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AUDIT OF USAID/BOLIVIA'S
CHAPARE REGIONAL DEVELOPMENT PROJECT
ACTIVITIES MANAGED BY THE PROGRAM OF
ALTERNATIVE DEVELOPMENT OF COCHABAMBA
FOR THE YEAR ENDED DECEMBER 31, 1989

Audit Report No. 1-511-91-15-N
January 22, 1991

AGENCY FOR INTERNATIONAL DEVELOPMENT

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January 22, 1991

MEMORANDUM

TO: D/USAID/Bolivia, Carl H. Leonard

FROM: RIG/A/T, Reginald Howard *Reginald Howard*

SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project, Activities Managed by the Program of Alternative Development of Cochabamba for the Year Ended December 31, 1989

This report presents the results of a non-Federal financial audit of the Program of Alternative Development of Cochabamba (Program) for the year ended December 31, 1989. The audit was part of a series of six audits performed to evaluate entities receiving funding under the Chapare Regional Development Project (Project), USAID/Bolivia Project No. 511-0543. The accounting firm of Price Waterhouse prepared the report which is dated November 30, 1990.

The Project was initiated in 1983 as a part of the Government of Bolivia's program to reduce coca plantings. The Project focuses on the development of the Chapare region-Bolivia's principal illicit coca growing area. In this regard the Project is concentrated in four major areas designed to develop: (1) agricultural and forestry production, (2) rural industry and marketing, (3) a production and transport infrastructure, and (4) a Project investment fund. The life-of-project budget as of December 1989, was over \$61.0 million. USAID/Bolivia grant and loan funds totaled \$26.5 million with the balance provided by the Government of Bolivia through its PL-480 Program and through direct funding. The Government of Bolivia has also developed a separate but related program whereby it makes compensation payments of \$2,000 per hectare, from its own resources, to peasant farmers who voluntarily reduce their coca plantings.

The main functions of the Program include planning, coordination, evaluation, and follow-up of the sub-projects carried out under the Project. The audit coverage included \$117,782 of A.I.D. of A.I.D. funds advanced to the Program in 1989, as well as \$112,071 provided by the Government of Bolivia and \$424,717 from another implementing entity (PL-480 Executive Secretariat) during the year ended December 31, 1989. The audit did not include direct payments made by USAID/Bolivia and the Government of Bolivia for the their procurement of technical assistance, equipment and supplies on behalf of the Program.

The purpose of the audit was to report on: (1) the fairness of the fund accountability statement for the activities managed by the Program, (2) the adequacy of the Program's internal control structure, and (3) the Program's compliance with agreement terms and applicable laws and regulations.

Price Waterhouse found that, except for the inclusion of certain questionable costs amounting to \$10,883 the fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the Program. The questionable costs were related to: (1) the procurement of construction materials without the quotations required by A.I.D., (2) costs incurred in the construction of a sub-project in excess of the A.I.D. approved budgeted amount, and (3) salaries and benefits paid to Program employees without the required USAID/Bolivia approval.

With respect to the Program's internal control structure, Price Waterhouse identified six material weaknesses concerning: (1) an inadequate accounting system, (2) lack of procedures manuals, (3) lack of inventory controls, (4) improper hiring practices, (5) inadequate control over sub-project costs, and (6) partial implementation of the Operating Plan for 1989.

In its report on compliance with agreement terms and applicable laws and regulations, Price Waterhouse found that the Program complied in all material respects except for: (1) not observing certain Bolivian legal requirements concerning its Social Security System, and (2) not identifying Program goods with the A.I.D. identifying emblem.

In its written response to the report (included as Appendix 1 to the report), dated November 8, 1990, the Program expressed overall agreement with the findings and stated corrective action has been taken for some of the deficiencies reported.

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

Recommendation No. 1

We recommend that USAID/Bolivia negotiate a recovery of \$10,833 in questioned costs included in the Price Waterhouse report dated November 30, 1990 and related to (1) the procurement of construction materials, (2) the construction of a sub-project, and (3) salaries and benefits paid to Program of Alternative Development of Cochabamba employees.

Recommendation No. 2

We recommend that USAID/Bolivia, in conjunction with the Program of Alternative Development of Cochabamba, develop and implement a plan for redesigning the Program's accounting system, for designing and implementing procedures manuals, for redesigning its inventory controls system, for complying with USAID/Bolivia's personnel procedures, for designing a sub-project accounting and management information system, for fully implementing its annual operating plans, and for marking assets acquired with A.I.D. funds.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

AUDIT OF THE
CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE PROGRAM OF ALTERNATIVE
DEVELOPMENT OF COCHABAMBA (PDAC)
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1989



AUDIT OF THE
CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE PROGRAM OF ALTERNATIVE
DEVELOPMENT OF COCHABAMBA (PDAC)
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1989

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Moreno Muñoz



November 30, 1990

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

Dear Mr. Howard:

This report presents the results of our audit of the activities of the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, managed by the Program of Alternative Development of Cochabamba (Programa de Desarrollo Alternativo de Cochabamba - PDAC), for the year ended December 31, 1989.

BACKGROUND

On August 12, 1983, the Republic of Bolivia and the United States of America acting through the U.S. Agency for International Development Mission to Bolivia (USAID/Bolivia), signed a loan and grant agreement to implement the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, which consisted in an integrated package of financing and technical assistance for small farmer related production, agroindustry development/marketing and institutional development support activities to be carried out by Bolivian public and private institutions for development of the Chapare region and associated high valleys sub-regions.

The project is a complementary part of the Government of Bolivia (GOB)'s program to reduce the coca plantings in Bolivia, and includes different activities and sub-projects designed to focus development resources on Bolivia's principal illicit coca growing area, the Chapare region. Due to different causes, the implementation of project activities had to be delayed and the project itself was significantly modified. The amended project concentrates on four principal development areas: 1) agriculture and forestry production; 2) rural industry and marketing;

3) productive and transport infrastructure; and 4) a project investment fund. Each area includes activities of immediate impact and applied research components to support medium and long-term activities. The current project assistance completion date is August 31, 1991 and the life-of-project budget as modified in December 1989, expressed in US\$000's, includes the following:

	USAID/BOLIVIA		GOVERNMENT OF BOLIVIA		Total
	Grant	Loan	PL-480	GOB	
Technical assistance	\$ 7,671				\$ 7,671
Training	479	\$ 1,458	\$ 2,523		4,460
Constructions	100	1,149	3,246	\$ 1,600	6,095
Commodities	3,024	2,825	240		6,089
Operating costs	2,376	5,781	2,300	1,147	11,604
Evaluations	250	53			303
Other		889	22,831		23,720
Contingencies	100	345	860		1,305
	<u>\$ 14,000</u>	<u>\$ 12,500</u>	<u>\$ 32,000</u>	<u>\$ 2,747</u>	<u>\$ 61,247</u>

Additionally the Government of Bolivia has developed a program to reduce the cultivation of coca and make compensation payments of US\$ 2,000 per hectare from its own resources to the peasant farmers that voluntarily reduce their coca plantations. The plan foresaw the eradication of 5,000 hectares of coca plants in 1989, but in accordance with DIRECO's reports only 2,439 hectares were in fact eradicated.

USAID/Bolivia performs the overall supervision of the project, which consists of various phases carried out by different GOB administrative units, as indicated in the following summary:

<u>Phase</u>	<u>Administrative Unit</u>
1 Administration of the project and overall supervision and coordination of the Government of Bolivia's programs related to coca eradication	Sub-Secretariat for Alternative Development and Coca Planting Substitution (Subsecretaría de



<u>Phase</u>	<u>Administrative Unit</u>
	Desarrollo Alternati- vo y Sustitución de Cultivos de Coca - SUBDESAL)
2 Technical assistance to farmers to allow access to financial services and development of community projects in Chapare and associated high valleys	Program of Alternative Development of Cochabamba (Programa de Desarrollo Alternativo de Cochabamba - PDAC)
3 Technical assistance in the development of alternative crops, and sale of genetic material for alternative crops	Bolivian Institute of Agriculture and Cattle Technology/Chapare (Instituto Boliviano de Tecnología Agropecuaria - IBTA/Chapare)
4 Granting of loans to farmers to plant alternative crops	PL-480 Executive Secretariat
5 Compensation to coca growers to reduce coca cultivation	National Directorate for Agricultural Reconversion (Dirección Nacional de Reversión Agrícola - DIRECO)
6 Development of productive and transport infrastructure through the maintenance of roads	National Service of Roads (Servicio Nacional de Caminos - SNC)

The Program of Alternative Development of Cochabamba (Programa de Desarrollo Alternativo de Cochabamba - PDAC) is an implementing unit created under the authority of the Sub-Secretariat for Alternative Development and Coca Planting Substitution (SUBDESAL). Until May 1990, this unit was called the Program of Alternative Development of Cochabamba (Programa de Desarrollo Alternativo de Cochabamba - PDAC). However, this name was changed to Program of Alternative Regional Development (Programa de Desarrollo Alternativo Regional - PDAR).



The main functions of the PDAC include planning, coordination, evaluation, and follow-up of the sub-projects carried out under the project. During 1989, some sub-projects were executed by other governmental and non-governmental entities financed through PDAC with USAID/Bolivia and PL-480 funds. These sub-projects consisted of: promoting studies, technical assistance and investigations in the Chapare region, stimulating alternatives to substitute for the coca crop within the region, and improving the living conditions and economic development in the associated high valleys in order to reduce the migration of its population to the Chapare, where most probably they would cultivate coca.

Other sub-projects of immediate impact and with a cost of US\$ 10,000 or less, have been supervised and coordinated by PDAC in the Chapare area (13) and in the associated high valleys (29). These sub-projects include the construction of schools, sanitary posts, community centers, irrigation channels, the collection and distribution of drinking water, and other similar works.

AUDIT OBJECTIVES AND SCOPE

We were contracted by USAID/Bolivia to conduct a financial audit of the Chapare Regional Development Project for the year ended December 31, 1989. The audit included the operations carried out by each administrative unit under the loan and grant agreement signed between the Government of Bolivia and USAID/Bolivia, and the fund accountability statement of the project taken as a whole.

The audit did not include the examination of the documentation and operations of prior periods nor transactions made directly by USAID/Bolivia and the Government of Bolivia through direct payments. However, for information purposes only, we include as Annex 1, a fund accountability statement of the project accumulated costs as of December 31, 1989, including direct payments made by USAID/Bolivia and the Government of Bolivia. This statement is expressed in United States dollars.

Our audit was performed in accordance with generally accepted auditing standards and the United States



Comptroller General's "Government Auditing Standards" (1988 Revision) and accordingly included such tests of the accounting records and documentation, evaluation of the internal control structure and other auditing procedures as we considered necessary in the circumstances to determine whether:

1. The fund accountability statement of the project activities managed by PDAC presents fairly in all material respects, the cash receipts and disbursements for the year ended December 31, 1989, identifying costs which were not fully supported with adequate records or which were not allowable, allocable, and reasonable under the agreement terms, project implementation letters, and applicable laws and regulations;
2. PDAC's internal control structure is adequate for project purposes; and
3. PDAC complied, in all material respects, with agreement terms, project implementation letters, and applicable laws and regulations.

The scope of our work included:

- Reviewing the accounting records and bank accounts used by PDAC to record the receipt of funds.
- Confirming the funds received for the project with the records of the funding agencies, USAID/Bolivia and PL-480 Executive Secretariat.
- Reviewing the supporting documentation of funds destined to finance sub-projects.
- Reviewing the supporting documentation for the principal disbursements made by PDAC. This test covered 82% of the amount spent during the year, and its objective was to determine whether the expenditures were properly supported with documentation, were made to achieve the objectives of the project and in accordance with agreement terms and project implementation letters, and that the recording was adequate.



- On-site visits to the sub-projects of immediate impact to inspect them and get the opinions of the beneficiaries regarding the quality of the work, its acceptance and the compliance with the requirements regarding the reduction of coca. We visited 12 sub-projects in the Chapare Region and 10 in the associated high valleys
- Reviewing the supporting documentation of the advances to the entities implementing the sub-projects, including the letters of understanding between PDAC and the implementing entities and the approved budget, and reviewing the sub-projects' quarterly reports to determine whether the expenses incurred during the year were allowable and properly documented.
- On-site visits to the implementing entities to evaluate their attainment to the objectives stipulated in the letters of understanding, and their accounting controls on project funding.
- Obtaining direct confirmation from the implementing entities on advances received, expenses incurred and unspent balances as of December 31, 1989.
- Obtaining direct confirmation on PDAC bank accounts as of December 31, 1989, and reviewing the corresponding bank reconciliations.
- Obtaining a complete understanding of the control environment, accounting system and control procedures used by PDAC to account for project funds. For this purpose we evaluated the following significant categories: cash receipts and disbursements, budgeting controls, bank accounts and funds controls, inventory management, procurement system, and sub-projects monitoring.
- Reviewing and evaluating PDAC's compliance with agreement terms, implementation letters, and applicable laws and regulations.



RESULT OF AUDIT

Fund Accountability Statement

The Program of Alternative Development of Cochabamba (PDAC) recorded its operations on the basis of cash receipts and disbursements, consequently, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. This is a comprehensive basis of accounting for cash operations other than generally accepted accounting principles. Our audit disclosed questionable costs in the amount of Bs32,432 (approximately US\$ 11,000) which we consider non-material to the fund accountability statement.

In our opinion, the fund accountability statement audited by us presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the Program of Alternative Development of Cochabamba, for the year ended on December 31, 1989, under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, on the basis of accounting described in the precedent paragraph.

Internal Control Structure

We have considered the internal control structure of PDAC in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement of the Chapare Regional Development Project, and not to provide assurance on the internal control structure of PDAC taken as a whole.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable condition and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we observed the following matters involving the internal control structure that we consider to be material weaknesses under standards established by the American Institute of Certified Public Accountants.



1. PDAC's accounting system was incomplete to produce timely accounting information and to properly record the future operations of the unit.
2. PDAC did not have proper procedures manuals.
3. Lack of inventories control (material and supplies).
4. PDAC did not always hire personnel in accordance with USAID/Bolivia recommended procedures.
5. Inadequate determination and control over the costs of the immediate impact sub-projects.
6. The operating plan for 1989 was only partially implemented.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of PDAC in a separate letter.

Compliance with Agreement Terms, Project Implementation Letters, and Applicable Laws and Regulations

In our opinion, except for the noncompliances mentioned below, with respect to the items tested, PDAC complied, in all material respects, with the terms and provisions of the agreement, project implementation letters, and applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that PDAC had not complied, in all material respects, with those terms and provisions.

1. There was noncompliance with some Social Security regulations on the registration of PDAC's employees.
2. Lack of identification and marking of goods.

MANAGEMENT COMMENTS

In its written response to this report, see Appendix I, the management of the Program for Alternative Development of Cochabamba (PDAC) expressed overall agreement with most of the findings and stated corrective action is being taken for some of the deficiencies reported. In



regard to Finding Nos. 1 , 3 and 4 of the Internal Control section, PDAC management stated that: a) the financial information was prepared in accordance to USAID/Bolivia requirements (Finding No. 1); b) the use in one subproject of materials procured for another is not seen by PDAC as inappropriate (Finding No. 3); and c) PDAC followed A.I.D. procedures when contracting personnel (Finding No. 4). Although in agreement with the marking of goods procured by A.I.D. (Finding No. 2 of the Compliance Section), PDAC management expressed concern for the marking of vehicles assigned to Chapare, which for security reasons should remain unmarked.

Auditor's response:

1. Finding No. 1. The accounting system should be designed to provide management with information which can be used as a basis to take decisions and to control the project. The PDAC accounting system in use during 1989 did not supply such information. Furthermore the information prepared for USAID in 1989 was not prepared from the accounting records.
2. Finding No. 3. Proper inventory controls were not in place when the sub-projects were carried out and as a result any improper use of materials would not be detected on a timely basis. Furthermore in the finding we do not mention inappropriate use of material, only the control systems were not in place to detect possible inappropriate use.
3. Finding No. 4. The contracting of technicians requires prior consultation and approval of USAID/Bolivia. Cases were detected where employees were contracted without prior consultation and approval and when USAID/Bolivia was informed, had to be dismissed. These employees had to be paid severance pay with the consequent loss to the project.
4. Finding No. 2. Compliance Section. Discussions should be held with USAID/Bolivia to determine which assets should be marked and which should remain unmarked.

Eric Waterhouse



Moreno Muñoz



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE PROGRAM OF ALTERNATIVE
DEVELOPMENT OF COCHABAMBA (PDAC)
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1989

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities managed by the Program of Alternative Development of Cochabamba, (Programa de Desarrollo Alternativo de Cochabamba - PDAC) under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, for the year ended December 31, 1989. The fund accountability statement is the responsibility of PDAC's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles, and is not intended to be a presentation in conformity with generally accepted accounting principles.

As mentioned in Note 4, our audit disclosed certain questionable costs amounting to Bs32,432, which we consider non-material to the fund accountability statement.

In our opinion, the fund accountability statement audited by us presents fairly, in all material respects, the cash receipts and disbursements of the activities of the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, managed by the Program of Alternative Development of Cochabamba for the year ended December 31, 1989, on the basis of accounting described in paragraph 3.

This report is intended for the information of the Program of Alternative Development of Cochabamba and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance of the Office of the Inspector General, is a matter of public record.

February 12, 1990

Rice Kiteshawi.



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE PROGRAM OF ALTERNATIVE DEVELOPMENT OF COCHABAMBA (PDAC)
USAID/BOLIVIA PROJECT No. 511-0543

FUND ACCOUNTABILITY STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1989
(Expressed in bolivianos - Note 3)

	Funds balance as of December 31, 1988 <u>Bs</u>	Funds received during 1989 <u>Bs</u>	Funds available <u>Bs</u>	1989 Disbursements <u>Bs</u>	Funds balance as of December 31, 1989 <u>Bs</u>	Questionable costs (Note 4) <u>Bs</u>
<u>SPECIAL ACCOUNT - (Note 2)</u>						
USAID/BOLIVIA						
Training, studies and communication	178,344	4,957	183,299	182,473	826	
Construction	837,790	2,107	839,897	676,321	163,576	20,649
Commodities and supplies	72,265		72,265	54,385	17,880	
Operating costs	1,079,657	167,335	1,246,992	1,032,605	214,387	11,783
Advances to sub-contractors	(137,966)	137,966		2,704	(2,704)	
Loan to PL-480 Funds				18,449	(18,449)	
Subtotal	<u>2,030,090</u>	<u>312,363</u>	<u>2,342,453</u>	<u>1,966,937</u>	<u>375,516</u>	<u>32,432</u>
NATIONAL TREASURY OF BOLIVIA						
Operating costs	<u>768</u>	<u>44,376</u>	<u>45,144</u>	<u>31,991</u>	<u>13,153</u>	
PL-480 EXECUTIVE SECRETARIAT						
Training, studies and communications		1,051,630	1,051,630	676,086	375,544	
Commodities and supplies		18,354	18,354	12,494	5,860	
Operating costs		138,702	138,702	84,289	54,413	
Advances to sub-contractors				10,908	(10,908)	
Loan from USAID/Bolivia Funds		18,449	18,449		18,449	
Subtotal		<u>1,227,135</u>	<u>1,227,135</u>	<u>783,777</u>	<u>443,358</u>	
Totals	<u>2,030,858</u>	<u>1,583,874</u>	<u>3,614,732</u>	<u>2,782,705</u>	<u>832,027</u>	

CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE PROGRAM OF ALTERNATIVE
DEVELOPMENT OF COCHABAMBA (PDAC)
USAID/BOLIVIA PROJECT No. 511-0543

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1989

NOTE 1 - DESCRIPTION OF THE PROJECT AND NATURE OF OPERATIONS

On August 12, 1983, the Republic of Bolivia and the United States of America acting through the U.S. Agency for International Development Mission to Bolivia (USAID/Bolivia), signed a loan and grant agreement to implement the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, which consisted of an integrated package of financing and technical assistance for small farmer related production, agroindustry development/marketing and institutional development support activities to be carried out by Bolivian public and private institutions for development of the Chapare region and associated high valleys sub-regions.

The project is a complementary part of the Government of Bolivia (GOB)'s program to reduce the coca plantings in Bolivia, and includes different activities and sub-projects designed to focus development resources on Bolivia's principal illicit coca growing area, the Chapare region. Due to different causes, the implementation of project activities had to be delayed and the project itself was significantly modified. The amended project concentrates on four principal development areas: 1) agriculture and forestry production; 2) rural industry and marketing; 3) productive and transport infrastructure; and 4) a project investment fund. Each area includes activities of immediate impact and applied research components to support medium and long-term activities. The current project assistance completion date, is August 31, 1991 and the life-of-project budget as modified in December 1989, expressed in US\$000's, includes the following:

	<u>USAID/BOLIVIA</u>		<u>GOVERNMENT</u>		<u>Total</u>
	<u>Grant</u>	<u>Loan</u>	<u>PL480</u>	<u>GOB</u>	
Technical assistance	\$ 7,671				\$ 7,671
Training	479	\$ 1,458	\$ 2,523		4,460
Construction	100	1,149	3,246	\$ 1,600	6,095
Commodities	<u>3,024</u>	<u>2,825</u>	<u>240</u>		<u>6,089</u>
Carried forward	11,274	5,432	6,009	1,600	24,315

	USAID/BOLIVIA		GOVERNMENT OF BOLIVIA		Total
	Grant	Loan	PL480	GOB	
Brought forward	11,274	5,432	6,009	1,600	24,315
Operating costs	2,376	5,781	2,300	1,147	11,604
Evaluations	250	53			303
Other		889	22,831		23,720
Contingencies	100	345	860		1,305
	<u>\$ 14,000</u>	<u>\$ 12,500</u>	<u>\$ 32,000</u>	<u>\$ 2,747</u>	<u>\$ 61,247</u>

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

The Program of Alternative Development of Cochabamba's policy is to prepare the fund accountability statement of the project on the basis of cash receipts and disbursements. Consequently, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. Therefore, the fund accountability statement does not pretend to present the financial information in accordance with generally accepted accounting principles.

The costs of fixed assets are charged directly to the project and are not depreciated. Using the same procedure, materials and supplies are charged directly to the project when the payment is made and not when the goods are used.

The fund accountability statement includes only the income and expenditures related to the special account, which includes only the funding provided to PDAC and does not include the direct payments made by USAID/Bolivia and the Government of Bolivia on behalf of the project. Those payments consist principally of technical assistance, equipment and supplies procured directly by USAID/Bolivia and the Government of Bolivia.

NOTE 3 - EXCHANGE RATES

The fund accountability statement is presented in "Bolivianos" the local currency of Bolivia. During 1989 the Bolivian currency devalued against the United States dollar from Bs2.47 per US\$ 1 at January 1, 1989 to Bs2.98 at December 31, 1989.

NOTE 4 - QUESTIONABLE COSTS (AUDITOR'S NOTE)

The following costs incurred by PDAC and charged to the project during 1989, are considered to be questioned costs:

<u>Voucher No.</u>	<u>Description</u>	<u>Questioned costs</u> <u>Bs</u>
	. Construction	
	Construction materials purchased without quotations:	
151	Materials	3,280
154	Roofing tiles	7,445
353	10,000 bricks	3,100
168	Wood	2,977
666	Wood	<u>1,830</u>
		<u>18,632</u>
Various	Excess of costs incurred over the budget approved by PDAC in the construction of the drinking water project of "Rumi Cancha"	<u>2,017</u>
		<u>20,649</u>
	. Operating costs	
Various	Salaries and social benefits payments to PDAC employees without approval by USAID/Bolivia	<u>11,783</u>
		<u>32,432</u>

NOTE 5 - FUNDS BALANCE

The funds balance as of December 31, 1989 consists of:

	<u>Amount</u>	
	<u>Bs</u>	<u>US\$</u>
<u>A.I.D. Funds</u>		
Petty cash - Central office	4,000	1,650
Banco Nacional de Bolivia	369,486	140,385
Petty cash - Aiquile office	<u>2,030</u>	<u>837</u>
Carried forward	<u>375,516</u>	<u>142,872</u>

	<u>Amount</u>	
	<u>Bs</u>	<u>US\$</u>
Brought forward	<u>375,516</u>	<u>142,872</u>
<u>PL-480 Funds</u>		
Banco Nacional de Bolivia	443,058	153,650
Petty cash - Central office	<u>300</u>	<u>109</u>
	<u>443,358</u>	<u>153,759</u>
<u>National Treasury Funds</u>		
Banco del Estado	12,453	4,279
Petty cash - Central office	<u>700</u>	<u>241</u>
	<u>13,153</u>	<u>4,520</u>
	<u>832,027</u>	<u>302,075</u>

NOTE 6 - ACCUMULATED FUND ACCOUNTABILITY STATEMENT THROUGH
DECEMBER 31, 1989 (UNAUDITED)

The project activities managed by PDAC have been funded by USAID/Bolivia, the PL-480 Executive Secretariat and the Government of Bolivia through the National Treasury. As of December 31, 1989, the total accumulated funds provided to PDAC in US\$, were as follow:

	<u>USAID/Bolivia</u> <u>US\$</u>	<u>PL-480</u> <u>US\$</u>	<u>Government</u> <u>of Bolivia</u> <u>US\$</u>
Special account	1,888,613	424,717	112,071
Direct payments	<u>4,298,755</u>	<u>-</u>	<u>-</u>
	<u>6,187,368</u>	<u>424,717</u>	<u>112,071</u>

The accumulated fund accountability statement for the period from the beginning of the activities of the project managed by PDAC through December 31, 1989 (expressed in United States dollars), is included in the following pages for the reader's information. This statement has been prepared on the basis of

cash receipts and disbursements. Operations carried out in bolivianos have been translated into U.S. dollars on the following basis:

- a) The special account transactions were carried out entirely in local currency (bolivianos), and have been translated to U.S. dollars at the exchange rates in use when the remittance of funds was received, using the first-in first-out basis.
- b) The direct payments made by USAID/Bolivia have been recorded in U.S. dollar when the disbursements were made in that currency. When made in bolivianos, these payments were translated into U.S. dollars at the exchange rate of the day of payment. This direct payments' information was supplied by USAID/Bolivia to PDAC for information purposes only. PDAC does not manage the funds but controls and uses the assets and commodities thus provided.
- c) The funds provided by the PL-480 Executive Secretariat and the Government of Bolivia are entirely in bolivianos and have been translated into U.S. dollars at the exchange rate current on the date the funds were made available.

CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE PROGRAM OF ALTERNATIVE DEVELOPMENT OF COCHABAMBA (PDAC)
USAID/BOLIVIA PROJECT No. 511-0543

ACCUMULATED FUND ACCOUNTABILITY STATEMENT AS OF DECEMBER 31, 1989
(UNAUDITED)

	Budget for 1989 US\$	ACTUAL COSTS		Excess (defect) over 1989 budget US\$
		as of 12-31-88 US\$	1989 US\$	
RECEIPTS				
<u>Special Account</u>				
USAID/Bolivia		1,770,831	117,782	1,888,613
Government of Bolivia			112,071	112,071
PL-480 Executive Secretariat			424,717	424,717
<u>Direct Payments</u>				
USAID/Bolivia		2,776,374	1,522,381	4,298,755
Total receipts		<u>4,547,205</u>	<u>2,176,951</u>	<u>6,724,156</u>
EXPENDITURES				
<u>Special Account</u>				
USAID/Bolivia				
Training, studies and communications	285,750	151,207	75,247	226,454 (210,503)
Constructions	530,000	58,021	278,956	336,977 (251,044)
Commodities	30,000	54,087	22,627	76,714 (7,373)
Operating costs	569,000	612,258	426,766	1,039,024 (142,234)
Advances to sub-contractors	317,670			(317,670)
Sub-contractors		57,849	1,115	58,964 (1,115)
Subtotal	<u>1,732,420</u>	<u>933,422</u>	<u>804,711</u>	<u>1,738,133 (927,709)</u>
Government of Bolivia				
Operating costs	<u>30,000</u>	<u>95,405</u>	<u>12,146</u>	<u>107,551 (17,854)</u>
PL-480				
Training, studies and communication	1,429,579		238,695	238,695 (1,190,884)
Constructions	490,321			(490,321)
Commodities	6,900		4,527	(2,373)
Operating costs	108,200		30,539	30,539 (77,661)
Advances to sub-contractors			3,881	3,881 (3,881)
Subtotal	<u>2,035,000</u>		<u>277,642</u>	<u>277,642 (1,757,358)</u>
Special account's total (carried forward)	<u>3,797,420</u>	<u>1,028,827</u>	<u>1,094,499</u>	<u>2,123,326 (2,702,921)</u>

	Budget for 1989 US\$	ACTUAL COSTS		Excess (defect) over 1989 budget US\$	
		as of 12-31-88 US\$	1989 US\$		as of 12-31-89 US\$
Brought forward	<u>3,797,420</u>	<u>1,028,827</u>	<u>1,094,499</u>	<u>2,123,326</u>	(2,702,921)
<u>Direct Payments</u>					
USAID/Bolivia					
Technical assistance	1,400,000	1,132,397	1,118,078	2,250,475	(281,922)
Training, studies and communication	101,250	163,357	101,447	264,804	197
Constructions	250,000				(250,000)
Commodities		134,759	234,056	368,815	234,056
Operating costs		680,364	65,459	745,823	65,459
Evaluation and audits	240,000	52,870		52,870	(240,000)
Other	379,930	379,841		379,841	(379,930)
Contingencies		232,786	3,341	236,127	3,341
Direct payment's total	<u>2,371,180</u>	<u>2,776,374</u>	<u>1,522,381</u>	<u>4,298,755</u>	(848,799)
Total expenditures	<u>6,168,600</u>	<u>3,805,201</u>	<u>2,616,880</u>	<u>6,422,081</u>	(3,551,720)
		<u>Summary</u>			
Total receipt		4,547,205	2,176,951	6,724,156	
Total expenditures		<u>3,805,201</u>	<u>2,616,880</u>	<u>6,422,081</u>	
Cash on hand		<u>742,004</u>	(439,929)	<u>302,075</u>	

Moreno Muñoz



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE PROGRAM OF ALTERNATIVE
DEVELOPMENT OF COCHABAMBA (PDAC)
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1989

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities of the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, managed by the Program of Alternative Development of Cochabamba (Programa de Desarrollo Alternativo de Cochabamba - PDAC) for the year ended December 31, 1989 and have issued our report thereon dated February 12, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free from material misstatement.

In planning and performing our audit of the fund accountability statement of the activities of the Chapare Regional Development Project managed by the Program of Alternative Development of Cochabamba (PDAC) for the year ended December 31, 1989, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of the Program of Alternative Development of Cochabamba (PDAC) is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and

procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the proper preparation of the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified and evaluated the following significant internal control categories:

- cash receipts and disbursements,
- budgeting controls,
- bank accounts and funds controls,
- inventories management,
- procurement system, and
- sub-projects monitoring.

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

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts



that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that all the reportable conditions included in our attached report are material weaknesses.

This report is intended for the information of the management of the Program of Alternative Development of Cochabamba and the 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.

February 12, 1990

Michael Winters



Moreno Muñoz



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE PROGRAM OF ALTERNATIVE
DEVELOPMENT OF COCHABAMBA (PDAC)
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1989

REPORT ON INTERNAL CONTROL STRUCTURE

FINDINGS

1. PDAC's Accounting System was Incomplete to Produce
Timely Accounting Information and to Properly Record
the Future Operations of the Unit

Condition:

We found the following deficiencies in the accounting system used by PDAC.

- The chart of accounts did not include specific accounts for budgeting controls. For this reason the project quarterly reports had to be prepared from summaries of vouchers and not from the official accounting records.
- The general ledger cards did not include information on specific budgeted line items to compare with actual expenditures.
- The accounting records did not include information in U.S. dollars. This situation limits the value of the accounting records as a management tool for budgeting control because the budget is prepared in U.S. dollars.

Criteria:

The accounting records should include all information required by management to properly control the project operations. This includes budgeting controls and preparation of the project financial and progress reports with additional analyses.

Cause:

The PDAC's accounting system was organized just to comply with the GOB's accounting requirements, and not to provide information in dollars nor comparison between budgeted and actual expenditures.

Effect:

The project's financial information submitted to USAID/Bolivia was not prepared directly from the PDAC's formal accounting records, thus permitting the possibility of errors and the duplication of efforts.

Recommendation:

PDAC, in coordination with USAID/Bolivia should evaluate and redesign its accounting system with the object of improving it and making it compatible with the legal requirements of the Bolivian Government and also allows for the preparation of the information required by USAID/Bolivia and which is meaningful for management in the future.

2. PDAC did not have Proper Procedures Manuals

Condition:

The PDAC did not have manuals and written policies to regulate its operations. The manuals which were lacking were:

- Administrative procedures manuals
- Internal regulations
- Proper filing and documentation systems

Furthermore, although purchasing manuals, job descriptions, and some internal regulations existed, these were not always applied during the year under examination.

Criteria:

Manuals describing proper procedures covering all aspects of the operations are required to control appropriately all the entity's transactions.



Cause:

There has been lack of resources to prepare a complete set of manuals. Officials of the PDAC commented to us that some manuals have been prepared but have not been fully implemented because they are in the process of approval by SUBDESAL. Furthermore, PDAC and USAID/Bolivia are selecting external consultants to study, design, and implement the necessary systems and administrative procedures.

Effect:

Due to the lack of formal written procedures, PDAC operates in accordance with its needs and the common sense of its employees and not in accordance to specific and approved procedures.

Recommendation:

PDAC should redesign and implement these procedures manuals, as applicable.

3. Lack of Inventories Control (material and supplies)

Condition:

PDAC did not have adequate systems to ensure that all materials and supplies acquired for sub-projects were properly recorded, valued and used. In the course of our audit we noted that:

- there were no proper installations to store the materials and supplies;
- in rural areas, except Aiquile, there were no control cards by type of materials to record the quantity of materials in inventory;
- there were no subsidiary records to control the value of each type of material in the inventory;
- there were no prenumbered notes to control materials received and dispatched; and
- physical inventories have not been made.



Criteria:

The PDAC and the sub-contractors should have a proper warehouse control system including, among others:

- proper installations for storage, safekeeping, and conservation of the supplies;
- inventory cards for each individual item including the value of each material;
- periodic reconciliations of the subsidiary records with the general ledger's control account;
- prenumbered documentation to support the movement of the inventory; and
- periodic physical counts and reconciliation with individual inventory records.

Cause:

PDAC began the implementation of sub-projects in October 1989 and no inventory controls were implemented at that time. Furthermore we were informed by PDAC employees that no inventory controls were implemented because the materials were acquired in small quantities for the private voluntary organizations that implement the sub-projects. Also the physical conditions and the human resources which were available in these rural zones, which are a long distance from the towns, has not allowed the timely implementation of these procedures and controls.

Effect:

There was no control over the use of materials acquired by PDAC and improper use cannot be detected on a timely basis.

Recommendation:

PDAC should redesign its control system over the materials and supplies held by the unit and the private entities carrying out sub-projects.



4. PDAC did not Always Hire Personnel in Accordance with USAID/Bolivia Recommended Procedures

Condition:

The following cases were noted in which PDAC did not comply with the procedures recommended by USAID/Bolivia in the contracting of personnel:

- In a number of cases of personnel contracted during the year, there was no evidence that PDAC had followed the procedures recommended by USAID/Bolivia regarding the selection of the personnel contracted.

Examples

	<u>Date contracted</u>	<u>Position</u>
Edgar Arandia	08-15-88	Auditor
Jaime Néstor Lima	11-01-84	In charge of contracts
Rene Lozano	03-28-89	Coordinator of Follow-up and Supervision
Fernando Rojas	07-01-85	Caretaker
Roxana Ferrel	01-22-89	Secretary
Enrique Jaldin	03-29-89	Specialist - Tropical Agriculture
Gustavo Marin	10-02-89	Specialist in Marketing
Juan Carlos Bayá	03-07-89	Coordinator of Public Works

- In five cases personnel were contracted and the contracts signed before informing USAID/Bolivia. USAID/Bolivia rejected two of the contracts and PDAC had to dismiss the personnel, incurring in unauthorized costs. The cases detected were as follows:

<u>Name</u>	<u>Period contracted</u>	<u>Position</u>	<u>Salary and social benefits paid</u> <u>Bs</u>
Bernardo Alexander	4-03-89 to 6-30-89	Technician in Pig Development	<u>5,133</u>
Carried forward			5,133



<u>Name</u>	<u>Period contracted</u>	<u>Position</u>	<u>Salary and social benefits paid</u> <u>Bs</u>
Brought forward			5,133
Jose Cabezas	3-29-89 to 6-28-89	Technician in Peasant Organization	<u>6,650</u>
			<u>11,783</u>

Criteria:

The contracting of personnel should be carried out in all cases in accordance with USAID/Bolivia procedures established in its letter dated November 24, 1989 (MC-89/870).

Cause:

Employees of PDAC informed us that the procedures of USAID/Bolivia were not always complied with because of the urgency to contract personnel at the end of 1989 and because some personnel was selected by SUBDESAL.

Effect:

By not following the prescribed contracting procedures, PDAC incurred in unauthorized costs.

Recommendation:

The PDAC should permanently supervise the application of contracting procedures as required by the terms of the agreement so as to document the procedures used and avoid similar cases in the future.

5 Inadequate Determination and Control Over the Costs of the Immediate Impact Sub-projects

Condition:

The determination and control of costs and the supervision of immediate impact sub-projects implemented



and being implemented in the Chapare region and in the associated high valleys, had the following deficiencies:

- Although there were auxiliary control cards to record the costs incurred in each sub-project, these cards were not kept updated; instead, informal summaries of estimated costs were prepared which were not part of the accounting system. These summaries were not reconciled to the accounting records and were not prepared in an accurate manner.
- There were unreconciled differences between the cost of immediate impact sub-projects as determined in the accounting records and the costs included in the technical reports. The detected differences consisted in accounting errors in which some costs were not charged to the job and others which were charged in excess.

Examples:

<u>Job</u>	<u>Material used per technical report Quantity</u>	<u>Per auxiliary register of sub-project Quantity</u>
Construction Syndicate - senda 3 base (Bags of cement)	80	-
School Module of Ichoa (Bags of cement)	20	-
School Module Valle Hermoso (Bricks)	9,850	6,400
School Valle Ivirza (Bricks)	5,000	6,800
Mother's Club - senda B (Bags of cement)	150	130

- There was no evidence that the sub-projects implemented by private voluntary organizations had been evaluated and subjected to permanent supervision.
- The immediate impact sub-projects being implemented in the associated high valleys lacked progress reports, and the completed sub-projects have no



reports at all, nor was an acceptance letter obtained from the community.

Criteria:

The sub-projects and works coordinated and carried out by the PDAC should be controlled through auxiliary cost cards. These cards should be reconciled to the accounting records and technical reports on a regular and timely basis. Any differences arising from these comparisons should be investigated and corrected.

While the PDAC implements certain sub-projects and uses project funds to finance others, its principal functions include the permanent supervision and evaluation of the sub-projects under implementation.

Periodic progress and completion reports should be prepared for all sub-projects. These reports should include details of the labor and material costs incurred and the contributions made by the communities, along with any other pertinent observation or comment.

Cause:

There is lack of formal procedures for the recording and accounting of sub-projects' costs. Also, there were no plans for the evaluation and supervision of sub-projects during 1989. We were informed that the sub-projects implemented directly by PDAC started in October 1989, and the unit had not established systems to properly account and supervise them. Also we were informed that the acceptance letters from the communities were not always obtained as soon as the project was completed to allow time to pass so that the beneficiary could make a proper evaluation of the project.

Effect:

There is no effective accounting control over the costs incurred nor adequate supervision of sub-project activities. Management has, as a result, little or no information upon which to make decisions. It is also difficult to compare actual costs against budget.



Recommendation:

PDAC should design and implement effective accounting and management information systems for project activities. These systems must provide reliable and timely information on the sub-projects.

6. The Operating Plan for 1989 was Only Partially Implemented

Condition:

Only 30% of the 1989 operating plan was implemented. As a result, during 1989 the project underutilized the technical assistance provided by Development Alternatives, Inc., a U.S.-based company contracted by USAID/Bolivia for the period December 5, 1988 to August 31, 1990.

Criteria:

USAID/Bolivia and PDAC should ensure that all human resources are provided for in a timely manner in accordance with the requirements outlined in the annual operating plan.

Cause:

PDAC's employees informed us that there had been considerable delays in the procurement of technical personnel and thus during the first nine months of the year there have been no technical staff available to assist in implementing the planned activities.

Effect:

Because the needed human resources were not in place, the Development Alternatives, Inc.'s technical assistance was not efficiently used.

Recommendation:

PDAC's management in coordination with USAID/Bolivia should ensure that all human resources are provided for in a timely manner in accordance with the requirements outlined in the annual operating plan.



Moreno Muñoz



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE PROGRAM OF ALTERNATIVE
DEVELOPMENT OF COCHABAMBA (PDAC)
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1989

COMPLIANCE WITH AGREEMENT TERMS, PROJECT IMPLEMENTATION
LETTERS, AND APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities of the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, managed by the Program of Alternative Development of Cochabamba (Programa de Desarrollo Alternativo de Cochabamba - PDAC) for the year ended December 31, 1989 and have issued our report thereon dated February 12, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms, project implementation letters and laws and regulations applicable to this portion of the Chapare Regional Development Project is the responsibility of the Program of Alternative Development of Cochabamba's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and agreement terms. However, our objective was not to provide an opinion on overall compliance with such terms and provisions.

As described in the following pages, the Program of Alternative Development of Cochabamba (PDAC) did not

comply with: 1) the legal requirement to register employees in social security and 2) identification and marking of goods provided by USAID/Bolivia.

In our opinion, except for the noncompliances mentioned in the preceding paragraph, with respect to items tested, the Program of Alternative Development of Cochabamba complied in all material respects with the terms and provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Program of Alternative Development of Cochabamba had not complied, in all material respects, with those terms and provisions.

This report is intended for the information of the management of the Program of Alternative Development of Cochabamba and the U.S. 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.

February 12, 1990

Rice Williams



Moreno Muñoz



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE PROGRAM OF ALTERNATIVE
DEVELOPMENT OF COCHABAMBA (PDAC)
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1989

REPORT ON COMPLIANCE WITH AGREEMENT TERMS,
PROJECT IMPLEMENTATION LETTERS, AND APPLICABLE LAWS
AND REGULATIONS

FINDINGS

1. There was Noncompliance with some Social Security Regulations on the Registration of PDAC's employees

Condition:

PDAC did not register all its employees in the Bolivian Social Security System which covers medical and pension provisions. As a result, the unit had not withheld the employees contribution from the salaries paid nor made the employer contributions.

Criteria:

In accordance with the Bolivian Social Security Law, all employers must register their personnel in the social security system, make the necessary salary withholdings, and pay the employers contribution.

Cause:

Lack of definition of PDAC obligations before the Government of Bolivia. We were informed that PDAC had requested to the Medical Insurance Institute, which is part of the Bolivian Social Security System, to contract with a private institution, the medical insurance of its personnel. However, at the date of this report no such permission had been obtained.

Effect:

The failure to comply with the legal requirements could result in the unit being liable to pay both the employer and employee contributions plus fines and interest.

Recommendation:

PDAC should clearly define the situation and affiliate its employees in the Social Security System in order to comply with the law.

2. Lack of Identification and Marking of Goods

Condition:

Goods acquired with A.I.D. funding, were not physically identified and marked with A.I.D. identifying emblem.

Criteria:

In accordance with the standards provisions of the agreement (Annex 2, section B.8), PDAC should mark with the A.I.D. identifying emblem, all goods financed by A.I.D.

Cause:

PDAC did not have an internal procedure to ensure compliance with the A.I.D. marking requirement. PDAC informed us that, specially in the case of vehicles, due to their frequent transit in the Chapare Region, it is not convenient, for security reasons, that these are marked with the A.I.D. emblem. However a study will be carried out to determine how the procedure can be carried out in full.

Effect:

Goods acquired with A.I.D. funds were not marked with the A.I.D. emblem and beneficiaries of the project may not have been aware that the project and the goods in particular were supplied by the United States of America.



Recommendation:

PDAC should:

- a) implement a procedure to ensure that all goods financed by A.I.D. are marked with the A.I.D. emblem in accordance with the provisions of the agreement.
- b) Mark with the A.I.D. emblem all assets acquired with A.I.D. funds and currently held by PDAC.



Moreno Muñoz



CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE PROGRAM OF ALTERNATIVE
DEVELOPMENT OF COCHABAMBA (PDAC)
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1989

LIST OF REPORT RECOMMENDATIONS

REPORT ON INTERNAL CONTROL STRUCTURE

Recommendation 1:

PDAC in coordination with USAID/Bolivia should evaluate and redesign its accounting system with the object of improving it and making it compatible with the legal requirements of the Bolivian Government and also allows for the preparation of the information required by USAID/Bolivia and which is meaningful for management in the future.

Recommendation 2:

PDAC should redesign and implement these procedures manuals, as applicable.

Recommendation 3:

PDAC should redesign its control system over the materials and supplies held by the unit and the private entities carrying out sub-projects.

Recommendation 4:

PDAC should permanently supervise the application of contracting procedures as required by the terms of the agreement so as to document the procedures used and avoid similar cases in the future.

Recommendation 5:

PDAC should design and implement effective accounting and management information systems for project activities. These systems must provide reliable and timely information on the sub-projects.

Recommendation 6:

USAID/Bolivia together with PDAC's management should ensure that all human resources are provided for in a timely manner in accordance with the requirements outlined in the annual operating plan.

COMPLIANCE WITH AGREEMENT TERMS, PROJECT IMPLEMENTATION LETTERS, AND APPLICABLE LAWS AND REGULATIONS

Recommendation 1:

PDAC should clearly define the situation and affiliate its employees in the Social Security System in order to comply with the law.

Recommendation 2:

PDAC should:

- a) implement a procedure to ensure that all goods financed by A.I.D. are marked with the A.I.D. emblem in accordance with the provisions of the agreement.
- b) Mark with the A.I.D. emblem all assets acquired with A.I.D. funds and currently held by PDAC.





Cochabamba, 12 de noviembre de 1990
PDAR/061/90

Señor
John Davison
Jefe Oficina Controllers
USAID/Bolivia
La Paz

Señor Davison:

Ref.: Comentarios de Auditoría 1989

Ratificando las expresiones vertidas en oportunidad de reunión conjunta entre funcionarios de USAID/Bolivia, Moreno Muñoz y PDAR, referente a los comentarios del Borrador de Auditoría 1989, elaborado por Moreno Muñoz, ponemos a consideración de su autoridad lo siguiente:

Al punto 1

El P.D.A.R. (ex P.D.A.C.), como Institución pública y de acuerdo a exigencias gubernamentales, utilizó el Clasificador Presupuestario por objeto del gasto, como instrumento de control presupuestario y contable, proporcionando a este nivel oportunamente cualquier información.

La información financiera proporcionada trimestralmente, a USAID/Bolivia con una estructura definida y exigida por el financiador es elaborada necesariamente con datos extraídos de los registros contables, previa compatibilización de ambos.

Como consecuencia de que los presupuestos anuales del Programa eran aprobados en dólares y por la constante fluctuación de la moneda nacional con respecto al dolar, era evidente la limitación de su utilidad, sin embargo en la presente gestión, esta situación es superada con la elaboración de cuadros de ejecución presupuestaria en bolivianos, en base a los montos aprobados también en bolivianos con cartas administrativas, previas a las firmas de convenios con las entidades ejecutoras de los diferentes subproyectos.



Al punto 2

Debemos indicar que evidentemente el P.D.A.R. no contaba con manuales completos, decidiendo juntamente con USAID/B se contrate los servicios de una consultora externa para que estudie, diseñe e implante los procedimientos administrativos necesarios. El programa al contar con personal profesional y/o con experiencia operaba de acuerdo a normas contables generalmente aceptadas y normas legales vigentes y no así por sentido común.

Al punto 3

Las observaciones a este punto eran evidentes, esta situación se derivó del hecho de haber iniciado todas las obras de impacto inmediato casi simultáneamente, como una acción del Programa saliendo de un período de transición y de la falta de personal para el manejo de almacenes en estas áreas, con destino a obras determinadas en algunos casos y a fin de no paralizar obras prioritarias, nuestros técnicos determinaron el uso de algunos materiales destinados a determinadas obras, en otras. Sin embargo esta utilización consideramos que no puede considerarse como inapropiada, mas aún si se toma en cuenta su regularización.

Al punto 4

El P.D.A.R. para contratación del personal especializado ha seguido procedimientos recomendados y para el personal de apoyo se procedió a la contratación previo análisis y calificación de sus curriculum vites.

En el caso de los dos profesionales que USAID/Bolivia, rechazó los contratos respectivos, explicamos que su contratación fue autorizada por el Subsecretario de Desarrollo Alternativo y del Director Ejecutivo, en razón a que los servicios de estos dos ex-funcionarios eran de utilidad y necesidad en ese momento, ya que no disponíamos de otros técnicos que puedan cumplir el trabajo asignado.



Al punto 5

Consideramos paralelo y/o complementario al punto 3, como ya dijimos anteriormente la iniciación casi simultánea de las obras comunitarias de impacto inmediato, con presupuestos globales y con requerimiento de materiales y herramientas en forma continuada por parte de los técnicos del P.D.A.R., responsables de su construcción y falta de personal dificultó al departamento de contabilidad, un oportuno control presupuestario y de costos de cada una de las obras.

La diferencia mencionada en el ejemplo, con respecto a la utilización de bolsas de cemento en las obras de Valles Altos fue explicada a auditores de Moreno Muñoz de que se trataba de materiales que no llevaban firmas de conformidad de comunitarios en las notas de recepción en obras, situación que a exigencia del departamento de contabilidad fue posteriormente superada.

Los errores contables en la imputación de costos de una obra a otra a la que también hacen referencia, fue detectada y corregida con CD-874/89.

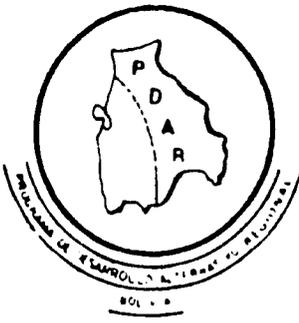
Al punto 6

La observación del punto 6 es evidente, esta situación se originó por la falta de personal técnico, la mayor parte del año (9 meses) no se contó con el plantel necesario. En este periodo Development Alternatives Inc., elaboró un documento técnico para orientar las actividades del programa.

Con referencia al informe sobre el CUMPLIMIENTO CON LOS TERMINOS DEL CONVENIO, CARTAS DE IMPLEMENTACION Y OTROS, consideramos lo siguiente:

Al punto 1

Todo el personal del P.D.A.R. no cuenta con seguro social, esta situación se está regularizando en el próximo año gestionándose un seguro delegado de preferencia.

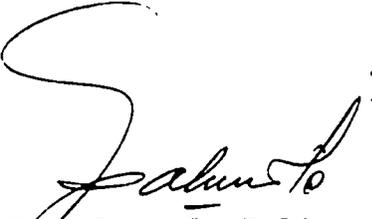


Al punto 2

Se están tomando provisiones para su identificación de acuerdo a los requerimientos del convenio, sin embargo su cumplimiento en la zona del Chapare deriva mucho riesgo por la actividad peligrosa del lugar. El PDAR por estas razones considera que los vehículos destinados en esta zona debería usar placas particulares, vehículos de diferentes colores y sin ningún emblema, como medida preventiva de protección a todos los usuarios de estas unidades.

Para su conocimiento y fines consiguientes, estamos adjuntando el informe rectificado de Moreno Muñoz, seleccionado con las aclaraciones anteriormente descritas.

Al agradecerle por su atención, aprovechamos la oportunidad para saludarle atentamente,


Dr. José G. Salinas Castro
Director Ejecutivo a.i. PDAR

HRP/EHU/tsm.
adj.: lo indicado y documentos SNC (CC.VV.)
cc: Ger. Tec.
Ger. Adm.
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