

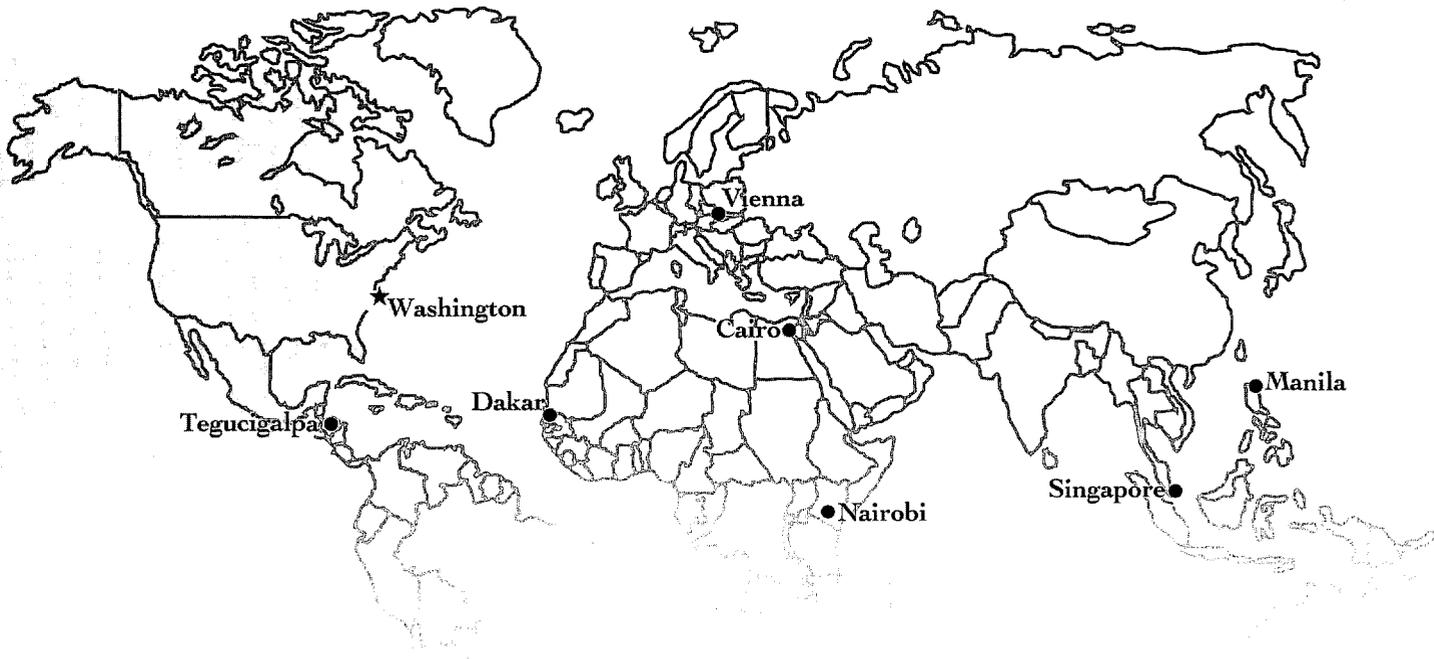
**Regional Inspector General for Audit
Tegucigalpa, Honduras**

PD-ARP-668

95514

**Audit of USAID/Guatemala's Small Farmer
Diversification Systems Project
Managed by the General Directorate for
Livestock Services
July 1, 1987 to March 31, 1989**

**Audit Report No. 1-520-92-16-N
January 15, 1992**



**Regional Inspector General for Audit
Tegucigalpa, Honduras**

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A

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
RIG/T
APO. MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987 - 32-3120
FAX No. (504) 31-4465

January 15, 1992

MEMORANDUM

TO: D/USAID/Guatemala, Terrence J. Brown

FROM: RIG/A/T Acting, Lou Mundy *Lou Mundy*

SUBJECT: Audit of USAID/Guatemala's Small Farmer Diversification Systems Project, Managed by the General Directorate for Livestock Services, July 1, 1987 to March 31, 1989

This report presents the results of a financial close-out audit of the General Directorate for Livestock Services (Directorate) for the period July 1, 1987 to March 31, 1989. This was one of six audits performed of organizations which received funds under the Small Farmer Diversification Systems Project (Project), USAID/Guatemala Project No. 520-0255. The accounting firm of Arthur Andersen & Co. prepared the report which is dated December 20, 1991.

Initiated in 1981, the Project's major goal was to strengthen the agricultural sector's livestock and stimulate small farm diversification from basic grains to higher value crops requiring greater labor intensity. The life-of-project budget was \$14.8 million, of which USAID/Guatemala was to provide grant and loan funds totaling \$8.1 million and the Government of Guatemala the balance of \$6.7 million.

An organizational part of the Government of Guatemala's Ministry of Agriculture, Livestock and Food, the Directorate's general objective is to improve the standard of living of small and medium-sized farmers by providing them the necessary technical assistance to increase the reproduction of various livestock species and production of animal protein and to develop an improved livestock infrastructure. The Directorates' role in the Project was to develop, in coordination with the other implementing organizations, livestock extension activities for cows, pigs, sheep, and poultry, focusing primarily on improving management practices related to disease, parasite control, and nutrition/feed supply. The audit coverage included A.I.D. funds of \$160,722 provided to the Directorate during the audit period.

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

Arthur Andersen & Co. found that the Directorate's fund accountability statement presents fairly, in all material respects, the financial activity under the Project for the period audited, with two exceptions: (1) questionable costs of \$17,915 were identified and (2) the auditors were not provided a detailed listing showing the value of the Directorate's inventory and thus could not attest to its fairness. Questioned costs related to materials and supplies purchased with Project funds for which the final use or location could not be verified. Additionally, the auditors reported that as of the end of their work on February 8, 1991, Project expenditures incurred by the Directorate but not reimbursed by USAID-/Guatemala totaled \$18,775.

With respect to the Directorate's internal control structure, the auditors identified six material weaknesses. The auditors reported that the Directorate did not: (1) prepare periodic fund accountability statements, (2) perform periodic reconciliations of A.I.D. funds received, (3) maintain adequate segregation of functions, (4) maintain adequate accounting records to permit verification of counterpart funds reported as contributed to the Project, (5) maintain up-to-date records of fixed assets acquired directly by A.I.D. on behalf of the Directorate, and (6) maintain adequate documentation supporting the liquidation of advances.

In their review of the Directorate's compliance with Project Agreement terms and applicable laws and regulations, the auditors identified two instances of material noncompliance. The auditors' found that the Directorate did not: (1) comply with Section B.5 of the Project Agreement which requires that adequate inventory records be maintained and that periodic external audits of the Project be performed and (2) comply with Section 3.2 of the Project Agreement which requires that adequate accounting records supporting the amount of counterpart funds contributed to the Project be maintained.

The draft report was discussed with management officials of the Directorate whose comments were considered in the final report. The Directorate disagreed with certain questioned costs and internal control findings. Management's comments and the auditor's response to these comments are included in Annexes I and II to the Arthur Andersen & Co. report.

Although this Project has ended, the Mission has an existing agreement with the Directorate under the Highland Agricultural Development Project (USAID-

/Guatemala Project No. 520-0274). For this reason we suggest that USAID-/Guatemala obtain assurance that the problems noted in this report concerning the Directorate's internal control structure and compliance with agreement terms are not evident in the Highland Agricultural Development Project.

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

Recommendation No. 1

We recommend that USAID/Guatemala resolve the questionable costs of \$17,915 (unsupported) identified in the Arthur Andersen & Co. audit report dated December 20, 1991, and recover all amounts determined to be unallowable from the General Directorate for Livestock Services.

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.

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AUDIT OF THE
SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-
FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

AUDIT OF THE
SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-
FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

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ARTHUR ANDERSEN & Co.

EDIFICIO CAMARA DE INDUSTRIA
RUTA 6, 9-21 ZONA 4, 50. NIVEL
GUATEMALA, C. A.
TELS. 316136, 316381 Y 363105

December 20, 1991

Mr. Reginald Howard
Regional Inspector General for Audit
U. S. Agency for International Development
Tegucigalpa, Honduras, C. A.

Dear Mr. Howard:

This report presents the results of our financial close-out audit of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT, USAID/Guatemala Project No. 520-0255, COMPONENT MANAGED BY THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE- (DIRECCION GENERAL DE SERVICIOS PECUARIOS -DIGESEPE-), from July 1, 1987 to the end of the Project, March 31, 1989.

I. BACKGROUND

On August 28 and September 24, 1981, the Government of Guatemala -GOG-, through the Ministry of Public Finances (Ministerio de Finanzas Públicas - MFP); the Ministry of Agriculture, Livestock and Food (Ministerio de Agricultura, Ganadería y Alimentación - MAGA); and the National Board of Economic Planning (Consejo Nacional de Planificación Económica - CNPE), signed grant agreement No. 520-0255 for US\$ 3,696,000 and loan agreement No. 520-T-034 for US\$ 5,500,000 with the U.S. Agency for International Development in Guatemala (USAID/Guatemala) for the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255. The Government of the Republic of Guatemala will amortize this loan to the United States Agency for International Development -USAID- within a twenty-five years (25) term, from the date of the first disbursement, by means of thirty-one (31) semi-annual payments. USAID will furnish to the Government of the Republic of Guatemala an amortization schedule; interest will be paid on a 2% annual base, during ten (10) years, beginning the date of the first disbursement and subsequently using a 3% annual base, computed over the loan balance and interest overdue and unpaid. The original amount was reduced on September 26, 1988 to US\$ 4,413,135. The funds committed by USAID/Guatemala were for the purpose of financing the acquisition of the goods and services necessary to carry out the project. In addition to these funds, the GOG agreed to commit a minimum of US\$ 6,700,000 in counterpart funds to finance administrative expenses and other direct and indirect costs related to the project. The project completion date, originally scheduled for March 31, 1987, was later extended to March 31, 1989.

The project's major goal was to strengthen the agricultural sector's livestock and to stimulate small farm diversification from basic grains to higher value diversified crops of greater labor intensity. The project activities were: a) applied research and technology adaptation, b) extension and promotion, c) loans and social cost payments (contributions), d) in-service training, e) project coordination, and f) nutritional impact evaluation.

As part of the project's loan agreement, a trust fund agreement was signed by the MPF, MAGA, and the National Bank for Agricultural Development (BANDESA). The main objective of the trust fund agreement was to provide funds to finance short and long-term loans for fruit and vegetable production, cattle raising, small-scale irrigation works, and social cost payments (contributions) to project beneficiaries. Under the trust funds agreement, USAID was to provide US\$ 3,000,000 of funds from the loan agreement No. 520-T-034 and the GOG was to provide US\$ 2,200,000 as counterpart contribution. These funds were subsequently modified, agreeing that USAID would contribute the amount of US\$ 4,270,567 from the loan funds and the Government of the Republic of Guatemala should provide US\$ 3,131,455 as counterpart funds.

There were six implementing institutions forming the project including a coordinating unit and the bank mentioned above. The institutions and their respective roles in the project are described below:

- The Coordinating Unit for the Agricultural Diversification Program -UCPRODA- was formed specifically to coordinate the project activities. This coordination included receiving reimbursement requests from the implementing institutions, obtaining reimbursements from USAID/Guatemala and distributing them back to the implementing institutions, and preparing consolidated financial information for the project based on fund accountability statements or other financial statements received from each implementing institution. Under procedures established for the project, UCPRODA's own transactions were to be reviewed and approved by MAGA.
- The National Bank for Agricultural Development -BANDESA- is an autonomous decentralized banking entity of the GOG whose general objective is to promote and administer the provision of credit facilities from the GOG to the agricultural sector of the country, mainly to the small and medium-sized farmer. Its funds are obtained by means of Government trust funds and from its capital, reserves, and liabilities. BANDESA's role in the project is to manage the trust fund created by the above agreement to provide loan facilities to small and medium-sized farmers.
- The General Directorate for Agricultural Services -DIGESA- is part of the Ministry of Agriculture, Livestock, and Food -MAGA- of the Government of Guatemala. Its general objective is to provide technical assistance to small farmers and to promote the Government's general policy of agricultural development to improve their standard of living. On this project, DIGESA was responsible for activities involving the transfer of agricultural technology for crop

production. The crops and activities that DIGESA was to develop as part of the project included: vegetables, fruits from deciduous trees (such as apples and pears), soil preservation, and small-scale irrigation works.

- The General Directorate for Livestock Services -DIGESEPE- is part of the Ministry of Agriculture, Livestock and Food (MAGA). DIGESEPE's general objective is to improve the standard of living of small and medium-sized farmers by providing them with the necessary technical assistance to increase the reproduction of different livestock species, the production of animal protein, and the development of a better livestock infrastructure. DIGESEPE's role in the present project is to develop, in coordination with the other participating implementing institutions, livestock extension activities for cows, pigs, sheep, and poultry, focusing primarily on improving management practices related to disease, parasite control, and nutrition/feed supply.
- The Institute of Agricultural Science and Technology -ICTA- is part of the Ministry of Agriculture, Livestock and Food -MAGA-. ICTA's general objective is to contribute towards the economic and social development of the country through the generation, validation, and promotion of proper technology to increase agricultural and cattle production. ICTA's role in the project was to perform research and adapt technology to be applied for improving fruit, vegetables, and cattle; and to improve the agricultural and cattle related technical training provided to small farmers by DIGESEPE and DIGESA.
- The Technical Assistance Team - EAT was responsible for assisting the implementing institutions of the project. The team started with five specialists transferred by the U.S. Department of Agriculture to collaborate with the U.S. Agency for International Development in the implementation of the project. Additionally, six local specialists were hired by USAID/Guatemala and included in the project.

Each of the project implementing entities was audited by another auditing firm as of June 30, 1987, and in general, the audits found that there was a lack of accountability for USAID funds by the implementing entities, except for the coordinating unit. Only the bank and the coordinating unit had adequate accounting systems/records, and only the coordinating unit reconciled its financial information with USAID records. In the cases of BANDESA, DIGESEPE and DIGESA, the USAID funds flowed through the Government of Guatemala's (GOG) accounts where such funds were commingled with the GOG's own funds before being received by the institutions, and accountability for the USAID funds was lost.

Although the records of the implementing units, the Coordinating Unit, and USAID/Guatemala were not reconciled, based upon USAID/Guatemala's information a total of US\$ 2,479,655 in loan funds and US\$ 1,817,137 in grant funds had been disbursed through June 30, 1987, which would leave loans funds of US\$ 3,020,345 and grant funds of US\$ 1,878,863 remaining to be disbursed through the end of the project period on March 31, 1989.

Except for the Coordinating Unit and the Technical Assistance Team, which were disbanded, USAID/Guatemala continues to work with each entity (although in some cases under different accounting relationships than previously) under USAID/Guatemala's Highland Agricultural Development Project, USAID/Guatemala Project No. 520-0274.

II. AUDIT OBJECTIVES

This is a financial audit of the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255, for the period from July 1, 1987 to the end of the project on March 31, 1989. This project was implemented by the Coordinating Unit for the Agricultural Diversification Program -UCPRODA-, the National Bank for Agricultural Development -BANDESA-, the General Directorate for Agricultural Services -DIGESA-, the General Directorate for Livestock and Food -DIGESEPE-, the Institute of Agricultural Science and Technology -ICTA-, and the Technical Assistance Team -EAT-. The audit was built upon the work of prior auditors who reviewed each implementing entity from their individual starting dates of project operations through June 30, 1987. However, additional steps were required to verify the amounts received by each entity during the full life of the project.

The audit was to be performed in accordance with generally accepted auditing standards and the United States Comptroller General's Government Auditing Standards (1988 Revision) and accordingly included such tests of the accounting records as deemed necessary. The specific objectives of the audit were to determine whether:

1. The fund accountability statement for each implementing entity under the project for the period July 1, 1987 to March 31, 1989, fairly presents in all material respects, the entity's financial activities under the project, and costs reported as incurred and reimbursed by USAID/Guatemala during the period are allowable, allocable, and reasonable in accordance with agreement terms and applicable laws and regulations.
2. The internal control structure of each implementing institution was adequate to manage its activities under the project.
3. Each implementing institution complied with agreement terms, and applicable laws and regulations which may affect the project's goals and incurred costs.

Although it was not the purpose of the audit, we were alert to situations or transactions that could be indicative of fraud, abuse, and illegal expenditures and acts.

III. SCOPE OF WORK

The scope of our work was the following:

A. Pre-audit steps

We reviewed the following documents to become familiar with the project:

1. The project paper
2. The project related agreements between the Government of Guatemala and USAID/Guatemala, including the trust fund agreement under the project's loan agreement.
3. The sub-agreements between the Government of Guatemala, USAID/Guatemala, and the implementing institutions, as applicable.
4. Contracts and subcontracts with third parties.
5. The budgets, project implementation letters, and written procedures approved by the GOG and USAID/Guatemala to manage the project.
6. The reports derived from the audits performed on each implementing entity by another audit firm for RIG/A/T covering the period from the start of their project operations through June 30, 1987.
7. USAID Handbook 11, Chapter 4, which discusses host country contracts and audit.
8. Federal Acquisition Regulations (FAR), which include costs principles and procedures for contracts issued after April 1, 1984.
9. USAID Acquisition Regulations (AIDAR) which specifies USAID peculiar procurement regulations in addition those specified in the FAR.
10. All financial and project reports; charts of accounts, organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing and distribution procedures of materials, as necessary to successfully complete the required work.

B. Fund accountability statement

For each implementing entity, we examined the fund accountability statement of the entity's activities under the project to include the costs reported as incurred during the audited period; the costs reimbursed by USAID/Guatemala during the period; and the reimbursed costs to be questioned or suspended and references to notes explaining the criteria for the questioning of those costs. The work included evaluations of project implementation actions and accomplishments to specifically determine that costs incurred are allowable, allocable, and reasonable under the agreement terms and to identify areas where fraud, waste, abuse and mismanagement exist or could exist as a result of inadequate controls.

C. Internal control structure

We reviewed and evaluated entities' internal control structure related to the project's management as considered appropriate to comply with generally accepted auditing standards. The major internal controls that were evaluated included but were not limited to the adequacy of the accounting and information systems, procurement procedures and practices, bank account reconciliation procedures, and controls to assure that charges to the project were proper and well supported.

D. Compliance with agreement terms and applicable laws and regulations

Our work on entities' compliance with agreement terms, and applicable laws and regulations was designed to:

1. Identify the agreement terms and pertinent laws and regulations and determine which of those not observed could have a direct and material effect on the entity's fund accountability statement.
2. Assess, for each material requirement, the risks that material noncompliance could occur. This includes consideration and assessment of the internal controls in place to assure compliance with laws and regulations.
3. Design steps and procedures to test compliance with agreement terms and applicable laws and regulations to provide reasonable assurance of detecting both unintentional and intentional instances of non-compliance that could have a material effect on the fund accountability statement.
4. Determine if payments have been made in accordance with agreement terms and applicable laws and regulations.
5. Determine if funds have been expended for purposes not authorized or not in accordance with applicable agreement terms. If so, identify these costs as questionable.
6. Ensure that performance under the agreement is being adequately supervised by GOG, including oversight in connection with the determination of eligibility of the persons to participate in the project.
7. Identify any costs not considered appropriate for reimbursement explaining why these costs are questionable.
8. Determine if the counterpart and/or the matching funds and technical assistance, as applicable, are obtained opportunely according to the agreement and to the project's needs. Quantify any shortcomings in this area.

IV. RESULTS OF THE AUDIT

In this section we present a summary of the audit results describing briefly the most important issues and problems found, which are fully discussed in the corresponding section of this report. With the exception of the scope limitation described below, we conducted our audit in accordance with the audit standards mentioned in section II above.

Fund accountability statement

Except for the possible effects of such adjustments that may have resulted from the situation described in the following paragraphs, the fund accountability statement presents fairly, in all material respects, project's revenues and costs incurred, as well as the balance of the project component, managed by DIGESEPE for the period July 1, 1987 through March 31, 1989:

- No valued listing of the store stocks as of March 31, 1989 was furnished to us, since DIGESEPE 's records did not allow us to conduct alternative procedures, we could not be sure of the fairness of such stocks.
- In the fund accountability statement for the period July 1, 1987 through March 31, 1989, we determined questionable costs of an amount of Q 48,372 (approximately US\$ 17,915).

Internal control structure

The current DIGESEPE's internal control structure is based, in some cases, on mandatory manuals and procedures issued by: the Nation's Accounts Comptroller-ship, the Ministry of Agriculture, Livestock and Food, and the Accounting of the Government Accounting. Our evaluation revealed the following reportable conditions which we consider to be material weaknesses:

Financial report

- Lack of preparation of the fund accountability statement.
- Lack of reconciliation of the funds received from USAID.
- Lack of an adequate segregation of functions in the Quetzaltenango area of DIGESEPE.
- Lack of appropriate accounting records to permit the verification of the receipt of the counterpart funds.
- USAID direct purchases not opportunely recorded by DIGESEPE.

Products and services acquisition

- Inadequate liquidations of advances given to the persons in charge of the purchases of the project.

Compliance with legal matters, applicable regulations and agreement terms

Except for the non-compliance situations mentioned in the following paragraphs, DIGESEPE complied, in all material respects, with the agreement terms and applicable laws and regulations. With respect to the non-tested items, nothing came to our attention to cause us to believe DIGESEPE had not complied with the agreement terms and the applicable laws and regulations:

Agreement terms

DIGESEPE did not comply with some accounting and financial terms of the loan agreement signed with USAID. These non-compliance situations are described as follows:

- Section B.5 "Reports, records, inspections, audits" clause (b), Annex 2.
 - . A stock listing of the materials and supplies of the project as of March 31, 1989 was not furnished to us, due to the inadequacy of the subsidiary records.
 - . There were no periodical independent audits contracted.
- Section 3.2 "Borrower resources for the project"
 - . It was not possible to verify the compliance of this clause since DIGESEPE did not have enough information available.

Result of visits to projects

As a result of the visits performed to cattle modules and natural stud centers, we verified the following:

Cattle modules

We visited 61 cattle modules in total, including modules for: bovines, pigs, apiculture and poultry. The result of our visits considering the current status and conditions of the modules were the following:

| | <u>Modules</u> | <u>%</u> |
|--------------------------------|----------------|-------------|
| In good condition | 27 | 44 |
| In acceptable condition | 17 | 28 |
| Non-existing or failed modules | 17 | 28 |
| | <u>61</u> | <u>100%</u> |

For the projects visited and that were in operation, we verified that:

- they physically exist,
- the benefits and objectives were achieved in an acceptable percentage, and
- the technical assistance given by DIGESEPE was acceptable.

Natural stud centers

We verified the physical existence of the natural stud centers used in the same areas visited of the cattle modules.

V. MANAGEMENT COMMENTS:

DIGESEPE's comments were taken into consideration for the final report. They disagreed with our opinion on some questioned costs, and some internal control structure findings. The whole text of DIGESEPE's management comments are included in the Annex I of this report.

VI. AUDITORS RESPONSE

Upon receiving DIGESEPE's management comments where appropriate, we revised the findings included in the report. Our response to DIGESEPE's management comments is included in the Annex II of this report.

Arthur Andersen & Co.

ARTHUR ANDERSEN & Co.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying fund accountability statement of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT, USAID/GUATEMALA PROJECT, No. 520-0255, COMPONENT MANAGED BY THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE- (a governmental entity which works attached to Ministry of Agriculture, Livestock and Food), for the period July 1, 1987 through March 31, 1989. This fund accountability statement is the responsibility of the DIGESEPE's Regional Directorate. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

Except as discussed in following paragraph 1, we conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's Government Auditing Standards (1988 Revision). 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 the DIGESEPE's Regional Directorate, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 4a to the fund accountability statement, DIGESEPE maintains its accounting records on a cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, consequently the attached fund accountability statement does not attempt to present the financial information in accordance with generally accepted accounting principles.

1. No valued listing of store stocks as of March 31, 1989 was furnished to us as DIGESEPE's records did not provide such information, and we were not able to attest to their fairness.
2. As mentioned in Note 7 to the fund accountability statement for the period July 1, 1987 through March 31, 1989, there were identified questioned costs amounting to Q 48,372 (approximately US\$ 17,915).

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In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine a valued listing of store stocks and the effects of the questionable cost of US\$ 17,915, the fund accountability statement referred to above, presents fairly, in all material respects, the project revenues and costs incurred and the fund balance corresponding to the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT, USAID/GUATEMALA PROJECT No. 520-0255, COMPONENT MANAGED BY DIRECCION THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-, for the period July 1, 1987 through March 31, 1989 in conformity with the basis of accounting as described in Note (4) to the fund accountability statement.

This report is intended for the information and use of the United States Agency for International Development, the Government of the Republic of Guatemala and the GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-. This restriction is not intended to limit the distribution of this report, which is a matter of public record, upon acceptance by the Office of the Inspector General.

Arthur Andersen & Co.

Guatemala, C. A.

February 8, 1991

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

Questiona-
ble costs Reference
Unsupported to notes

REVENUES:

| | | | |
|--|---|---------|--|
| Reimbursements received from USAID (Note 5) | Q | 427,357 | |
| | | <hr/> | |
| Total revenues | | 427,357 | |
| | | <hr/> | |

EXPENDITURES:

| | | | | |
|--|---------|--------|--------|--------|
| Expenses made with USAID funds (Note 6) | 375,096 | Q | 48,372 | (7) |
| | <hr/> | | | |
| Total expenses | 375,096 | | | |
| | <hr/> | | | |
| Excess of current period revenues over current expenditures (note 8) | Q | 52,261 | Q | 48,372 |
| | <hr/> | | <hr/> | |

The notes to the fund accountability statement are an integral part of this statement.

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SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

(1) Brief history and description of the project

The Guatemalan Government through the Ministry of Public Finances , the Ministry of Agriculture, Livestock and Food and the National Board of Economic Planning, signed a grant agreement No. 520-0255 for US\$ 3,696,000 and the loan agreement No. 520-T-034 for US\$ 5,500,000 with the United States Agency for International Development in Guatemala (USAID/Guatemala) for the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255. The Government of the Republic of Guatemala will amortize this loan to the United States Agency for International Development -USAID- within a twenty-five year (25) term, from the date of the first disbursement, by means of thirty-one (31) semi-annual payments. USAID will furnish to the Government of the Republic of Guatemala an amortization schedule; interest will be paid on a 2% annual base, during ten (10) years, beginning the date of the first disbursement and subsequently using a 3% annual base, computed over the loan balance and interest overdue and unpaid. The original amount was reduced on September 26, 1988 to US\$ 4,413,135. Additionally to these funds, the Guatemalan Government committed a minimum of US\$ 6,700,000 as counterpart funds.

The project's major goal was to strengthen the agricultural sector's livestock and to stimulate small farm diversification from basic grains to higher value diversified crops of greater labor intensity. The project activities were: a) applied research and technology adaptation, b) extension and promotion, c) loans and social cost payments (contributions), d) in-service training, e) project coordination, and f) nutritional impact evaluation.

(2) Brief history of the executor unit

The General Directorate for Livestock Services -DIGESEPE- is a part of the Ministry of Agriculture, Livestock and Food. Its general objective is to raise the standard of living of the medium and small farmers providing them the necessary technical assistance to increase the reproduction of different cattle species, the animal protein production and the development of the cattle infrastructure. Activities accomplished by DIGESEPE in the project included the development, in coordination with the other executor institutions, the extension of cattle activities for cows, pigs, bees, sheep and birds, specially the improvement of the administrative practices related to illness, parasite control

and nutritional food supplies. The geographical area covered by the project included 37 cities in six different departments, which constituted Region I in the Guatemalan highland.

(3) Monetary unit

The project's accounting records are kept in quetzales, the official monetary unit of the Republic of Guatemala.

The in force exchange rates were as follows:

- Official exchange rate during the period July 31, 1987 through March 31, 1989 was Q 1.00 per US\$ 1.00, to be used only in payment of part of the external debt of the Banco de Guatemala (Central Bank).
- Regulated market exchange rate for all other foreign currency transactions:
 - . For the period from July 31, 1987 through June 22, 1988 Q 2.50 per US\$ 1.00.
 - . For the period from June 23, 1988 through March 31, 1989 Q 2.70 per US\$ 1.00.

(4) Main accounting policies

(a) Basis of presentation

The project's accounting records are kept on a cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the cash basis of accounting:

- Revenues and expenditures are recorded at the time they take place, that is, when they are received or disbursed.
- Since there are no estimations or provisions, there are no liabilities recorded.

(5) Reimbursements received from USAID

USAID effected the following reimbursements as a part of the project financing, for the period July 1, 1987 through March 31, 1989:

| <u>Month</u> | <u>Year</u> | <u>Amount</u> |
|---------------|-------------|---------------|
| - | 1986 | Q 10,223 a/ |
| July | 1987 | 33,920 |
| July | 1987 | 13,263 |
| September | 1987 | 10,213 |
| December | 1987 | 14,802 |
| To page 17... | | Q 82,421 |

| <u>Month</u> | <u>Year</u> | <u>Amount</u> |
|----------------------------|-------------|---------------|
| From page 16... | | Q 82,421 |
| January | 1988 | 56,044 |
| June | 1988 | 74,229 |
| August | 1988 | 47,930 |
| September | 1988 | 41,235 |
| December | 1988 | 10,105 |
| January | 1989 | 42,626 |
| February | 1989 | 23,472 |
| October | 1989 | 3,399 |
| October | 1989 | 45,896 |
| Approximately US\$ 160,722 | | Q 427,357 |

a/ This revenue corresponds to the reimbursement made by USAID with check No. 63503 dated November 14, 1989, belonging to 1986 expenses, initially questioned by USAID.

(6) Expenditures made with USAID funds

Following is a summary of disbursements for the period July 1, 1987 through March 31, 1989, classified by expenditure group.

| <u>Expenditure group</u> | <u>Period</u> | | | <u>Total</u> |
|-----------------------------|-----------------------------------|--------------------------------------|-----------------------------------|------------------|
| | <u>July through December 1987</u> | <u>January through December 1988</u> | <u>January through March 1989</u> | |
| TECHNICAL ASSISTANCE | | | | |
| Materials and supplies | Q 68,192 | Q 163,695 | Q 48,372 | Q 280,259 |
| Machinery and equipment | 4,650 | 11,718 | - | 16,368 |
| | <u>72,842</u> | <u>175,413</u> | <u>48,372</u> | <u>296,627</u> |
| SHORT-TERM TRAINING | | | | |
| Personal services | 19,310 | - | - | 19,310 |
| Non-personal services | 18,723 | - | - | 18,723 |
| Materials and supplies | 39,927 | - | - | 39,927 |
| Machinery and equipment | 509 | - | - | 509 |
| | <u>78,469</u> | <u>-</u> | <u>-</u> | <u>78,469</u> |
| Total expenditures | <u>Q 151,311</u> | <u>Q 175,413</u> | <u>Q 48,372</u> | <u>Q 375,096</u> |

(7) Questionable costs

Among the expenditures presented in the fund accountability statement for the period July 1, 1987 through March 31, 1989, some of the costs are deemed to be questioned, and are detailed as follows:

Unsupported

Materials and supplies purchases made as of March 31, 1989 for which their final destination was not possible to be verified. (Approximately US\$ 17,915)

Q 48,372

(8) Reimbursed by USAID

Per fund accountability statement-

Revenues received from USAID during audit period
Project expenditures during audit period (funds
disbursed by DIGESEPE during audit period for
project purposes but not necessarily reimbursed
by USAID)

Q 427,357

(375,096)

Excess of current period revenues over current
period expenditures

Q 52,261

DIGESEPE conducts the project with its own funds; it pays the project expenses with its own funds and is later reimbursed by USAID. The reimbursement by USAID does not always occur in the same period as the expenditure. The following explains this situation:

Revenues received from USAID during audit period
by DIGESEPE

Q 427,357

Reimbursement of prior period project expenses
initially funded by DIGESEPE

(72,204)

Reimbursement of expenses incurred by DIGESEPE
during the audit period

(355,153)

Q -

Accumulated project expenses funded by DIGESEPE and
not reimbursed by USAID as of July 1, 1987

Q 102,954

Accumulated project expenses funded by DIGESEPE during
the audit period and not reimbursed by USAID as
of March 31, 1989

(50,693)

Reduction in balance of project expenses funded by
DIGESEPE and not reimbursed by USAID

Q 52,261

| | |
|---|-------------|
| Balance of project expenses funded by DIGESEPE during prior period and not reimbursed by USAID as of July 1, 1987 | Q 102,954 |
| Prior period expenses funded by DIGESEPE reimbursed during audit period by USAID | (72,204) |
| Project expenses funded by DIGESEPE during audit period and not reimbursed by USAID as of March 31, 1989 | 19,943 |
| | <hr/> |
| Balance of project expenses funded by DIGESEPE and not reimbursed by USAID as of March 31, 1989 | Q 50,693 |
| | <hr/> <hr/> |

As of the end of our audit fieldwork (February 8, 1991) the total project's expenditures incurred by DIGESEPE and not reimbursed by USAID/Guatemala amounted to Q 50,693 (approximately equivalent to US\$ 18,775).

(9) Subsequent events

Exchange rate for the quetzal (Q) related to the dollar of the United States of America (US\$) was Q 5.11 per US\$ 1.00 as of February 8, 1991.

Exchange rate determined according to the supply and demand of the US dollar of the United States of America, and there is a base price for its acquisition which is periodically determined by the Monetary Board.

ARTHUR ANDERSEN & Co.

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT, USAID/GUATEMALA PROJECT No. 520-0255, COMPONENT MANAGED BY THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-, for the period July 1, 1987 through March 31, 1989, and we have issued our report in which we expressed a qualified opinion thereon dated February 8, 1991.

Except for the scope limitation described in our opinion 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 (1988 revision). Those standards require that we plan and perform our 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 SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT, USAID/GUATEMALA PROJECT No. 520-0255, COMPONENT MANAGED BY THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-, for the period July 1, 1987 through March 31, 1989, we considered its internal control structure in order to determine the nature, timing and extent of 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 General Directorate for Livestock Services -DIGESEPE-, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the 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 accordance with the basis of accounting described in Note 4a to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and 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 economic cycles: 1) financial report, 2) treasury, 3) products and services acquisition and 4) inventories procedures.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Administration's ability to record, process, summarize, and report financial data consistent with the assertions of the DIGESEPE's Regional Directorate in the fund accountability statement. Reportable conditions are described in findings from 1 to 6 in the following pages of this report.

We also noted other immaterial matters involving the internal control structure and its operation that we have reported to the management of DIGESEPE in a separate letter dated February 8, 1991.

A material weakness is a reportable condition in which the design or operation of 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 matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the reportable conditions as described in the following pages, are material weaknesses.

This report is intended for the information of the United States Agency for International Development, the Government of the Republic of Guatemala and the General Directorate for Livestock Services -DIGESEPE-. This restriction is not intended to limit the distribution of this report which is a matter of public record, upon acceptance by the office of the Inspector General.

Arthur Andersen & Co.

Guatemala, C. A

February 8, 1991

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-

INTERNAL CONTROL STRUCTURE
FINDINGS

1. Lack of preparation of the fund accountability statement

Condition

DIGESEPE did not periodically prepare the fund accountability statement of the project, nor reconcile the fund balance against the bank reconciliation.

Criteria

Accounting records are maintained to issue periodical reports of the economic operations and events of the entity, recorded on a accumulative basis.

Cause

No accounting and administrative procedures manual was available to fix the rules to record, accumulate and report the project operations.

Effect

Control over the project's funds received, executed and available was not complete, since this information had not been reconciled.

Recommendation

We recommend that DIGESEPE prepare the fund accountability statement at least once a year, which must present a comparison between the fund balance and the verified balance of funds on deposit with the bank.

2. Lack of periodical reconciliation of the funds received from USAID

Condition

DIGESEPE did not reconcile on a periodic basis the funds provided by USAID, to the funds received and recorded by the component executor entity. It was impossible for us to make this reconciliation for the unaudited period to assure us that all and only the funds received from USAID were recorded.

Criteria

To maintain an adequate internal control system, the entity should have periodically (monthly at least) reconciled the funds received from USAID and be able to identify possible differences in relation to the accounting records of the project.

Cause

The entity lacks an administrative and accounting procedures manual for the project's execution.

Effect

Some differences may arise between both records, and not being identified and clear opportunely.

Recommendation

We recommend that DIGESEPE prepares and implement written instructions to periodically reconcile the funds received from USAID for the execution of the project to their accounting records.

3. Lack of an adequate segregation of functions in the Quetzaltenango area of DIGESEPE

Condition

There is an inadequate segregation of functions as most of the functions are performed by the regional chief of the project. Such as the following:

- Signature of property and services requisitions, both applying and approving it.
- There are no joint signatures for the checks authorization.
- In some cases the checkbook handling and the purchases are made simultaneously.

Criteria

According to the internal control objectives and principles, the above mentioned functions should be segregated.

Cause

Lack of an administrative and accounting procedures manual for the project's execution.

Effect

Funds provided for project purposes could be used for purposes other than those that were authorized.

Recommendation

We recommend that DIGESEPE delegate to various officers the following functions:

- Property requisition and purchase
- Physical reception of the property
- Signature of checks, which must be co-signed
- Preparation, revision and approval of the bank reconciliation
- Preparation of payrolls
- Distribution of payroll checks

The functions of the regional chief must be that of supervision and revision, as well as the approval of the different functions performed by remaining personnel.

4. Lack of appropriate accounting records to permit the verification of the counterpart funds

Condition

DIGESEPE's accounting records did not permit us to verify the amount of counterpart funds granted by the Guatemalan Government to the component executed by this entity, for the period July 1, 1987 through March 31, 1989. Several numbers of purchase and payment orders recorded in these cards are not in conformity with the information of the original purchase and payment order, and in some cases these numbers do not match.

Criteria

According to Section 3.2, note (a), item 3 of the loan agreement signed with USAID, "the Government of Guatemala should safeguard for the furnishing of all the counterpart funds of the project". Additionally, one of the characteristics of the accounting, is that each record should be adequately identified to allow its subsequent review.

Cause

Lack of an accounting manual that indicates how the disbursements made with the counterpart funds should be documented and recorded and which subsidiary records must be maintained.

Effect

It is not possible to reference data between cards and purchase and payment orders easily.

Recommendation

We recommend that DIGESEPE's budget department closely control when recording the purchase and payment orders; this function should be reviewed by a different person from the one who records them in the cards, which will assist in ensuring its proper recording.

5. USAID direct purchases not opportunely recorded by DIGESEPE

Condition

There was an inadequate flow of information supplied by USAID to the Quetzaltenango DIGESEPE region by the DIGESEPE central offices. Consequently, in the Quetzaltenango region the amount of the property received from USAID was unknown, and not recorded opportunely.

Criteria

In accordance with generally accepted accounting principles, the operations must be recorded in the period and at its real cost in which they were realized. Consequently all the property and services directly acquired by USAID should be opportunely recorded.

Cause

Lack of procedures for the transaction flow of operations directly realized by DIGESEPE central offices, to the DIGESEPE Quetzaltenango region.

Effect

Untimely recording of the fixed assets directly acquired by USAID for the use of DIGESEPE and outdated subsidiary records.

Recommendation

We recommend that the Central Directorate of the entity provide periodically to the executer units, statements of account including the description of purchases directly made by USAID for the project.

6. Inadequate liquidations of advances give to the persons in charge of the purchases of the project

Condition

No evidence is maintained of the liquidation of each check given to the person in charge of the purchases, by means of a listing of documents paid with each check; consequently, no reference can be made on the documents paid with a check. From 258 documents revised, all of them are in the same condition.

Criteria

As an internal control procedure for the safety of the cash in banks, a liquidation must be prepared for each check issued.

Cause

Lack of a procedures manual that indicates the liquidation and documentation practices for each check issued to make purchases.

Effect

Because the documents provided by the person in charge of the purchases are summarized in a purchase and payment order until there is a large amount of them, their sequence is lost, and as a result a reference between them and the specific check used to pay for the purchases cannot be established.

Recommendation

We recommend that DIGESEPE implement the use of a form for the liquidation of checks used for purchases, which should contain at least the following:

- Place and date
- Beneficiary of the check
- Number of the liquidated check
- Amount of the check
- Documents listing (number, date, company name, amount)
- Comparison between the amount received and the accomplished expenses
- Balance in favor of or to be reimbursed
- Name and signature of buyer
- Liquidation approval

Additionally, each document paid must be stamped "paid with check No.", date and signature of the cashier or the receiver.

ARTHUR ANDERSEN & Co.

SMALL FARMER DIVERSIFICATION SYSTEM PROJECT
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE
LAWS AND REGULATIONS

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT, USAID/GUATEMALA PROJECT, No. 520-0255, COMPONENT MANAGED BY THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-, for the period July 1, 1987 through March 31, 1989, and we have issued our report in which we expressed a qualified thereon dated February 8, 1991.

Except for the scope limitation described in our opinion on the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's Government Auditing Standards (1988 revision). 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 agreement terms, laws and regulations applicable to the General Directorate for Livestock Services -DIGESEPE- is the responsibility of the Government of the Republic of Guatemala and the General Directorate for Livestock Services -DIGESEPE-. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the General Directorate for Livestock Services -DIGESEPE- compliance with certain provisions agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of non-compliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the findings Nos. 1 and 2 included in the following pages which in our opinion are of material effect.

We considered these material instances of noncompliance in forming our opinion on whether the General Directorate for Livestock Services -DIGESEPE- fund accountability statement is fairly presented, in all material respects, in conformity with the basis of accounting described in Note 4a to the found accountability statement, and this report does not affect our report dated February 8, 1991 on that statement.

ARTHUR ANDERSEN & Co.

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

This report is intended for the information of the United States Agency for International Development, the Government of the Republic of Guatemala and the General Directorate for Livestock Services -DIGESEPE-. This restriction is not intended to limit the distribution of this report which is a matter of public record, upon acceptance by the Office of the Inspector General.

Arthur Andersen & Co.

Guatemala, C. A.

February 8, 1991

SMALL FARMER DIVERSIFICATION SYSTEM PROJECT
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE
LAWS AND REGULATIONS
FINDINGS

AGREEMENT TERMS

1. In order to fulfill the requirements included in Section B.5 "Reports, records, inspections, audits" clause (b) annex 2

Condition

DIGESEPE did not entirely comply with this provision, due to the following:

- During the period July 1, 1987 through March 31, 1989 no external audits were contracted for the review of the project records.
- The subsidiary store records do not permit us to obtain a stock listing of the materials and supplies of the project as of March 31, 1989.

Criteria

According to the above mentioned clause DIGESEPE should have maintained or ensured that books and accounting records be maintained related to the project and the agreement, in accordance with generally accepted accounting principles and practices and in an appropriate way to identify without limitations the dispatch and usage of property and services financed with loan funds. Such books and records should be submitted to periodical audits, which will be performed according to generally accepted audit principles and practices, and should be kept for a period of three years after the date of the last disbursement made by USAID.

Cause

Lack of an administrative and accounting procedures manual, omission of internal control procedures, and lack of instructions and funds to contract independent auditors.

Effect

Noncompliance with the above mentioned clause.

Recommendation

We recommend the Government of Guatemala and the executor entities of the project establish the necessary procedures, to be able to comply with the agreement terms prior to its signature.

2. In order to fulfill the requirements included in Section 3.2 "Borrower resources for the project"
-

Condition

It was not possible to verify the compliance with this provision as DIGESEPE did not have the necessary information to determine the amount that the Government of Guatemala should have provided to the component as counterpart funds.

Additionally, for the funds provided during the period July 1, 1987 through March 31, 1989 amounting Q 266,324, we were not able to attest to the fairness of some expenditures for in an amount of Q 77,137, as the entity did not have the corresponding support documentation.

Criteria

According to the above mentioned clause "The borrower (Government of the Republic of Guatemala) agrees to furnish or verify the provision of all the funds for the project, besides the ones proceeding from the loan, as well as all of the resources necessary for the efficient and accurate execution of the project".

Cause

Lack of information to each executor unit about the distribution of counterpart funds to each component and lack of a manual describing the way the counterpart funds should be recorded.

Effect

No verification of the compliance with this provision.

Recommendation

We recommend the Government of the Republic of Guatemala in future projects inform each executor entity about the counterpart funds assigned to them, and that each entity keep a control over the execution of such funds.

SMALL FARMER AUDIT OF THE DIVERSIFICATION SYSTEMS PROJECT
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-

LIST OF REPORT RECOMMENDATIONS

Internal control structure

1. We recommend that DIGESEPE prepare the fund accountability statement at least once a year, which must present a comparison between the fund balance and the verified balance of funds on deposit with the bank.
2. We recommend that DIGESEPE prepares and implement written instructions to periodically reconcile the funds received from USAID for the execution of the project to their accounting records.
3. We recommend that DIGESEPE delegate to various officers the following functions:
 - Property requisition and purchase
 - Physical reception of the property
 - Signature of checks, which must be co-signed
 - Preparation, revision and approval of the bank reconciliation
 - Preparation of payrolls
 - Distribution of payroll checks

The functions of the regional chief must be that of supervision and revision, as well as the approval of the different functions performed by remaining personnel.

4. We recommend that DIGESEPE's budget department closely control when recording the purchase and payment orders; this function should be reviewed by a different person from the one who records them in the cards, which will assist in ensuring its proper recording.
5. We recommend that the Central Directorate of the entity provide periodically to the executer units, statements of account including the description of purchases directly made by USAID for the project.
6. We recommend that DIGESEPE implement the use of a form for the liquidation of checks used for purchases, which should contain at least the following:
 - Place and date
 - Beneficiary of the check
 - Number of the liquidated check
 - Amount of the check

- Documents listing (number, date, company name, amount)
- Comparison between the amount received and the accomplished expenses
- Balance in favor of or to be reimbursed
- Name and signature of buyer
- Liquidation approval

Additionally, each document paid must be stamped "paid with check No.", date and signature of the cashier or the receiver.

Compliance with agreement terms and applicable laws and regulations

1. We recommend the Government of Guatemala and the executor entities of the project establish the necessary procedures, to be able to comply with the agreement terms prior to its signature.
2. We recommend the Government of the Republic of Guatemala in future projects inform each executor entity about the counterpart funds assigned to them, and that each entity keep a control over the execution of such funds.



SECTOR PUBLICO AGROPECUARIO Y DE ALIMENTACION
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(Parque Zoológico)
Tels. 061-2932 061-8415
QUETZALTENANGO

RAZONAMIENTO DE CUESTIONAMIENTOS CONTENIDOS EN BORRADOR PRELIMINAR PARA DISCUSION SOBRE AUDITORIA PRACTICADA A LA INSTITUCION COMO UNIDAD EJECUTORA DEL PROYECTO "SISTEMAS DE DIVERSIFICACION PARA EL PEQUEÑO AGRICULTOR DEL ALTIPLANO 520-T-034 POR EL PERIODO DEL 1 DE JULIO DE 1,987 AL 31 DE MARZO DE 1,989.

CRITERIO:

Atendiendo amables sugerencias de personeros de la firma A. ANDERSEN, como de La Agencia Internacional para el Desarrollo AID en reunión sostenida con autoridades de esta Institución se optó por revisar y reordenar la Documentación existente en los archivos y pudo corroborarse con toda honestidad y certeza, que la documentación se encuentra elaborada de manera completa, como lo establecen las leyes Nacionales, por lo que para una mayor determinación y con el ánimo de colaborar con el esclarecimiento y en la determinación para el informe final puede consultarse a la Delegación de La Contraloría de Cuentas DIGESA-DIGESEPE, en donde obran los documentos originales de todos y cada uno de los gastos realizados; así mismo a UCPRODA y a La AID, a quienes periódicamente se enviaban copias de tales documentos previo a la solicitud de un nuevo reembolso.

Con los elementos descritos se procede a razonar los cuestionamientos antes aludidos los que a nuestro criterio radican en lo siguiente:

RAZONAMIENTOS:

A. Costos cuestionables

- A.1 Existe el 100% de la papelería que ampara la compra de materiales y suministros efectuada al 31 de marzo de 1,989, se desconocía su destino final por que al momento de requerirse esta documentación el Guardalmacén recién había tomado el cargo debido al imprevisto retiro de la Persona



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QUETZALTENANGO

que con anterioridad se venía desempeñando como tal, habiéndose reordenado el archivo se pudo comprobar la existencia de la documentación que aparentemente dió origen al presente cuestionamiento cuyo monto asciende a la cantidad de Q.48,372.00.

A.2 Fraccionamiento de Compras

A.2.1 En lo concerniente al fraccionamiento de Compras cabe informar que se procedió de esta manera debido a las siguientes razones:

En lo que respecta a las Ordenes de Compra y pago numeros 23-87 y 32-87 de Pensión Bonifaz y Hotel Monterrey cuyo concepto es de hospedaje y alimentación por las cantidades de Q.2,030 y Q.1,587.00 fué necesario fraccionar por razones puramente de tiempo que implica el proceso de cotización y que alteraba los contenidos Programaticos y de ejecución del Proyecto.-

Estos efectos caben para cada uno de los cuestionamientos segun Ordenes de Compra y pago referentes a Hospedaje y alimentación. Explicase asi mismo, que por el término total de la ejecución del Proyecto unicamente se incurrió en estos fraccionamientos que se consideran efectuados en calidad de necesidad.

A.2.2 Las Ordenes de compra y pago 1-88 y 18-88 de Libreria Elenita por Compra de papeleria y utiles y por los valores de Q.1,541 y Q.1,071, hubo de presindirse de la cotización por el factor tiempo contra lo programatico y la distribución de esta papeleria y utiles al area de influencia del proyecto.

A.2.3 Las Ordenes de Compra y Pago numeros 5-89, 28-88 y 32-88 se fraccionaron por cuanto sus conceptos se subdividen en renglones. Cuyos valores son por Q.2,538.00, Q.1,328.00 y Q.1,463.00.
Similar situación ocurre con la Orden de Compra y pago 16-88 de La Casa comercial Motocentro de Occidente cuyo valor es de Q.1,973.00, por Lubricantes y repuestos.

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A.3 **Compra de Productos Químicos**

Bajo ningún punto de vista puede aislarse la actividad Técnica Pecuaria de otras actividades que resultan determinantes para el objetivo, parte de ello fue el hecho de haber efectuado compras de reactivos utilizados en El Laboratorio de Diagnóstico con el propósito de aplicarlos en el diagnóstico y verificación de calidad Bromatológica de Pastos y/o concentrados empleados en la alimentación de las especies adquiridas e involucradas en el Proyecto.

De igual manera, otros productos para el análisis de las muestras de suelos para la producción de pastos naturales o establecidos destinados a la alimentación de las distintas especies animales de los Módulos Pecuarios, establecidos por el mismo Proyecto.

B: **Sin documentación de soporte**

B.1 Las conciliaciones del fondo que se ejecutó se realizaron sin embargo se lamenta el no haber dejado evidencia de ello razón por lo que se da por aceptada la sugerencia para futuros Proyectos.

B.2 **Compras sin Documentos de Cotización**

El trámite y la documentación a que se refiere el presente cuestionamiento Ordenes de Compra y pago 25-87 y 30-87 fue elaborada de conformidad al caso, debido a que no se contaba con oferentes para el servicio y los Profesionales que impartieron los cursos fueron las personas de mayor capacidad e idoneidad.

Se reitera para las Ordenes de Compra y Pago 32-87, 65-87 y 65-87 por las cantidades de Q. 3,627.00, Q.1,200.00, Q.4,506 Ambas de Pensión Bonifaz en las que el factor tiempo era determinante para la Ejecución de la actividad y la obtención del servicio.



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C. **Controles Internos**

En cuanto a la firma de requisiciones de Bienes y Servicios de solicitante y aprobación se adoptó el cambio sugerido. Se efectuó ya lo referente a mancomunar las firmas para la autorización de cheques.

D. **Segregación de funciones**

Los controles de tipo administrativo se encontraban segregados por cuanto dado a la carencia de personal específico para estos efectos por parte del Proyecto, fue necesario incorporar al personal de la Unidad Administrativa mismo que elaboraba la documentación.

E. **Compras directas hechas por USAID no registradas oportunamente por DIGESEPE.**

El proceso administrativo que se llevo a cabo en la ejecución del proyecto no permitió en la mayoría de los casos el poder llevar a cabo un registro oportuno en cuanto a la recepción de bienes en la Región, por las siguientes razones:

- Por que las compras que USAID realizaba para implementar en la región se hacía para varias instituciones involucradas en el Proyecto; de esta manera se tenía que entre el tiempo de desembarque, aduanaje, retiro de esta, recepción en La Región y distribución de los bienes a las Instituciones, implicaba un tiempo de espera; luego, que en su mayoría los bienes llegaban facturados al por mayor y la segregación y prorratio de estos lo efectuaba mucho tiempo después UCPRODA en la ciudad Capital.
- Los controles de la Unidad de Coordinación del Proyecto la recepción de fotocopias y en muchos de los casos el envío de bienes sin datos precisos o documentos que ampararan su registro creaban su atraso.



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- Como ilustración de causa los consiguientes problemas: USAID hizo compras de accesorios y repuestos destinados al Proyecto, sin embargo al momento de pasar por aduana Central esta se incendió. Trámite para hacer constar la existencia de dichos repuestos en la aduana, trámite para solicitar su reposición y nuevamente trámite para el retiro de los repuestos y accesorios; en síntesis, la repercusión en tiempo y desfases en registros

- E.1 Controles Internos:
Rendición de Cuentas
La rendición de cuentas a que alude este inciso, se efectuó de manera periódica pese a que no se dejó evidencia de otra manera no podría explicarse el caso sobre la solicitud y ejecución de los reembolsos sucesivos.
- E.2 Falta de Conciliación:
Este aspecto era preciso cumplirlo como requisito para ejecutar un nuevo reembolso; el adjunto documento que contiene los reembolsos recibidos de la Misión AID ponen de manifiesto su existencia a través de la información contenida en dicho anexo como lo es número de cheque, fecha y monto.
- E.3 La adecuada segregación de funciones:
Para el presente caso se han atendido las recomendaciones y en la actualidad con el propósito y objetivos de control internos sean efectivos se han segregado las funciones como medida de solución a los planteamientos hechos.
De tal manera que el proceso administrativo se encuentra establecido en que cada función sea ejecutada por un trabajador específico.

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- E.4 Falta de Registros Contables Adecuados:
Si no se contó en su oportunidad con el cumplimiento de este punto se debe a que como ha quedado especificado, ningún proyecto contempla la implementación de Personal para el cumplimiento de los efectos administrativos. Sin embargo se han tomado medidas correctivas para futuros proyectos.
- E.5 Compras Directas Hechas por USAID no registradas oportunamente por DIGESEPE.
El presente numeral coincide en lo especificado en el inciso "E" del presente pliego, en el que se aclara el por que de los atrasos en registros hechos por compra de USAID.
- E.6 Liquidación adecuada de anticipos:
No existe la liquidación de anticipo por cuanto no se opero.
- E.7 Documentación incompleta en los vales:
Se adjuntan los listados correspondientes que amparan los itinerarios respectivos en el consumo de combustible y a su vez se han tomado todas las recomendaciones para futuros casos.
- E.8 Vales de Consumo e combustible sin firma de autorizado:
Similar situación al numeral que antecede se han tomado como medidas mas precisas para evitar el presente caso.
- E.10 Deficiencias en Controles de Almacen y registros inadecuados:
En los presentes numerales y de conformidad a las nueva políticas administrativas, estas diferencias serán superadas.

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OBSERVACIONES.

Con el proposito de esclarecer en su totalidad todos los cuestionamientos y específicamente las diferencias noconciliadas en el estado de rendición de cuentas que asciende a la cantidad de Q.58,558.00 y siendo que la información que AID se diera a la Firma A. ANDERSEN y esta fuera proporcionada a la Unidad Ejecutora pudo corroborarse total diferencia entre la información que se cuenta en archivos de La Institución y lo manejado por los auditores se sugiere en consecuencia lo siguiente, se verifique o corrobore las sumas de la información que posee A. ANDERSEN.

En otro orden de ideas se hace la observación que la Orden De Compra y Pago 32-88 existen varios documentos cuyas cifras no coinciden con lo manifestado por su borrador preliminar.

Seria bastante acertado que la Firma A. ANDERSEN tuviera a bien avocarse una vez mas a la Agencia Internacional para el Desarrollo y verificar sobre esta documentación a efecto de desvanecer y conciliar las diferencias presentadas a esta Institución.

Quetzaltenango, 8 de octubre de 1,991


Manuel Arturo Rodríguez C.
JEFE ADMINISTRATIVO
DIGESEPE, REGION VI
QUETZALTENANGO

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SMALL FARMER AUDIT OF THE DIVERSIFICATION SYSTEMS PROJECT

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE GENERAL DIRECTORATE FOR LIVESTOCK SERVICES -DIGESEPE-

FOR THE PERIOD JULY 1, 1987 THROUGH MARCH 31, 1989

AUDITORS RESPONSE TO DIGESEPE'S MANAGEMENT COMMENTS

I EXCEPTIONS TO THE FUND ACCOUNTABILITY STATEMENT

I. 1 Questioned costs

We agree with DIGESEPE that certain costs questioned in the draft audit report pertaining to fractionated purchases of chemical products and purchases made without quotations were necessary and proper under the circumstances; however, DIGESEPE did not furnish us the necessary data nor sufficient foundation to resolve the following questioned costs, so we continue to question them as indicated below:

- Purchases as of March 31, 1989 for which we could not verify its end-use

Q 48,372

II FINDINGS ON DIGESEPE INTERNAL CONTROL STRUCTURE

Generally, DIGESEPE agreed with findings on the internal control structure and some of them have already been or are being implemented. Consequently, DIGESEPE should take the necessary corrective steps, to implement all the recommendations included in this report.

III FINDINGS ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Based on our discussions with DIGESEPE we agree that the situations involving fractionated purchases and insufficient quotation data discussed in findings 1 and 2 of our draft report were in fact proper under the circumstances and we have removed these findings from our final report. DIGESEPE did not comment on our remaining findings in the report section on compliance with agreement terms and applicable laws and regulations.