

PD-ABC-524

len - 70537

AUDIT OF USAID/PERU'S DRUG EDUCATION
AND PUBLIC AWARENESS PROJECT
MANAGED BY THE CENTER OF EDUCATION AND
INFORMATION ON DRUG ABUSE PREVENTION
JUNE 24, 1987 TO MARCH 31, 1990

Audit Report No. 1-527-91-25-N
March 5, 1991

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:

RIG/T

APO MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL

AMERICAN EMBASSY

TEGUCIGALPA - HONDURAS

TELEPHONES:

32-9987 - 32-3120

FAX No. (504) 31-4465

March 5, 1991

MEMORANDUM

TO: D/USAID/Peru, Craig Buck

FROM: RIG/A/T Acting, Darryl T. Burris *Darryl T. Burris for*

SUBJECT: Audit of USAID/Peru's Drug Education and Public Awareness Project, Managed by the Center of Education and Information on Drug Abuse Prevention, June 24, 1987 to March 31, 1990

This report presents the results of a non-Federal financial audit of the Drug Education and Public Awareness Project, USAID/Peru Project No. 527-0288 Managed by the Center of Education and Information on Drug Abuse Prevention (Center) for the period June 24, 1987 to March 31, 1990. The accounting firm of Price Waterhouse prepared the report which is dated January 22, 1991.

The purpose of the project is to support the Center's efforts in mobilizing the general public, key decision-makers, and community leaders to advocate and carry out concrete actions against drug availability and abuse. The project's budgeted amount as amended totaled \$1.8 million. Project funds were provided to the Center for the following activities: (1) research, (2) information and education, (3) technical assistance and training, (4) administration and overhead, and (5) audit and evaluations.

The objectives of the audit were to determine whether: (1) the Center's fund accountability statement presents fairly project receipts and expenditures for the period audited, (2) the internal control structure of the Center was adequate for project purposes, and (3) the Center complied with applicable laws, regulations and agreement terms. The audit coverage included \$1,074,000 of funding provided to the project.

Price Waterhouse found that the fund accountability statement presents fairly, in all material respects, the receipts and disbursements of the project. Additionally, the auditors found no material weaknesses in the Center's internal control structure.

With respect to compliance, the auditors reported no instances of material noncompliance with agreement terms and applicable laws and regulations.

The audit report was discussed with management officials of the Center who generally agreed with the report.

AUDIT OF THE DRUG EDUCATION AND
PUBLIC AWARENESS PROJECT MANAGED
BY THE CENTER OF EDUCATION AND
INFORMATION ON DRUG ABUSE
PREVENTION - CEDRO USAID/PERU
PROJECT No. 527-0288 FROM
JUNE 24, 1987 TO MARCH 31, 1990

AUDIT OF THE DRUG EDUCATION AND
PUBLIC AWARENESS PROJECT MANAGED
BY THE CENTER OF EDUCATION AND
INFORMATION ON DRUG ABUSE
PREVENTION - CEDRO USAID/PERU
PROJECT No. 527-0288 FROM
JUNE 24, 1987 TO MARCH 31, 1990

TABLE OF CONTENTS

Transmittal letter and summary

- Background
- Audit objectives and scope
- Results of audit
- Management comments

Fund accountability statement

- Independent auditor's report
- Fund accountability statement
- Notes to the fund accountability statement

Internal control structure

- Independent auditor's report

Compliance with agreement terms and applicable laws and regulations

- Independent auditor's report

Annex 1 - Management comments

Price Waterhouse

January 22, 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 Drug Education and Public Awareness Project, USAID/PERU Project No.527-0288, managed by the Center of Education and Information on Drug Abuse Prevention - CEDRO from June 24, 1987 to March 31, 1990.

BACKGROUND

Drug availability and abuse is a serious social and economic problem that affects the development of Perú. The United States Government, through the United States Agency for International Development Lima, Perú, USAID/PERU, supports the CEDRO's program mobilizing the general public, key decision-makers and community leaders to advocate and carry out concrete actions against drug availability and abuse.

The Project's budget amounts to US\$1,780,000 in accordance with the terms of the original agreement dated June 24, 1987 which was amended on August 24, 1988 and July 20, 1989. Details of such funds, listed by component, are as follows:

	<u>Financial Plan (US\$000)</u>			
	<u>Original Agreement</u>		<u>Amendments</u>	
	<u>June 24, 1987</u>		<u>August 24, 1988 and July 20, 1989</u>	
	<u>Local</u>	<u>Local</u>	<u>Local</u>	<u>Local</u>
	<u>US\$</u>	<u>currency</u>	<u>US\$</u>	<u>currency</u>
Research	-	343	-	411
Information and education	-	475	35.5	432.5
Technical assistance and training	-	370	-	485
Administration and overhead	-	442	-	266
Audit	-	30	-	15
Evaluations	120	-	135	-
	120	1,660	170.5	1,609.5

4

Research

This Project's activity provides a source of information on the characteristics of drug production, trafficking and abuse in Perú. CEDRO has conducted two nationwide epidemiological studies to determine the nature and extent of the drug abuse problem in Perú.

Information and education

This Project's activity is directed to reach the general public and selected target audiences. The Documentation Office selected material encompasses a wide range of drug related topics to inform professionals and the general public. In addition, CEDRO works closely with television, radio and the print media - newspapers and magazines - to develop a continual flow of drug related information.

Technical assistance and training

CEDRO has incorporated to its institutional network 680 organizations (parents associations, schools, religious groups, politicians, governmental entities, etc). CEDRO assists and sponsors drug prevention projects designed and implemented by other entities in an effort to apply field test prevention techniques. This activity also includes seminars, conferences and training sessions focused on specific drug related themes, such as the latest research findings, drug legislation and alternative income sources in major coca-producing regions.

Administration and overhead

This component provides the necessary funds to maintain the normal running of Project's activities.

Audit and evaluations

During the life of the Project evaluations must be made to assess the effectiveness of CEDRO in bringing about changes in public awareness and knowledge of the drug problem in Perú, and an institutional analysis of CEDRO related to the appropriateness of the cost structure in light of the institutional goals and objectives and its progress in mobilizing internal and external financial resources.

The CEDRO's financial statement must be audited by independent accountants every 12 months.

AUDIT OBJECTIVES AND SCOPE

We were engaged to perform a concurrent financial audit of the Drug Education and Public Awareness Project, USAID/PERU Project No.527-0288, managed by the Center of Education and Information on Drug Abuse Prevention - CEDRO, for the period June 24, 1987 to March 31,

1990. 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 such other auditing procedures as we considered necessary to determine whether:

- The fund accountability statement as of March 31, 1990 presents fairly the financial activities of the Project at that date and costs reported as incurred and reimbursed by USAID/PERU during the period ended March 31, 1990 are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations.
- The internal control structure of CEDRO is adequate to manage the Project's operations.
- CEDRO has complied with agreement terms and applicable laws and regulations which may affect the Projects's goals and incurred costs.

The scope of our audit work consists of:

- 1 Monitoring the implementing agency's utilization of funds, commodities and supplies provided under the grant agreement. Monitoring activities included:
 - Performing selective review of project related documentation, accounting records and internal control structure.
 - Reviewing the Project's procurement procedures used to determine that sound commercial practices were used, including competition, reasonable prices and adequate qualities as agreed in the Project's agreement.
 - Reviewing the procedures used to control the Project's funds.
- 2 Examination of the fund accountability statement for the implementing agency and for each major component of the Project taken as a whole, through March 31, 1990. Reviewing for any costs which were not fully supported with adequate records or which were not allowable or reasonable under the terms of the agreement. This work included:
 - a) Determining whether advances of Project's funds were justified with documentation, including reconciliations of funds advanced, disbursed and available.
 - b) Reviewing direct and indirect costs billed to USAID/PERU identifying and quantifying any questionable costs.
 - c) Review of the bank accounts and related controls. Obtaining positive confirmation of balances.

- 3 Review and evaluation of the implementing agency's internal control structure to manage the Project. The conduct of preliminary and compliance tests to determine the extent to which established procedures and controls are functioning as intended.
- 4 The scope of our audit work included verification of receipts of funds from the United States Agency for International Development and ensuring the proper accounting treatment and banking of those receipts. We examined supporting documentation for payments on a test basis as considered appropriate in the circumstances.
- 5 We have been alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

RESULTS OF AUDIT

Fund accountability statement

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. Based on work performed, as summarized above, in our opinion, the fund accountability statement as of March 31, 1990 presents fairly the financial activities of the Project at that date and costs reported as incurred and reimbursed by USAID/PERU, during the period ended March 31, 1990 are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations which may affect the Project's goals and incurred costs.

Internal control structure

In planning and performing our audit of the fund accountability statement we considered the internal control structure of the implementing agency in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement.

Our evaluation of the internal control structure included the systems of internal control surrounding:

- Laws and regulations aspects
- Accounting and financial aspects
- Treasury (receipts and custody of funds)
- Liquidations (includes procurement and payment for goods and services)
- Salaries
- Fixed assets

We noted no matters involving the implementing agency's internal control structure that we believe to be material weaknesses. However, we reported other minor matters in a separated letter.

Compliance with agreement terms and applicable laws and regulations

As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement and in order to render an opinion on compliance with agreement terms and applicable laws and regulations, we performed tests to ensure that CEDRO complied with the agreement terms and applicable laws and regulations which may affect Project's goals and incurred costs.

The results of our tests of compliance indicate that, with respect to items tested, CEDRO has complied, in all material respects, with agreement terms and applicable laws and regulations which may affect the Project's goals and incurred costs. With respect to items not tested, nothing came to our attention that caused us to believe that CEDRO had not complied, in all material respects, with the terms of the agreement and applicable laws and regulations which may affect the Project's goals and incurred costs.

MANAGEMENT COMMENTS

This report has been discussed with the Executive Director of CEDRO, who is in general agreement with the content of this report. Specific comments are reproduced in Annex 1.

Pricewaterhouse
—

Price Waterhouse

DRUG EDUCATION AND PUBLIC AWARENESS
PROJECT MANAGED BY THE CENTER
OF EDUCATION AND INFORMATION ON
DRUG ABUSE PREVENTION - CEDRO
USAID/PERU PROJECT NO.527-0288

FUND ACCOUNTABILITY STATEMENT
AS OF MARCH 31, 1990

INDEPENDENT AUDITORS' REPORT

October 22, 1990

We have audited the accompanying fund accountability statement of the Drug Education and Public Awareness Project, USAID/PERU Project No.527-0288, managed by the Center of Education and Information on Drug Abuse Prevention - CEDRO as of March 31, 1990. This fund accountability statement is the responsibility of the Center of Education and Information on Drug Abuse Prevention - CEDRO. Our responsibility is to express an opinion on this 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. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. Our audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provided 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.

In our opinion, the fund accountability statement audited by us presents fairly, in all material respects, the fund position of the Drug Education and Public Awareness Project, USAID/PERU Project No.527-0288, managed by the Center of Education and Information on Drug Abuse Prevention - CEDRO at March 31, 1990 and the fund activity for the period June 24, 1987 to March 31, 1990, on the basis of accounting described in Note 2.

This report is intended solely for the use of the United States Agency for International Development and the Center of Education and Information on Drug Abuse Prevention - CEDRO. 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.

Price Waterhouse
—

DRUG EDUCATION AND PUBLIC AWARENESS
 PROJECT MANAGED BY THE CENTER
 OF EDUCATION AND INFORMATION ON
 DRUG ABUSE PREVENTION - CEDRO
 USAID/PERU PROJECT No.527-0288

FUND ACCOUNTABILITY STATEMENT
 FOR THE PERIOD JUNE 24, 1987 TO MARCH 31, 1990

<u>Cost element</u>	<u>Budget</u> US\$	<u>Disbursed</u> US\$	<u>Available</u> US\$
Research	411,000	164,937	246,063
Information and education	468,000	325,799	142,201
Technical assistance and training	485,000	417,236	67,764
Administration and overhead	266,000	166,387	99,613
Audit	15,000	-	15,000
Evaluations	<u>135,000</u>	<u>-</u>	<u>135,000</u>
	<u>1,780,000</u>	<u>1,074,359</u>	<u>705,641</u>
	=====	=====	=====

Notes 1 to 3 form an integral part of this fund accountability statement.

DRUG EDUCATION AND PUBLIC AWARENESS
PROJECT MANAGED BY THE CENTER
OF EDUCATION AND INFORMATION ON
DRUG ABUSE PREVENTION - CEDRO
USAID/PERU PROJECT No.527-0288

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
AS OF MARCH 31, 1990

1 NATURE OF ACTIVITIES

The Center of Education and Information on Drug Abuse Prevention CEDRO is a private voluntary organization constituted on June 20, 1986 for the purpose of promoting education and information on drug availability and abuse.

On June 24, 1987 CEDRO signed a Cooperative Agreement with the United States Agency for International Development in Perú (USAID/PERU), related to the Drug Education and Public Awareness Project. CEDRO is responsible for managing it. In accordance with an amendment signed on April 3, 1990, the Agreement period ends on March 31, 1991. The purpose of the Project is to support CEDRO's programs to strengthen the knowledge and understanding within Perú of the dangers of drugs and drug-related problems through the provision of education and information services which emphasize the causes and consequences of drug availability and abuse.

2 ACCOUNTING POLICIES

The fund accountability statement is prepared on the basis of cash receipts and disbursements.

In accordance with current Peruvian legislation, the accounting operations are recorded in local currency; the amounts in U.S. dollars shown in the fund accountability statement are translated on a first-in first-out basis, applying the exchange rate in force at the date of the remittances of funds.

These translated amounts being compared with USAID's accounting records will result in some insignificant differences attributable to the exchange rates in force at the date of transactions used by each entity.

3 TAX SITUATION

CEDRO has received official recognition from the Peruvian tax authorities that it is a non-taxable organization.

Price Waterhouse

DRUG EDUCATION AND PUBLIC AWARENESS
PROJECT MANAGED BY THE CENTER
OF EDUCATION AND INFORMATION ON
DRUG ABUSE PREVENTION - CEDRO
USAID/PERU PROJECT No.527-0288

INTERNAL CONTROL STRUCTURE
AS OF MARCH 31, 1990

INDEPENDENT AUDITORS' REPORT

October 22, 1990

We have audited the fund accountability statement of the Drug Education and Public Awareness Project, USAID/PERU Project No.527-0288, managed by the Center of Education and Information on Drug Abuse Prevention - CEDRO as of March 31, 1990 and for the period June 24, 1987 to March 31, 1990 and have issued our report thereon dated October 22, 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.

In planning and performing our audit of the fund accountability statement for the Drug Education and Public Awareness Project USAID/PERU Project No.527-0288, managed by the Center of Education and Information on Drug Abuse Prevention - CEDRO for the period ended March 31, 1990, we considered CEDRO's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on such statement and not to provide assurance on the internal control structure.

The Center of Education and Information on Drug Abuse Prevention - CEDRO is responsible for establishing and maintaining an internal control structure to manage the Project's operations. In fulfilling this responsibility, estimates and judgements 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 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 degree of compliance with the procedures may deteriorate.

For the purpose of this report we have classified significant internal control structure policies and procedures into the following categories: i) laws and regulations aspects; ii) accounting and financial aspects; iii) treasury (receipts and custody of funds); iv) liquidations (includes procurement and payment for goods and services); v) salaries; vi) fixed assets.

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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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 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. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted other matters involving the internal control structure and operations that we reported to CEDRO's management in a separate communication dated October 22, 1990.

This report is intended solely for the information and use of the United States Agency for International Development and the Center of Education and Information on Drug Abuse Prevention - CEDRO. 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.

Pricewaterhouse

Price Waterhouse

DRUG EDUCATION AND PUBLIC AWARENESS
PROJECT MANAGED BY THE CENTER
OF EDUCATION AND INFORMATION ON
DRUG ABUSE PREVENTION - CEDRO
USAID/PERU PROJECT No.527-0288

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS
AS OF MARCH 31, 1990

INDEPENDENT AUDITORS' REPORT

October 22, 1990

We have audited the fund accountability of the Drug Education and Public Awareness Project, USAID/PERU Project No.527-0288, managed by the Center of Education and Information on Drug Abuse Prevention - CEDRO as of March 31, 1990 and for the period Jun 24, 1987 to March 31, 1990 and have issued our report thereon dated October 22, 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.

The Center of Education and Information on Drug Abuse Prevention CEDRO is responsible for compliance with the terms of the agreement and applicable laws and regulations. In obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of compliance by CEDRO with agreement terms and applicable laws and regulations which may affect the Project's goals and incurred costs. However, our objective was not to provide an opinion on overall compliance with such provisions.

The result of our tests indicate that, with respect to the items tested, the Center of Education and Information on Drug Abuse Prevention - CEDRO complied, in all material respects, with the terms of the agreement and with applicable laws and regulations which may affect the Projects's goals and incurred costs. With respect to items not tested nothing came to our attention that caused us to believe that the Center of Education and Information on Drug Abuse Prevention - CEDRO had not complied, in all material respects, with the terms of the agreement and with applicable laws and regulations which may affect the Project's goals and incurred costs.

15

This report is intended solely for the information and use of the United States Agency for International Development and the Center of Education and Information on Drug Abuse Prevention - CEDRO. 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.

Price Waterhouse
—

Annex 1

DRUG EDUCATION AND PUBLIC AWARENESS
PROJECT MANAGED BY THE CENTER
OF EDUCATION AND INFORMATION ON
DRUG ABUSE PREVENTION - CEDRO
USAID/PERU PROJECT No.527-0288

MANAGEMENT COMMENTS
AS OF MARCH 31, 1990

The Executive Director of the Center of Education and Information on
Drug Abuse Prevention - CEDRO, have provided the following comment:

We were pleased to received your final draft with regard to the
concurrent audit of this project. We have read the report
thoroughly.