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AGENCY FOR INTERNATIONAL DEVELOPMENT
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OFFICE OF THE AUDITOR GENERAL
AREA AUDITOR GENERAL - LATIN AMERICA

AUDIT REPORT

ROCAP

CENTRAL AMERICAN SCHOOL OF BUSINESS ADMINISTRATION

PROJECT NO. 596-13-790-024
PROJECT NO. 596-24-660-044

Jan - 01/2

Audit Report No. 1-596-74-37

Date Issued: February 11, 1974

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PART I

PURPOSE AND SCOPE

The Area Auditor General, Latin America, has performed an initial audit of AID Project 596-24-660-044 (596-L-012), and a final audit of AID Project 596-13-770-024, Central American School of Business Administration (INCAE), which were made available to INCAE through the AID Regional Office for Central American Programs (ROCAP).

As of August 31, 1973, loan disbursements totalled about \$600,000, and grant disbursements about \$1.9 million. Our examination included a selective review of \$2.5 million of disbursements. The financial status of the projects is presented in Exhibit A of this report.

The audit was made for the purpose of (i) evaluating steps taken to assure timely and practical implementation of the loan program; (ii) evaluating progress in achieving loan and grant program objectives; (iii) determining compliance with provisions of the loan agreement, project agreement, and AID regulations, and (iv) determining the reliability of reporting and accounting for disbursements. Audit work was performed at ROCAP, and at INCAE in Nicaragua.

Audit emphasis was given to transactions representing current operations as of August 31, 1973. Older transactions were reviewed to the extent necessary in the circumstances. The audit was made in conformance with generally accepted auditing standards, giving due regard to existing AID manuals, circulars, and instructions. Detailed examinations were limited to the extent necessary to determine the effectiveness of program operations and internal controls, and to ascertain the degree of reliability of accounting and reporting data.

PART II

BACKGROUND

In response to a request from Latin American business and government leaders, the U. S. Government requested Harvard Busi-

ness School (HBS) to conduct a survey of needs for modern management education in Central America. This survey led to a joint commitment between HBS, AID, and the Central American business community to establish INCAE as a permanent school of business administration to provide high quality management education for students throughout Latin America. (in Managua?)

INCAE was established in 1964, as an autonomous institution, administered by a Board of Trustees made up of seven distinguished businessmen, one from each Central American country plus Panama and Colombia. The Rector, who also serves as ex-officio member of the Board, heads a full-time faculty, primarily Harvard-trained, which is supplemented by visiting professors. The Harvard Master of Business Administration program has served as a model in the design, staffing, standards, methods and overall development of INCAE.

During the period 1964-66, HBS provided assistance to INCAE during an AID-financed contract in the form of participant training, development of course materials and presentation of seminars and advanced management training. Plans were developed for a permanent campus with funds provided by the private sector and a \$645,000 loan from the Central American Bank for Economic Integration (CABEI). The first activities undertaken by INCAE were the Advanced Management Program (AMP) and a series of weekly seminars given in countries of Central and South America. The AMP started in 1964; the seminar program in 1966. The first MBA class started in January 1968, graduating its first class of 29 two years later. AID grant assistance, which started in 1963, terminated in June, 1972, with a total expenditure of \$1.9 million.

To assist INCAE in becoming a self-sustaining regional institution of management education, ROCAP proposed an expansion and development program based on loan funding to replace the grant-funded program. The emphasis of the program was to center on:

- a) Strengthening the administration, teaching and research capabilities of INCAE;
- b) Improving the quality and relevance of INCAE programs;
- c) Improving the long-range financial viability of INCAE;

d) Expanding the scope of educational programs and extension activities.

The projected total cost of the four-year project is \$8.9 million, consisting of the following components:

<u>Loan</u> - <i>0.12</i>	(\$000)
Building Expansion	1,280
Student Loan Fund	1,000
Program Development	1,300
Office and Teaching Equipment	205
Technical Assistance	<u>115</u>
Total Loan	\$3,900
<u>Borrower Contribution</u>	
Regular Operating Expenses	3,830
Program Development	<u>1,170</u>
	<u>\$8,900</u>

100
AID

60% grant A loan agreement in the amount of \$3.9 million was signed April 25, 1972 between AID and INCAE, with the government of Nicaragua acting as guarantor. The loan has a repayment period of 40 years with a ten-year grace period as to principal. The interest rate is two per cent during the grace period and three per cent thereafter. About \$600,000 has been disbursed under the loan as of August 31, 1973.

PART III

SUMMARY

Our review of Loan 596-L-012 and Project Grant 596-13-770-024 indicates that INCAE's implementation of the Development Program (hereinafter referred to as the Program) has been generally satisfactory. We concluded that the grant portion

\$ 1.9 million (P¹⁹)

of the Program was properly administered and accomplished its purpose of assisting in the establishment of an MBA curriculum and other management programs at INCAE. Although the December 1972 earthquake in Managua forced the delay in implementation of some aspects of the Program, including construction, work-plans have been generally followed without major deviation.

We noted certain areas, however, in which we believe improvements are needed to assure maximum effectiveness and utilization of available resources. We noted, for example, that the principles evolved by INCAE/ROCAP for budgeting, accounting and information systems were adequate to carry out the Program financed by the AID loan. However, integration and implementation of these systems as tools of management review and control have not been adequately achieved, and thus, the full benefits have not been realized. We also noted areas in Program planning and procedural activities that offer opportunities for improved performance in the utilization of financial, personnel and physical resources, as described below:

Financial Planning

The long-range financial projections made in support of the loan proposal should be revised and updated to provide a current basis for budget planning and implementation. Initial forecasting for INCAE necessarily reflected only experience and custom of similar activities in the U. S. This was due to the absence of historical data for this type of educational program in Central America. Experience with the Program to date indicates a different trend of demand for INCAE's services as well as different economic conditions than were originally anticipated. In addition, the widespread economic disruption in Nicaragua created by the December 1972 earthquake in Managua has resulted in unanticipated inflationary pressures as well as increased demand for INCAE's services. Failure to recognize and incorporate these factors into a revised financial plan may result in unrealistic budget and Program planning as well as limiting flexibility to consider alternatives and opportunities offered by experience and current conditions. (Finding No. 1, page 7).

Accounting System

We believe that a substantial reduction in the amount of classification and sub-classification of accounting entries is needed, and in our opinion, such a reduction will not significantly decrease the accuracy or utility of financial and management information available from the accounting function. The alternative is an increasingly unmanageable set of accounts that implies, because of its complexity of detail, a degree of exactness that is not realistic. In addition, we believe the accounting workload imposed by the expanded classification system limits the utility of the accounting function for management purposes due to lack of time for accounting personnel to properly review, analyze and report significant variances in the accounts, or to design and implement accounting controls in such areas as purchasing, supply consumption, and operation of the cafeteria (Finding No. 2, page 9).

Program Planning and Implementation

It appears that planned Program goals and the time frame in which they are to be realized may no longer be valid. It was recognized during the planning of the Program that targets and goals were necessarily subjective since there was an absence of historical experience on which to base the expected response of Central Americans to an institution such as INCAE; or the time frame in which it might expect to become viable financially and institutionally. In addition, the December 1972 earthquake in Managua brought an unexpected series of problems such as unprecedented inflation, social economic and environmental complications, and a paradox in which demand for INCAE's services far exceeds expectations but has limited realizability due to financial and facility restraints. In our opinion, however, opportunities exist to advance the financial viability of INCAE while furthering the objectives of the loan by careful review and analysis of existing conditions, necessary changes in operations, and alternative approaches to Program implementation (Finding No. 3, page 11).

Annual Budget

INCAE's budget is not time-phased for monthly or other periodic comparison to actual progress. Since many revenue and expense categories do not occur in a consistent or linear

pattern, an annualized or average basis does not result in realistic comparison of budget to actual progress. This lack of a time-phased analysis limits the utility of the budget for interim financial review and precludes effective utilization for purposes of financial control (Finding No. 4, page 14).

Procurement

We reviewed expenditures of about \$16,000 for commodities purchased by INCAE, utilizing AID loan funds. We noted in several instances that AID procedures were not followed. We were informed that proprietary procurement was necessitated by the urgency of requirements and availability of suitable equipment. We were further informed that costs were compared, and in INCAE's opinion, competitive bidding would not have resulted in a lower price. USAID/Nicaragua is assisting INCAE in establishing procedures to comply with AID requirements (Finding No. 5, page 15).

Cash on Hand and Bank Funds

Opportunities exist for INCAE to make more efficient utilization of cash resources through consolidation of bank accounts and elimination of funded reserve account. For example, INCAE has established a funded reserve for bad debts based on retention of a percentage of principal and interest payments collected from its student loans. This practice freezes cash funds that are not available for student loans. Also, INCAE had cash totalling \$366,324 in 22 bank accounts in seven countries. In our opinion, proliferation of bank accounts can result in poor control by limiting effective utilization of funds; increase accounting problems; and, invites defalcation among idle accounts. Moreover, imprest fund practices need improvement to assure tighter control and utilization of available cash. (Finding No. 6, page 7).

Unliquidated Obligations

Funds totalling \$10,111 were obligated under Project 596-13-770-024 (PIO/T 20024) in December 1971 for the purpose of meeting overhead rates in negotiation by Harvard Business School. This contract terminated June 30, 1972. Action should be taken to ascertain the status of negotiations, and to de-obligate unnecessary funds.

In Part IV of this audit report, we have identified in detail the cause and effect of the above conditions. We have also made suggestions which, in our opinion, will assist management in assuring the continuance of effective utilization of assistance provided under the project grant and loan, and efficient implementation of on-going activities of the Program. In general, ROCAP agreed with the substance of the findings and recommendations in this report, and, as appropriate, we have included their comments and observations in the text of this report.

General information on the audit exit conference, and the status of actions on prior Auditor General internal audits, inspections, and appraisal reports, and other external reports are presented in Part V of this audit report.

PART IV

STATEMENTS OF FINDINGS AND RECOMMENDATIONS

FOR THE DIRECTOR, ROCAP

1. Financial Planning

The long-range financial projections made in support of the loan proposal should be revised and updated to provide a current basis for budget planning and implementation. Initial forecasting for INCAE necessarily reflected only experience and custom of similar activities in the U. S. This was due to the absence of historical data for this type of education program in Central America. Experience with the Program to date indicates a different trend of demand for INCAE's services as well as different economic conditions than were originally anticipated. In addition, the widespread economic disruption in Nicaragua created by the December 1972 earthquake in Managua has resulted in unanticipated economic inflationary pressures as well as increased demand for INCAE's services. Failure to recognize and incorporate these factors into a revised financial plan may result in unrealistic budget and Program planning as well as limiting flexibility to consider alternatives and opportunities offered by experience and current conditions.

For example, at the time that the original financial projections were made, inflation was not a material factor.

However, inflation is currently estimated at a rate of about 20 per cent in Managua. This has resulted in immediate effects to INCAE such as increased costs of food service, supplies, maintenance, and utilities and other general expenses. Future effects will include substantial increase in staff salaries for cost of living adjustments. The world-wide inflationary trend has affected construction costs and equipment prices in addition to localized trends in Managua.

Moreover in 1973 at the insistence of ROCAP, INCAE elected to begin accumulating a depreciation reserve through charges to operations. We noted, however, that INCAE does not show the depreciation charge in its long-range financial projections, but does show depreciation as a cost in its annual budgets. We believe depreciation charges should be shown in both the long-range financial plan and annual budgets. Otherwise, comparative analysis of cost data between these two financial documents for financial control purposes would not be too meaningful.

We have hypotheticated a financial projection of current trends based on INCAE's experience and expected economic trends in Nicaragua. We assumed a hypothetical inflation rate for future years of 10 per cent and arbitrarily applied it only to the MBA program and general administrative expense on the theory that other items of expense and revenue would remain constant in relation to income produced. In addition, we estimated depreciation costs based on present and planned acquisition of capital assets. Following is a brief summary of our analysis with comparative figures from the loan Capital Assistance Paper (CAP) projections.

<u>Year</u>	<u>CAP Projected Earnings (Loss)</u>	<u>Hypothetical Earnings (Loss)</u>
FY 73/74	\$ (310,000)	\$ (138,600)
FY 74/75	(277,000)	(218,300)
FY 75/76	(174,000)	(178,400)
FY 76/77	(46,000)	(126,300)
FY 77/78	0	(147,300)
FY 78/79	35,000	(176,400)

Based on above analysis, we believe the following conclusions can be reasonably drawn:

(1) That the long-range CAP projections, which form the financial plan for the AID loan program, are no longer viable; and that financial planning and analysis based on the CAP projections will be forced to depart farther and farther from reality.

(2) That the probability of a continuing and increasing rate of operating deficits dictates a need for a substantial re-assessment of financial and program planning to diminish or reverse the effect of rising costs and unforeseen contingencies.

Although we recognize that an updated financial analysis and new financial projections will not alone insure the viability of the Program, we consider a sound and realistic financial plan to be a critical first step in assuring control.

Recommendation No. 1

ROCAP should:

- a. Request INCAE to make a thorough financial analysis of current trends and conditions affecting the Program, and based on this analysis, prepare a current financial projection for at least five years. This projection should be adopted as the Program financial plan, and be updated each year based on current conditions.
- b. Request INCAE to include depreciation as a cost element in its long-range financial projection.

2. Accounting System

A substantial reduction in the amount of classification and sub-classification of accounting entries is needed, and, in our opinion, such a reduction will not significantly decrease the accuracy or utility of financial and management information available from the accounting function. The alternative is an increasingly unmanageable set of accounts that implies, because of its complexity of detail, a degree of exactness that is not

realistic. In addition, we believe the accounting workload imposed by the expanded classification system limits the utility of the accounting function for management purposes. This is due to lack of time for accounting personnel to properly review, analyze and report significant variances in the accounts, or to design and implement accounting controls in such areas as purchasing, supply consumption, and operation of the cafeteria. (For example, during 1972/73 a \$31,000 variance in food inventories was experienced.)

We examined a typical bi-monthly payroll which required about 150 entries to the accounts twice monthly, and, of the 150 entries 65 to 70 were sub-classifications of salaries. Since allocations of most personnel costs were based on a pre-determined estimate rather than an actual performance basis, this accounting treatment seems to be largely academic. (We were informed that maintaining time-performance records is considered impractical due to the multiplicity of job assignments.) It appears that many other costs were accorded similar treatment, resulting in a proliferation of cost sub-centers along functional alignments that provide little additional information of significance to financial or managerial control. In our opinion, this degree of refinement serves no useful accounting purpose.

Based on a report of INCAE's accounting system prepared by ROCAP Financial Analyst, INCAE is in the process of analyzing the necessary changes in its accounting system to implement the recommendations contained in the ROCAP Financial Analyst's report. We reviewed the ROCAP report and agree that accounting system improvements are needed. INCAE management felt, however, that disruption of accounting continuity in mid-year by major alterations to the accounting/reporting system should be avoided. INCAE believed it might be more expedient to incorporate changes on a less comprehensive scale during the current accounting cycle with a view to more extensive revisions at the beginning of the next fiscal year. We agree in principle with this reasoning, since the accounting system is currently functioning; albeit, cumbrously. However, we believe follow-up by ROCAP will be necessary to insure that INCAE receives adequate assistance in implementing the suggested reforms.

Recommendation No. 2

ROCAP should provide follow-up assistance to INCAE in revising its accounting/reporting system. This assistance could take the form of help in planning

the implementation of system revisions as necessary at the beginning of the fiscal year.

3. Program Planning and Implementation

Planned Program goals and the time frame in which they are to be realized may no longer be valid. It was recognized during the planning of the Program that targets and goals were necessarily subjective since there was an absence of historical experience on which to base the expected response of Central Americans to an institution such as INCAE; or the time frame in which it might expect to become viable financially and institutionally. In addition, the December 1972 earthquake in Managua brought an unexpected series of problems such as unprecedented inflation, social, economic and environmental complications, and a paradox in which demand for INCAE's services far exceeds expectations, but has limited realizability due to financial and facility restraints. We have identified some of the causes and effects of these factors, including original planning misjudgements, as follows:

(1) Inflation in the construction industry of 25 to 30 per cent has increased the cost of planned expansion of INCAE's facilities, forcing changes and revisions to avoid a short-fall in funds. The \$1.3 million earmarked for construction from the AID loan will not now finance the facilities planned in the Program. Review of cost and construction alternatives are underway to establish a revised construction component to the Program.

(2) General economic inflation in Managua is currently estimated at about 20 per cent, placing additional pressures on INCAE's already over-burdened budget. Food service costs, for example, were about 60 per cent over that budgeted. Also, INCAE has been forced to consider cost of living salary of adjustments for its employees due to inflationary pressures. Since about 65 per cent of INCAE's expenses consist of salaries and wages, a 5-6 per cent increase could result in a \$50-60,000 increase in annual operating costs over and above what was planned or budgeted. This trend could conceivably raise a serious question of the continued financial feasibility of the Program as it was planned.

(3) Virtually all moderately priced housing in Managua suitable for students was destroyed during the earthquake. The

potential non-resident student enrollment is therefor curtailed until adequate on-campus housing is constructed. Thus it appears that a student enrollment of at least 170 by 1976 may not be achieved.

(4) As a result of the need for a plan to rebuild Managua, the Government of Nicaragua contracted INCAE for a \$643,000 study on the economic recovery and reconstruction of Managua (not required). While this might be considered an economic windfall for INCAE, it has severely taxed their resources and unavoidably diverted management's attention at a critical time of Program implementation. Among other things, we believe it may have indirectly resulted in loss of financial control and encouraged more accelerated expansion of personnel and other costs than may have been justified. In our opinion, temporary costs, like temporary taxes, usually continue permanently with new justifications emerging as the original needs fade. Indications are that greater emphasis than originally planned will be given to consulting work with the newly formed Service Center established for the Nicaragua contract. It is planned that the Center become permanent within the organizational structure of INCAE. We think there are some inherent risks to the MBA program in continued expansion of consulting, such as: (i) detracting from the primary objectives of INCAE and the MRA program by diverting financial, staff, and facility resources to programs of superficial benefit to the MBA program; (ii) becoming ultimately more costly than expansion of the MBA program in terms of development costs, specialized staff requirements, and unreimbursed administrative expenses; (iii) proving eminently less viable than further expansion of the MBA program due to the fad nature of demand for consulting services, and the intense competition for consulting contracts; (iv) hampering academic excellence by creating dissent among students and faculty. There was sharp student reaction to INCAE signing a large contract with the Government of Nicaragua. Since government contracts are the easiest and most profitable to pursue, it is reasonable to assume this will be the logical area to be expanded. Student reaction to such expansion could seriously impair the MBA program.

(5) During the planning stage of the AID loan, it was estimated that about 80-90 INCAE graduates per year could be effectively placed in Central America. INCAE's experience to date indicates that these estimates may have been too conser-

vative; more current estimates are that well over twice that number can be absorbed without approaching a saturation point. INCAE had 50-60 more requests for graduates than they could fulfill during 1973. One of the phenomena of this type of program is that expansion stimulates demand. As more professionally-trained managers make their presence felt in the market-place, organizations lacking this type of expertise are thereby encouraged, or feel forced, to follow the trend. Thus, it creates an expanding market for professionally trained managers. We were informed by INCAE personnel that the impact of INCAE graduates has already stimulated demand in new markets, and that they would anticipate no difficulty in placing an expanded number of graduates.

A second restraint considered in the planning was the number of qualified applicants willing to enter INCAE. The relatively high-cost and high academic standards at INCAE almost preclude consideration by prospective students who are not above average scholastically and well-motivated to endure a stringent course of study. However, statistics offered by INCAE indicate that more than twice as many applicants for admission are consistently received as there is space available. The number of applications has steadily increased from 60 in 1968 to over 200 in 1972. In addition, only limited recruiting efforts have been needed since applications in excess of enrollment limits are already being received. We believe this indicates a need for careful review of possible alternatives for expansion of the MBA program beyond planned goals.

In our opinion, opportunities exist to advance the financial viability of INCAE while furthering the objectives of the loan by careful review and analysis of existing conditions, necessary changes in operations, and alternative approaches to Program implementation.

Recommendation No. 3

ROCAP should:

- a. Request ~~INCAE~~ to make an in-depth study of personnel requirements and staffing with a view to cost-reduction and maximizing efficiency. This could conceivably be undertaken as an MBA study-project using student-faculty assistance;

- b. Assist INCAE to intensify cost and inventory control procedures in food service and supply areas, possibly through the utilization of short-term technical assistance;
- c. Investigate, in cooperation with INCAE, the feasibility of low-cost temporary student housing or alternative financing to increase the potential enrollment at INCAE, and, in conjunction with this, investigate the feasibility of increased utilization of classroom facilities or alternative means to accommodate an expanded MBA enrollment.

4. Annual Budget

INCAE's annual budget is not time-phased for monthly or other periodic comparison to actual progress. Since many revenue and expense categories do not occur in a consistent or linear pattern, an annualized or average basis (1/12 of total budget for example) does not result in realistic comparisons of budget to actual progress. This lack of a time-phased analysis limits the utility of the budget for interim financial review and precludes effective utilization for purposes of financial control.

In addition, budget control points do not appear to be well coordinated with budget or cost-control responsibility. Thus, the budget has become a review of historical data rather than a control document in which changes and revisions are reviewed and authorized before the fact. We believe better definition of cost control points, and firmer adherence to budget principles will result in fewer and better-justified deviations from the budget, and enhance its utility as an annual financial plan.

Recommendation No. 4

ROCAP should encourage INCAE to prepare their annual budget on a time-phased basis, providing a breakdown of revenue and expenditure categories on a monthly or other periodic basis for comparison to actual revenue and expenses encountered. The budget should provide cost-control points and

Recommendation No. 4 (Cont'd.)

responsibilities, and clearly define procedures for budget-revision or deviation.

5. Procurement

We reviewed expenditures of about \$16,000 for commodities purchased by INCAE, utilizing AID loan funds. The following discrepancies were noted indicating that improvements were needed.

- a) No evidence of lowest available price for marine insurance;
- b) No evidence of small business notification;
- c) No evidence of competitive bidding procedures;
- d) No evidence of reasonable price determination;
- e) No evidence of compliance with 50-50 shipping requirement.

We were informed that proprietary procurement was necessitated by the urgency of requirements and availability of suitable equipment. For example, a bus was urgently required for transportation of students and personnel to and from Managua due to transportation interruptions as a result of the earthquake. We were further informed that costs were compared and, in INCAE's opinion, competitive bidding for such limited requirements would not have resulted in a lower price. We noted that USAID/Nicaragua is assisting INCAE in establishing procedures to comply with AID requirements; therefore, no recommendation is being made in this area.

6. Cash on Hand and Bank Funds

a. Provision for Bad Accounts - Student Loan Fund

The practice used by INCAE to provide for a reserve for bad debts results in freezing cash funds that are not available for student loans. We noted that INCAE's practice is to retain

at least 2 per cent and not more than 5 per cent of principal and interest payments collected from student loans as a funded reserve for bad debts. Moreover, the collections are accumulated in a funded reserve for bad debts and they are used only to offset bad debt losses.

The accounting purpose of a bad debt allowance is to create a reserve through charges to operations to equalize bad debt losses over the credit cycle. Since it isn't generally known which accounts will prove uncollectible at the time receivables are created, an allowance is made to offset these future but unknown losses, and the estimated expense is charged to current operations. The alternative to a reserve for bad debts is a direct charge-off as an expense to operations at the time an account is determined uncollectible.

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In our opinion, INCAE's funded bad debt reserve is self-defeating since the money is set aside until a debt is determined bad and then returned to available cash. The transaction is even less meaningful since the student loan fund is restricted as to use; rollover and income generated by the fund is retained within the fund. Therefore, the principal effect of this apparently innocent bookkeeping innovation is to freeze cash funds that are not available for student loans.

b. Cash in Banks

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At June 30, 1973, INCAE had cash in banks totalling \$366,324 representing 22 bank accounts in seven countries. About \$125,000 of this balance was a restricted savings account acting as a guarantee for student loans at a ratio of three to one. In our opinion, a proliferation of bank accounts results in poor control by limiting the effective utilization of available cash, multiplying accounting problems, and inviting defalcation among accounts that remain idle for extensive periods of time. In addition, the existence of correspondent banks in other countries precludes the necessity of numerous depositories since cash transactions can be handled with relative ease and lower overall cost by bank drafts or transfers to correspondent banks. Bank accounts representing restricted or special purpose funds can be more efficiently accounted for through

bookkeeping entries which would also alleviate the cumbersome practice of loaning and borrowing between funds to cover temporary deficiencies of funds in one of the accounts.

c. Imprest Cash Funds

Imprest funds at November 1, 1973 totalled \$20,773, distributed among ten custodians. It appears the risk from robbery and speculation alone dictate a smaller exposure. Moreover, an excessive amount of cash on hand, by creating idle funds, reduces the efficiency of working capital and increases the overall cost of money. (For example, reduced interest income, increased interest costs on borrowed funds, increased costs of goods due to lost cash discounts.) We believe a limited imprest fund, handled by a central cashier would be more efficient and present better control. Cash transactions should be held to a minimum and check cashing restricted to scheduled days to avoid the necessity of maintaining excessive amounts of cash on hand. A careful analysis of cash requirements on a daily basis should result in a more efficient utilization of the cashier function as well as assuring minimum amounts of cash are allocated to this purpose.

Recommendation No. 5

ROCAP should encourage INCAE to:

- a. Change the Provision for Bad Accounts to a non-funded reserve with charges to operations;
- b. Consolidate and eliminate bank accounts that are surplus to needs with a view to efficient short-term investment of idle funds;
- c. Centralize cashier functions and determine, through cash flow analysis, minimum requirements for imprest funds.

PART V

GENERAL COMMENTS

A. Exit Conference

A formal exit conference was held on February 8, 1974

to discuss the audit report with the Acting Mission Director, ROCAP and his senior staff.

B. Prior AID Auditor General Audit Reports, Inspections, and Appraisals

This was the initial audit of Project No. 596-13-770-024 and Project No. 590-24-660-044.

C. External Audit Reports and Inspections

The ROCAP files contained no external audit or inspection reports of above activities which required corrective action.

EXHIBIT A

Audit of Project 596-13-770-024 (Grant)
Business Administration
Financial Status at August 31, 1973

<u>Component Breakdown</u>	<u>(In thousands)</u>		
	<u>Obligated</u>	<u>Liquidated</u>	<u>Unliquidated</u>
Contract Costs	\$ 918	\$ 908	\$ 10
Participant Training	24	24	-0-
Other Costs	<u>1,003</u>	<u>1,003</u>	<u>-0-</u>
Total	<u>\$1,945</u>	<u>\$1,935</u>	<u>\$ 10</u>

Audit of Project 596-24-660-044 (AID Loan 596-L-012)
Financial Status at August 31, 1973

<u>Component Breakdown</u>	<u>(In thousands)</u>		
	<u>Obligated</u>	<u>Liquidated</u>	<u>Unliquidated</u>
Building Expansion	\$1,280	\$	\$ 1,280
Student Loan Fund (SLF)	1,000	194	806
Program Development	1,300	400	900
Office & Teaching Equipment	205	16	189
Technical Assistance	<u>115</u>	<u>3</u>	<u>112</u>
Total	<u>\$3,900</u>	<u>\$ 613</u>	<u>\$ 3,287</u>
Expenditures covered in this audit		<u>\$2,548</u>	

EXHIBIT B

DISTRIBUTION OF AUDIT REPORT

	<u>No. of Copies</u>
Mission Director, ROCAP/Guatemala	4
AG/AUD, AID/W	4
LA/OPNS, AID/W	2
Guatemala Desk Officer, AID/W	1
LA/DR, Office of Development Resources Bureau for Latin America, AID/W	1
Office of Engineering, AID/W	1
IGA, Washington	1