasonable in accordance with agreement terms, and applicable laws and regulations, (2) the internal control structure of the Ministry was adequate to manage the project's activities, and (3) the Ministry complied with agreement terms and applicable laws and

6

regulations which may affect the project's goals and incurred costs. The scope of the audit included an examination of the Ministry's activities and transactions to the extent considered necessary to issue a report thereon for the period audited. The audit included coverage of \$1,737,710 of USAID/Peru disbursements to the project during the audited period.

Oscar Caipo y Asociados was of the opinion that the fund accountability statement presents fairly, in all material respects, the financial position of the project for the audit period, except for the effect of questionable costs of \$218,313.

With respect to the Ministry's internal control structure, the auditors identified one material weakness—a lack of documentation of year-end reconciliations between the project coordination unit's records of project advances and expenses and those of USAID/Peru. And regarding compliance with agreement terms and applicable laws and regulations, the auditors noted three material instances of noncompliance: (1) the amount of counterpart contributions by the Government of Peru was \$1,987,406 less than stipulated in the cooperative agreement and an additional \$2,562,088 of their contributions during the life of the project are questionable, (2) counterpart funds were used to purchase \$134,153 in goods not in the project operating plan, and (3) no documentation was provided for compliance with training contract terms on the part of scholarship recipients.

The project ended December 31, 1991, and according to USAID/Peru officials, the Mission does not plan to use the Ministry 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 Ministry's internal control structure and compliance. ***However, we strongly suggest that USAID/Peru obtain a full accounting of the Government of Peru's counterpart contributions provided to the project over the period of audit, taking appropriate actions should inappropriate contributions be noted.***

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

**Recommendation No. 1**

**We recommend that USAID/Peru resolve the questionable costs of \$218,313 (unsupported) identified in the Oscar Caipo y Asociados report dated September 30, 1993, and recover from the Ministry the amounts determined to be unallowable.**

Recommendation No. 1 will be considered resolved upon USAID/Peru's determination of the amount of recovery, and will be considered closed upon the recovery of funds, offset of funds, or issuance of a bill for collection.

The draft report was discussed with representatives from USAID/Peru and the Ministry. The Ministry did not provide any written comments on the audit findings and recommendations.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendation.

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

**Audit of USAID/Peru's  
Agricultural Planning and Institutional Development  
Project Activities Managed by the  
Ministry of Agriculture  
January 1, 1991 to December 31, 1991**

**Audit Report No. 1-527-95-17-N  
September 18, 1995**

**AUDIT OF THE AGRICULTURAL PLANNING  
AND INSTITUTIONAL DEVELOPMENT PROJECT**  
Managed by the Ministry of Agriculture

USAID/Peru Project No. 527-0238

From January 1 to December 31, 1991

**AUDIT OF THE AGRICULTURAL PLANNING  
AND INSTITUTIONAL DEVELOPMENT PROJECT**  
Managed by the Ministry of Agriculture

USAID/Peru Project No. 527-0238

From January 1 to December 31, 1991

**TABLE OF CONTENTS**

	<u>Page</u>
<b>Transmittal Letter and Summary</b>	
• Background	1 - 2
• Audit objectives and scope	3 - 4
• Results of audit	4 - 5
• Management comments	5
<b>Fund Accountability Statement</b>	
• Independent auditors' report	6 - 7
• Fund accountability statement	8
• Notes to the fund accountability statement	9 - 11
<b>Internal Control Structure</b>	
• Independent auditors' report	12 - 13
• Findings	14 - 17
<b>Compliance with Agreement Terms and Applicable Laws and Regulations</b>	
• Independent auditors' report	18 - 19
• Findings	20 - 22
<b>List of Report Recommendations</b>	23 - 24
<b>Follow-up of Recommendations from our Prior Audit of the Project for the Period August 25, 1983 to December 31, 1990</b>	25 - 29
<b>Annex 1 - Management Comments</b>	

X

June 24, 1994

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

Dear Mr. Gothard:

This report presents the results of our closeout audit of the Agricultural Planning and Institutional Development Project, USAID/Peru Project No. 527-0238, managed by the Ministry of Agriculture of Peru for the period January 1 to December 31, 1991.

## **BACKGROUND**

On August 25, 1983, the Government of the United States of America, acting through the Agency for International Development Mission to Peru (USAID/Peru), signed an agreement with the Government of Peru (GOP) represented by its Ministries of Economy, Finance and Commerce and of Agriculture to develop the Agricultural Planning and Institutional Development (APID) Project, USAID/Peru Project No. 527-0238, in order to assist the Government of Peru in strengthening its capacity to formulate sound agricultural sector policies and effectively manage the implementation of those policies. The agreement provided for a USAID/Peru grant and loan of US\$ 6,650,000 and US\$ 11,000,000, respectively, and a Government of Peru counterpart contribution of US\$ 8,500,000. The project period, as amended, was from August 25, 1983 to December 31, 1991.

The project includes implementing institutions from the Ministry of Agriculture, the National Agrarian University (NAU), the National Weather Service (NWS), the National Institute of Statistics and Information (NISI) and the Ministry of Economy, Finance and Commerce (MEFC).

The project financed the creation of a Group for Agricultural Policy Analysis (GAPA) to provide analytical services to the Ministry of Agriculture and the creation of a project coordination unit within the Ministry of Agriculture to provide technical, administrative and financial services to the implementing institutions and to coordinate with USAID/Peru. Likewise, the project coordination unit was in charge of maintaining the accounting records of the project on a cash basis.

The project financial plan, including the corresponding amendments, is as follows:



## PROJECT FINANCIAL PLAN

<u>Components</u>	<u>In thousands of US dollars</u>			<u>Total</u>
	<u>USAID/Peru</u>		<u>GOP</u>	
	<u>Loan</u>	<u>Grant</u>	<u>Counterpart</u>	
. Agricultural Policy Analysis	3,366	3,611	2,088	9,065
. Information	2,792	1,237	1,421	5,450
. Management	548	1,549	1,790	3,887
. Human Resources Development	4,157	34	2,354	6,545
. Coordination and Evaluation	137	219	847	1,203
	-----	-----	-----	-----
	11,000	6,650	8,500	26,150
	=====	=====	=====	=====

In its initial stage up to 1988, the project comprised five components and twelve activities duly interconnected.

The project assistance completion date originally was December 31, 1988. However, the project was extended to December 31, 1990 because there were still some activities to be carried out, and then it was extended further to December 31, 1991. These extensions were approved by USAID/Peru Implementation Letters Nos. 39 and 55, respectively, which did not provide additional funds.

During the first extension period (January 1989 to December 1990) the project's structure was redesigned, taking into consideration institutional needs; being then reduced to two components and six activities. During the second extension period (1991) the project was reduced to five activities.

In the 1991 extension period, the project general framework was oriented towards achieving the practical and coherent application of the different sectorial policy proposals contributing to a reactivation of agriculture, thus requiring a dynamic action by the implementing agencies and the Ministry of Agriculture.

The description of said components and activities is as follows:

1. Support to the Institutionalization of the Process of Formulation, Analysis and Evaluation of Agricultural Policy.

This component comprises three activities:

- Activity 1: Group for Agricultural Policy Analysis (GAPA).
- Activity 2: Support for the strengthening of the Agricultural Sector Planning Office (ASPO).
- Activity 3: Support to the Office of Agricultural Statistics (OAS) to consolidate and institutionalize the Statistical Information Base and the Agro-meteorological Alert System.

2. Reinforcing the Performing Capacity of the Agricultural Sector.

This component comprises two activities:

- Activity 0: Coordination Office
- Activity 4: Training

## **AUDIT OBJECTIVES AND SCOPE**

We were engaged to perform a financial audit of the Agricultural Planning and Institutional Development (APID) Project, USAID/Peru Project No. 527-0238, managed by the Ministry of Agriculture (the Ministry) for the period January 1 to December 31, 1991.

Our audit was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary to determine whether:

- . The fund accountability statement for the period January 1 to December 31, 1991 presents fairly, in all material respects, the financial activities of the project; and costs reported as incurred and reimbursed by USAID/Peru during the period are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations.
- . The internal control structure of the Ministry is adequate to manage the project's operations.
- . The Ministry complied with agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs.

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

In accordance with your office's instructions the disbursements for costs made in US dollars (loan and grant funds) were not examined by us since they were directly financed by USAID/Peru. In consequence, our work was focused on the evaluation of the procedures used by the Ministry to control and record appropriately the assets, products and technical assistance received.

The scope of our audit was limited to the following:

### **Fund Accountability Statement**

- . Review of the procedures established by the Ministry to manage and control the funds disbursed to the project beneficiaries, also certifying that said funds disbursed are in accordance with the stipulations contained in the agreement and the project operating plan.
- . For the funds received and liquidated as of December 31, 1991, review reconciliations made with USAID/Peru accounting reports.
- . Banks confirmations as of December 31, 1991.
- . Physical inspection of fixed assets acquired for the project with loan and grant funds, including those acquired directly by USAID/Peru.
- . Verify the final disposition taken with regard to fixed assets at the project closing.
- . Review the procedures for translating costs incurred in local currency into US dollars.

### **Internal Control Structure**

- . Compliance tests to assess the internal control structure established by the Ministry for the receipt of fund advances and the liquidation of local currency expenses.
- . Compliance tests to assess the internal control structure established by the Ministry for the personnel area.
- . Substantive tests to verify whether the Ministry kept separate bank accounts for project activities.
- . Compliance tests to assess the internal control structure established by the Ministry for the acquisition of local goods and services.

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

- . Verification of the existence of accounting records exclusively used for the project.
- . Verification that expenses reported are allowable, allocable and reasonable for the project.
- . Verification of the establishment of a quarterly and annual program for evaluating the attainment of project goals and objectives.
- . Verification of whether the counterpart contribution was timely obtained, according to the agreement and the needs of the project.
- . Verification that counterpart funds provided by the GOP were not less than the amount indicated in the agreement.

## **RESULTS OF AUDIT**

### **Fund Accountability Statement**

The fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. In our opinion except for questionable costs of US\$ 218,313 as indicated in note 6, the fund accountability statement for the period January 1 to December 31, 1991 presents fairly the financial activities of the project for the period, and the costs reported as incurred and reimbursed by USAID/Peru during the period are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations.

### **Internal Control Structure**

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

Our evaluation of the internal control structure was made by means of compliance and substantive tests and included the internal control systems with respect to:

- . advances and liquidation of funds for local currency disbursements,
- . the personnel area, and
- . acquisition of local goods and services.

The results of our study and evaluation of the Ministry's internal control structure disclosed the following reportable conditions. We consider finding N° 2 to be a material weakness:

1. The project coordination unit did not make an official transfer of the project's documents to the Ministry of Agriculture.
2. There was no documentation evidencing that reconciliations were made for the years 1988 to 1991 or at the closing of the project.
3. No physical inspection of fixed assets was carried out.
4. Assets were transferred to implementing agencies at the closing of the project without the respective documentary regularization by the Ministry of Agriculture.

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

As part of obtaining reasonable assurance as to whether the fund accountability statement is free of material misstatement, we performed tests to ensure that the Ministry of Agriculture complied with the agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs.

The results of our tests of compliance disclosed the following material instances of noncompliance:

1. The GOP did not contribute the full amount agreed to in the project.
2. The GOP contribution was used to purchase certain goods which were not included in the project operating plan.
3. We were unable to obtain documented information on compliance with training contract terms on the part of scholarship recipients.

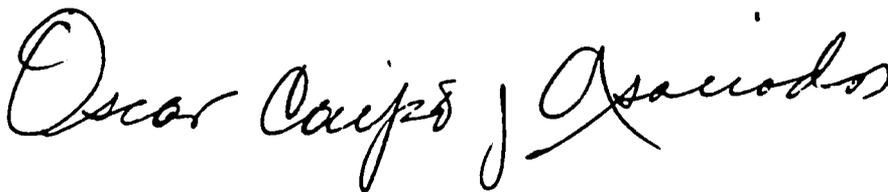
Except as described above, the results of our tests of compliance indicate that, with respect to items tested, the Ministry of Agriculture complied, in all material respects, with agreement terms and applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that the Ministry of Agriculture had not complied, in all material respects, with those provisions.

### **MANAGEMENT COMMENTS**

See annex I to this report.

September 30, 1993

Countersigned by:



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

**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL  
DEVELOPMENT PROJECT MANAGED BY THE MINISTRY OF AGRICULTURE  
USAID/PERU PROJECT NO. 527-0238**

---

**Report on the Fund Accountability Statement  
For the Period January 1 to December 31, 1991****INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying fund accountability statement of the Agricultural Planning and Institutional Development Project, USAID/Peru Project No. 527-0238, managed by the Ministry of Agriculture for the period January 1 to December 31, 1991. This fund accountability statement is the responsibility of the Ministry of Agriculture of Peru. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards". Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the fund accountability statement is free of material misstatement. 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 fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As described in Note 3(a), the fund accountability statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

As described in note 6 to the fund accountability statement, our audit disclosed questioned costs of US\$ 218,313 which we consider questionable in accordance with the agreement's terms.

In our opinion, except for the effects of the questionable costs as discussed in the preceding paragraph, the fund accountability statement presents fairly, in all material respects, the financial position of the Agricultural Planning and Institutional Development Project managed by the Ministry of Agriculture for the period January 1 to December 31, 1991 in accordance with the basis of accounting described in Note 3.

**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL  
DEVELOPMENT PROJECT MANAGED BY THE MINISTRY OF AGRICULTURE  
USAID/PERU PROJECT NO. 527-0238**

---

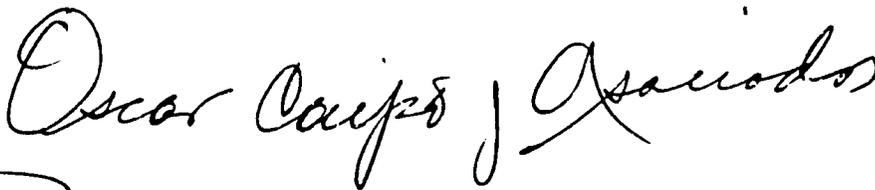
**Report on the Fund Accountability Statement  
For the Period January 1 to December 31, 1991**

**INDEPENDENT AUDITORS' REPORT (Continued)**

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

September 30, 1993

Countersigned by:



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

**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT**

Managed by the Ministry of Agriculture  
USAID/Peru Project No. 527-0238

**FUND ACCOUNTABILITY STATEMENT**

For the Period January 1 to December 31, 1991

(Stated in US Dollars)

INCOME	Budget			Actual			Available			Questionable Costs (note 6)	
	Loan	Grant	Total	Loan	Grant	Total	Loan	Grant	Total	Ineligible	Unsupported
Funds provided by USAID/Peru	1,068,308	100,000	1,168,308	1,007,333	730,377	1,737,710	60,975	(630,377)	(569,402)	-	-
Total income	<u>1,068,308</u>	<u>100,000</u>	<u>1,168,308</u>	<u>1,007,333</u>	<u>730,377</u>	<u>1,737,710</u>	<u>60,975</u>	<u>(630,377)</u>	<u>(569,402)</u>	-	-
<b>EXPENSES</b>											
Agricultural Policy Analysis	444,580	100,000	544,580	510,370	599,503	1,109,873	( 65,790)	(499,503)	(565,293)	-	-
Information Management	304,500	-	304,500	176,300	-	176,300	128,200	-	128,200	-	-
Human Resources Development	325,920	-	325,920	190,236	14,310	204,546	135,684	( 14,310)	121,374	-	218,313
Coordination and Evaluation	-	-	-	137,119	16,569	153,688	(137,119)	( 16,569)	(153,688)	-	-
Total expenses	<u>1,075,000</u>	<u>100,000</u>	<u>1,175,000</u>	<u>1,014,025</u>	<u>730,377</u>	<u>1,744,402</u>	<u>60,975</u>	<u>(630,377)</u>	<u>(569,402)</u>	-	<u>218,313</u>
Balance	( 6,692)	-	( 6,692)	( 6,692)	-	( 6,692)	-	-	-	-	-

Notes 1 to 5 form an integral part of this fund accountability statement.

**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL  
DEVELOPMENT PROJECT MANAGED BY THE MINISTRY OF AGRICULTURE  
USAID/PERU PROJECT NO. 527-0238**

---

**Notes to the Fund Accountability Statement  
For the Period January 1 to December 31, 1991**

**1. Nature of Activities**

On August 25, 1983, the Government of the United States of America acting through the Agency for International Development Mission to Peru (USAID/Peru) signed an agreement with the Government of Peru (GOP) represented by its Ministries of Economy, Finance and Commerce and of Agriculture to develop the Agricultural Planning and Institutional Development (APID) Project in order to assist the GOP in strengthening its capacity to formulate sound agricultural sector policies and effectively manage the implementation of those policies. The APID project considered funds for a total of US\$ 26,150,000. Besides the Ministry of Agriculture of Peru, four other implementing institutions took part in the project. In addition a project coordination unit was created within the Ministry of Agriculture to coordinate services between implementing institutions and USAID/Peru.

The termination date of the project was extended to December 31, 1991.

**2. Project Financing Sources**

USAID/Peru agreed to provide the GOP with funds totalling US\$ 17,650,000 by means of a grant of US\$ 6,650,000 and a loan of US\$ 11,000,000. The GOP agreed to provide a counterpart contribution of no less than US\$ 8,500,000.

The grant and loan funds were used both by USAID/Peru to make direct purchases of goods and services abroad in US dollars and by the Ministry of Agriculture for costs paid with local currency.

During 1991, USAID/Peru made project disbursements in US dollars of approximately US\$ 1,737,710 (loan US\$ 1,007,333 and grant US\$ 730,377).

Of this amount, direct purchases made by USAID/Peru amounted to US\$ 1,642,644 (loan US\$ 912,267 and grant US\$ 730,377) and were mainly used for technical assistance, training, evaluations and purchase of goods abroad.

The remaining US\$ 95,066 (loan), was converted to local currency and used by the Ministry of Agriculture mainly for equipment and materials purchases, service payments, salaries and training expenses.

An additional US\$ 6,692 in local currency costs were paid from a cash balance that remained at December 31, 1990. As the December 31, 1990 fund accountability statement reflected this cash balance as part of the remaining available budget at that point, we reduced the budgeted income figure for 1991 by a like amount.

The indicated negative available grant amount of US\$ 630,377 shown in the fund accountability statement corresponds to excess 1991 expenses in relation to the approved budget of US\$ 100,000. The budget was approved by implementation letter No. 59 of March 28, 1991. These excess expenses were executed directly by USAID/Peru and were financed from remaining amounts available under the overall

### 3. Significant Accounting Practices

- (a) The fund accountability statement is prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.
- (b) USAID direct purchases represent disbursements made directly by USAID/Peru in US dollars for goods and services purchased abroad.
- (c) Local currency costs are incurred in nuevos soles and the procedure for translating them into US dollars is based on the oldest advance of funds pending liquidation. The US dollar equivalency is determined by USAID/Peru at the moment the remittance of funds is granted to the Ministry of Agriculture.
- (d) The GOP's counterpart contribution is made in local currency. Translation into US dollars is based on monthly average exchange rates.

### 4. US dollar and Local Currency Costs

For the year ended December 31, 1991, the actual disbursements for USAID direct purchases and the Ministry of Agriculture's local currency costs were as follows:

Components	Actual (US\$ 000's)		Total
	USAID direct purchases	Local currency costs	
I. Agricultural Policy Analysis	1,109	24	1,133
II. Information	184	28	212
III. Human Resources Development	195	43	238
IV. Coordination and Evaluation	154	-	154
	-----	-----	-----
	1,642	95	1,737
	=====	====	=====

### 5. Fund Accountability Statement for the Life of the Project

For the period August 25, 1983 to December 31, 1991, disbursements under USAID/Peru's loan and grant agreement amount to US\$ 10,212,426 and US\$ 6,627,460, respectively, as shown below. In compiling this life of project fund accountability statement, a downward adjustment of US\$22,624 was made against the loan expenses shown in the fund accountability statement for the project as of December 31, 1990. (See finding No. 2 of the Report on the Internal Control Structure for the rationale behind this adjustment.)

### 6. Questionable Costs

There are questioned costs amounting to US\$ 281,313 corresponding to training expenses for three persons who were awarded scholarships by USAID/Peru through the project, who studied at U.S. universities. According to the work contracts, scholars must work for the GOP during a period equal to twice the length of their studies (72 months). Nevertheless, we have been unable to verify the compliance with this requirement because the Ministry of Agriculture did not provide us with the corresponding documented information.

Additionally, as of 31st. December, 1990 there is a similar situation involving three other persons who received scholarships for whom, as of the date of our audit, corresponding documented information has been received (see follow-up recommendations from our Audit of the Project for the Period August 25, 1983 to December 31, 1990, Compliance with Agreement Terms and Applicable Laws and Regulations, finding N° 2).



**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL  
DEVELOPMENT PROJECT MANAGED BY THE MINISTRY OF AGRICULTURE  
USAID/PERU PROJECT NO. 527-0238**

---

**Report of the Internal Control Structure  
For the Period January 1 to December 31, 1991**

**INDEPENDENT AUDITORS' REPORT**

We have audited the fund accountability statement of the Agricultural Planning and Institutional Development Project, USAID/Peru Project No. 527-0238, managed by the Ministry of Agriculture for the period January 1 to December 31, 1991 and have issued our report thereon dated September 30, 1993.

Except for not having an external quality control review by an unaffiliated audit organization as described further in our report on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and "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 Agricultural Planning and Institutional Development Project managed by the Ministry of Agriculture for the period January 1 to December 31, 1991, we considered the Ministry of Agriculture's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The Ministry of Agriculture is responsible for establishing and maintaining an internal control structure to manage the project's operations. 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 the fund accountability statement in conformity with the accounting basis described in note 3 to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

For purposes of this report we have classified the significant internal control structure policies and procedures into the following categories: (1) receipt and liquidation of fund advances, (2) personnel area, and (3) acquisition of local goods and supplies.

For each 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.

**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL  
DEVELOPMENT PROJECT MANAGED BY THE MINISTRY OF AGRICULTURE  
USAID/PERU PROJECT NO. 527-0238**

---

**Report on the Internal Control Structure  
For the Period January 1 to December 31, 1991**

**INDEPENDENT AUDITORS' REPORT (Continued)**

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 organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement. The reportable conditions noted are described in finding Nos. 1 to 4 on the following pages.

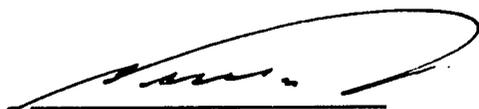
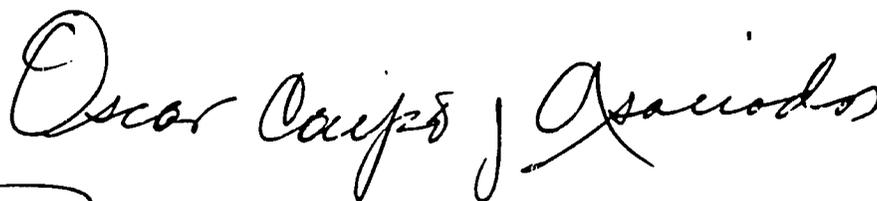
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being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

Our consideration of the internal control structure would not necessarily disclose all problems in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that finding No. 2 described above is a material weakness.

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

September 30, 1993

Countersigned by:



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

**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL  
DEVELOPMENT PROJECT MANAGED BY THE MINISTRY OF AGRICULTURE  
USAID/PERU PROJECT NO. 527-0238**

---

**Report on the Internal Control Structure  
For the Period January 1 to December 31, 1991**

**Findings**

**1. THE PROJECT COORDINATION UNIT DID NOT MAKE AN OFFICIAL  
TRANSFER OF THE PROJECT'S DOCUMENTS TO THE MINISTRY OF  
AGRICULTURE**

**Condition**

The project financed the creation of a project coordination unit within the Ministry of Agriculture which was responsible for the project administrative and financial management as well as for coordinating the project activities to be performed by the implementing agencies, and for coordinating with USAID/Peru. As a product of this activity, from 1983 to 1991 various documentation of the activities of the project coordination unit was issued. However, at the closing of the project no official transfer of such documentation to the Ministry of Agriculture, the GOP entity officially responsible for the project, was ordered.

**Criteria**

The project coordination unit should have made the necessary provisions for an "official" transfer (via an act signed by the project coordinator and the Ministry of Agriculture) of the project coordination unit documents corresponding to the fiscal years 1983 to 1991.

**Cause**

There was lack of precision in the transfer of documentation from the project coordination unit, since it was informally transferred directly to the Ministry of Agriculture via detailed sheets listing the contents of each docket, which bear the signatures of the consultants' secretaries as the persons handling the documentation.

**Effect**

As a result of the transfer procedures followed, there is uncertainty concerning the integrity of the project documentation for the years 1983 to 1991. Thus there can be noncompliance with agreement appendix 2, section B - reports, records, inspections, audits - which states: "...books and records...must be kept during three years after the date of the last disbursement made by AID."

**Recommendation**

We recommend that the Ministry of Agriculture:

- . Perform verifications of the lists it received from the project coordination unit versus the packages containing the documents received to make sure all the documentation in the lists is in the Ministry's possession.
- . For future projects, adopt measures so that, every time a project involving the Government of Peru is terminated, as a representative of said Government, it can implement all the requirements relating to the receipt and physical custody of the documents to assure their integrity.

**2. THERE WAS NO DOCUMENTATION EVIDENCING THAT RECONCILIATIONS WERE MADE FOR THE YEARS 1988 TO 1991 OR AT THE CLOSING OF THE PROJECT**

**Condition**

The project coordination unit did not provide us with any evidence that it reconciled its records of project advances and expenses with those of USAID/Peru for the years 1988 through 1991, or at the closing of the project.

**Criteria**

A sound internal control policy requires reconciliations to be made periodically and at the closing of the project of the funds received, spent and available, comparing the records of the project coordination unit with those of USAID/Peru. Such reconciliations must be documented.

**Cause**

The project coordination unit apparently did not order reconciliations to be made periodically and at the closing of the project of balances pending liquidation with USAID/Peru records.

**Effect**

The failure to make such reconciliations would prevent a timely identification and correction of any discrepancies that might exist.

For example, at December 31, 1991 the project coordination unit's figures for expenses incurred under the loan portion of the agreement during the years 1988, 1989 and 1990 varied in relation to the figures we audited the previous year. The adjustments reported but not clarified were the following:

	<u>Expenses</u>		
	<u>Stated in US dollars</u>		
	<u>1988</u>	<u>1989</u>	<u>1990</u>
Fund accountability statement audited as of December, 31 1990	967,712	1,376,293	474,545
Fund accountability statement at closing at December, 31 1991	984,316	1,340,126	471,484
Adjustments	----- 16,604 =====	----- ( 36,167) =====	----- ( 3,061) =====

Additionally, we know that USAID/Peru performed the financial liquidation of the project in the month of September 1992, and the project coordination unit did not have evidence that it reconciled its records with those of USAID/Peru at that point.

### **Recommendation**

For future projects, we recommend that the Ministry of Agriculture adopt the necessary provisions to periodically reconcile its records with those of the granting institutions. Such reconciliations should be conducted at least annually as well as at project closing and documented evidence of the reconciliations must be maintained.

## **3. NO PHYSICAL INSPECTION OF FIXED ASSETS WAS CARRIED OUT**

### **Condition**

We were unable to make a selective physical inspection of the fixed assets acquired with project funds because the Ministry of Agriculture did not have an up-to-date record of the physical location and users of such assets.

### **Criteria**

Ministry of Agriculture internal regulations require that a physical inventory be taken periodically of the fixed assets located in the different areas of the implementing agencies, thus maintaining an adequate control on said assets.

### **Cause**

During 1991, the Ministry of Agriculture suffered a drastic reduction of personnel as employees left the Ministry to take advantage of voluntary resignation incentives within a program established by the Government of Peru. The personnel reductions resulted in a certain lack of control regarding the physical control records of the project fixed assets. As a result, the Ministry of Agriculture told us that it was unable to facilitate our request for the selective inspection of fixed assets.

### **Effect**

We were unable to satisfy ourselves as to the adequate control, custody and maintenance of the fixed assets acquired with project funds.

### **Recommendation**

We recommend that the Ministry of Agriculture update its fixed asset control records and determine the existence and adequate control of the fixed assets acquired with project funds, taking corrective measures as appropriate.

## **4. ASSETS WERE TRANSFERRED TO IMPLEMENTING AGENCIES AT THE CLOSING OF THE PROJECT WITHOUT THE RESPECTIVE DOCUMENTARY REGULARIZATION BY THE MINISTRY OF AGRICULTURE**

### **Condition**

The Ministry of Agriculture, as part of the operations of the APID Project, signed subagreements (sub-convenios) with the other implementing agencies participating in the project (National Agrarian University, National Weather Service, National Institute of Statistics, and the Ministry of Economy, Finance and Commerce) by which the parties agreed to certain conditions regulating their operations under the project. Among these conditions is a clause specifying that at the closing of the project the assets acquired with project funds will become part of the equity or property of the implementing agency user of said assets. While to date the Ministry of Agriculture has transferred such assets by means of acts, it has not issued the respective directoral resolutions to legalize the transfers. So, at present these assets legally still remain the property of the Ministry of Agriculture.

**Criteria**

Peruvian law applicable to public sector institutions requires that such institutions issue directoral resolutions in order to make valid any action taken by the institutions. Any action not supported by a corresponding resolution is not legally valid under Peruvian law.

**Cause**

The failure to take the necessary steps to legalize the transfers already made is due to the Ministry of Agriculture's lack of attention to this matter.

**Effect**

The Ministry of Agriculture has not fully complied with the subagreements signed with implementing agencies regarding the rights to the capital goods.

**Recommendation**

We recommend that the Ministry of Agriculture issue the respective directoral resolutions formalizing the transfer of the assets to the implementing agencies.

**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL  
DEVELOPMENT PROJECT MANAGED BY THE MINISTRY OF AGRICULTURE  
USAID/PERU PROJECT NO. 527-0238**

---

**Report on Compliance with Agreement Terms and  
Applicable Laws and Regulations  
For the Period January 1 to December 31, 1991**

**INDEPENDENT AUDITORS' REPORT**

We have audited the fund accountability statement of the Agricultural Planning and Institutional Development Project, USAID/Peru Project No. 527-0238, managed by the Ministry of Agriculture for the period January 1 to December 31, 1991 and have issued our report thereon dated September 30, 1993.

Except for not having an external quality control review by an unaffiliated audit organization as described further in our report on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and "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 as to whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to the Ministry of Agriculture as a result of its agreement for the Agricultural Planning and Institutional Development Project is the responsibility of the Ministry of Agriculture's management. As part of obtaining reasonable assurance as to whether the fund accountability statement is free of material misstatement, we performed tests of compliance with respect to significant agreement terms and applicable laws and regulations which may affect the project's goals and incurred costs. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the material instances of noncompliance that are discussed in finding Nos. 1 to 3 in the following pages.

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement of the Agricultural Planning and Institutional Development Project managed by the Ministry of Agriculture for the period January 1 to December 31, 1991 is presented fairly, in all material respects, in conformity with the basis of accounting described in Note 3 to the fund accountability statement and this report does not affect our report dated September 30, 1993 on that fund accountability statement.



**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL  
DEVELOPMENT PROJECT MANAGED BY THE MINISTRY OF AGRICULTURE  
USAID/PERU PROJECT NO. 527-0238**

---

**Report on Compliance with Agreement Terms and  
Applicable Laws and Regulations  
For the Period January 1 to December 31, 1991**

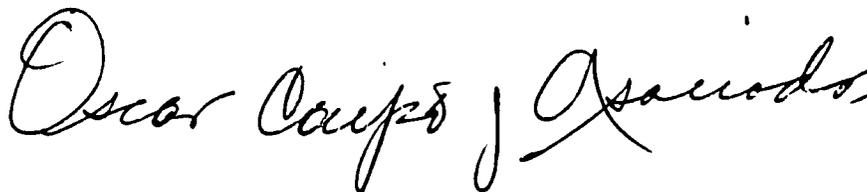
**INDEPENDENT AUDITORS' REPORT (Continued)**

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

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

September 30, 1993

Countersigned by:



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

**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY THE MINISTRY OF AGRICULTURE  
USAID/PERU PROJECT NO. 527-0238**

---

**Report on Compliance with Agreement Terms and  
Applicable Laws and Regulations  
For the Period January 1 to December 31, 1991**

**Findings**

**1. THE GOP DID NOT CONTRIBUTE THE FULL AMOUNT AGREED TO IN THE PROJECT**

**Condition**

The GOP agreed to make a counterpart contribution to the project of not less than US\$ 8,500,000. However, as of the date of the project's termination, December 31, 1991, the GOP had made an cumulative contribution of only US\$ 6,512,594. Additionally, the cumulative contribution amount includes unresolved questionable contributions of US\$ 2,426,355 noted during our prior audit of the project as of December 31, 1990 and includes US\$ 134,153 of ineligible contributions noted in finding No. 2 of this report section. Therefore, the GOP clearly undercontributed to the project by US\$ 1,987,406 and the remainder of its claimed contribution includes at least US\$ 2,562,088 of questionable costs.

**Criteria**

In conformity with section 3.2(b) of the agreement signed for the project, the resources provided by Peru for said project may not be less than the equivalent of US\$ 8,500,000.

**Cause**

It was envisioned that the GOP's counterpart contribution would be provided from local currency proceeds from the sales of US Public Law 480 food commodities. The Ministry of Economy, Finance and Commerce and USAID/Peru jointly decide on the programming of such proceeds, but did not allocate sufficient funds to the project to fully satisfy the GOP's counterpart obligation. The shortfall was not made up from the GOP's general budget due to the difficult economic situation faced by the GOP during the life of the project.

Additionally, Ministry of Agriculture personnel told us that USAID/Peru had not requested the Ministry to take any action to resolve the questionable contributions identified by our prior audit of the project, so no action was taken.

**Effect**

There was noncompliance with section 3.2(b) of the agreement. The GOP did not provide its agreed-upon contribution amount, which affected the attainment of the project's purposes and objectives.

**Recommendation**

For future projects, we recommend that the GOP estimate budgets which GOP financial projections indicate can be complied with, since the success of any project will depend on the timely allocation of said budgets.

## 2. THE GOP CONTRIBUTION WAS USED TO PURCHASE CERTAIN GOODS WHICH WERE NOT INCLUDED IN THE PROJECT OPERATING PLAN

### Condition

During 1991, and utilizing funds from the GOP's counterpart contribution, the Ministry of Agriculture incurred certain expenses which were not included in the project operating plan for 1991.

### Criteria

To be eligible as contributions to the project, the GOP's contributions must be used for expenses contemplated in the project operating plan approved by the GOP and USAID/Peru.

### Cause

The above-mentioned situation was due to some in eligible expenses having been made in respect to certain goods corresponding to the Ministry of Agriculture, but not contemplated in the project operating plan.

The funds used for the above-mentioned goods are detailed below:

	<u>US\$</u>
· Purchase of a diesel generator, KOHLER brand, 250 KW, 1,800 RPM, with a silencer (for the computing center of the Ministry of Agriculture).	102,576
· Purchase of equipment for the freezing of semen, comprising: 1 manual printing machine for 'pajillas', 1 temperature controller of 2 ways, and 1 vacuum pump.	21,167
· Payment for judicial seizure made by the Ministry of Agriculture by order of the First Land Tribunal of Lima.	<u>10,410</u>
	134,153
	=====

### Effect

The above-mentioned costs cannot be considered as part of the GOP's counterpart contribution to the project.

### Recommendation

In future projects, we recommend that the Ministry of Agriculture restrict its project expenses to those items within the budgets of the approved annual operating plans, since these are documents approved by the parties and the success of a project depends largely on their being complied with.

### 3. WE WERE UNABLE TO OBTAIN DOCUMENTED INFORMATION ON COMPLIANCE WITH TRAINING CONTRACT TERMS ON THE PART OF SCHOLARSHIP RECIPIENTS

#### Condition

As a part of the training program established by the project agreement and in order to develop the agricultural policy analysis activity (GAPA), USAID/Peru granted full scholarships for post graduate studies in economics at U.S. universities to six Peruvian professionals. Three of them, after obtaining their degrees, were working for the GOP until June 30, 1991. We have been unable to verify the current situation of these scholars after June 30, 1991 because the Ministry of Agriculture did not provide us with the corresponding documented information. The persons involved are:

<u>Scholars</u>	<u>Cost of the Scholarship (US\$)</u>	<u>Mandatory work Period</u>	<u>Date of starting Work for the GOP</u>
Fernando Larios Meoño	67,470	72 months	September, 1987
Geoffrey Cannock Torero	74,007	72 months	November, 1988
Eduardo Briceño Lira	76,836	72 months	September, 1989
	----- 218,313 =====		

#### Criteria

According to the project's long term training contracts, people receiving a scholarship, upon completion of their studies, must work for the GOP during a period of time twice as long as their studies. Otherwise, they must reimburse the amount invested.

#### Cause

We have not determined the reason why the Ministry of Agriculture did not provide us with any documented information at December 31, 1991 nor to date on the compliance with contract terms by these persons.

#### Effect

As a result of the above-mentioned, it is not possible to determine whether the project former scholarship recipients are working for the GOP and, thus, fulfilling their agreement to work for the GOP for the specified time period.

#### Recommendation

We recommend that the Ministry of Agriculture provide documentation to show the employment status of the persons who received scholarships under the project.

**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY THE MINISTRY OF AGRICULTURE  
USAID/PERU PROJECT No. 527-0238**

---

**List of Report Recommendations  
For the Period January 1 to December 31, 1991**

**INTERNAL CONTROL STRUCTURE**

**1. THE PROJECT COORDINATION UNIT DID NOT MAKE AN OFFICIAL TRANSFER OF THE PROJECT'S DOCUMENTS TO THE MINISTRY OF AGRICULTURE**

We recommend that the Ministry of Agriculture:

- . Perform verifications of the lists it received from the project coordination unit versus the packages containing the documents received to make sure all the documentation in the lists is in the Ministry's possession.
- . For future projects, adopt measures so that, every time a project involving the Government of Peru is terminated, as a representative of said Government, it can implement all the requirements relating to the receipt and physical custody of the documents to assure their integrity.

**2. THERE WAS NO DOCUMENTATION EVIDENCING THAT RECONCILIATIONS WERE MADE FOR THE YEARS 1988 TO 1991 OR AT THE CLOSING OF THE PROJECT**

For future projects, we recommend that the Ministry of Agriculture adopt the necessary provisions to periodically reconcile its records with those of the granting institutions. Such reconciliations should be conducted at least annually as well as at project closing and documented evidence of the reconciliations must be maintained.

**3. NO PHYSICAL INSPECTION OF FIXED ASSETS WAS CARRIED OUT**

We recommend that the Ministry of Agriculture update its fixed asset control records and determine the existence and adequate control of the fixed assets acquired with project funds, taking corrective measures as appropriate.

**4. ASSETS WERE TRANSFERRED TO IMPLEMENTING AGENCIES AT THE CLOSING OF THE PROJECT WITHOUT THE RESPECTIVE DOCUMENTARY REGULARIZATION BY THE MINISTRY OF AGRICULTURE**

We recommend that the Ministry of Agriculture issue the respective directoral resolutions formalizing the transfer of the assets to the implementing agencies.

**COMPLIANCE WITH AGREEMENT TERMS AND  
APPLICABLE LAWS AND REGULATIONS**

**1. THE GOP DID NOT CONTRIBUTE THE FULL AMOUNT AGREED TO IN THE  
PROJECT**

For future projects, we recommend that the GOP estimate budgets which GOP financial projections indicate can be complied with, since the success of any project will depend on the timely allocation of said budgets.

**2. THE GOP CONTRIBUTION WAS USED TO PURCHASE CERTAIN GOODS  
WHICH WERE NOT INCLUDED IN THE PROJECT OPERATING PLAN**

In future projects, we recommend that the Ministry of Agriculture restrict its project expenses to those items within the budgets of the approved annual operating plans, since these are documents approved by the parties and the success of a project depends largely on their being complied with.

**3. WE WERE UNABLE TO OBTAIN DOCUMENTED INFORMATION ON  
COMPLIANCE WITH TRAINING CONTRACT TERMS ON THE PART OF  
SCHOLARSHIP RECIPIENTS**

We recommend that the Ministry of Agriculture provide documentation to show the employment status of the persons who received scholarships under the project.

**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL  
DEVELOPMENT PROJECT MANAGED BY THE MINISTRY OF AGRICULTURE  
USAID/PERU PROJECT No. 527-0238**

---

**Follow-up of the Recommendations from the Period Audit of the Project  
For the Period August 25, 1983 to December 31, 1990**

**INTERNAL CONTROL STRUCTURE**

**1. LIQUIDATIONS OF PROJECT EXPENSES NOT LOCATED IN THE  
MINISTRY OF AGRICULTURE FILES**

**Condition**

Liquidation documentation of project expenses totalling US\$ 626,000 were not found in the Ministry of Agriculture files. The said liquidation of expenses corresponds mainly to the budgeted fiscal years 1984 and 1985 and were recorded as liquidated by the APID Project Coordination Unit before being filed, since they had already been approved by USAID/Peru.

The summary of expense liquidations of project activities not located is as follows:

<u>ACTIVITY</u>	<u>US\$ 000's</u>
. Group for Agricultural Policy Analysis (GAPA)	43
. Agricultural Sector Planning Office	32
. National Rural Household Survey	322
. Continuous System of Area and Production Statistics	134
. Agroclimatic Impact Assessment	27
. MOA Management Improvement	12
. Advance Training	56
	-----
	626
	=====

**Recommendation**

The MOA and the APID Project Coordination Unit should implement the following recommendations:

- . Expense vouchers should have, exclusively, a unique numbering for the files. They must be kept separately and independently from those utilized by the Ministry of Agriculture.
- . All expense vouchers should be in the custody of the Coordination Units until termination of the project. Then, they are to be returned to the Ministry of Agriculture for permanent filing.

**Present Situation**

Partially surpassed. To date, a part of the questioned documentation amounting to US\$ 157,222 has been found. At the present time a firm of independent auditors is conducting a review of the documentation remaining as questioned.

## **2. LACK OF UPDATED PHYSICAL INVENTORIES OF PROJECT FIXED ASSETS**

### **Condition**

The Ministry of Agriculture has no updated physical inventory of fixed assets acquired for the project with loan and grant funds. The last inventory was taken in 1987.

### **Recommendation**

The APID Project Coordination Unit in coordination with the Ministry of Agriculture should take periodic physical inventory counts of the goods in order to keep an adequate control on them.

### **Present Situation**

In August 1991, the Ministry of Agriculture ordered the engagement of a service firm for the preparation of an "Updated Inventory of APID Project Fixed Assets". Said firm submitted a detailed report on the project fixed assets updated to December 31, 1991. Yet on the date of our audit the equity control unit of the Ministry of Agriculture, in charge of the control of the project goods, is not in possession of updated information on the fixed assets.

## **3. LACK OF INSURANCE FOR FIXED ASSETS ACQUIRED BY THE PROJECT FOR THE NAU AND NWS**

### **Condition**

Fixed assets acquired with project funds for NAU and NWS are not insured against any type of risk.

### **Recommendation**

NAU and NWS in coordination with the APID Project Coordination Unit should inform the highest government authorities (Dirección General de Presupuesto Público) of the necessity of insuring fixed assets because of their economic value and the benefit expected to be obtained from them in the development of activities in the Agricultural sector.

### **Present Situation**

As of the date of our examination, the situation remained unchanged.

#### 4. FIXED ASSETS NOT PHYSICALLY LOCATED

##### Condition

As a result of our physical inspection conducted on a test basis in the GAPA and ASPO facilities of the Ministry of Agriculture, it was established that computing equipment with a value of US\$ 23,912 could not be physically located because the equipment had been moved to various areas in the Ministry.

<u>Quantity</u>	<u>Items</u>	<u>Location according to records</u>
03	Matrix printers, 80 CPS Mod. PC. - PM010	GAPA
03	Matrix printers, 20 CPS Mod. PC. - PM012	GAPA
02	CPU with 256 Kb.of Memory Mod. PC. - 00.5A - B	ASPO

##### Recommendation

The Equity Control Unit of the Ministry of Agriculture and the APID Project Coordination Unit must implement control measures stating that the transfer of goods to other areas is to be reported for recording prior to their transfer. Periodic physical inventories are to be taken.

##### Present Situation

We were unable to verify the correction of this situation since we could not make our selective physical inspection due to the lack of updated asset control records in the Ministry of Agriculture. Additionally, all project activities ceased as of December 31, 1991. Thus all fixed assets belonging to these activities at December 31, 1991 were reassigned by the Ministry of Agriculture.

#### COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

#### 2. SCHOLARS NON-COMPLIANCE WITH WORK CONTRACT TERM

##### Condition

- (a) As a part of the training program established in the project agreement, and in order to develop the Agricultural Policy Analysis Activity (GAPA), USAID/Peru granted full scholarships for post-graduate studies in Economics in U.S. universities to six professionals. Three of them, after taking their degree, did not honor their promise to work for the Peruvian Government (GOP) for the agreed length of time. The amount invested in them by the project amounted to US\$ 224,055.

<u>Scholars</u>	<u>Scholarship cost in US\$</u>	<u>Obligatory work period</u>	<u>Actual period worked</u>
Luis A. González Zúñiga	73,701	72 months	18 months
Justo Manrique Gutierrez	76,653	72 months	2 months
Daniel de la Torre Ugarte	73,701	72 months	-
	----- 224,055 =====		

- (b) According to the Public Prosecutor in charge of legal matters for the Ministry of Agriculture, legal proceedings have been filed in only two cases. No legal action has been taken in the case of Daniel de la Torre Ugarte due to the background information of the legal case not having been received by the Public Prosecutor.

### **Recommendation**

We recommend that future agreements of USAID/Peru and GOP consider other measures for ensuring compliance with work contracts on the part of individuals receiving a scholarship.

### **Present Situation**

We were not provided with any documentation regarding the legal actions as of December 31, 1991 or to date. Therefore we assume the Ministry of Agriculture did not follow up on these cases.

### **3. OVERSTATEMENT, INELIGIBLE COSTS AND UNSUPPORTED COSTS OF THE GOP CONTRIBUTION**

#### **Condition**

At December 31, 1990, the overstatement, ineligible costs and unsupported costs of the GOP contribution amount to US\$ 2,426,335.

#### **Recommendation**

We recommend that:

- (a) The APID Project Coordination Unit restates the GOP contribution using monthly exchange rates instead of annual average exchange rates to translate local currency into US dollars, in order to reestablish the real GOP contribution.
- (b) The Government of Peru is requested to provide additional contributions to the project to substitute the ineligible costs of US\$ 100,829.
- (c) The Government of Peru is requested to provide USAID/Peru with adequate documentation for the unsupported counterpart contribution of US\$ 1,527,506.

**Present Situation**

- (a) The GOP contribution has not been restated.
- (b) The economic situation of Peru prevented any substitution of the ineligible costs.
- (c) The Ministry of Agriculture has not located the above-mentioned documentation.

To conclude, the situation remains unchanged.

**4. PAYMENT OF SALARIES TO STAFF NOT RELATED WITH APID PROJECT ACTIVITIES (GOP - GOVERNMENT CONTRIBUTION)**

**Condition**

Staff specially hired for project activities are not fulfilling their duties since they are working for MOA activities other than the project's. As an example, 23 persons were hired for the Advance Training activity and 12 of them are engaged in different activities.

**Recommendation**

We recommend that the Ministry of Agriculture compute the amount of money involved in the payment of salaries of certain individuals hired by the project but serving other purposes. In addition, the Ministry of Agriculture should request the Government of Peru to provide additional contributions to the project to substitute such ineligible cost.

**Present Situation**

As of the date of our visit, the Ministry of Agriculture had not computed the salaries of personnel not performing tasks for the APID project but paid with project funds.

**AUDIT OF THE AGRICULTURAL PLANNING AND INSTITUTIONAL  
DEVELOPMENT PROJECT MANAGED BY THE MINISTRY OF AGRICULTURE  
USAID/PERU PROJECT NO. 527-0238**

---

**Management Comments  
at December 31, 1991**

The management of the Agricultural Planning and Institutional Development Project (APID) USAID/Peru Project N° 527-0238, of the Ministry of Agriculture (Consultants), did not supply us their comments on the final audit report.

We consider the reason for this situation was that, since the APID project finished its activities on December 31, 1991, date when the consultants who managed the project ended their labour relationship with the Ministry of Agriculture, the Ministry officials found it difficult to locate the above-mentioned consultants who should have prepared the "management comments".