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AUDIT OF THE PUBLIC LAW 480,  
TITLE II PROGRAM WITH THE  
NATIONAL COMMUNITY DEVELOPMENT SERVICE  
IN BOLIVIA

Audit Report No. 1-511-87-17-N  
May 18, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT

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May 18, 1987

MEMORANDUM

TO : Acting Director, USAID/Bolivia, George A. Wachtenheim  
FROM : RIG/A/T, *Louise N. Gothard* Coinage N. Gothard, Jr.  
SUBJECT: Audit Report No. 1-511-87-17-N, "Audit of the Public Law 480, Title II Program with the National Community Development Service in Bolivia"

This report presents the results of a non-Federal audit of the Public Law 480, Title II Program in Bolivia operated by the National Community Development Service (SNDC). The certified public accounting firm of Horwath & Horwath in Bolivia prepared the report, which is dated May 7, 1987.

The purpose of this audit was to report on (1) the fairness of the commodity statements for the year ended September 30, 1986, (2) the system of internal accounting controls established for administering and supervising the project, and (3) compliance by SNDC with the laws, regulations and agreement provisions to which they are subject in relation to the program.

In the opinion of Horwath & Horwath the commodity statements do not fairly present the position of SNDC as of September 30, 1986, due to inadequate inventory and accounting records. Their study and evaluation of the system of internal controls disclosed significant weaknesses related to inadequate records and lack of supervision over the receipt and distribution of commodities. They also determined that SNDC was not in compliance with certain regulations applicable to the PL 480, Title II Program. For items not tested, nothing came to their attention that caused them to believe that untested items were not in compliance.

The Horwath & Horwath report contains 13 recommendations to improve the SNDC system of internal controls and 6 recommendations to achieve compliance with laws, regulations and agreement terms. We believe that these recommendations will significantly improve SNDC's administrative and compliance weaknesses. As a result, the following recommendation will be included in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/Bolivia obtain evidence from the National Community Development Service (SNDC) in Bolivia to demonstrate that it has implemented the 13 recommendations to improve the system of internal controls and the 6 recommendations to achieve compliance with laws, regulations and agreement terms contained in the Horwath & Horwath report dated May 7, 1987.

Please advise this office within 30 days of the actions planned or taken to implement this recommendation.

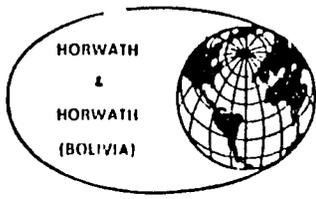
AUDIT OF THE PL 480 TITLE II  
PROGRAM - BOLIVIA  
NATIONAL COMMUNITY DEVELOPMENT SERVICE

AUDIT OF THE PL 480, TITLE II PROGRAM-BOLIVIA

NATIONAL COMMUNITY DEVELOPMENT SERVICE

TABLE OF CONTENTS

	<u>Page</u>
TRANSMITTAL LETTER AND SUMMARY	1
COMMODITY STATEMENTS	
Auditor's opinion	5
Commodity statements	7
Notes to the commodity statements	10
INTERNAL CONTROLS	
Auditor's overall opinion	13
Accounting and administrative system	15
Storage and handling system	19
Inland transportation system	25
Supervision of program	26
COMPLIANCE WITH AGREEMENT TERMS	
Auditor's overall opinion	29
General reporting requirements	30
Publicity as AID program	33
Distribution of commodities	34
Eligibility of recipients	35



HORWATH & HORWATH (BOLIVIA) LTDA.

CALLE CAPITAN RAVELLO 2131 - TELLS. 374760 - 372108 - 372107 - CASILLAS 5060 - 6179 - TELEX 0309 - 3311 BV  
LA PAZ - BOLIVIA

Mr. Coinage N. Gothard  
Regional Inspector General for Audit  
U.S. Agency for International Development  
Tegucigalpa, Honduras C.A.

Dear Mr. Gothard:

This report presents the results of our audit of the PL 480, Title II Program managed by the National Community Development Service (SNDC) for the period October 1, 1985 to September 30, 1986.

BACKGROUND

The National Community Development Service (SNDC) is an organization under the Ministry of Peasants and Agropecuarian Affairs of the Bolivian Government. Since 1983, SNDC has been in charge of the Food for Work Program in the rural zones of La Paz, Cochabamba, Santa Cruz and Beni.

The long range objective of this project is to improve the income of the rural population. The immediate objectives consist of increasing agriculture production through:

1. Development of social and economic infrastructure projects.
2. Organizing and training communities to plan, implement and maintain such projects.
3. Training the target communities in new farming techniques.
4. Giving orientation to the communities regarding an efficient marketing system.

The National Community Development Service Operational Plan has 256 projects, as listed in detail below:

La Paz	76	projects
Cochabamba	51	projects
Santa Cruz	64	projects
Beni	26	projects
Pando	26	projects
Riberalta	13	projects
	---	
Total	256	projects
	===	

SNDC distributed 1,921 metric tons of donated commodities of the PL 480, Title II Program to 23,050 beneficiaries during FY 1986.

NUMBER OF BENEFICIARIES FOR EACH PROGRAM AND QUANTITY OF FOOD  
 PLANNED FOR DISTRIBUTION IN FISCAL YEAR 1986:

FY-1986 Program	No. of Beneficiaries	<u>Quantity in Metric Tons</u>
Food for work	23,050 =====	1,921 =====

AUDIT OBJECTIVES AND SCOPE

The objective of our audit was to perform a financial and compliance audit of the PL 480, Title II Program for the period October 1, 1985 to September 30, 1986. Our main task was to determine if funds and/or commodities were being properly accounted for and used as directed by the agreements or other applicable program documents. Our examination included a study and evaluation of internal controls over commodities and compliance with AID regulations and the Food For Peace Agreement with the National Community Development Service (SNDC).

The specific functional issues addressed were whether:

1. Required reports were properly and accurately prepared and were submitted promptly.
2. Adequate accounting was being maintained over receipt, storage, shipment, distribution, sale, and inspection of the donated commodities, and over outreach grant funds.
3. Proper facilities existed for storage and handling to ensure ultimate distribution of the commodities in good condition.
4. Inland transportation of commodities was effective and transportation companies were competitively selected.
5. Commodities were distributed to eligible recipients and beneficiaries and were not sold or exchanged by persons in charge of distributions.
6. Commodities were distributed free to eligible recipients or as partial payment of wages.
7. Adequate publicity was given to the fact that the commodities were donated or furnished by the people of the United States.
8. Proceeds from sales of containers and/or recipient contributions were accounted for and used for approved program expenses.
9. Beneficiaries qualified as eligible recipients under established criteria.
10. Commodities unfit for human consumption were promptly reported and disposed of by approved methods.
11. All losses and misuses of commodities were promptly reported to the AID Mission and to the Cooperating Sponsor's headquarters in accordance with regulations; reasonable efforts had been made to pursue claims against third parties; and claims proceeds payable locally had been deposited with the United States Disbursing Officer.
12. Adequate supervision was being provided to the program.

Our examination was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and, accordingly, included a review of the system of internal controls, tests of transactions, and such other tests as we considered necessary to determine: a) whether the commodity statements of the audited entity present fairly the commodity and financial position and results of operations in accordance with generally accepted accounting principles and b) whether the entity has complied with the laws, regulations and agreement provisions.

The scope of the work consisted of:

1. Examining the commodity statements
2. Performing a review and evaluation of the administrative and accounting control system pertaining to the physical receipt, storage, distribution and use of commodities.
3. Reviewing the internal control system of SNDC related to the physical safeguarding, warehousing, controlling and delivering of inventories of commodities.
4. Visiting Regional Offices of the Cooperating Sponsor in the districts of La Paz, Santa Cruz, Cochabamba and Trinidad for the purpose of establishing whether the use and distribution of commodities to recipients was in accordance with AID Regulation 11 and the Operational Plan for FY 1986.

## RESULTS OF AUDIT

### 1. Commodity Statements

Our examination of the commodity statements of the PL 480, Title II Program - Bolivia, managed by the National Community Development Service as of September 30, 1986, revealed the following significant limitations in our audit scope and departures from generally accepted accounting principles:

- A. Inadequate inventory records.
- B. Lack of presentation of a Statement of Income and Expenses.
- C. Lack of accounting records and reconciliations of commodities loaned to and returned from other cooperating sponsors and institutions.
- D. Lack of adequate information regarding the loss in transit of 41 metric tons of food, which is the difference between the amounts shipped and the amounts received in the El Alto La Paz warehouse.

Therefore, in our opinion, the commodity statements do not present fairly the commodities received and distributed for the year ended September 30, 1986.

2. Internal controls

Our study and evaluation of the internal control system of the LL 480, Title II Program - Bolivia managed by the National Community Development Service revealed certain conditions as described in our report which, in our opinion, result in more than a relatively low risk that errors or irregularities in quantities that would be material in relation to the commodity statements may occur and not be detected within a timely period. These conditions were related to the lack of monthly reports of cash receipts and expenditures of funds, poor distribution of personnel functions, incomplete inventory records that did not permit reconciliation with physical counts, delays in the transportation of commodities and inadequate supervision at the distribution centers.

3. Compliance with Agreement terms

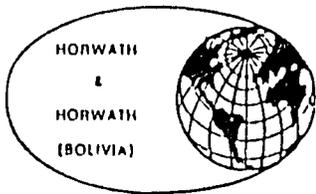
Our examination revealed that the National Community Development Service has not complied with AID Regulation 11 regarding general reporting requirements, distribution of commodities, publicity as an AID program, and eligibility of recipients. For items not tested, nothing came to our attention that caused us to believe that untested items were not in compliance with applicable AID Regulations.

4. Management comments

Relevant comments by SNDC are incorporated in this report.

May 7, 1987

  
HORWATH & HORWATH BOLIVIA



HORWATH & HORWATH (BOLIVIA) LTDA.

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AUDIT OF THE PL 480 TITLE II PROGRAM-BOLIVIA  
NATIONAL COMMUNITY DEVELOPMENT SERVICE (SNDC)  
REPORT ON EXAMINATION OF COMMODITY STATEMENTS

AUDITOR'S OPINION

We have examined the Statement of Receipt and Distribution of Commodities of the National Community Development Service PL 480, Title II Program - Bolivia for the year ended September 30, 1986, and the related Statement of Commodities Programmed and Distributed and the Statement of Imports for the same year. Our examination was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except for the limitations explained in the following paragraphs.

Due to inadequate inventory records, we were unable to satisfy ourselves as to the quantity of the inventories of commodities as of September 30, 1986.

As described in note B-4, the National Community Development Service did not present a Statement of Cash Income and Expenses for the Fiscal Year ended September 30, 1986, therefore we can not express an opinion on that Statement.

The Statement of Receipt and Distribution of Commodities as of September 30, 1986, does not include other receipts and other deliveries, which are quantities of commodities loaned to and returned from other cooperating sponsors and institutions. Therefore, we were unable to satisfy ourselves as to the quantities of commodities loaned and returned since no formal accounting records are maintained and no reconciliation of accounts are made with the other agencies and institutions. We did not receive confirmation of such quantities of commodities loaned to and returned from other agencies and institutions.

As mentioned in the note C to the Commodity Statements, the National Community Development Service did not have adequate information regarding the loss in transit of 41 metric tons of commodities, which is the difference between the amounts shipped and the amounts received in the El Alto La Paz Warehouse.

In our opinion, due to the considerable effect of the matters described in the above paragraphs, the Statement of Receipt and Distribution of Commodities, the Statement of Commodities Programmed and Distributed, and the Statement of Imports for the Fiscal Year ended September 30, 1986, do not present accurately, reasonably and fairly the commodities received and distributed under the PL 480, Title II Program - Bolivia by the National Community Development Service.

May 7, 1987



HORWATH & HORWATH BOLIVIA

PL 480 TITLE II PROGRAM - BOLIVIA  
 NATIONAL COMMUNITY DEVELOPMENT SERVICE  
 STATEMENT OF RECEIPT AND DISTRIBUTION OF COMMODITIES  
 FISCAL YEAR ENDED SEPTEMBER 30, 1986  
 (Expressed in Metric Tons)

	<u>Milk</u>	<u>Wheat flour</u>	<u>Corn flour</u>	<u>Oil</u>	<u>Oats</u>	<u>Total</u>
(1) Beginning inventory as of October 1, 1985						
Add Receipts:						
Imports (Note B - 1)	211	1,042	211	211	204	1,879
Less: Loss in transit	<u>5</u>	<u>19</u>	<u>7</u>	<u>5</u>	<u>5</u>	<u>41</u>
Total	206	1,023	204	206	199	1,838
Less Deliveries:						
Distribution to beneficiaries (Note B-2)	<u>74</u>	<u>382</u>	<u>74</u>	<u>74</u>	<u>74</u>	<u>678</u>
Total inventory reported, september 30, 1986	<u>132</u>	<u>641</u>	<u>130</u>	<u>132</u>	<u>125</u>	<u>1,160</u>

(1) Program started in March 1986

See notes to commodity statements.

PL 480 TITLE II PROGRAM - BOLIVIA  
 NATIONAL COMMUNITY DEVELOPMENT SERVICE  
 STATEMENT OF COMMODITIES PROGRAMMED AND DISTRIBUTED  
 FISCAL YEAR ENDED SEPTEMBER 30, 1986  
 (Expressed in Metric Tons)

(Note B - 2)

<u>Regional Offices</u>	<u>PROGRAMMED</u>		<u>DISTRIBUTED</u>	
	<u>Number of Recipients</u>	<u>Commodities M.T.</u>	<u>Number of Recipients</u>	<u>Commodities M.T.</u>
	(1)	(1)		
La Paz			48,223	344
Cochabamba			18,809	184
Santa Cruz			8,363	116
Trinidad			1,930	26
Riberalta			864	7
	<u>23,050</u>	<u>1,921</u>	<u>78,189</u>	<u>677</u>

(1) The operational plan does not include the number of beneficiaries programmed by Regional Offices.

See notes to commodity statements

PL 480 TITLE II PROGRAM - BOLIVIA  
 NATIONAL COMMUNITY DEVELOPMENT SERVICE

STATEMENT OF IMPORTS

YEAR ENDED SEPTEMBER 30, 1986

(Expressed in Metric Tons)

(Note B - 1)

<u>Commodities</u>	<u>Quantity programmed</u>	<u>Quantity shipped</u>	<u>Lost in sea transit and delivery</u>	<u>Quantity received</u>
Powdered milk	211	211	5	206
Wheat flour	1,077	1,042	19	1,023
Corn flour	211	211	7	204
Oil	211	211	5	206
Oats	<u>211</u>	<u>204</u>	<u>5</u>	<u>199</u>
Totals	<u>1,921</u>	<u>1,879</u>	<u>41</u>	<u>1,838</u>

See notes to commodity statements.

AUDIT OF THE PL 480 TITLE II PROGRAM-BOLIVIA

NATIONAL COMMUNITY DEVELOPMENT SERVICE

NOTES TO COMMODITY STATEMENTS

FISCAL YEAR ENDED SEPTEMBER 30, 1986

A. CONSOLIDATION

The consolidated SNDC Commodity Statements are prepared from the Movement and Distribution of Commodities report submitted by the following Regional Offices:

La Paz  
Cochabamba  
Santa Cruz  
Beni

Statements of income from sales of containers and contributions from beneficiaries, as well as the disbursement of these funds are not prepared by SNDC.

B. RECORDS AND ACCOUNTING PROCEDURES

1. Imports

Imports of commodities for the National Community Development Service are handled by USAID, this includes cost of sea transportation. USAID provides all the necessary documents, bills of lading, survey reports, bills of freight, etc.

2. Distribution of Commodities to Beneficiaries

Commodities are distributed to beneficiaries in accordance with AID Regulation 11, Paragraph 211.5 (e) eligibility of beneficiaries.

The distribution of commodities had the following criteria:

Selection by areas,  
Selection by communities,  
Selection by Projects, and  
Distribution of Commodities.

3. Records of Commodities

The records of movement of commodities are used to ensure that commodities will be distributed on the first-in first-out basis. The physical monthly inventory of the warehouse is reconciled to the records of arrival and distribution of commodities.

4. Contribution from beneficiaries and sales of containers

- a. The income from contributions of beneficiaries and sales of containers is to be used for operational costs of the program, such as transportation, warehouse improvements and other; as stated in Paragraph 211.5 (i): funds from these sources shall be used for payment of program costs. The Statement of Income and Expenses for these funds is not prepared, since no accounting records are maintained and no reports are received from the Regional Offices to consolidate such figures.
- b. The Regional Offices transfer, on a monthly basis, up to 20% of funds collected from beneficiaries' contributions and sales of containers to the National Office for operational costs.

C. IMPORTS

Commodities imported during F.Y. 1986, amounting to 1,879 metric tons, arrived directly to the El Alto warehouse. Afterwards, 1,678 metric tons were distributed to the Regional Offices as follows:

Points of Entry	Products/Metric Tons					Total
	Powdered Milk	wheat Flour	Corn Flour	Oil	Oats	
La Paz	64	293	60	62	56	535
Cochabamba	20	104	20	20	20	185
Santa Cruz	13	65	13	13	13	116
Beni	7	39	9	8	8	71
Pando	5	26	5	5	5	46
La Paz warehouse	97	496	97	98	97	885
Sub total	206	1,023	204	206	199	1,838
Less: Loss in transit	5	19	7	5	5	41
Total commodities imported	211	1,042	211	211	204	1,879

The loss of 41 MT of commodities between the port of origin and the El Alto warehouse could not be explained; USAID did not provide the necessary information.

D. INVENTORY RECORDS

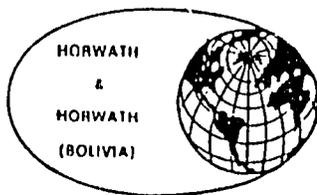
According to the Regional Offices' records, as of September 30, 1986, the inventory of commodities was the following:

<u>Regional Offices</u>	<u>Total Metric Tons</u>
La Paz	1,075
Cochabamba	1
Santa Cruz	1
Trinidad	20
Riberalta	17
Cobija	46
	-----
Total	1,160
	=====

E. CHART OF ASSIGNED RATIONS BY COMMODITIES

The assigned rations of commodities approved for the Food for Work Program for 1986 included the beneficiaries and four of their dependents. The daily rations were as follows:

<u>Product</u>	<u>Gr. per day</u>
Wheat flour	280
Corn flour	55
Oats	55
Powdered milk	55
Oil	55



AUDIT OF THE PL 480, TITLE II PROGRAM - BOLIVIA

NATIONAL COMMUNITY DEVELOPMENT SERVICE

REPORT ON INTERNAL CONTROL SYSTEM

AUDITOR'S OVERALL OPINION

In relation to the examination of the Commodity Statements of the PL 480, Title II Program-Bolivia managed by the National Community Development Service (SNDC), we have performed a study and evaluation of the system of internal control over commodities. Our study and evaluation was performed in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision). According to the Fiscal Year 1986 Operation Plan, SNDC was responsible for the distribution of 1,921 Metric Tons of donated commodities under the PL 480, Title II Program in Bolivia. Our study included the evaluation of procedures used to account for the arrival, storage, shipment and distribution of these donated commodities; warehouse facilities for storage and handling; and supervision over the program.

The National Community Development Service is responsible for establishing and maintaining a system of internal accounting control for this program. In fulfilling this responsibility, estimates and judgements by the directors are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide reasonable, but not absolute, assurance that commodities are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with applicable regulations and authorizations and are recorded properly to permit the preparation of commodity statements.

Because of inherent limitations in any system of internal accounting control, 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 of the internal controls of SNDC detected significant weaknesses which are described in the following pages. The main weaknesses detected were related to lack of inventory records, lack of supervision over the receipt and distribution of commodities and inadequate storage facilities. These weaknesses, in our opinion, result in more than a relatively low risk that errors or irregularities in quantities that would be material in relation to the commodity statements may occur and not be detected within a timely period.

May 7, 1987



HORWATH & HORWATH BOLIVIA

## ACCOUNTING AND ADMINISTRATIVE SYSTEM

### 1. Lack of Monthly Reports of Cash Receipts and Expenditure of Funds

#### Condition:

Monthly reports of cash receipts and expenditures were not prepared by the Regional Offices to be sent by the National Coordination Office to USAID/Bolivia.

#### Criteria:

In accordance with AID Regulation 11, 211.5 (h) (i) monthly remittance of this report is required.

#### Cause:

There was a lack of coordination with USAID/Bolivia to provide the corresponding instructions to the Regional Offices in order to comply with regulations to control the use of funds.

#### Effect:

There was no reporting on the use of funds collected from sales of containers and from contributions by beneficiaries amounting to almost \$b.60,000,000,000 (US\$ 30,000.00 approximately), during the period July 1, 1986 to September 30, 1986.

#### Recommendation:

USAID/Bolivia should require the National Coordination Office of SNDC to instruct the Regional Offices to prepare monthly reports of receipts and expenditures of funds.

2. Administrative Controls

Condition:

The accountant in the Cochabamba Regional Office is also the cashier, he is in charge of records, prepares summaries of funds, and he does the bank reconciliations.

Criteria:

According to the Personnel Functions Manual, the duties of the accountant are to record transactions and prepare financial statements.

Cause:

The Personnel Functions Manual was not being followed in regard to the separation of duties of personnel. Adequate internal controls were not in effect.

Effect:

There was a lack of control of funds because there was no separation of duties in controlling funds. For instance, in September 1986 the amount of \$b 7,764,580,000 was not deposited in the bank.

Recommendation:

USAID/Bolivia should require SNDC to require the Cochabamba Regional Office to comply with the Personnel Functions Manual in regard to separation of duties in order to have better control of funds received.

3. Income and Expenses

Condition:

In the Cochabamba Regional Office, income from contributions and collections from sales of containers were not properly controlled. Also, disbursements for expenses were not properly controlled. For example:

- A. The bank account was not kept up to date. The last entry was on February 25, 1986.
- B. Documentation concerning the use of funds was not delivered to office personnel in a timely manner.
- C. Payment vouchers were not numbered.
- D. There were expenses recorded in the bank book that were not supported by proper documentation.
- E. Payments were made for per diems without the signatures of the payees indicating receipt of payments.

Criteria:

In accordance with AID Regulation 11, Paragraph 211.10,(a) the Cooperating Sponsor shall maintain records and documents in a manner which accurately reflects all transactions pertaining to the receipt, storage, distribution, sale and inspection of the commodities.

Cause:

There was a lack of personnel and over work of the person in-charge of the accounting records.

Effect:

As a consequence of this deficiency the following situation appeared:.

Income from contributions and collections from sales of containers	\$b 16,432,060,000	
Deposited in the Central Bank	13,252,800,000	
	-----	
Funds not deposited	3,179,260,000	
	-----	
Analysis of funds not deposited:		
Loan of funds without cash vouchers		2,051,000,000
Expenses not supported by documentation		1,128,260,000
		-----
Total	3,179,260,000	3,179.260,000
	=====	=====

Recommendation:

USAID/Bolivia should require SNDC to require the Cochabamba Regional Office to comply with AID Regulation 11, Paragraph 211.10 (a) and also to have better control over the functions of the accountant - cashier. The Accounting Section should have two responsible persons for efficiency and proper internal control over funds.

## STORAGE AND HANDLING SYSTEM

### 1. Lack of Storage Capacity

#### Condition:

In the La Paz Regional Office, storage facilities were inadequate due to the accumulation of commodities in the El Alto La Paz warehouses.

#### Criteria:

In accordance with AID Regulation 11, 211.7 (e) the Cooperating Sponsor shall make all necessary arrangements for receiving commodities and assumes full responsibility for storage and maintenance of commodities in such manner as to assure distribution in good condition.

#### Cause:

Food products were dispatched directly by AADAA (Autonomous Administration of Customs Warehouse) from the port of Arica to the warehouses in El Alto without the use of contractors to transport the products from the port to final destination.

#### Effect:

Due to a lack of storage space, a warehouse of another Cooperating Sponsor (ADRA/OFASA) was used to store SNDC commodities. As a result, there was a risk of losing control of commodities which would result in lost commodities through pilferage, etc.

#### Recommendation:

USAID/Bolivia should require the National Community Development Service to provide sufficient and adequate storage facilities for commodities received.

2. Monthly Physical Inventories

Condition:

No monthly physical inventories were programmed or carried out on the national level with the exception of the La Paz Regional Office.

Criteria:

In accordance with AID Regulation 11, Section 211.10 (b) (1) the Cooperating Sponsor is required to submit periodic reports of physical inventories of commodities.

Cause:

The instruction manual does not clearly state that periodic physical inventories should be carried out.

Effect:

There was a lack of control of inventories and reconciliation of differences with the accounting records. As of September 30, 1986 warehouse perpetual inventory records showed 275,554 net kilograms of products which were not certified by physical inventories.

Recommendation:

USAID/Bolivia should require SNDC to carry-out monthly physical inventories and to reconcile differences with their records of inventories.

3. Unaccounted for Physical Inventory Shortage

Condition:

In the La Paz Regional Office, it was determined that approximately 50,000 net kilograms of food were missing by comparing the physical inventory with the general movement statement of product. According to a responsible employee, this shortage was due to a lack of proper record keeping.

Criteria:

Section 211.10 "Information System" of Operation Manual No. 9 requires the presentation of form No. FFP1.2, " Monthly Report of Food and Beneficiaries".

Cause:

No reports were presented as required by USAID/Bolivia.

Effect:

There was an unaccounted for inventory shortage of approximately 50.000 net kilograms of food.

Recommendation:

USAID/Bolivia should require SNDC to investigate and reconcile differences between the perpetual inventory records and the physical inventory in accordance with program requirements.

#### 4. Inadequate Storage Facilities

Condition:

The warehouse at Cochabamba did not have sufficient security protection. It did not have protective walls and the door was quite unsafe. There were no platforms for storing commodities.

Criteria:

In accordance with the Program Regulations, the Cooperating Sponsor shall provide proper and adequate storage facilities for commodities.

Cause:

Necessary improvements had not been made to the warehouse, with the argument that the warehouse does not belong to the SNDC Office.

Effect:

Due to deficiencies in storage facilities and lack of internal control procedures, commodities may be damaged and/or stolen.

Recommendation:

USAID/Bolivia should require the Cochabamba Regional Office of SNDC to improve its warehouse security and storage facilities.

5. Inadequate Inventory Controls and Reporting

Condition:

In the Cochabamba Regional Office:

- a. There were no bin cards for the control of food in the warehouse.
- b. No reports were prepared of commodities damaged or unfit for human consumption.
- c. On the date of our physical inventory count on December 4, 1986, the food stocks kardex reports were not up to date. The last entry on the kardex was on September 3, 1986.

Criteria:

In accordance with AID Regulation 11 211.10 (a) and (b), the Cooperating Sponsor should maintain records and prepare reports in such a way that they reflect all of the transactions related to the receipt, storage, distribution, sale and inspection of the products.

Cause:

The SNDC National Coordination Office had not sent to the Cochabamba Regional Office the forms required by AID for the preparation of the corresponding records and reports.

The inventory of products records were not prepared due to the negligence of the warehouse keeper and lack of supervision by the administrator.

Effect:

There was inadequate control of commodities and unnecessary delays in the inventory reporting procedures.

The perpetual inventory records in the warehouse could not be reconciled with the physical inventory.

Recommendation:

USAID/Bolivia should require the SNDC National Office and the Cochabamba Regional Office to comply with proper internal control procedures and AID Regulation 11 related to records and control of inventories and preparation of corresponding reports. The reports should reflect all transactions related to receipt, storage and distribution of commodities.

6. Documentation of Commodity Receipts

Condition:

The Trinidad Regional Office did not maintain files and documentation as proof of commodities received. Shipment documents, cargo manifests, etc. were not available.

Criteria:

In accordance with AID Regulation 11,211.10, the Cooperating Sponsor must keep registers and documents that will reflect all transactions related to the dispatch of products.

Cause:

The National Coordination Office of SNDC did not send copies of the dispatch documents to the Trinidad Office, and the companies that transported the food did not deliver the cargo manifests.

Effect:

There was no documentation to verify the receipt of commodities at the Trinidad Office. Therefore, proper and adequate records were not maintained.

Recommendation:

USAID/Bolivia should require the National Coordination Office of SNDC to provide all the documents and all the information of import lots to the Regional Offices for better control of commodity receipts.

## INLAND TRANSPORTATION SYSTEM

### 1. Delays in Transportation of Commodities

#### Condition:

Approximately 1,800 Metric Tons of F.Y. 1986 imported commodities were stored at the destination port of Arica from February to July 1986.

#### Criteria:

Provision for transportation of commodities from port to final destination should be made in advance by USAID/Bolivia as required by regulations.

#### Cause:

USAID/Bolivia delayed the signing of a contract for the transportation of the commodities from port of entry to final destination.

#### Effect:

The implementation of SNDC's Program for distribution of commodities for FY 1986 suffered a considerable delay. These commodities were eventually delivered to La Paz instead of to the various locations originally programmed. There was a loss of 41.5 Metric Tons of commodities which should be investigated.

#### Recommendation:

USAID/Bolivia should require that its contract office arrange, in advance, for selection and contracting of transportation companies to promptly deliver commodities from the port of entry to final destination.

## SUPERVISION OF PROGRAM

### 1. Lack of an Adequate Supervision at the Distribution Centers

#### Condition:

Through our inspection visits to the distribution centers in the La Paz Region, we verified that there was inadequate supervision in the distribution of commodities.

#### Criteria:

In accordance with AID Regulation 11, 211.5 (b) the Cooperating Sponsor shall provide adequate supervisory personnel for the operation of the program.

#### Cause:

Inadequate supervision was due to the following factors:

a. lack of transportation, b. lack of funds to cover expenses, and c. geographic dispersion of the projects.

#### Effect:

There was poor control over the final use of the commodities; deficient technical assistance; and distribution of food to workers that did not actually participate in the projects.

#### Recommendation:

USAID/Bolivia should require SNDC to (a) comply with all the supervision requirements established by AID Regulations and (b) make the necessary arrangements in order to obtain the financial support offered by the Ministry of Finance of the Government of Bolivia.

2. Supervisory Deficiencies at the Distribution Centers

Condition:

Through our visits to the distribution centers in the Cochabamba Region we determined that:

- a. The distribution of food to the beneficiaries was not carried out in accordance with the rations established by the program.
- b. The directors of each community did not keep files of the required documents for the receipt of commodities and furthermore, did not have a list of the recipients of the project.
- c. The beneficiaries did not know the quantity of commodities received in each ration.
- d. The beneficiaries interviewed did not know the origin of the food received.
- e. At the irrigation channel project in El Paso, we verified that some 15 workers did not receive commodities.
- f. The Cooperating Sponsor did not supervise the different projects under its execution. This was confirmed by the beneficiaries.

Criteria:

In accordance with AID Regulation 11, Paragraph 211.5 item (b) the Cooperating Sponsor shall provide adequate supervisory personnel for the efficient operation of the program, including personnel to plan, organize, implement, control, and evaluate programs involving distribution of commodities.

Cause:

The institution did not have the necessary logistic support. It had only one working vehicle and two which were in need of maintenance.

Effect:

There was deficient compliance with the commodity distribution program and poor internal controls over commodities. Due to lack of supervision, reports of progress of the work carried out in the projects were not prepared. Such reports could have been used as a basis to make improvements in the program.

Recommendation:

USAID/Bolivia should require the Cochabamba Regional Office of SNDC to comply with AID Regulation 11, Paragraph 211.5 (b) to overcome supervisory deficiencies. They should establish an adequate logistic system in accordance with the requirements of the Agency.

3. Lack of Transportation Facilities for Efficient Program Supervision

Condition:

The Trinidad Regional Office did not have the necessary transportation facilities to evaluate, control and supervise the programs.

Criteria:

To provide adequate supervision, the Office must have the necessary logistic resources, especially vehicles, which would allow the supervisors to travel to the distribution centers.

Cause:

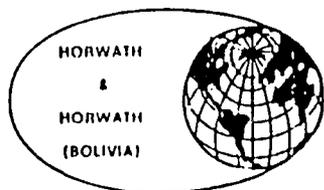
The Bolivian Government did not comply on time with the contributions agreed upon and, furthermore, the budgeted funds were insufficient to carry out the program. There was a delay of up to five months in the disbursement of funds by the Government.

Effect:

No adequate supervision was carried out. More ambitious development projects in the rural zone of the Beni department were postponed.

Recommendation:

USAID/Bolivia should require SNDC to request that the Bolivian Government comply with its contractual obligations so that the necessary funds will be provided.



AUDIT OF THE PL 480 TITLE II PROGRAM - BOLIVIA

NATIONAL COMMUNITY DEVELOPMENT SERVICE

REPORT ON COMPLIANCE WITH AGREEMENT TERMS

AUDITOR'S OVERALL OPINION

We have examined the Commodity Statements of the PL 480, Title II Program - Bolivia for the Fiscal Year ended September 30, 1986. As part of our examination, we made a study and evaluation of the accounting and administrative internal control system for the Fiscal Year ended September 30, 1986 to the extent we considered necessary to evaluate the system. Our examination and study was made in accordance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision), which include as additional standards and requirements the review of the compliance with the laws, regulations and agreements.

The scope of the matters subject to our examination included a determination of compliance with AID Regulation 11 for the following:

1. General reporting requirements (11.211.10)
2. Use of commodities (11.211.5)
3. Distribution of commodities (11.211.7)
4. Publicity as AID Program (11.211.5)
5. Use of proceeds from sale of containers (11.211.5)
6. Eligibility of recipients (11.211.5)
7. Disposal of damaged commodities (11.211.8 and 11.211.9)
8. Report on losses and misuses of commodities (11.211.9)

Our study and evaluation disclosed conditions which are described in the following pages which, in our opinion, indicate that the National Community Development Service has not complied with certain AID Regulations regarding general reporting requirements, distribution of commodities, publicity as an AID program, and eligibility of recipients. For items not tested, nothing came to our attention that caused us to believe that untested items were not in compliance with applicable AID Regulations.

May 7, 1987

HORWATH & HORWATH BOLIVIA

## GENERAL REPORTING REQUIREMENTS

### 1. Lack of Internal Reports

#### Condition:

No comprehensive internal reviews had been carried out to determine if the Program was being handled properly.

#### Criteria:

In accordance with AID Regulation 211.5 (c) the Cooperating Sponsor shall conduct or arrange to have comprehensive internal reviews of the PL 480, Title II Program under its jurisdiction. Such reviews should be conducted once a year.

#### Cause:

There were no complete written reports evaluating the activities of the Program. The ones presented for auditing purposes were considered incomplete.

#### Effect:

The lack of internal reviews does not permit the proper evaluation of the program and follow up of recommendations to correct problems.

#### Recommendation:

USAID/Bolivia should require SNDC to carry out comprehensive internal reviews and to:

- A. Keep the written reports on file with all documentation concerning the evaluation of the Program.
- B. Reorganize its internal Audit Department and segregate areas of responsibilities.

## 2. Lack of Consolidated Reports

### Condition:

At the National Office level detailed records pertaining to receipt, storage, distribution and inspection of commodities were not maintained for preparing consolidated reports on a timely basis.

### Criteria:

In accordance with AID Regulation 11, 211.10 the Cooperating Sponsor must prepare periodic summary reports of receipt, distribution and inventory of products.

### Cause:

SNDC was in the process of implementing a new computerized information system but that system was not fully operational and SNDC did not have the information available to prepare consolidated reports, since it did not require its Regional Offices to submit periodic reports.

### Effect:

SNDC could not issue periodic consolidated reports to USAID because its information system was not up to date. There was the risk that errors or irregularities might not be detected without these consolidated reports.

### Recommendation:

USAID/Bolivia should require SNDC to make an effort to implement, at the national level, the new computerized information system and to update its records in order to be able to prepare consolidated monthly summary reports of receipt, distribution and inventory of products for submission to USAID/Bolivia.

3. Lack of Monthly Reports on the Receipt, Distribution, Inventory and Inspection of Commodities

Condition:

The Regional Offices prepared monthly reports of receipts, storage, distribution, inventories and inspection of commodities which were not submitted on a timely basis.

Criteria:

In accordance with AID Regulation 11, Paragraph 211.10 the Cooperating Sponsor shall maintain records and documents in a manner which accurately reflects all transactions pertaining to the receipt, storage, distribution, inventories and inspection of commodities and shall prepare periodic summary reports showing the receipt, distribution, inventory and inspection of commodities.

Cause:

The SNDC Coordination of Projects Office did not require the preparation of periodic reports on the receipt, distribution, inventories and inspection of the products.

Effect:

Without the periodic summary reports there was inadequate control over the volume of commodities received and distributed. There was a risk that irregularities and/or discrepancies might not be detected.

Recommendation:

USAID/Bolivia should require SNDC to instruct its Regional Offices to prepare on timely basis monthly summary reports of the receipt, distribution, inventory and inspection of commodities. The Regional Offices should be instructed concerning the proper format for preparation of these reports.

## PUBLICITY AS AID PROGRAM

### 1. Lack of Public Recognition of the Origin of the Commodities

#### Condition:

In the Distribution Centers of La Paz, some of the beneficiaries did not know the origin of commodities.

#### Criteria:

In accordance with AID Regulation 11, 211.5 (g) the Cooperating Sponsor shall to the extent feasible display banners, posters, or similar media which shall contain the AID emblem at the distribution centers so adequate public recognition shall be given to the fact the commodities have been furnished by the people of the United States.

#### Cause:

The Cooperating Sponsor did not provide the necessary publicity for the beneficiaries to be aware that the food was donated by the people of the United States.

#### Effect:

Distribution of commodities to 48,223 beneficiaries during Fiscal Year 1986 was considered to be donations from the National Community Development Service.

#### Recommendation:

USAID/Bolivia should require SNDC to promote public recognition of the origin of the commodities by providing the necessary means to the Regional Offices for publicity of the origin of the commodities.

## DISTRIBUTION OF COMMODITIES

### 1. Use of Commodities in the Riberalta Regional Office

#### Condition:

As a result of a physical inventory carried out by the National Coordination Office of SNDC, it was determined that commodities were improperly used in the Riberalta Regional Office.

#### Criteria:

It is the responsibility of the Cooperating Sponsor to control the physical stock and final destination of the assigned commodities to be distributed to eligible beneficiaries in accordance with the Operational Plan.

#### Cause:

There was deficient administrative organization, bad selection of personnel, and lack of adequate internal controls.

#### Effect:

There was unlawful use of commodities of the program. As a result of the physical inventory, it was established that there was a loss of 8,509 net kilos or 36% of the total commodities assigned to the zone.

#### Recommendation:

USAID/Bolivia should follow-up with the National Office of SNDC with the necessary legal action until a complete clarification of the total loss of commodities is established as well as the recuperation of the corresponding amounts.

## ELIGIBILITY OF RECIPIENTS

### 1. Eligibility Documents of the Beneficiaries

In the Cochabamba Regional Office:

- A. No adequate file of required documents exists. There was only one file for all the projects.
- B. The person in charge of the program was not keeping records of beneficiaries.
- C. The documents of the projects were incomplete, and the approval of requests and the technical reports were not prepared in accordance with the basic requirements.
- D. There was no independent control of the warehouse inventories which could be reconciled at the end of the month to the kardex register, form (SG-1) General Summary of the Movement and Distribution of Food.
- E. The list of beneficiaries which was presented as the document supporting the distribution of commodities did not have the signatures of the recipients.
- F. Some requests were submitted after the start of a project. No adequate control was kept over distribution of commodities.
- G. In the irrigation channel project of Caluyo Chico, there was no control over the distribution of food in relation to the work done by beneficiaries. For example, only 15 days of work were done but rations were assigned for 20 days.

Criteria:

In accordance with AID Regulation 11, Paragraph 211.5 the Cooperating Sponsor shall be responsible for determining that the recipients and the recipient agencies to whom they distribute commodities are eligible in accordance with the terms and conditions of the "Food for Peace" Program Agreement.

Cause:

The Cochabamba Regional Office did not have the necessary personnel to carry out this work. The institution did not have the administrative capacity to improve the deficiencies mentioned.

Effect:

There was a lack of organization in the program and of the documents which support the eligibility of recipients. There was no follow-up of each project to establish compliance with the eligibility objectives of the program.

**Recommendation:**

USAID/Bolivia should require the Cochabamba Regional Office to comply with the procedures established by AID Regulation 11, regarding rules and controls related to the eligibility of the recipients.

APPENDIX 1

REPORT DISTRIBUTION

	<u>No. of Copies</u>
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