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

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

**Audit Report No. 1-520-92-17-N
January 15, 1992**



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

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AGENCY FOR INTERNATIONAL DEVELOPMENT

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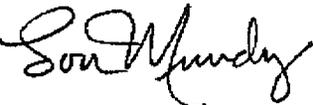
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January 15, 1992

MEMORANDUM

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

FROM: RIG/A/T Acting, Lou Mundy 

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

This report presents the results of a financial close-out audit of the General Directorate for Agricultural 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 provide technical assistance to small farmers and improve their standard of living through promotion of the Government of Guatemala's general policy of agricultural development. Under the Project the Directorate was responsible for activities involving the transfer of agricultural technology for crop production. The crops and activities under the Directorate's responsibility included fruits and vegetables, soil preservation, and small-scale irrigation works. The audit coverage included A.I.D. funds of \$208,025 provided to the Directorate during the audit period.

B

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 \$147,229 were identified and (2) the auditors were not able to verify two subprojects costing \$11,709 due to reassignment of Directorate personnel and thus could not attest to the fairness of this cost. Questioned costs related primarily to materials and supplies purchased with Project funds but used under unrelated projects, split procurements to avoid the requirement for obtaining quotations, and an unreconciled difference of \$112,480 between A.I.D. funds provided to the Directorate per USAID/Guatemala's confirmation and the Directorate's accounting records. 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 \$52,973.

With respect to the Directorate's internal control structure, the auditors identified eight 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 up-to-date records of fixed assets acquired directly by A.I.D. on behalf of the Directorate, (4) have an adequate segregation of personnel functions in the area of payment approvals, (5) maintain adequate documentation supporting the liquidation of advances, (6) maintain adequate documentaion for certain Project expenses, (7) maintain adequate records for the material and supplies inventory, and (8) have adequate physical control over equipment, material, and supplies purchased with Project funds.

In their review of the Directorate's compliance with Project Agreement terms and applicable laws and regulations, the auditors identified four instances of material noncompliance. The auditors found that the Directorate did not: (1) obtain quotations from suppliers in accordance with procurement regulations, (2) comply with Section B.5 of the Project Agreement which requires that a separate bank account be used to manage Project funds and that periodic external audits of the Project be performed, (3) 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, and (4) comply with Section B.3 of the Project Agreement which requires that resources purchased with Project funds be used for Project purposes.

The report was discussed with management officials of the Directorate who expressed agreement with the content of the report and indicated that corrective actions would be implemented. Management's comments are included in Annex I 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 recommendations in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/Guatemala resolve the questionable costs of \$147,229 (\$24,296 questioned and \$122,933 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 Agricultural 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.

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

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ARTHUR ANDERSEN & CO.

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TELS. 316136, 316381 Y 363195

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 AGRICULTURAL SERVICES (DIRECCION GENERAL DE SERVICIOS AGRICOLAS -DIGESA-), 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 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) year, 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 sub-contracts 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 opportunistically according to the agreement and to the project's needs. Quantify any shortcomings in this area.

RESULTS OF THE AUDIT

In this section we present a summary of the audit results briefly describing the most important issues and problems found, which are fully discussed in the corresponding section of this report. With the exception of the scope limitations described bellow, 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 DIGESA for the period July 1, 1987 through March 31, 1989:

- We did not physically verify the projects executed in the Departments of Huehuetenango and Quiché, with the accumulated costs of Q 23,740 and Q 7,875 respectively, as they were assigned to other DIGESA'S regions whose personnel were not available to assist us in such verification.
- In the fund accountability statement of DIGESA, we determined questionable costs amounting approximately US\$ 147,229 equivalent to Q 397,517.

Internal control structure

The current DIGESA's internal control is based, in some cases, on mandatory manuals and procedures issued by: the Nation's Accounts Comptrollership, the Ministry of Agriculture, Livestock and Food, and the Accounting of the Government Accounting. We considered these factors to perform our evaluation. 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.
- DIGESA did not record all property directly acquired by USAID.

Products and services acquisition

- Lack of adequate Purchasing and payment orders approval.
- Lack of an adequate liquidation of the purchases advances.
- Lack of adequate support documentation.

Inventories procedures

- Materials and supplies not entered in the kardex control cards.
- Inappropriate use and distribution of materials and supplies acquired with project funds.

Compliance with legal matters, applicable regulations and agreement terms

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

Purchasing and contracting law

We consider that DIGESA did not entirely comply with the requirements stipulated by this law, since there were fractionated amounts for some purchase, to avoid the quotation process.

Loan agreement

DIGESA 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.
 - . The project funds were mixed with other project funds.
 - . There were no periodic independent audits contracted.
- Section 3.2 "Borrower resources for the project"
 - . It was not possible for us to verify the compliance of this clause since DIGESA do not had enough information regarding the local counterpart.
- Section B.3 "Use of property and services", clause (a) Annex 2
 - . Use of materials and supplies of the Project for the operation of another project managed by the institution.
 - . Use of a vehicle under the project charge, for a different region than the action area of the same.

Result of visits to projects

As a result of visiting the soil preservation and mini-irrigation project, we verified the following:

- The selected projects really exist
- The benefits and objectives have been complied and achieved
- DIGESA's technical assistance has been reasonable

V. MANAGEMENT COMMENTS:

DIGESA's management agrees with the audit report, and has already given instructions to correct such deficiencies in the future.

Arthur Andersen & Co.

ARTHUR ANDERSEN & Co.

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

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 AGRICULTURAL SERVICES -DIGESA- (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 DIGESA's Regional Directorate. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

Except as discussed in the 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 DIGESA'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, DIGESA 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. We did not physically verify the projects executed in the Departments of Huehuetenango and Quiché, with the accumulated costs of Q 23,740 and Q 7,875 respectively, because when the project No.520-0255 was finished Huehuetenango, and Quiché personnel were assigned to other DIGESA's regions these personnel were not available to assist us in such verification.
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 approximately US\$ 147,229 equivalent to Q 397,517.

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 physically verify the projects executed in the Departments of Huehuetenango and Quiché and the effects of the questionable costs of US\$ 147,229, 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 THE GENERAL DIRECTORATE FOR AGRICULTURAL SERVICES -DIGESA- for the period July 1, 1987 through March 31, 1989, in conformity with the basis of accounting described in Note 4a 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 Agricultural Services -DIGESA-. 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 AGRICULTURAL SERVICES -DIGESA-

FUND ACCOUNTABILITY STATEMENT

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

	<u>Questionable costs</u>		<u>Reference</u>
	<u>Questioned</u>	<u>Unsupported</u>	<u>to notes</u>
REVENUES:			
Reimbursements received from USAID according DIGESA records (Note 5)	Q 259,684	Q 303,696	(7)
Total revenues	<u>259,684</u>		
EXPENDITURES:			
Expenses made with USAID funds (Note 6)	<u>323,945</u>	Q 65,599 28,222	(7)
Total expenditures	<u>323,954</u>		
Excess of current period expenditures over current revenues (Note 8)	<u>(64,261)</u>		
	<u>Q (64,261)</u>	<u>Q 65,599</u>	<u>Q 331,918</u>

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

SMALL FARMER DIVERSIFICATION SYSTEMS PROJECT

USAID/GUATEMALA PROJECT No. 520-0255

COMPONENT MANAGED BY

THE GENERAL DIRECTORATE FOR AGRICULTURAL SERVICES -DIGESA-

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 from 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 Agricultural Services -DIGESA- 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 by providing them the necessary technical assistance and to promote the government policy for agricultural development. -DIGESA was responsible for related activities of the agricultural technology transfer for the diversified farming production. The

farming diversification and activities developed by DIGESA as a part of the project included: vegetables, fruits from deciduous trees (such as apples and pears), soil preservation and small-scale irrigation system. The project covered area included thirty seven cities in six different departments which constitutes Region I in the Guatemala highland. The project's principal headquarters was located in Quetzaltenango.

(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

DIGESA prepared the fund accountability statements 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 a part of the project financing, for the period July 1, 1987 through March 31, 1989:

<u>Date</u>		<u>Amount</u>	
July	1987	Q	10,556
August	1987		302
February	1988		17,447
March	1988		34,191
April	1988		6,663
April	1988		23,586
May	1988		445
June	1988		1,456
August	1988		16,407
August	1988		72,393
September	1988		20,657
November	1988		6,825
November	1988		32,364
December	1988		16,226
March	1989		166
Approximately US\$ 95,545		Q	259,684

(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>	
Materials and supplies <u>b/</u>	Q 85,251	Q 148,631	Q 77,287 <u>a/</u> Q	311,169
Non personal services	12,176	-	-	12,176
Personal services	600	-	-	600
	<u>Q 98,027</u>	<u>Q 148,631</u>	<u>Q 77,287</u>	<u>Q 323,945<u>c/</u></u>

a/ This amount corresponds to the 1989 execution year, which DIGESA keeps recorded in its fiscal cash register, as of the date of this audit report USAID had not refunded the reimbursement request for this amount which is still pending to be reimbursed to the National Treasury.

b/ As of March 31, 1989, final date for the execution of the project, there were materials and supplies in stock for an amount of Q 36,503, which were used by the project as well as for other projects. The units that received materials and supplies are: Progettaps, Procasnea, Brillantes, Promotes Training Center and others.

c/ Approximately US\$ 121,667.

(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:

Questioned

Materials and supplies used by other projects	Q	36,503
Purchases fractionated to avoid quotations		28,859
Building maintenance expenses		237
		<hr/>
Approximately US\$ 24,296		65,599
		<hr/>

Unsupported

Lack of requisitions or store entrances forms		14,812
Expenses without invoice copy		7,410
Purchases without quotation documentation		6,000
		<hr/>
(Approximately US\$ 10,453)		28,222
		<hr/>

Not reconciled difference between funds delivered to DIGESA as per USAID confirmation and DIGESA accounting records (approximately US\$ 112,480)		303,696
		<hr/>
Approximately US\$ 147,229	Q	397,517
		<hr/> <hr/>

(8) Reimbursed by USAID

Per fund accountability statement-		
Revenues received from USAID during audit period	Q	259,684
Project expenditures during audit period (funds disbursed by DIGESA during audit period for project purposes but not necessarily reimbursed by USAID)		(323,945)
		<hr/>
Excess of current period expenditures over current revenues period	Q	(64,261)
		<hr/> <hr/>

DIGESA 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 DIGESA	Q	259,684
Reimbursement of prior period project expenses initially funded by DIGESA		-
Reimbursement of expenses incurred by DIGESA during the audit period		(259,684)
	Q	-
<hr/>		
Balance of project expenses funded by DIGESA during prior period and not reimbursed by USAID as of July 1, 1987	Q	78,765
Prior period expenses funded by DIGESA reimbursed during audit period by USAID		-
Project expenses funded by DIGESA during audit period and not reimbursed by USAID as of March 31, 1989		64,261
		<hr/>
Balance of project expenses funded by DIGESA and not reimbursed by USAID as of March 31, 1989	Q	143,026
		<hr/>

As of the end of our audit fieldwork (February 8, 1991) the total project's expenditures incurred by DIGESA and not reimbursed by USAID/Guatemala amounted to Q 143,026 (approximately equivalent to US\$ 52,973).

(9) Subsequent events

Exchange rate for the quetzal (Q) related to the dollar of the United States of America (US\$) was of 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 AUDIT OF THE DIVERSIFICATION SYSTEMS PROJECT
USAID/GUATEMALA PROJECT No. 520-0255
COMPONENT MANAGED BY
THE GENERAL DIRECTORATE FOR AGRICULTURAL SERVICES -DIGESA-

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 AGRICULTURAL SERVICES -DIGESA-, 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 limitations 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 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 AGRICULTURAL SERVICES -DIGESA-, 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 Agricultural Services -DIGESA- 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 the administrator'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 DIGESA'S ability to record, process, summarize, and report financial data consistent with the assertions of the DIGESA'S Regional Directorate in the fund accountability statement. Reportable conditions are described in findings from 1 to 8 in the following pages of this report.

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 all of 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 Agricultural Services -DIGESA-. 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 AGRICULTURAL SERVICES -DIGESA-

INTERNAL CONTROL STRUCTURE
FINDINGS

1. Lack of preparation of the fund accountability statement

Condition

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

Criteria

The section B.5. clause (a) and (b), Annex 2 of the loan agreement, requires that the accounting records be designed to issue periodic reports of the economic events and operations of the institution, recorded in an accumulative manner.

Cause

Lack of an administrative and accounting procedures manual to set the standards to record, accrue and report operations.

Effect

Control over the project's funds received, executed and available was not complete, since the information was not reconciled between them, which results in a difference of Q 284,313 (approximately US\$ 105,301) between the balance fund as per the fund accountability statement and the cash in bank.

Recommendation

We recommend that the fund accountability statement be prepared by DIGESA at least once a year, which must present a comparison between the fund balance as per the fund accountability statement and the bank balance available.

2. Lack of reconciliation of the funds received from USAID

Condition

DIGESA did not periodically prepare a reconciliation between the funds provided by USAID to the funds received and recorded by the component of the

project, making it impossible to perform a reconciliation of such funds for the audited period. The unreconciled difference was Q 303,696 (US\$ 115,099), USAID/Guatemala had confirmed disbursing for Q 563,380 (US\$ 210,644), where DIGESA's records indicated that Q 259,684 (US\$ 95,545) had been received.

Criteria

To maintain an adequate internal control system, the entity should periodically reconcile the funds received from USAID and be able to identify possible differences 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, which cannot be timely determined and cleared. Also, there is no assurance that all funds received from USAID were recorded.

Recommendation

We recommend that DIGESA periodically reconcile the funds received from USAID for the execution of the project to its own accounting records.

3. DIGESA did not record all property
directly acquired by USAID

Condition

During the period reviewed, USAID directly acquired some fixed assets and equipment for the project for an amount of Q 103,131, which were not recorded in the DIGESA'S accounting books.

Criteria

In accordance with generally accepted accounting principles, all the operations must be recorded in the period in which they are performed.

Cause

Due to weak procedures, the information flow from central DIGESA (Guatemala City) to the Quetzaltenango region is very poor.

Effect

Preparation of incomplete financial information, outdated records and lack of a reconciliation between the accounting records and the physical stocks.

Recommendation

We recommend that DIGESA design and implement strong administrative procedures in order to assure that all necessary information flow in a timely and complete manner between Central DIGESA (Guatemala City) to Quetzaltenango.

4. Lack of adequate purchasing and payment orders approval

Condition

All the purchasing and payment orders reviewed during the audit testing were authorized by the regional cashier and not by the Director or Administrator.

Criteria

The principles and objectives of an adequate internal control structure require that certain functions should be segregated, so the person that maintains the funds be different than the one who authorizes its use.

Cause

Lack of an administrative procedures manual to perform the project execution.

Effect

That operations (payments) executed were not in accordance with the Administration criteria and with the project objectives.

Recommendation

We recommend that DIGESA implement procedures for the purchasing and payment cycle, which include appropriate separation of functions related to preparation of the purchase order, its approval, recordings and payment.

5. Lack of an adequate liquidation of the purchases advances

Condition

There is no evidence of the manner in which the checks given to the person in charge of the purchases were liquidated, which should be done by means of using a paid vouchers listing. For that reason a reference to the paid vouchers with the issued checks cannot be done.

Criteria

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

Cause

Lack of a procedures manual which indicates the liquidation and documentation procedures for each check issued to make a 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 larger amount of them, their sequence is lost, and as a result a reference between them and the check with which they were paid cannot be established.

Recommendation

We recommend that DIGESA design and implement a procedure with specific instruction as to how to liquidate the checks used for purchases, this procedure 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
- Name and signature of person who received the liquidation
- Name and signature of person who approved the liquidation

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

6. Lack of adequate support documentation

Condition

Some purchase orders do not have invoice copies enclosed for some expenses and other do not have materials requisition and/or store entrance evidence. From approximately 230 vouchers reviewed, 16 present this situation.

Criteria

So as to make all expenses performed by DIGESA allowable, allocable and reasonable, in accordance with the agreement terms (section B.5 "Reports, records, inspections, audits", clause (b) Annex 2), all purchase orders must contain all of the supporting documentation and according to the purchasing and contracting laws (stipulation 15 of the regulation), each purchase must have a request or order duly signed by the authorized employee, and approved by his superior, justifying the contracting on purchasing need of the property and services, and as a part of the DIGESA's internal Control, a store entrance evidence must be prepared for all material's and supplier purchases.

Cause

DIGESA did not use an acceptable file procedure to maintain the fuel expense supporting documentation complete and sufficient.

Effect

Lack of vouchers to support the incurred expenses, which do not permit a reasonable evaluation of the expenses as well as their adequate use and approval. The result is that 16 the expenses may be considered as unsupported costs.

Recommendation

We recommend that DIGESA establish written procedures to assure that at the time of filing of the expenses vouchers in DIGESA all document copies are included in the file.

7. Materials and supplies not entered in the kardex control cards

Condition

Some purchases of materials and supplies were not entered in the kardex record cards, because they are "in-transit products", this means that immediately after reception of the materials and supplies they are delivered. Additionally, the forms with which they are delivered are not pre-numbered.

Criteria

In accordance with the section B.5, clause (b), Annex 2 of the loan agreement signed with USAID, the project must keep adequate books and records so as to allow identification without limitations of the delivery and use of the property and services financed with the loan funds.

Cause

Non-compliance of the established internal control procedures, as all materials and supplies entrances must be recorded in the kardex cards.

Effect

There is no record of the store outputs, in the subsidiary files.

Recommendation

We recommend that DIGESA establish written procedures that assure the recording of every material or supply received in the kardex cards. Also, DIGESA should establish procedures that require the dispatch orders be printed with correlative numbering, which will avoid the waste of forms and will help to perform a better control over the store transactions.

8. Inappropriate use and distribution of materials and supplies acquired with project funds

Condition

Part of the material and supply stocks of the project as of March 31, 1989, that total Q 36,503, were later distributed to other units of the Project 520-0255, such as: Progettaps, Procasnea, Brillantes, Promoters Training Center and others. Additionally, a vehicle for the project operations, was transferred to the Guatemala City region and as of the date of this audit report, had not been returned to the Quetzaltenango region.

Criteria

According to the section B.3, clause (a), Annex 2 of the loan agreement signed with USAID, "any resource financed with the loan funds will be used in the project as long as it is not due, and later on it will be used to obtain the same project objectives, or USAID agrees to establish another usage by means of a written communication".

Cause

Some materials and supplies acquired with USAID funds were used in projects other than the 520-0255, breaking the loan agreement provision which among other things require a written authorization from USAID to use materials and supplies in other activities.

Effect

The provision included in the sections B.3 clause (a), Annex 2 of loan agreement signed with USAID, was broken. This default could produce a severe penalty from USAID to the DIGESA, and threaten the achievement of the project's goals.

Recommendation

We recommend that DIGESA recover all materials and supplies acquired with USAID funds and used in other projects, as well as to take the necessary steps to assure that all materials, supplies, vehicles and other assets acquired with project's funds be solely used for project purposes and keep them in the region to which they were assigned.

ARTHUR ANDERSEN & Co.

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

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 AGRICULTURAL SERVICES -DIGESA-, 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 limitations 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 Agricultural Services -DIGESA- is the responsibility of the Government of the Republic of Guatemala and The General Directorate for Agricultura Services -DIGESA-. 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 Agricultural Services -DIGESA- 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 findings No. 1 to 4 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 Agricultural Services -DIGESA- fund accountability statement is fairly presented, in all material respects, in conformity with the basis of accounting described in Note 4a to the fund 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 Agricultural Services -DIGESA- 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 Agricultural Services -DIGESA- 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 Agricultural Services -DIGESA-. 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 AGRICULTURAL SERVICES -DIGESA-

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE
LAWS AND REGULATIONS
FINDINGS

PURCHASING AND CONTRACTING LAW

1. Purchase fractionation

Condition

Different purchases were made with one supplier, on the same or a close date for amounts that totalled equal to or greater than Q 1,000. The supporting vouchers were fractionated in order to avoid the quotation process. From approximately 230 vouchers reviewed, 13 presented such a case.

Criteria

All items to be purchased from one supplier on one date should be grouped into one purchase, according to what is established by the contracting and purchasing law, Article 14.

Cause

Omission of obtaining different quotations from suppliers as established by the purchasing and contracting law.

Effect

Excessive costs to the project may result from not obtaining the proper quotations and not selecting the most advantageous products.

Recommendation

We recommend that DIGESA establish and follow the procedures for requesting quotations for each purchase within the amounts fixed by the purchasing and contracting law.

AGREEMENT TERMS

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

Condition

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

- Lack of adequate records for the control of funds furnished by the Government of the Republic of Guatemala as local counterpart.

- It did not use a separate bank account to manage the project funds, as they were commingled in the same account with the funds of the project 520-T-037. Also Q 10,071 that was given to DIGESA by the Government of Guatemala as counterpart contribution during the audit period and recorded in DIGESA's records could not be reconciled to the bank records of DIGESA.
- No independent and periodical audits were contracted to review the project accounting records.

Criteria

According to the above mentioned clause DIGESA should have "kept or supervise that books and accounting records be kept 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. Those books and records will 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 of the above mentioned clause. May jeopardize the achievement of the project's goals.

Recommendation

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

3. Section 3.2 "Borrower resources for the project"

Condition

It was not possible to verify the compliance with this provision as DIGESA did not have the necessary information to determine the amount that the Government of Guatemala provided to the component as counterpart funds. Neither was it possible for us to verify the fairness of expenses for Q 402,035 that the Government performed during the period from July 1, 1987 through March 31, 1989, due to the inadequacy of the DIGESA accounting records.

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 of the all the additional necessary resources for the efficient and accurate execution of the project".

Cause

Lack of information about the amount for Q 402,035 the Government of Guatemala was supposed to contribute in accordance to section 3.2 above mentioned, neither the fairness of funds provided by the government as counterpart during the period from July 1, 1987 to march 31 1989.

Effect

The noncompliance of the mentioned provision, may jeopardize the achievement of the project's goals.

Recommendation

We recommend the Government of the Republic of Guatemala inform each executor entity about the counterpart funds assigned to them, and that each entity must maintain control over the accounting for and execution of such funds.

4. In order to fulfill the requirements included in
Section b.3 "Use of property and services"
Clause (a) Annex 2
-

Condition

DIGESA did not comply with this provision due to the following:

- Part of the project materials and supplies stocks as of March 31, 1989, were later on distributed to other units different from the project 520-0255 ones such as: Progettaps, Procasnea, Promoters Training Center and others.
- One of the vehicles assigned for the project operation, was transferred to the Guatemala City region, and at the date of this report, it has not been returned to the Quetzaltenango region, where the project was located.

Criteria

According to the mentioned clause "any resource financed with the loan funds will be used in the project while it is in operation and later it will be used to obtain the same project objectives, unless USAID agrees other use by means of a written document".

Cause

There was no adequate control over materials, supplies and fixed assets purchased with project funds.

Effect

The non-compliance of the indicated provision, may jeopardize the project's goals.

Recommendation

We recommend DIGESA establish written procedures to assure that all materials, supplies and fixed assets purchased with USAID funds be used to reach the project goals.

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

LIST OF REPORT RECOMMENDATIONS

Internal control structure

1. We recommend that the fund accountability statement should be prepared by DIGESA at least once a year, which must present a comparison between the fund balance as per the fund accountability statement and the bank balance available.
 2. We recommend that DIGESA periodically reconcile the funds received from USAID for the execution of the project to its own accounting records.
 3. We recommend that DIGESA design and implement strong administrative procedures in order to assure that all necessary information flow in a timely and complete manner between Central DIGESA (Guatemala City) to Quetzaltenango.
 4. We recommend that DIGESA implement procedures for the purchasing and payment cycle, which include appropriate separation of functions related to preparation of the purchase order, its approval, recordings and payment.
 5. We recommend that DIGESA design and implement a procedure with specific instructions as to how to liquidate the checks used for purchases, this procedure 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
 - Name and signature of person who received the liquidation
 - Name and signature of person who approved the liquidation
- Additionally, each document paid must be stamped "paid with check No.", date and signature of the cashier or the receiver.
6. We recommend that DIGESA establish written procedures to assure that at the time of filing of the expenses vouchers in DIGESA all document copies are included in the file.

7. We recommend that DIGESA establish written procedures that assure the recording of every material or supply received in the kardex cards. Also, DIGESA should establish procedures that require the dispatch orders be printed with correlative numbering, which will avoid the waste of forms and will help to perform a better control over the store transactions.
8. We recommend DIGESA to recover all materials and supplies acquired with USAID funds and used in other projects, as well as to take the necessary steps to assure that all materials, supplies, vehicles and other acquired with project's funds be solely used for project purposes and to keep them in the region to which they were assigned.

Compliance with agreement terms and applicable laws and regulations

1. We recommend that DIGESA establish and follow the procedures for requesting quotations for each purchase within the amounts fixed by the purchasing and contracting law.
2. We recommend the Government of Guatemala and the executor entities of the project to establish the necessary procedures, to be able to comply with the agreement terms prior to its signature.
3. We recommend the Government of the Republic of Guatemala inform each executor entity about the counterpart funds assigned to them, and that each entity must maintain control over the accounting for and execution of such funds.
4. We recommend DIGESA establish written procedures to assure that all materials, supplies and fixed assets purchased with USAID funds be used to reach the project goals.

MINISTERIO DE AGRICULTURA, GANADERIA Y ALIMENTACION

ANNEX I
1 of 4

DIRECCION GENERAL DE SERVICIOS AGRICOLAS

12 avenida 19-01,
zona 1

Guatemala, C. A.

Tel. Planta
23801 al 4

D-SA-747-91

23 de septiembre de 1991.-

Licenciado

Julio Pereira B.

Administrador UAP-P.D.A. Guatemala

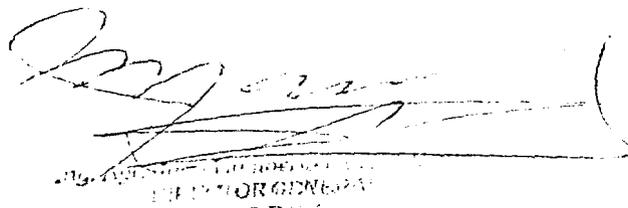
Su Despacho

Estimado Lic. Pereira:

Por medio de la presente me dirijo a usted, para hacer de su conocimiento que en vista de la Auditoría efectuada al Proyecto de Sistemas de Diversificación para el Pequeño Agricultor USAID/Guatemala, proyecto número 520-0255 Donación, este Despacho ha tomado las medidas pertinentes, girando instrucciones a los ejecutores de los proyectos financiados con fondos provenientes de AID a efecto de enmendar errores de administraciones anteriores y que los fondos que se obtengan posteriormente, sean manejados de acuerdo con los convenios suscritos y las Leyes vigentes en el país.

Con respecto al informe preliminar de los Auditores de la firma Arévalo, Pérez, Aranky y Asociados S.C., este Despacho ha ordenado que se efectúe la investigación pertinente para solventar lo cuestionado en el manejo de los fondos asignados al Proyecto en mención. Como prueba de lo anterior se adjunta fotocopia de la Documentación que ampara la devolución del vehículo que se encuentra en la Región I, Metropolitana, al proyecto que pertenece. Además de acuerdo con el Convenio se identificarán los bienes de activo fijo con la Nomenclatura correspondiente.

Sin otro particular me suscribo de usted,
atentamente,



DIRECTOR GENERAL

cc/Firma Auditora, Arévalo, Pérez, Aranky y Asociados, S.C.
(Edificio Cámara de Industria Zona 4 5to. Nivel.).

cc/Director Técnico de Ejecución Regional VI.

OFICIO No. UA-
Guatemala, 20 de septiembre de 1991

Ingeniero Agr.
CARLOS RALON
Director Técnico de
Ejecución Regional I
Ciudad.

Señor Director:

De manera atenta me dirijo a usted, para indicarle que en forma inmediata deberá devolver el vehículo tipo Pick-Up, marca Jeep Comanche 4WD, diesel, turbo, modelo 1987, color beige, de 4 cilindros, chasis No. 1JEDL651EHT168400, motor No. 7E952401, con su respectiva herramienta, al Proyecto de Frutales Decíduos y Tropicales de la Región VI, Quetzaltenango, dado a que dicho vehículo le es de mucha utilidad en ese Proyecto.

Agradeciendo la atención a la presente, me suscribo de usted, con muestras de consideración.



[Handwritten signature]
ALFONSO F. MORALES
DIRECTOR ADMINISTRATIVO
DIGESA

RAM/irma

Proyecto de Desarrollo Agrícola

GdeG/AID 520-0274

Guatemala, C. A.

11 de octubre de 1991

Ingeniero Agrónomo
Juan Humberto Mancur Donis
Director General
DIGESA
Su Despacho.

Estimado Ingeniero Mancur:

Acuso recibo de su oficio número D-SA-747-91 de fecha 23 de septiembre del año en curso, en el cual me informa de que ese despacho a su cuidado tomó las medidas pertinentes para poder aclarar los cuestionamientos de la auditoría del Proyecto de Sistemas de Diversificación para el Pequeño Agricultor USAID/Guatemala, proyecto número 520-0255 Donación FA-SE I, y de ese modo corregir errores administrativos anteriores para que los fondos que se obtengan a continuación, sean administrados eficientemente de conformidad con los convenios suscritos y las leyes vigentes del país.

Su oficio respuesta a el borrador preliminar para discusión preparado específicamente para DIGESA por la firma Arévalo Pérez, Aranky y Asociados S.C., que contiene los diferentes hallazgos y reparos durante el período de la auditoría comprendido del 1o. de julio de 1987 al 31 de marzo de 1989, fecha en que terminó el proyecto aludido, se considera es un documento importante porque contiene los elementos de juicio necesarios para desvanecer los hallazgos.

.../..

Proyecto de Desarrollo Agrícola

GdeG/AID 520-0274

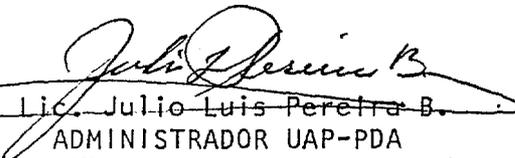
Guatemala, C. A.

.../2

Esta Unidad Administrativa (UAP) del Proyecto de Desarrollo Agrícola (PDA) AID-520-0274 FASE II, se complace de tener conocimiento de los esfuerzos - hechos para solventar esos cuestionamientos de la auditoría, y se espera - que la firma considere su respuesta suficiente para las notas aclaratorias del borrador preliminar para discusión antes mencionado.

Sin otro particular me suscribo de usted,

Atentamente,


Lic. Julio Luis Peretia B.
ADMINISTRADOR UAP-PDA
Ministerio de Agricultura Ganadería
y Alimentación
Proyecto Desarrollo Agrícola Fase II
ADMINISTRACION

c.c. Wiland Gundersen, Coordinador UAP
Blair Cooper, AID
Firma Arévalo Pérez, Aranky y Asociados S.C.
Lic. Ernesto Alejandro Cuyún, DIGESA

JLPB/gac'

APPENDIX

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