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NON-FEDERAL FINANCIAL AND COMPLIANCE  
AUDIT OF PUBLIC LAW 480  
TITLE I FUNDS IN COSTA RICA

AUDIT REPORT NO. 1-521-86-11-N  
MARCH 31, 1986

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

U. S. MAILING ADDRESS:  
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OFFICE OF THE REGIONAL INSPECTOR GENERAL  
**AMERICAN EMBASSY**  
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March 31, 1986

MEMORANDUM FOR: D/USAID/Costa Rica, Daniel A. Chaij  
FROM : RIG/A/T, *Coinage N. Gothard* Coinage N. Gothard Jr.  
SUBJECT : Financial Review of PL 480, Title I Funds,  
Audit Report No. 1-521-86-11-N

This report presents the results of a non-Federal financial and compliance audit of Public Law (PL) 480, Title I Funds in Costa Rica and consists of the following three sections:

- Statement of Funds Generated and Disbursed to Designated Activities for the PL 480, Title I Program in Costa Rica for the period October 1, 1981 to September 30, 1985 (page 1);
- Statement on Internal Controls of Consejo Nacional de Produccion (CNP) (page 4); and a
- Statement on Compliance with Provisions of the PL 480, Title I Agreements (page 7).

The certified public accounting firm of Peat, Marwick, Mitchell and Co. in Washington, D.C. in cooperation with its office in Costa Rica prepared the report which is dated November 15, 1985.

The purpose of this financial and compliance audit was to determine if the financial statement fairly presents the funds generated and disbursed to designated activities; to identify any material weaknesses in the system of internal controls at Consejo Nacional de Produccion over PL 480, Title I funds or commodities; and to determine if the Government of Costa Rica complied with the terms of the PL 480, Title I Agreements.

In the opinion of Peat, Marwick, Mitchell and Company, the financial statement presents fairly the funds generated and disbursed to designated activities (page 1). Their study of the internal controls of Consejo Nacional de Produccion disclosed no material weaknesses (page 5). They also determined that the Government of Costa Rica was in compliance with the terms of the agreements for which noncompliance could have a material effect on the financial statement or the assistance program (page 7). Also, nothing came to their attention during the course of their examination that caused them to believe that untested items were not in compliance with the provisions of the agreements (page 7).

Although the audit did not disclose any material weaknesses, the report recommends (1) procedures to enhance the internal controls over the PL 480, Title I commodities and funds, and (2) clarifications of terms and procedures in the PL 480, Title I agreements and program. We summarize these recommendations below and believe that they will improve the internal controls and clarify provisions in the PL 480, Title I Agreement. These recommendations will be included in the OIG's audit recommendation follow-up system.

Recommendation No. 1

USAID/Costa Rica ensure that Consejo Nacional de Produccion:

- a. maintain a log of checks issued and unused in the Direccion Financiera,
- b. require a documented approval by its Treasury Department over the log of checks in the Direccion Financiera, and
- c. document the approval and clerical accuracy of sales invoices (page 6).

Recommendation No. 2

USAID/Costa Rica in consultation with the Government of Costa Rica:

- a. clearly define the exchange rate to be used to compute the local currency generations in future agreements (page 9),
- b. ensure that the National Planning Office (MIDEPLAN) reconcile its accounting records to its bank statements on a monthly basis (page 9),
- c. require that MIDEPLAN maintain reports on the receipts and expenditures of sales proceeds (page 10),
- d. ensure that MIDEPLAN prepare quarterly reports on the special PL 480, Title I account (page 10),
- e. formally document the change in the agreement to prepare the report on the disposition of funds on an annual basis instead of a quarterly basis as currently required and obtain the missing reports (page 11), and
- f. establish procedures to reconcile financial records between the United States and Costa Rica to determine the balance of the outstanding loans (page 11).

Please advise this office within thirty days of the actions planned or taken to implement the recommendations in this report.



Peat, Marwick, Mitchell & Co.  
Certified Public Accountants  
1990 K Street, N.W.  
Washington, D.C. 20006  
202-223-9525

The Inspector General  
United States of America - Agency for International  
Development:

We have examined the Statement of Funds Generated and Disbursed to Designated Activities of the United States of America - Agency for International Development PL- 480 Title I Program - Costa Rica for the period October 1, 1981 to September 30, 1985. Our examination was made in accordance with generally accepted auditing standards and the standards of financial and compliance audits contained in the U.S. Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Statement of Funds Generated and Disbursed to Designated Activities was prepared on the basis of cash receipts and disbursements; consequently, certain revenue is recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statement is not intended to present results of operations in conformity with generally accepted accounting principles.

In our opinion, the Statement of Funds Generated and Disbursed to Designated Activities presents fairly the funds generated and disbursed to designated activities for the period October 1, 1981 to September 30, 1985.

November 15, 1985

*Peat, Marwick, Mitchell & Co.*

UNITED STATES OF AMERICA - AGENCY FOR INTERNATIONAL DEVELOPMENT

PL-480 TITLE I PROGRAM - COSTA RICA

Statement of Funds Generated and  
Disbursed to Designated Activities

From October 1, 1981 to September 30, 1985 (note 1)  
(In Costa Rican Currency (¢))

<u>Contract year</u>	Local currency generated and deposited in the Central Bank (note 3)	Funds disbursed to designated activities (note 2)	Undisbursed funds at September 30, 1985
1982 (Law 6751)	659,760,040	659,760,040	-
1983 (Law 6829 and 6884)	1,107,342,037	509,255,756	598,086,281
1984 (Law 6945)	<u>987,049,719</u>	<u>493,538,004</u>	<u>493,511,715</u>
	<u>2,754,151,796</u>	<u>1,662,553,800</u>	<u>1,091,597,996</u>

See accompanying notes to financial statement.

United States of America - Agency for International Development

Notes to Statement of Funds Generated and  
Disbursed to Designated Activities

September 30, 1985

(1) Period Covered

The Statement of Funds Generated and Disbursed to Designated Activities includes local currency generated and subsequently disbursed under the fiscal year 1982, 1983, and 1984 contracts of the PL-480 Title I program for the period October 1, 1981 to September 30, 1985.

(2) Currency Use Payments

Funds disbursed to designated activities include the following currency use payments:

<u>Contract year</u>	<u>Currency use payments</u>
1982	37,102,398 colones
1983	30,198,514 colones

Currency use payments represent amounts identified in each contract to help defray U.S. Government expenses in Costa Rica.

(3) Local Currency Generated by Sales Proceeds

Local currency generated by sales proceeds was determined based on the FOB value of the commodities shipped to Costa Rica. The rate of exchange used was the commercial rate in effect at the date the letter of credit covering each shipment was issued. The U.S. dollar value of the shipments as well as the average exchange rates used is as follows:

<u>Contract year</u>	<u>FOB value of shipments</u>	<u>Average exchange rates used in translation</u>
1982	\$ 17,196,940	¢ 38.36
1983	27,144,732	¢ 40.79
1984	<u>22,414,588</u>	¢ <u>44.04</u>



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The Inspector General  
United States of America Agency for International Development:

Under the date of November 15, 1985, we reported on the statement of funds generated and disbursed to designated activities of the United States of America Agency for International Development PL-480 Title I Program - Costa Rica (USAID/CR) for the period October 1, 1981 to September 30, 1985, and on USAID/CR's compliance with applicable PL-480 Title I agreements. In connection therewith we made a study and evaluation of the system of internal controls of Consejo Nacional de Produccion (CNP) to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. We have classified the significant internal accounting controls in the following categories:

- . Purchasing
- . Cash receipts
- . Cash disbursements

We have classified controls designed to provide reasonable assurance that the Federal financial assistance program is managed in compliance with applicable provisions of the loan agreements (grant management controls) in the following categories:

- . Safeguard controls (i.e. safeguarding assets)
- . Boundary controls

Our study included all of the control categories listed above. The purpose of our study and evaluation of internal controls was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the aforementioned financial statements. Additionally, our study and evaluation of grant management controls assisted in determining the nature, timing, and extent of the auditing procedures necessary for reporting on compliance with applicable PL-480 Title I agreements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal control taken as a whole or on any of the categories of controls identified above.

The management of CNP is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that CNP is managing its federal financial assistance programs in compliance with provisions of the PL-480, Title I agreements, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal control of CNP taken as a whole or on any of the categories of controls identified in the first paragraph. Our study and evaluation disclosed no condition that we believe to be a material weakness. However, we noted a few situations, although not material weaknesses, that warrant management attention. The scope of work and situations noted are included in the Schedule.

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

*Paul Marshall Mitchell & Co.*

November 15, 1985

SCOPE OF WORK

The objective of our review of the system of internal controls of Consejo Nacional de Produccion (CNP) was to determine the adequacy of administrative support for the accountability and reporting of the PL-480 Title I funds. Our review included the following steps:

- . We obtained a general understanding of the personnel involved in maintaining records of the PL-480 Title I funds as well as of the accounting records and documents kept. This was achieved through inquiry and observation of CNP personnel and operations.
- . We reviewed the general controls over the custody and access to accounting records and equipment. This was achieved through inquiry and observation of CNP personnel and operations.
- . We identified the documents affecting the recording of the PL-480 transactions, and verified the integrity of population and accuracy controls over such documents affecting final report balances. Limited compliance tests were performed of internal controls.

FINDINGS

- . Verification of the numerical sequence of the "Orden de emision de cheques" is not documented. This procedure is performed by the "Direccion Financiera". This person should maintain a log of these checks issued and unused.
- . The treasury department does not document review of the approval done by the "Direccion Financiera" over the "Orden de emision de cheques". This review should be documented.
- . The warehouse dispatcher ascertains that every sales invoice is signed by the plant administrator as evidence of approval of the transaction. However, this review is not documented. We recommend the review be documented by initialling the invoice.
- . The verification of the clerical accuracy of sales invoices is not documented. Again, the invoice should be initialled as evidence of such review.

MANAGEMENT RESPONSE

CNP management believes that the documentation of these control procedures is not necessary, and that a proper level of internal control is achieved without such documentation.



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The Inspector General  
United States of America - Agency for International Development:

We have examined the Statement of Funds Generated and Disbursed to Designated Activities of the United States of America - Agency for International Development PL-480 Title I Program - Costa Rica (USAID/CR) for the period October 1, 1981 to September 30, 1985 and have issued our report thereon dated November 15, 1985. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Our compliance work was limited to testing the agreements' provisions related to deposits of sales proceeds, accountability and control of the Central Bank account, reporting requirements and intergovernmental reconciliations. As requested by the Inspector General's office, we did not test for compliance with the requirement that proceeds be invested in interest-bearing accounts.

In connection with the examination referred to above, a representative number of transactions were tested for compliance with terms of the PL-480, Title I for which noncompliance therewith could have a material effect on the financial statement or on the Federal financial assistance program. The results of our tests indicate that, for the transactions tested, the Government of Costa Rica complied with the terms of the PL-480, Title I agreements for which noncompliance therewith could have a material effect on the financial statement or on the Federal financial assistance program, except as described in the Schedule of Findings. Further, for the transactions not tested, based on our examination and the procedures referred to above, nothing came to our attention to indicate that the Government of Costa Rica had not complied with the terms of the PL-480, Title I agreements for which noncompliance therewith could have a material effect on the financial statements or on the Federal financial assistance program, except as described in the Schedule of Findings.

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

*Peat, Marwick, Mitchell & Co.*

November 15, 1985

SCHEDULE OF FINDINGS

1. Deposits of Sales Proceeds

The sales agreements between the governments of the United States of America and Costa Rica under the PL-480 Title I program require that the Consejo Nacional de Produccion (CNP) deposit funds in the Central Bank account within 120 days of the date of shipment from the United States for the 1982 shipments and 75 days of the date of arrival in Costal Rica for 1983 and 1984 shipments. The Consejo Nacional de Produccion (CNP) did not fully comply with this requirement in any of the three years we examined. Additionally, payments were not specifically identified with individual shipments for the 1982 and 1983 original agreement shipments. For the amendment to the 1983 agreement and for the 1984 agreement the payments were identified with the shipments. (For purposes of determining compliance, we assumed that the payments were being applied in the same order as the shipments were shipped or received, as applicable).

<u>Contract year</u>	<u>Funds deposited in accordance with the terms of the agreement</u>	<u>Funds deposited outside the terms of the agreement</u>	<u>Total</u>
1982	c 501,862,731	157,897,309	659,760,040
1983	466,933,887	640,408,150	1,107,342,037
1984	<u>16,880,724</u>	<u>970,168,995</u>	<u>987,049,719</u>

The delays in the deposits, in number of days, range as follows:

<u>Contract year</u>	<u>Delay in days</u>	
	<u>From</u>	<u>To</u>
1982	22	367
1983	3	295
1984	6	175

We were informed by Mr. Ramon Venegas, (ND) Director of the Finance and General Accounting Division, that the delays in the payments were due to delay in the deposit of sales proceeds to the Central Bank account as a result of the working capital needs of CNP. This matter was confirmed by Mr. Frank Heilleman, USAID Project Manager.

Based in the amount of undisbursed funds as of September 30, 1985, it is evident that the delay in the deposits did not adversely affect the execution of the designated activities. No specific tests were done to verify this matter since it was beyond the scope of this work.

Even though the delay in deposits apparently did not adversely affect the development of the projects, we recommend that for future agreements, USAID/CR include interest and/or penalties for late payments. This will underscore the importance of timely payments.

We examined the 1986 PL-480, Title I program agreement and noted that a penalty clause for late payments was included.

2. Exchange Rates Utilized to Determine the Local Currency Generated

The determination of the exchange rate to be used to compute the local currency generated by the commodities imported to Costa Rica was not documented in the agreements. A verbal agreement was reached, and followed for the three years, to use the commercial exchange rate in effect at the moment the letter of credit covering such shipment was issued.

No explanation could be obtained as to why this was not included in the agreements.

Because of the continuing devaluation of the Colon, the rate of exchange to be used in future agreements should be clearly documented in the agreements to avoid any misunderstanding as to the total currency generation. This should be agreed upon by the parties to the contract through a memorandum of understanding.

3. Central Bank Account Control

The executory unit of the National Planning Office (Mideplan), which is responsible for the programming, budgeting, accounting for and reporting of PL-480 Title I Program, received no bank statements during the period June to December 1982 relating to account #215-01-49, the account receiving the 1982 agreement sales proceeds. Our examination disclosed a difference in a deposit of approximately 77,270 colones (approximately \$1,457 at a rate of exchange of 53 colones per \$1). This difference was subsequently reimbursed by CNP. As a result of not receiving statements of account for this period, no control was exercised over these funds. However, no significant exceptions were noticed as a result of our examination.

We could not obtain an explanation as to why the bank statements were not received for this time period. We understand this situation has been corrected.

No reconciliations of accounting records with the bank statements are prepared. The reconciliations were not prepared because the personnel of the executory unit did not consider this procedure necessary.

The lack of preparation of a reconciliation between the accounting records and the bank statements precludes the executory unit from detecting bank and certain book errors, if any. No errors were detected by our examination.

In order to improve the controls over these funds the executory unit of the National Planning Office (Mideplan) should prepare and document monthly reconciliations between the accounting records and the statements of account.

Instructions were given by Mr. Frank Heilleman, USAID project manager, to the personnel of the executory unit, to prepare such reconciliations.

#### 4. Reporting Requirements

##### a. Receipts and Expenditures

The Government of Costa Rica is to furnish, in accordance with its fiscal year budget reporting procedure, at such times as may be requested by the Government of the United States but not less than annually, a report of the receipts and expenditures of sales proceeds, certified by the approximate audit authority of the Government of Costa Rica.

We examined the report, duly certified, for the period January 21, 1983 to October 31, 1984. The reports for the prior periods, duly certified, could not be located. Mr. Frank Heillemann, USAID Project Manager, informed us that he was certain the reports were prepared.

We recommended that for future agreements the executory unit of Mideplan maintain a file of these reports.

##### b. Quarterly Reports

Sequential quarterly reports are to be provided to the Government of the United States until such time as all funds deposited in the special account have been transferred from that account to designated entities for the purposes agreed upon. The executory unit of the National Planning Office (Mideplan) is responsible for preparing these reports.

The reports were prepared as of and for the periods ended November 1982, May 1983, August 1983, July 1984, October 1984, April 1985 and July 1985. Mideplan thus did not comply with their quarterly reporting requirements.

We were informed that these reports were not prepared due to lack of human resources. As a result of the delay in reporting, monitoring of the utilization of the funds were also delayed.

We recommend that an analysis of the human resources needed by the executory unit of Mideplan be performed to ensure that the reporting requirements are met consistently in future agreements.

##### c. Commodity Data

The Government of Costa Rica is to furnish at least quarterly during the contract period the following information:

- a) For each shipment: the name of the vessel, the date of arrival, the commodity and quantity received and the condition in which received.
- b) A statement showing the progress made toward fulfilling the marketing requirements

- c) A statement of the measures it has taken to assure that the United States government obtains a fair share of any increase in commercial purchases of agricultural commodities by the Government of Costa Rica, and of the measures taken to prevent the resale, diversion in transit, or transshipment to other countries or use for other than domestic purposes of the agricultural commodities purchased pursuant to the agreement.
- d) Statistical data as to imports and exports of commodities which are the same as or similar to those imported under the agreement.

We examined documentation evidencing compliance by the Government of Costa Rica with requirement (a). We were informed by Mr. Max Bowser, U.S. Agricultural Attache', that a verbal agreement was reached to request the information under (b), (c), and (d) on an annual basis. He also informed us that he has received the information annually. Mr. Bowser considered that receiving the information on a quarterly basis was not necessary. However, the annual reports could not be located.

We recommend that a copy of the reports be mailed to Mideplan to centralize the control over the reporting requirements in a single entity. Additionally, we recommend that all changes to the terms of the agreements be documented in a memorandum of understanding.

#### 5. Intergovernmental Reconciliation

The United States and Costa Rica are to establish appropriate procedures to facilitate the reconciliation of their respective records as to the amounts financed with respect to the commodities delivered during each calendar year.

No reconciling procedure has been established between the governments of Costa Rica and the United States. No explanation could be obtained as to why this requirement has not been implemented. Since there are various types of transactions affecting the recorded liability, the lack of a reconciliation precludes the Government of Costa Rica from ascertaining the balance of the outstanding loans.

We recommend that a reconciliation be prepared on a semi-annual basis by Mideplan. The reconciliation should be based in a statement of account sent by the Commodity Credit Corporation. Additionally, a schedule of payments should be prepared by the Commodity Credit Corporation through AID to facilitate this reconciliation. This schedule of payments should be provided to Mideplan, the Treasury Department of the Government of Costa Rica, and the U.S. Embassy Agricultural Attache. The Treasury Department should inform Mideplan as to interest and principal payments and the U.S. Embassy as to the Currency Use Payments received.

APPENDIX 1

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