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AUDIT OF
THE SMALL INDUSTRY DEVELOPMENT
PROJECT, MANAGED BY THE CENTRAL BANK
OF THE DOMINICAN REPUBLIC THROUGH
THE INVESTMENT FUND FOR
ECONOMIC DEVELOPMENT (FIDE)

AUDIT REPORT No. 1-517-90-44-N
June 26, 1990

AGENCY FOR INTERNATIONAL DEVELOPMENT

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June 26, 1990

MEMORANDUM

TO: D/USAID/Dominican Republic, Raymond Rafenburg

FROM: RIG/A/T Acting, Lou Mundy *Lou Mundy*

SUBJECT: Audit Report No. 1-517-90-44-N, "Audit of the Small Industry Development Project, Managed by the Central Bank of the Dominican Republic through the Investment Fund for Economic Development (FIDE)"

This report presents the results of a non-Federal financial audit of the Small Industry Development Project, USAID/Dominican Republic Project No. 517-0150, managed by the Central Bank of the Dominican Republic through the Investment fund for Economic Development (FIDE). The accounting firm of Price Waterhouse prepared the report which is dated June 12, 1990.

The purpose of the project was to establish an institutional mechanism capable of providing a continuous source of credit as well as technical assistance and training to small entrepreneurs in the Dominican Republic. On September 30, 1982, the Governments of the Dominican Republic and the United States signed loan and grant agreements for the Project in the amounts of US\$5,000,000 and US\$850,000 respectively. The Government of the Dominican Republic also provided a counterpart contribution of US\$2,000,000.

With respect to the principal implementing entity and its responsibilities, the Central Bank was the primary implementing agency acting through FIDE, a division of the Central Bank, and was responsible for ensuring that both loan and counterpart funds were used to establish a permanent revolving credit fund - the Small Industry Credit Fund. All cash flow generated by the program was to flow into this fund. Grant Funds were to be used primarily to provide technical assistance and training for small businesses. Credit provided under the project was channeled through FIDE to a number of participating financial institutions which provided sub-loans to project beneficiaries.

The audit period was from September 30, 1982 to September 30, 1989 and included coverage of both US\$2,082,468 (RD \$13,223,673) and a GODR counterpart contribution of US\$629,921 (RD \$4,000,000).

The purpose of the audit was to report on (1) the fairness of the fund accountability statement for the project; (2) FIDE's internal control structure for project operations; and (3) compliance by FIDE with agreement terms and applicable laws and regulations.

Price Waterhouse issued a qualified opinion of the fund accountability statement due to: (1) the potential non-performance of certain loans granted to small industries in the amount of US \$461,220 (RD \$2,928,744); (2) unreconciled differences in the amount of US \$262,714 (RD \$1,668,236) between the project's bank accounts in the Central Bank and balance disclosed in the fund accountability statement; and (3) the disbursements made by FIDE with grant funding amounting to US \$33,646 (RD \$213,649) lacked adequate supporting documentation and were considered questionable. Price Waterhouse's evaluation of internal control structure disclosed a material reportable deficiency which consisted of failure to reconcile the project's bank accounts with balances disclosed by the Central Bank and failure to establish procedures to ensure the review of journal entry codification. With respect to compliance with agreement terms and applicable laws and regulations, Price Waterhouse identified material instances of non-compliance consisting of: (1) failure by the Regional Technical Assistance Center (CATRE) to satisfy some project objectives due to a conflict of interest between the Board of Directors of the East Central University who manage CATRE and are also stockholders of a project beneficiary, the Associated Financial Corporation (COFINASA); and (2) failure by FIDE to require the financial institutions to request from borrowers documentation identifying countries of origin for all items purchased with project funds.

The draft report was discussed with both USAID/Dominican Republic and FIDE. Price Waterhouse incorporated modifications to the report based on additional explanations provided by the implementing agency.

The Price Waterhouse report contains four recommendations on internal controls and two recommendations on compliance. We have summarized the most significant findings and related recommendations for inclusion in the Office of the Inspector General's audit recommendation follow-up system:

RECOMMENDATION No. 1

We recommend that USAID/Dominican Republic initiate the following action:

- a. negotiate a settlement with the Central Bank of the Dominican Republic for questionable costs in the amount US \$33,646 (RD \$213,649) included in the Price Waterhouse report dated June 12, 1990; and

- b. provide "in-house monitoring" to ensure that the Investment Fund for Economic Development (FIDE) aggressively pursues collection efforts to recover potential non-performing loans in the amount of US \$461,220 (RD \$2,928,744) included in the Price Waterhouse report dated June 12, 1990.

RECOMMENDATION No. 2

We recommend that USAID/Dominican Republic immediately suspend all assistance to the Investment Fund for Economic Development (FIDE) until FIDE improves its internal controls and compliance by:

- a. reconciling the difference totalling US \$262,714 (RD \$1,668,236) between the project's bank accounts in the Central Bank and the amount disclosed in the project's fund accountability statement as of 9/30/89 and reimbursing the project for any remaining unreconciled difference in account balances;
- b. assigning personnel to reconcile on a monthly basis all project bank accounts and establishing a formal procedure for reviewing and approving such reconciliations;
- c. establishing a written procedure to ensure that all journal entry codification is reviewed;
- d. establishing a written policy and procedures to ensure that proposed grant funded expenditures to be incurred by technical assistance centers are in accordance with project objectives and that adequate documentation supporting such expenditures is retained;
- e. establishing written procedures to ensure adequate safeguarding of loan documentation;
- f. reviewing the architecture/global design of the electronic data processing applications and preparing a systems' documentation;
- g. establishing a written policy to ensure the non-recurrence of conflicts of interest associated with the project activities of the management of the Regional Technical Assistance Center (CATRE); and
- h. Requiring project beneficiaries to document the country of origin of all items purchased with project funds;

Please advise this office within 30 days of action planned or taken to clear recommendations.

AUDIT OF THE

SMALL INDUSTRY DEVELOPMENT PROJECT
MANAGED BY

THE CENTRAL BANK OF THE
DOMINICAN REPUBLIC

USAID/ DOMINICAN REPUBLIC
PROJECT No. 517-0150

AUDIT OF THE
SMALL INDUSTRY DEVELOPMENT PROJECT MANAGED BY
THE CENTRAL BANK OF THE DOMINICAN REPUBLIC
USAID/ DOMINICAN REPUBLIC PROJECT No.517-0150

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PriceWaterhouse



June 12, 1990

Mr. Coinage N. Gothard, Jr.
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 Small Industry Development Project, USAID/Dominican Republic Project No.517-0150, managed by The Central Bank of the Dominican Republic through the Investment Fund for Economic Development (Fondo de Inversiones para el Desarrollo Económico - FIDE) for the period September 30, 1982 to September 30, 1989.

BACKGROUND

On September 30, 1982, the Governments of the United States of America and the Dominican Republic, represented by the Agency for International Development Mission to Dominican Republic (USAID/Dominican Republic) and the Central Bank of The Dominican Republic, respectively, signed loan (Loan No.517-T-040) and grant agreements for the Small Industry Development Project, USAID/Dominican Republic Project No. 517-0150, for the amount of US\$7,850,000 including the loan for US\$5,000,000, the grant for US\$850,000, and a counterpart contribution of US\$2,000,000 by the Government of the Dominican Republic.

The project's goal was to increase per capita income and employment in the Dominican Republic by improving the performance of the private sector. The purpose of the project was to establish an institutional mechanism capable of providing a continuous source of credit as well as technical assistance and training to small entrepreneurs in the Dominican Republic.

June 12, 1990



Mr. Coinage N. Gothard, Jr.

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The Central Bank was the primary implementing agency acting through FIDE, a division of the Central Bank. Project loan funds and the counterpart funds were used by FIDE to establish a permanent revolving credit fund - the Small Industry Credit Fund. All cash flow generated by the program was to flow into this fund. The grant funds were primarily used to provide technical assistance.

The project included two major components: 1) sub-lending to small industries, and 2) technical assistance and training for small industries.

Credit under the project was channeled through FIDE to a number of participating financial institutions which provided sub-loans to beneficiaries of the project. FIDE's Analysis and Technical Assistance Division (Centro de Asistencia a la Pequeña Empresa-CAPE), the central technical assistance facility and primary executing unit of the project, processed loan applications, evaluated, coordinated, and provided assistance to six technical assistance centers (Centros de Asistencia Técnica-CATS). The technical assistance centers offered direct assistance to small businesses in completing loan applications, accounting, administration and management techniques.

AUDIT OBJECTIVES AND SCOPE

The specific objectives of our audit were to determine whether:

1. The fund accountability statements for the Small Industry Development Project present fairly, in all material respects, the project's receipts and expenditures for the period September 30, 1982 to September 30, 1989; identifying any loan and/or cost not allowable under the terms of the agreements.
2. FIDE's internal control structure is adequate to manage the project in accordance with USAID/Dominican Republic's requirements.
3. FIDE complied with the terms of the agreements and applicable laws and regulations, which may have a significant effect on the project's fund accountability statements.

The 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 to determine if the funds were properly accounted for and used as intended by the agreements and the applicable laws and regulations. During the audit we were alert to situations or transactions that could be indicative of fraud, abuse or illegal expenditures and acts.

June 12, 1990

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RESULTS OF AUDIT

Fund Accountability Statements:

Our audit of the fund accountability statements for the project managed by FIDE, for the period September 30, 1982 to September 30, 1989, disclosed the following situations:

- Unreconciled difference of RD\$1,668,236 (US\$262,714) between the project's records (Finance Department) and the Central Bank's Accounting Department.
- Loans to small industries amounting to RD\$2,928,744 (US\$461,220) have been granted through financing intermediaries which are in poor financial positions, and could lead to difficulties in the collection of these outstanding loans.
- The disbursements made by FIDE with grant funding to support the technical assistance centers include unsupported costs amounting to RD\$213,649 (US\$33,646) which we consider questionable costs.

In our opinion, except for the effects on the fund accountability statements of the final result of the matters discussed above, the fund accountability statements audited by us present fairly, in all material respects, the loans granted as of September 30, 1989 and the receipts and expenditures for the period September 30, 1982 to September 30, 1989.

Internal Control Structure

We have evaluated the following internal control categories with the following results: 1) bank accounts controls, 2) budgeting control system, 3) interbank accounts reconciliations.

Deficiencies in the internal control structure were:

1. Lack of reconciliation of interbank accounts and lack of review of the journal entries codifications.
2. Expenses incurred by the technical assistance centers could not always be verified.
3. The filing system did not ensure an adequate safeguarding of loan documentation.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions that are also considered to be material weaknesses. However, except as described in finding No.1, we believe none of the reportable conditions described above is a material weakness.

June 12, 1990



Mr. Coinage N. Gothard, Jr.

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Compliance with the Terms of the Agreements and Applicable Laws and Regulations

We evaluated the Central Bank and FIDE's compliance with the terms of the agreements and applicable laws and regulations as part of our audit of the project's fund accountability statements, and not to provide an opinion on overall compliance with such provisions. Our evaluation disclosed the following deficiencies.

1. The Management of the "Centro de Asistencia Técnica Regional del Este" (CATRE) did not satisfy project objectives.
2. FIDE did not require the financial institutions to request from the borrowers all the documentation required by the agreements.

Except as described above, the results of our tests of compliance indicate that, with respects to the items tested, the Central Bank and FIDE complied, in all material respects, with the provisions mentioned above. With respect to items not tested, nothing came to our attention that caused us to believe that the Central Bank and FIDE had not complied, in all material respects, with those provisions.

MANAGEMENT COMMENTS

On May 7, 1990 , a draft copy of this audit report was submitted to FIDE for their review and analysis and on June 7, 1990 we were provided with FIDE comments. A translated copy of FIDE's comments is enclosed to this report.

Pricewaterhouse _____

Price Waterhouse



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SMALL INDUSTRY DEVELOPMENT PROJECT MANAGED BY

THE CENTRAL BANK OF THE DOMINICAN REPUBLIC

USAID/DOMINICAN REPUBLIC PROJECT No. 517-0150

FUND ACCOUNTABILITY STATEMENTS

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying fund accountability statements of The Small Industry Development Project, USAID/Dominican Republic Project No. 517-0150, managed by the Central Bank of the Dominican Republic through the Investment Fund for Economic Development (Fondo de Inversiones para el Desarrollo Económico-FIDE) for the period September 30, 1982 to September 30, 1989. The fund accountability statements are the responsibility of FIDE. Our responsibility is to express an opinion on the fund accountability statements.

We conducted our audit in accordance with generally accepted auditing standards and the U.S. 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As mentioned in Note 1, the fund accountability statements were prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

As mentioned in Notes 5, 6 and 7, the fund accountability statements include outstanding balances of loans granted to small industries amounting to RD\$2,928,744, which could be difficult to collect; the project's bank accounts in the Central Bank were not reconciled since 1986, and as of September 30, 1989 the Central Bank accounts were RD\$1,668,236 less than the amount included in the project's fund accountability statements for loan and counterpart funding; and the disbursements made by FIDE with grant funding include costs amounting to RD\$213,649 considered questionable because they lack sufficient supporting documentation.



In our opinion; except for the effects on the fund accountability statements of the final realization of loans granted to small industries amounting RD\$2,928,744, and the final results of the unreconciled difference of RD\$1,668,236 between the project and the Central Bank records, and the questionable costs amounting to RD\$213,649, as mentioned in the precedent paragraph; the fund accountability statements audited by us present fairly, in all material respects, the loans granted as of September 30, 1989 and the receipts and expenditures for the period September 30, 1982 to September 30, 1989, on the basis of accounting described in Note 1.

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

Pricewaterhouse _____

February 15, 1990

SMALL INDUSTRY DEVELOPMENT PROJECT MANAGED BY
THE CENTRAL BANK OF THE DOMINICAN REPUBLIC
USAID/DOMINICAN REPUBLIC PROJECT No. 517-0150

FUND ACCOUNTABILITY STATEMENTS FOR LOAN AND COUNTERPART FUNDING
FOR THE PERIOD SEPTEMBER 30, 1982 TO SEPTEMBER 30, 1989
 (Expressed in Dominican pesos - RD\$)

| | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | TOTAL |
|---|------------------|------------------|------------------|--------------------|--------------------|------------------|------------------|------------------|--------------------|
| Receipts: | | | | | | | | | |
| AID Loan 517-T-040- Resources (Note 3) | - | 350,523 | 407,374 | 2,886,897 | 879,405 | 4,300,986 | 4,398,488 | - | 13,223,673 |
| Counterpart - Central Bank | <u>2,000,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,000,000</u> | <u>-</u> | <u>4,000,000</u> |
| | <u>2,000,000</u> | <u>350,523</u> | <u>407,374</u> | <u>2,886,897</u> | <u>879,405</u> | <u>4,300,986</u> | <u>6,398,488</u> | <u>-</u> | <u>17,223,673</u> |
| Disbursements: | | | | | | | | | |
| AID Loan 517-T-040 Resources | - | 238,351 | 555,344 | 1,098,438 | 1,288,963 | 2,377,576 | 6,151,604 | 2,082,682 | 13,792,958 |
| Central Bank - Resources | <u>-</u> | <u>161,150</u> | <u>74,839</u> | <u>255,745</u> | <u>1,406,781</u> | <u>1,910,049</u> | <u>1,200,962</u> | <u>2,588,353</u> | <u>7,597,879</u> |
| Total disbursements | <u>-</u> | <u>399,501</u> | <u>630,183</u> | <u>1,354,183</u> | <u>2,695,744</u> | <u>4,287,625</u> | <u>7,352,566</u> | <u>4,671,035</u> | <u>21,390,837</u> |
| Loan recoveries | - | 1,663 | 66,828 | 406,471 | 1,287,633 | 1,377,777 | 2,637,623 | 2,856,705 | 8,634,700 |
| Net transfers | <u>-</u> | <u>-</u> | <u>117,699</u> | <u>(1,284,659)</u> | <u>(1,180,080)</u> | <u>(165,673)</u> | <u>-</u> | <u>-</u> | <u>(2,512,713)</u> |
| Cash on Hand: At beginning | <u>-</u> | <u>2,000,000</u> | <u>1,952,685</u> | <u>1,914,403</u> | <u>2,568,929</u> | <u>860,143</u> | <u>2,085,608</u> | <u>3,769,153</u> | <u>-</u> |
| At end | <u>2,000,000</u> | <u>1,952,685</u> | <u>1,914,403</u> | <u>2,568,929</u> | <u>860,143</u> | <u>2,085,608</u> | <u>3,769,153</u> | <u>1,954,823</u> | <u>1,954,823</u> |

SMALL INDUSTRY DEVELOPMENT PROJECT MANAGED BY
THE CENTRAL BANK OF THE DOMINICAN REPUBLIC
USAID/DOMINICAN REPUBLIC PROJECT No. 517-0150

FUND ACCOUNTABILITY STATEMENTS FOR GRANT FUNDING
FOR THE PERIOD SEPTEMBER 30, 1982 TO SEPTEMBER 30, 1989

(Expressed in Dominican pesos - RD\$)

| <u>Technical Assistance Centers:</u> | | <u>1983</u> | <u>1984</u> | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>Total</u> | <u>Questionable costs</u> <u>(Note 7)</u> |
|--|---------|---------------|----------------|----------------|----------------|----------------|--------------|----------------|--|
| Programa de Pequeñas Empresas de Salcedo | PROPESA | - | 25,986 | 5,575 | - | - | - | 31,561 | |
| Programa de Asistencia a la Pequeña Empresa | PROAPE | 17,241 | 11,004 | 16,719 | 46,790 | 47,774 | - | 139,528 | 4,707 |
| Programa de Promoción de Pequeñas Empresas | PROPE | 6,199 | 2,998 | 20,964 | 26,324 | 31,000 | - | 87,485 | 22,874 |
| Centro de Asistencia Técnica del Suroeste | CATESUR | - | 19,269 | 28,165 | 42,920 | 42,330 | - | 132,684 | 16,284 |
| Centro de Asistencia Técnica Regional del Este | CATRE | - | 61,654 | 49,300 | 49,314 | 60,000 | - | 220,268 | 169,784 |
| Centro de Asistencia para Desarrollo Pequeñas Empresas | CADEPE | - | 36,594 | 7,574 | 23,042 | 38,663 | 7,274 | 113,147 | |
| Fundación Dominicana de Desarrollo | FDD | <u>5,000</u> | <u>18,492</u> | <u>37,724</u> | <u>22,002</u> | <u>52,420</u> | <u>-</u> | <u>135,638</u> | |
| | | <u>28,440</u> | <u>175,997</u> | <u>166,021</u> | <u>210,392</u> | <u>272,187</u> | <u>7,274</u> | <u>860,311</u> | <u>213,649</u> |
| <u>Other Disbursements</u> | | | | | | | | | |
| Foreign International Trading | FIT | - | - | 4,107 | - | - | - | 4,107 | |
| Corporación de Fomento Industrial | CFI | - | - | - | 20,000 | - | - | 20,000 | |
| Asociación para Desarrollo Sánchez Ramírez | | - | - | - | <u>7,500</u> | - | - | <u>7,500</u> | |
| | | <u>28,440</u> | <u>175,997</u> | <u>170,128</u> | <u>237,892</u> | <u>272,187</u> | <u>7,274</u> | <u>891,918</u> | <u>213,649</u> |
| Project evaluation cost | | - | - | - | <u>15,525</u> | - | - | <u>15,525</u> | |
| Total disbursed by the Central Bank | | <u>28,440</u> | <u>175,997</u> | <u>170,128</u> | <u>253,417</u> | <u>272,187</u> | <u>7,274</u> | <u>907,443</u> | |

SMALL INDUSTRY DEVELOPMENT PROJECT MANAGED BY
THE CENTRAL BANK OF THE DOMINICAN REPUBLIC
USAID/DOMINICAN REPUBLIC PROJECT NO.517-0150

NOTES TO THE FUND ACCOUNTABILITY STATEMENTS
FOR THE PERIOD SEPTEMBER 30, 1982 TO SEPTEMBER 30, 1989

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING
POLICIES:

On September 30, 1982, the Government of the Dominican Republic and the United States Agency for International Development in the Dominican Republic (USAID/Dominican Republic) signed the loan and grant agreements for the Small Industry Development Project, USAID/Dominican Republic Project No. 517-0150, to promote the development of the small industry in Dominican Republic. The project started on September 30, 1982 with the Central Bank through the Investment Fund for Economic Development (Fondo de Inversiones para el Desarrollo Económico - FIDE) a division of the Central Bank, as the implementing entity.

The project has two major components:

- Sub-lending to small industries

FIDE through the project loan and counterpart funds has provided financing resources through a permanent revolving credit line to small industries.

- Technical assistance and training for small industries

The project's grant funds were used to provide technical assistance, through FIDE's Analysis Assistance Division (Centro de Asistencia a la Pequeña Empresa - CAPE).

Accounting records and basis of accounting.

The records of FIDE are maintained in Dominican pesos, denoted by the symbol RD\$ in the accompanying fund accountability statements. The project's fund accountability statements were prepared on a cash basis; and consequently receipts and related assets are recognized when collected rather than when accrued and, expenditures are recognized when paid rather than when the obligation is incurred.

NOTE 2 - FOREIGN EXCHANGE REGULATIONS:

Transactions in US dollars and other foreign currencies are recorded at prevailing exchange rates when the transactions take place. Foreign currency is exchanged according to the procedures and rates established by the Central Bank, the prevailing official exchange rate at September 30, 1989 was RD\$6.35:US\$1.00.

NOTE 3 - LOAN DISBURSEMENTS MADE BY USAID/DOMINICAN REPUBLIC:

A detail of loan funding received by FIDE from USAID/Dominican Republic and related exchange rates follows:

| <u>Year</u> | <u>(US\$) Dollars</u> | <u>Exchange Rate</u> | <u>(RD\$) Pesos</u> |
|-------------|---------------------------|--------------------------|-------------------------|
| 1983 | 350,523 | 1.00 | 350,523 |
| 1984 | 407,374 | 1.00 | 407,374 |
| 1985 | 1,176,496 | 2.45 | 2,886,897 |
| 1986 | 314,073 | 2.80 | 879,405 |
| 1987 | 1,238,816 | 3.47 | 4,300,986 |
| 1988 | <u>698,173</u> | 6.30 | <u>4,398,488</u> |
| | <u>4,185,455</u> | | <u>13,223,673</u> |

The interest established in the loan agreement is accrued at the rate of two percent per annum for the first ten years following the date of the first disbursement, November 23, 1983, and at the rate of three percent per annum thereafter, and the principal should be paid in twenty five years from the date of the first disbursement.

NOTE 4 - GRANT DISBURSEMENTS MADE BY USAID/DOMINICAN REPUBLIC

The USAID/Dominican Republic reimbursements of payments to Technical Assistance Centers made by the Central Bank were as follows:

| <u>Date</u> | <u>(US\$)</u> <u>Dollars</u> | <u>Exchange</u> <u>Rate</u> | <u>(RD\$)</u> <u>Pesos</u> |
|---|---------------------------------|--------------------------------|-------------------------------|
| September 13, 1983 | 5,000 | 1.00 | 5,000 |
| November 25, 1983 | 5,000 | 1.00 | 5,000 |
| August 2, 1984 | 12,241 | 1.00 | 12,241 |
| September 27, 1984 | 28,572 | 1.00 | 28,572 |
| October 18, 1984 | 10,000 | 1.00 | 10,000 |
| December 11, 1984 | 111,198 | 1.00 | 111,198 |
| October 6, 1984 | 1,419 | 2.90 | 4,114 |
| March 24, 1988 | <u>139,064</u> | 5.18 | <u>720,354</u> |
| USAID-reimbursements | <u>312,494</u> | | 896,479 |
| Add - payment covered by Central Bank (pending of reimbursement by USAID/Dominican Republic) | | | <u>10,964</u> |
| Total | | | <u>907,443</u> |

These disbursements were made to cover operational expenses incurred by the Technical Assistance Centers; these were mainly comprised by payroll expenses, lodging and the purchase of furniture and fixtures used in the centers.

NOTE 5 - LOANS TO THE SMALL INDUSTRY

The loan balances as of September 30, 1989, were RD\$14,798,072. The loans were granted for a period not to exceed six years, at an interest rate not to exceed 24% (for the beneficiaries); with an intermediary margin of 6%. The individual loans granted may not exceed RD\$300,000 and the amounts approved are not to exceed 80% and 100% of the total financing required for loans and lines of credit, respectively, as established in the loan agreement with USAID/Dominican Republic.

As of September 30, 1989, outstanding balances amounting to RD\$2,928,744 corresponding to loans granted through intermediary local financial institutions, could present collection difficulties. Following is a detailed listing of the financial institutions and borrowers (end beneficiaries) and their loan

| <u>LOAN NO.</u> | <u>BENEFICIARY</u> | <u>BALANCE</u> |
|--|---------------------------------------|------------------|
| <u>BANCO DOMINICO HISPANO, S. A.</u> | | |
| 5899 | Sila Mena, C. por A. | RD\$ 22,372 |
| 5967 | Pequeños Industriales de la R. D. | 216,066 |
| 5973 | Muebleria Colchoneria Tony, C. por A. | 15,532 |
| 6024 | Bolivar Muñoz Caminero | 20,791 |
| 6047 | Pequeños Inds. F. la Rep. Dom. | 211,492 |
| 6109 | Pequeñas Industrias de la Rep. Dom. | 227,949 |
| 6191 | Pequeños Industriales de la R. D. | 238,373 |
| 6207 | Flérida V. Montalvo | 66,513 |
| 6252 | Pequeños Empresarios de la R. D. | 257,511 |
| 6345 | Impresora Gerardo, C. por A. | 51,579 |
| 6360 | Pequeños Industriales de la R. D. | <u>130,664</u> |
| | | <u>1,458,842</u> |
| <u>BANCO DE DESARROLLO COFINASA, S. A.</u> | | |
| 5187 | Milagros Avila de Mejia | 1,154 |
| 5217 | Pequeños Industriales de la R. D. | 69,066 |
| 5229 | Dionisio Almeida Laureano | 5,074 |
| 5308 | Teófilo Tobias Contreras | 14,030 |
| 5550 | Pequeños Industriales de la R. D. | 81,803 |
| 5612 | Carlos V. Bonnelly Díaz | 27,283 |
| 5649 | Juan Bta. Cruz y J. Bdo. Rodriguez | 49,157 |
| 5651 | Talabarteria El Estribo | 5,020 |
| 5681 | Victor Del Guidice | 8,526 |
| 5710 | Adolfo F. Ramirez Diaz | 48,676 |
| 6181 | Angel Peguero | 37,517 |
| 6246 | Ricardo Baret | 46,833 |
| 6341 | Narciso Estevez y Santiago Feliz | 37,412 |
| 6366 | Pequeños Industriales | 268,088 |
| 6378 | Leonel L. Vittini Sánchez | 50,805 |
| 6415 | Ramón Rubio Castillo | 47,868 |
| 6472 | Milady Santana | 72,879 |
| 6720 | Rafael y Gabriel Scarfulleri | 30,676 |
| 6721 | Roberto Morales | 26,752 |
| 6724 | Panificadora Pueblo | 41,852 |
| 6725 | Panimo Fladio Mercedes | <u>65,604</u> |
| | | <u>1,036,075</u> |

| <u>LOAN NO.</u> | <u>BENEFICIARY</u> | <u>BALANCE</u> |
|--|------------------------------------|----------------------|
| <u>BANCO DE DESARROLLO FINADE, S. A.</u> | | |
| 4272 | Industria de Calzados La Feria | RD\$ 4,742 |
| 4672 | Juan Alfredo Díaz Pons | 12,609 |
| 5159 | Modas Mimosa, S. A. Rosario Bordas | 36,075 |
| 5527 | Tecnigrama Industrial, C. por A. | 41,673 |
| 5530 | Ambiente Deccración | 22,281 |
| 5544 | Creaciones Dane-Juan Bta Damian | 11,436 |
| 5650 | Editora Cobo, C. por A. | 86,539 |
| 5764 | Ind. Materiales Oficina, C. por A. | 43,481 |
| 5852 | Puertas y Ventanas del Caribe | 70,416 |
| 2886 | Marco, C. por A. | 4,806 |
| | | <u>334,058</u> |
| <u>BANCO CIBAO, S. A.</u> | | |
| 6469 | Basilio Guzmán | <u>99,769</u> |
| | Total | <u>RD\$2,928,744</u> |

NOTE 6 - UNRECONCILED BANK ACCOUNTS

The project's bank accounts with the Central Bank were not reconciled since 1986. As a result of this weakness, the balances showed by the Central Bank (Accounting Department of the Central Bank) as of September 30, 1989 were RD\$286,587 which is less than the amount included as cash on hand in the fund accountability statements for loan and counterpart funding prepared by FIDE (Financial Department). The reconciliation of these bank accounts could result in significant adjustments to the project's fund accountability statements.

NOTE 7 - QUESTIONABLE COSTS

During our review of the disbursements made by the Technical Assistance Centers, we could not find sufficient supporting documentation for the expenses incurred amounting to RD\$213,649, as follows:

| | |
|--|--------------------|
| Centro de Asistencia Técnica Regional del Este | RD\$169,784 |
| Centro de Asistencia Técnica del Suroeste | 16,284 |
| Programa de Promoción de Pequeñas Empresas | 22,874 |
| Programa de Asistencia a la Pequeña Empresa | <u>4,707</u> |
| | <u>RD\$213,649</u> |

Price Waterhouse



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SMALL INDUSTRY DEVELOPMENT PROJECT MANAGED BY
THE CENTRAL BANK OF THE DOMINICAN REPUBLIC
USAID/DOMINICAN REPUBLIC PROJECT No. 517-0150

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statements of the Small Industry Development Project, USAID/Dominican Republic Project No. 517-0150, managed by the Central Bank of the Dominican Republic through the Investment Fund for Economic Development (Fondo de Inversiones para el Desarrollo Económico - FIDE) for the period September 30, 1982 to September 30, 1989, and have issued our report thereon dated February 15, 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 statements are free of material misstatement.

In planning and performing the audit of the fund accountability statements of the Small Industry Development Project for the period ending September 30, 1989, we considered the FIDE'S internal control structure applicable to the project, in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide assurance on FIDE's internal control structure.

The management of the Central Bank of the Dominican Republic is responsible for establishing and maintaining an internal control structure for project purposes. 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 preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future



periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: 1) bank accounts controls; 2) budgetary control system, 3) interbank accounts reconciliations; 4) lending disbursements and monitoring controls; 5) payrolls controls; and 6) electronic data processing.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statements. Conditions considered by us as reportable are described in findings Nos. 1 to 4 in the following pages of this report.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements 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 that are also considered to be material weaknesses as defined above. However, except as described in finding No.1, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the use of the Central Bank and the U.S. Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

P. H. House

February 15, 1990

SMALL INDUSTRY DEVELOPMENT PROJECT MANAGED BY
THE CENTRAL BANK OF THE DOMINICAN REPUBLIC
USAID/DOMINICAN REPUBLIC PROJECT No. 517-0150

REPORT ON INTERNAL CONTROL STRUCTURE

FINDINGS

1. Lack of Reconciliation of Interbank Accounts and Lack of Review of the Journal Entries' Codifications.

Condition:

The following deficiencies were noted in the project's accounting records:

- The project's bank accounts were not reconciled with the balances disclosed by the Central Bank. As of September 30, 1989, the project's bank accounts balances amounted RD\$1,954,823 which is higher than the net balances of RD\$286,587 disclosed in the accounts of the Central Bank.
- There were no established procedures to ensure the review of the journal entries' codifications.

Criteria:

The project agreements establish that adequate records should be kept.

Cause:

The Central Bank does not have enough capable personnel to perform the reconciliations, and the Finance Department of the Central Bank has not designed adequate procedures to ensure the review of the codifications in the journal entries.

Effect:

Presentation of unreliable information of the project data. As of September 30, 1989, there was an unreconciled difference of RD\$1,668,236 between the Central Bank and project's records.

Recommendation:

The Finance Department of the Central Bank should assign the adequate personnel to monthly reconcile the project bank accounts, and establish a formal procedure to review and approve these reconciliations. Additionally, this department should, establish a procedure to assure the reviews of all journal entry codification.

2. Expenses incurred by the Technical Assistance Centers Could not Always be Verified.

Condition:

During our review of the disbursements made by the Technical Assistance Centers, we could not find sufficient supporting documentation for expenses incurred amounting to RD\$213,649. This amount is equivalent to 24% of the total amount disbursed to the Technical Assistance Centers amounting to RD\$907,443. (See Note 7 to the Fund Accountability Statements).

Criteria:

As stated in the grant agreement the grant funds will be used solely for the purpose of achieving the objectives of the project.

Cause:

The Directors of the Technical Assistance Centers explained that this situation was due to the fact that, in most of the cases, the supporting documentation was destroyed.

Effect:

There is not enough conclusive evidence to demonstrate how the funds have been used and if the disbursement was made in accordance with the project's objectives.

Recommendation:

USAID/Dominican Republic should require FIDE to correct the non-compliance conditions noted in this finding and require FIDE to establish procedures and policies to periodically verify and document continued compliance with all agreement terms, applicable laws and regulations.

3. The Filing System did not Ensure an Adequate Safeguarding of Loan Documentation

Condition:

We noted that there was missing information regarding the project's loan documentation as a result of an inadequate filing system.

- 12 out of our sample of 200 files showed incomplete information, and supporting documents could not be found.
- There was not enough physical space that could allow an adequate safeguarding of files.
- Some promissory notes were found in the loan files instead of being kept in custody.
- There was no established procedure to provide a trace on the location of the files being used.

Criteria:

The project agreements establish that adequate records should be maintained.

Cause:

The Finance Department of the Central Bank has not established the procedures to guarantee the adequate filing of documents under its custody.

Effect:

There is not enough supporting documentation substantiating the recordings of the operations, such as the loan contracts.

Recommendation:

FIDE should establish adequate procedures to control the movement of the loan files. These procedures should include a list naming the user of the files, department requiring it and date returned; as well as, sufficient physical space for maintaining the files.

4. The Input and Output Procedures of Electronic Data Processing Were Inadequate.

Condition:

FIDE's electronic data processing(EDP) activities corresponded to a typical batch system, and the input and output controls established were essentially end user controls. The computer system had some built-in editing and validation functions but, these were insufficient to rely solely on computer results to control FIDE loans.

The system performed three basic functions:

- accepting input data;
- filing and sorting data; and
- printing reports.

All other processing controls and calculations were performed by the user with no data processing involvement. These were:

- receipt numbering sequence;
- distribution of capital and interest payments;
- disbursement numbering sequence; and
- payments numbering sequence.

Criteria:

Given the availability of computer hardware capacity, software and personnel, the system should have been designed to automatically perform many of the functions now being performed manually by the users. Among these functions, budgeting and statistical data preparation and reporting should become an important activity.

Cause:

The EDP department started the design and development of the system in 1980 but their work has not been completed due to a lack of systems analysis and programming personnel as per information supplied by the person in-charge of the Division of Analysis and Programming.

Effect:

- Duplication of effort in the preparation and execution of the work to be performed.
- Uncertainty as to the accuracy and source of the information.
- Too much dependence on individuals rather than on a system.

Recommendation:

The Central Bank should review the architecture or global design of the FIDE's electronic data processing applications and prepare system documentation. This review and documentation should be prepared immediately. If no personnel is available for these tasks, temporary help should be hired to assist in this process with the supervision of Bank's personnel and/or outside consultants.

Price Waterhouse



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SMALL INDUSTRY DEVELOPMENT PROJECT MANAGED BY
THE CENTRAL BANK OF THE DOMINICAN REPUBLIC
USAID/DOMINICAN REPUBLIC PROJECT No.517-0150

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS
AND APPLICABLE LAWS AND REGULATIONS
INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statements of the Small Industry Development Project, USAID/Dominican Republic Project No. 517-0150, managed by the Central Bank of the Dominican Republic through its Investment Fund for Economic Development (Fondo de Inversiones para el Desarrollo Económico - FIDE) for the period September 30, 1982 to September 30, 1989, and have issued our report thereon dated February 15, 1990.

We conducted our audit in accordance with generally accepted auditing standards and the U. S. 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 statements are free of material misstatement.

Compliance with the terms of the agreements and applicable laws and regulations applicable to the Small Industry Development Project is the responsibility of FIDE and the Central Bank management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement, we performed tests of the Central Bank and FIDE's compliance with the terms of the agreements and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.



Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statements. The results of our evaluation disclosed the findings Nos. 1 and 2 in the following pages of this report.

We considered these material instances of noncompliance in forming our opinion on whether the project's fund accountability statements are presented fairly, in all material respects. This report does not affect our report dated February 15, 1990 on the fund accountability statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Central Bank and FIDE complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the Central Bank and FIDE had not complied, in all material respects, with those provisions.

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

Price Waterhouse _____

February 15, 1990

SMALL INDUSTRY DEVELOPMENT PROJECT MANAGED BY
THE CENTRAL BANK OF THE DOMINICAN REPUBLIC
USAID/DOMINICAN REPUBLIC PROJECT No. 517-0150

REPORT ON COMPLIANCE WITH THE TERMS OF THE AGREEMENTS
AND APPLICABLE LAWS AND REGULATIONS
FINDINGS

1. The Management of the "Centro de Asistencia Técnica Regional del Este"(CATRE) did not Satisfy Project Objectives.

Condition:

The "Centro de Asistencia Técnica Regional del Este" (CATRE) was performing activities different than the ones assigned to it in the project agreements. The project resources provided to CATRE to assist the borrowers in organize their small enterprises, were partially used to assist the "Corporación Financiera Asociada, S. A." (COFINASA) to monitor part of its lending program. As a result of this situation a new Director was hired in CATRE, however, in our visit to this region in February 1990, we noted that the new CATRE's Director obtained the beneficiary's signature for the loan agreement No.4-453-01 for the amount of RD\$46,390 made out to COFINASA. This activity is the responsibility of COFINASA.

Criteria:

According to the project agreements the Technical Assistance Centers were created to provide technical assistance to the small industry.

Cause:

This situation is due to a conflict of interest because the members of the Board of Directors of Universidad Central del Este which manage CATRE, are stockholders of "Corporación Financiera Asociada, S. A."

Effect:

CATRE does not provide adequate assistance to the entrepreneurs, and some project resources are not being used for which they were assigned. As a result, some loan balances as of September 30, 1989 are in arrears and were partially considered as uncollectable balances in the fund accountability statements.

Recommendation:

CATRE's participation in the project must be regulated so that it prohibits its management from having direct participation in loans collection, follow up on loan contracts and any other type of activity which does not involve technical assistance to small businesses, and COFINASA shall be requested to increase its efforts to collect its project's loan portfolio.

2. FIDE did not Require the Financial Institutions to Request from the Borrowers all the Documentation Required by the Agreements.

Condition:

During our review of the loan approval procedures, we noted that FIDE did not require the borrowers to appropriately document the country of origin of their purchases with project funding.

Criteria:

The project agreements and the project implementation letter No. 1-A, establish the geographical codes from which all procurement for the project must be made.

Cause:

According to FIDE's officers these documents are not necessary because, based on their experience, most of the purchases are local.

Effect:

There is no way to identify where the purchases were coming from.

Recommendation:

FIDE should require documentation for all the procurement made by the beneficiaries of the project indicating the country of origin which should be in accordance with the geographical codes specified in the project implementation letter from USAID/Dominican Republic.

SMALL BUSINESS DEVELOPMENT PROJECT MANAGED BY
THE CENTRAL BANK OF THE DOMINICAN REPUBLIC
USAID/DOMINICAN REPUBLIC PROJECT No.517-0150

LIST OF REPORT RECOMMENDATIONS

Report on Internal Control Structure

Recommendation 1:

The Finance Department of the Central Bank should assign adequate personnel to monthly reconcile the project bank accounts, and establish a formal procedure to review and approve these reconciliations. Additionally, this department should, establish a procedure to assure the reviews of all journal entry codification.

Recommendation 2:

USAID/Dominican Republic should require FIDE to correct the non-compliance conditions noted in this finding and require FIDE to establish procedures and policies to periodically verify and document continued compliance with all agreement terms and applicable laws.

Recommendation 3:

FIDE should establish adequate procedures to control the movement of the loan files. These procedures should include a list naming the user of the files, department requiring it and date returned; as well as, sufficient physical space for maintaining the files.

Recommendation 4:

The Central Bank should review the architecture or global design of the FIDE's electronic data processing applications and prepare system documentation. This review and documentation should be prepared immediately. If no personnel is available for these tasks, temporary help should be hired to assist in this process with the supervision of Bank's personnel and/or outside consultants.

Report on Compliance with the Terms of the Agreements and
Applicable Laws and Regulations

Recommendation 1:

CATRE's participation in the project must be regulated so that it prohibits its management from having direct participation in loans collection, follow up on loan contracts and any other type of activity which does not involve technical assistance to small businesses, and COFINASA shall be requested to increase its efforts to collect its project's loan portfolio.

Recommendation 2:

FIDE should require documentation for all the procurement made by the beneficiaries of the project indicating the country of origin which should be in accordance with the geographical codes specified in the project implementation letter from USAID/Dominican Republic.

SMALL INDUSTRY DEVELOPMENT PROJECT MANAGED BY
THE CENTRAL BANK OF THE DOMINICAN REPUBLIC
USAID/ DOMINICAN REPUBLIC PROJECT No.517-0150

MANAGEMENT COMMENTS

June 5, 1990

Mr. Rafael E. García
Price Waterhouse

Dear sir:

In reply to your communication of May 30, 1990, wherein you request our written comments on the Audit performed to the Small Industry Project.

Please find enclosed FIDE's opinion on said audit.

Sincerely yours,

Lic. Ricardo Roque Ortiz
Financial and Administrative Subdirector
on behalf of Director of FIDE

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FIDE'S OPINION TO THE AUDIT PERFORMED TO THE
SMALL INDUSTRY DEVELOPMENT PROJECT
BY PRICE WATERHOUSE

1. Loans to small industries amounting to RD\$2,928,744.00, which could present collection difficulties.

In the audit report Price Waterhouse indicate as abnormal the granting of loans through banking institutions which are in poor financial position. FIDE cannot accept such statement since those institutions, which actually present financial problems to honor their financial commitments, at the time that loans were channelled their financial position was different. Around 90% of Project loans were approved before 1988, while the financial troubles of this institutions began in 1989, together with the crisis of the banking system.

Following is a detail of the loans indicated by the audit firm, with their correspondent approval dates:

BANCO DOMINICO-HISPANO

| Préstamo No. | Fecha de Aprobación | Balance RD\$ |
|-----------------|------------------------|-----------------|
| 5899 | 17-09-86 | 19,115.70 |
| 5967 | 29-09-86 | 206,880.44 |
| 5973 | 10-10-86 | 14,897.09 |
| 6024 | 13-11-86 | 18,864.49 |
| 6047 | 24-11-86 | 202,230.31 |
| 6109 | 17-03-87 | 219,116.73 |
| 6191 | 08-06-87 | 233,985.28 |
| 6207 | 12-06-87 | 64,146.27 |
| 6252 | 14-07-87 | 249,273.78 |
| 6345 | 21-09-87 | 47,908.53 |
| 6760 | 10-05-88 | 127,142.40 |

Since November 1989, is when this institution begins to present financial difficulties.

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Banco de Desarrollo COFINASA, S. A.

| Préstamo No. | Fecha de Aprobación | Balance RD\$ |
|-----------------|------------------------|-----------------|
| 5187 | 14-05-85 | 965.47 |
| 5217 | 21-05-85 | 66,454.61 |
| 5229 | 21-05-85 | 4,669.11 |
| 5308 | 04-07-85 | 13,003.66 |
| 5550 | 28-10-85 | 79,298.10 |
| 5612 | 02-12-85 | 27,282.73 |
| 5649 | 30-01-86 | 49,156.54 |
| 5651 | 30-01-86 | 5,020.11 |
| 5681 | 06-02-86 | 8,132.28 |
| 5710 | 07-03-86 | 46,545.38 |
| 6181 | 06-05-87 | 36,011.02 |
| 6246 | 13-07-87 | 45,550.18 |
| 6341 | 21-09-87 | 36,455.44 |
| 6366 | 29-09-87 | 263,947.89 |
| 6378 | 28-10-87 | 49,917.03 |
| 6415 | 25-11-87 | 46,456.95 |
| 6472 | 23-12-87 | 72,879.01 |
| 6720 | 02-05-88 | 30,676.32 |
| 6721 | 02-05-88 | 26,752.49 |
| 6724 | 21-05-88 | 41,852.21 |
| 6725 | 21-05-88 | 50,167.35 |

The financial situation of this intermediary begins to present problems since February 1989.

Banco de Desarrollo FINADE, S. A.

| Préstamo No. | Fecha de Aprobación | Balance RD\$ |
|-----------------|------------------------|-----------------|
| 4272 | 19-07-83 | 4,742.00 |
| 4672 | 05-03-84 | 12,609.00 |
| 5159 | 09-04-85 | 34,809.29 |
| 5127 | 11-10-85 | 40,481.29 |
| 5530 | 11-10-85 | 22,281.00 |
| 5544 | 11-10-85 | 11,436.00 |
| 5650 | 30-01-86 | 84,975.08 |
| 5764 | 17-04-86 | 43,481.00 |
| 5852 | 12-06-86 | 70,416.00 |
| 2886 | 05-06-85 | 4,806.00 |

This intermediary presented difficulties since April 1987.

Banco Cibao, S. A.

| Préstamo No. | Fecha de Aprobación | Balance RD\$ |
|-----------------|------------------------|-----------------|
| 6469 | 23-12-87 | 99,769.00 |

Actually, negotiations are being held with Banco del Comercio, which will be responsible for the commitments of Banco Cibao, S. A. This institution started to present financial problems since November 1989.

2. Questionable Costs

Price Waterhouse reports that the disbursements made by FIDE from the Grant fund to support the Technical Assistance Centers, include unsupported costs amounting to RD\$213,649. On this regard, we would like to remark that the majority of these resources were used to cover operational costs (salaries, meals and others), and which supports are presented through payrolls and by the "Informe anual de ejecución presupuestaria" presented by each center to the CAPE-FIDE. In addition, we submitted all copies of the management checks issued by the Central Bank, which clearly explain the concept and use of such funds.

We would like to appoint that the "Centro de Asistencia Técnica Regional del Este (CATRE)" is the TAC that presents more anomalies, which is explained by the irregularities committed by one of its Directors which was investigated by FIDE and UCE technicians, whose reports were presented to the technicians that performed the financial review of the Program.

3. Filing System

Price Waterhouse reports that the filing system does not ensure an adequate safeguarding of loan documentation. We would like to appoint that we submitted almost all of the files requested, although some were delivered with a delay such as those loans files which are expired and are kept in an inactive file at the former building of the Central Bank. In addition, we would like to appoint that the files circulating in other departments are sent with internal memos to facilitate their location.

Regarding the lack of established procedure to provide the location of the files, we appoint that there is an established system that numerates the files according to the arrival order of the loans applications and the documentation are filed following this order.

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Also it is appointed that the filing system is not adequate since out of 200 files 12 could not be located. We agree that the filing system had their inconveniences which are already solved and now we count with a file incharge who has been carefully instructed with the managing of the files.

4. Unreconcile difference of RD\$1,668,236 (US\$262,714) between the project's records (Finance Department) and the Central Bank's Accounting Department

In this regards we wish to appoint that as a post audit step we have made a review of the reconciling items which comprised around 70% of the period under review and the difference have been reduced down to RD\$102,484.83 with their supporting documentation. We expect to conclude this assignment within 10 labor days. Also we requested the recruitment of new personnel to perform the reconciliations on a monthly basis.

5. Lack of review of the journal entries' codifications.

We do not agree with the lack of review of the journal entries, since all journal entries are signed by the person who prepares them, the accountant who reviews them and the Division Head who approves them. Regarding the report of "Movimiento de Recursos por Fuentes" prepared by the "Unidad de Cartera" with the support of the "Centro de Informática", which is the support of one of the journal entries at the end of the month; we agree that the codification should be reviewed and signed also by the accounting unit in addition to the review made by "Unidad de Cartera".

6. Compliance with the terms of the agreements and applicable laws and regulations.

In the execution of the program we were only a little flexible with the requirement of the Origin Certificate of the machinery and equipment acquired with the program resources. Due to the fact that some of the equipment were acquired from second hands in the local market.

We would like to appoint that the exclusion of the Origin Certificate was authorized by Mr. Douglas Croue, an AID officer working at the FIDE Department, because this Certificate was not always easy to obtain from the beneficiary since the small entrepreneurs usually purchase their equipment in the local market and do not import them.

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