

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Africa
TRUSTEES

**AUDIT OF USAID/GUATEMALA'S HIGHLANDS
AGRICULTURAL DEVELOPMENT PROJECT-PHASE I
MANAGED BY
THE AGRICULTURAL SECTOR PLANNING UNIT**

**Audit Report No. 1-520-91-40-N
July 26, 1991**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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July 26, 1991

MEMORANDUM

TO: D/USAID/Guatemala, Terrence Brown

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

SUBJECT: Audit of USAID/Guatemala's Highlands Agricultural Development Project-Phase I, Managed by the Agricultural Sector Planning Unit, September 30, 1983 to June 30, 1990

This report presents the results of a non-Federal financial audit of the Highlands Agricultural Development Project-Phase I, Natural Resources Management Component, Activities Managed by the Agricultural Sector Planning Unit (Unit), USAID/Guatemala Project No. 520-0274, for the period September 30, 1983 to June 30, 1990. Price Waterhouse prepared the report, which is dated June 28, 1991.

The purpose of the Highlands Agricultural Development Project is to increase rural agricultural productivity and profitability. The Unit is responsible for designing the short-term planning activities of the agricultural and food sectors, as outlined in the government of Guatemala's development plan. The audit coverage included \$37,716 provided by A.I.D. to the Unit.

The objectives of the audit were to determine whether: (1) the Unit's fund accountability statement for the period audited fairly presents Project receipts and disbursements, (2) the internal control structure of the Unit was adequate to manage the Project's funds, and (3) the Unit complied with contract terms and applicable laws and regulations. The scope of the audit included an examination of the Unit's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

Price Waterhouse disclaimed an opinion on the fund accountability statement, primarily because the original documentation supporting the Unit's Project related disbursements had been destroyed. The auditors found one material weakness in the Unit's internal control structure pertaining to the lack of an accounting

system. The audit also disclosed two material instances of noncompliance, the Unit had failed to maintain the original supporting documentation for Project costs and it was unable to demonstrate that the required counterpart contributions had been made to the Project.

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

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

Recommendation No. 1

We recommend that USAID/Guatemala negotiate a settlement with the Agricultural Sector Planning Unit for the \$37,716 of questionable costs, as described in the Price Waterhouse audit report dated June 28, 1991.

Recommendation No. 2

We recommend that USAID/Guatemala, in conjunction with the Agricultural Sector Planning Unit, develop an action plan with implementation timetable which will enable the Unit to correct problems with its accounting system, budgetary controls, and administrative procedures as identified in the Price Waterhouse audit report dated June 28, 1991.

Recommendation No. 3

We recommend that USAID/Guatemala require the Agricultural Sector Planning Unit to develop a plan for establishing procedures to ensure that Project documentation is maintained for a period of three years after the Project's completion date and to maintain proper accounting records for the receipt and use of counterpart contributions.

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

AUDIT OF THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT-PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE AGRICULTURAL SECTOR PLANNING UNIT (USPADA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

AUDIT OF THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE AGRICULTURAL SECTOR PLANNING UNIT (USPADA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

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Price Waterhouse



June 28, 1991

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

Dear Mr. Howard:

This report presents the results of our financial audit of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by the Agricultural Sector Planning Unit (Unidad Sectorial de Planificación Agropecuaria y de Alimentación - USPADA), USAID/Guatemala Project No. 520-0274, from September 30, 1983 to June 30, 1990.

I. BACKGROUND

On September 30, 1983, the United States Government, acting through the U. S. Agency for International Development in Guatemala (USAID/Guatemala), signed loan agreement No. 520-T-037 and grant agreement No. 520-0274 with the Government of Guatemala (GOG). The agreements set forth the understandings of the Highlands Agricultural Development Project (the project) involving planned obligations of \$13,500,000 in loan and \$2,100,000 in grant funds. This total was assigned to two major components, Natural Resources Management and Access Roads. The Natural Resources Management component involves \$8,121,000 in loan, \$1,064,500 in grant and \$18,670,497 in counterpart funds. The original agreement, together with three amendments to the loan and two amendments to the grant, were to cover a six-year period up to September 30, 1989 to help finance foreign exchange and local currency costs for the project. However, a third amendment to the grant agreement, which increased funding and extended the completion date of the project to August 30, 1993, was signed on August 30, 1988. This amendment involved planned obligations of \$15,000,000, and the combining of this project's activities with those from the Small Farmer Diversification Systems Project, USAID/Guatemala Project No. 520-0255, which ended on March 30, 1989.

The project purpose is to increase rural agricultural productivity and profitability. This would be accomplished through the development of diversified commercial agriculture, expanded emphasis on irrigated farm systems, and the transfer of production technology and marketing services to small farmers. Other than the Department of Petén, the project area is the entire country.

The borrower/grantee is the Government of Guatemala (GOG) and the project has been implemented through the following institutions which are presided over by the Ministry of Agriculture: The General Directorate for Agricultural Services (Dirección General de Servicios Agrícolas - DIGESA), the General Directorate for Forests and Wildlife (Dirección General de Bosques y Vida Silvestre - DIGEBOS) formerly the National Forestry Institute (Instituto Nacional Forestal - INAFOR), the National Agricultural Development Bank (Banco Nacional de Desarrollo Agrícola - BANDESA), and the Agricultural Sector Planning Unit (Unidad Sectorial de Planificación Agropecuaria y de Alimentación - USPADA).

INAFOR functioned through 1988 when it was replaced by DIGEBOS which was created on June 21, 1988. During their life both institutions acted as decentralized and semiautonomous entities and they were charged with assuring that the country's natural renewable resources were used under technical and appropriate procedures. With respect to the project both institutions were responsible for implementing the reforestation activity.

DIGESA is responsible for project activities involving extension and technical assistance services for the planning, design and construction of small scale irrigation systems and soil conservation structures. This includes training of farmers in appropriate irrigation technology as well as the promotion of soil conservation practices. DIGESA is also responsible for the promotion, design, credit arrangements and supervision of the construction of irrigation projects, and the construction of soil conservation structures.

BANDESA is responsible for administrating the project's trust fund. This trust fund is to finance small scale irrigation credit and social payments for the soil conservation program. BANDESA is a semi-autonomous division of the Ministry of Agriculture's which was established in 1971 as the principal credit agency for the agricultural public sector.

The current organization has its central offices in Guatemala City and serves national needs through eight regional districts. Thirty five subregional agencies have been established to serve agricul-

tural credit needs. Each subregional office is able to develop, approve (within established limits) and monitor loans made to farmers.

In relation to the project, USPADA's only assumed responsibility was to conduct a baseline survey for Project No. 520-0274, Highlands Agricultural Development, in the Ministry of Agriculture's Region V and selected portions of Regions I and IV.

The Agricultural Sector Planning Unit (USPADA) was originally created as USPA by decree 102-70 for the purpose of advising the Minister of Agriculture on the design and evaluation of the country's agricultural development policy, with the cooperation of the public agricultural sector programming units and the National Economic Planning Council's General Secretariat. By decree 51-81, USPA changed its name to USPADA and was made responsible for designing the short-term planning activities of the agriculture and food sectors, along the lines of the GOG's development plans.

USPADA is the Ministry of Agriculture's unit for sector planning and coordination. It reports directly to the office of the Minister of Agriculture and its organization includes functional and/or technical divisions for carrying out specific tasks. Basically they consist of divisions for policy analysis, programming and budgeting studies and projects, and technical specialists.

II. OBJECTIVES

Our financial audit of the fund accountability statement for the project activities within the Highlands Agricultural Development Project, USAID/Guatemala Project No. 520-0274, Natural Resources Management Component being implemented by USPADA, from September 30, 1983 to June 30, 1990 had as objectives determining whether:

- A. The fund accountability statement for the project activities implemented by USPADA, presents fairly the receipts and expenditures of USAID/Guatemala furnished funds from September 30, 1983 to June 30, 1990. This review was to include the determination as to whether the costs reported as incurred were in fact allowable, allocable and reasonable per the terms of the agreements and A.I.D. regulations, and to identify questionable costs, if any.
- B. The internal control structure of USPADA was adequate to manage the project component as required by USAID/Guatemala. The study and evaluation was to include a review of the following areas: procurement system, budgetary controls; inventories management; control and safeguarding of fixed assets; payroll

preparation and payment; and the controls over the programs for technology research and the technology transfer resulting from these programs.

- C. USPADA had complied with agreement terms and applicable laws and regulations which could affect the component's incurred costs.

III. SCOPE OF WORK

The following steps were applied by us as the basis for the audit program, and since they were not considered as all-inclusive or restrictive in nature they did not constitute relief from our exercising due professional care and judgment.

A. Pre-audit Steps

Review the agreements, action plans, project implementation letters and all other documentation related to the project, including the financial and progress reports submitted by USPADA to USAID/Guatemala.

B. Fund Accountability Statement

Examine the fund accountability statement for the project activities financed by USAID/Guatemala and carried out by USPADA as of June 30, 1990, and identify any costs which were not fully supported by adequate documentation or which were not reasonable, allowable or allocable under the terms of the agreements.

1. Determine whether costs incurred in carrying out the purpose of the project were reasonable, allocable and allowable in accordance with Project Implementation Letter (PIL) No. 6 of the grant agreement, the standard provisions, and any negotiated advance understanding on a particular cost or item, as applicable.
2. Identify any cost not considered appropriate for reimbursement under Project Implementing Letter (PIL) No. 6 of the grant agreement or for lacking due support thereof.
3. On a selective basis, obtain confirmation from third parties and perform on-site visits as considered appropriate.
4. Evaluate, in general terms, the reasonableness and timeliness of information reported by USPADA to USAID/Guatemala.

5. Reconcile the grant funds recorded by USPADA with those confirmed as disbursed by USAID/Guatemala.

C. Internal Control Structure

As part our audit of the fund accountability statement, we conducted a study and evaluation of the internal control structure of USPADA as required by generally accepted auditing standards and the U. S. Comptroller General's "Government Auditing Standards" (1988 Revision).

The study and evaluation was focused on the controls, procedures and accounting records maintained by USPADA for the control of funds provided by USAID/Guatemala and included the following relevant matters:

1. Evaluation of the procurement system in order to determine if the materials, supplies, and services had been purchased according to the Government procurement regulations and sound commercial practices, as required by USAID/Guatemala.
2. Evaluation of the project budgetary control system, including the comparison of actual expenditures with the budgetary assignments in the agreements and subsequent A.I.D. approved transfers between budget items.
3. Evaluation of inventories control procedures.
4. Establish the adequacy of the recipients' control over USAID/Guatemala furnished fixed assets by determining whether (a) a record was maintained on each fixed asset showing the identification number, location, date of purchase, and cost; (b) subsidiary records were periodically reconciled to the general ledger; (c) fixed assets were tagged in such a manner so that they could be readily identified as being furnished by USAID/Guatemala.
5. Perform an evaluation to determine if USPADA had established controls and statistics on the project's activities and results.
6. Review and evaluate if USPADA had adequate controls on payroll preparation and payment, including payments for local day laborers.

D. Compliance With Agreement Terms and Applicable Laws and Regulations

Determine whether USPADA had complied with the terms and conditions of the agreements, implementation letters, amendments, and applicable laws and regulations, as follows:

1. Determine if funds provided by USAID/Guatemala under PIL No. 6 and No.15 of the grant agreement had been expended for purposes not authorized or not in accordance with the terms of the agreement.
2. Explain any failure to submit required reports or the submission of any inaccurate financial reports.
3. Determine if counterpart funds and technical personnel were provided in a timely manner, according to PIL No. 6 of the grant agreement and to the project needs.
4. Determine other areas where there might be noncompliance with PILs No. 6 and No. 15 of the grant agreement and standard provisions that could have a significant effect on project progress or achievement, project objectives or goals.

IV. RESULTS OF WORK

Fund Accountability Statement

Our review of the fund accountability statement on the project's component managed by USPADA disclosed that the original documentation which supports the project disbursements was destroyed by the GOG's Comptroller General's Office (Contraloria de Cuentas) on the basis that the examination of such documentation conducted by that office had been already completed.

Because of the limitation on the scope of our work, as summarized above, we are not in the position to express, and we do not express, an opinion on the fund accountability statement reviewed by us. However, for USAID/Guatemala purposes all incurred costs (US\$37,716) are considered questionable.

Internal Control Structure

Certain deficiencies in the entity's internal control structure, mostly attributable to the lack of a proper accounting system, administrative manuals and budgetary controls were noted during our review. These deficiencies are more fully described under finding No. 1 in the pertinent section of this report.

Compliance With Agreement Terms and
Applicable Laws and Regulations

The following conditions which are summarized below and are more fully described under Notes No. 2 and 3 in the fund accountability section and finding No. 1 in the internal control structure section of this report were noted during our tests of compliance with agreement terms, and applicable laws and regulations.

- The original project supporting documentation was destroyed by the Government's Comptroller General's Office.
- USPADA is not in the position to quantify the project counterpart contributions made.
- Excess disbursements were made by USPADA over the corresponding budget allocations, and some expenditures were made with no supporting budget lives.

MANAGEMENT COMMENTS:

During the exit conference held on June 11, 1991 which was attended to by officials from USPADA, representatives of our firm, and Messrs Edgar Velazco and Julio Martínez, from the Project's Administrative Office and USAID Comptroller's Office, respectively, we were informed that most officials had been recently appointed and that they were in the process of gathering all data required to clarify the report findings.

On June 13, 1991, the USPADA's general coordinator sent out a letter to us explaining the actions to be adopted in clarifying for USAID purposes the report findings, and enclosing a copy of the Base Survey on Region V, conducted as part of the project activities.

As a result of the foregoing, we adjusted our report (no opinions changed) and deleted our finding on the above mentioned Base Survey.



Price Waterhouse



THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE AGRICULTURAL SECTOR PLANNING UNIT (USPADA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit the accompanying fund accountability statement of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by The Agricultural Sector Planning (USPADA), USAID/Guatemala Project No. 520-0274, from September 30, 1983 to June 30, 1990. This fund accountability statement is the responsibility of USPADA's management.

The following scope limitations prevented the application of the audit procedures called for by our work plan:

1. The original documentation which supports the disbursements disclosed in the fund accountability statement was destroyed by the GOG's Comptroller General's Office (Contraloría General de Cuentas).
2. The data supplied directly to us by USAID/Guatemala concerning fund allocations could not be reconciled to the records maintained by USPADA.

Because of the limitations discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying fund accountability statement.

With regards to project execution for USAID/Guatemala purposes, however, and as further explained in Note 3 for the fund accountability statement, we were not able to review the original documentation which supports the disbursements disclosed in the fund accountability statement, because as it was represented to us,

said documentation was destroyed by the Government's Comptroller General's Office; therefore, the total of the disbursements for Q37,716 (US\$ 37,716) reported in the fund accountability statement has been questioned. Also, and as more fully described in Note 3 to the fund accountability statement, our review of photocopies of the project's documentation revealed costs for Q7,578 which are questionable for the specific reasons explained therein.

This report is intended solely for the use of the Agricultural Sector Planning Unit (USPADA) 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.

A handwritten signature in cursive script, appearing to read "Price Waterhouse".

January 15, 1991

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT-PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE AGRICULTURAL SECTOR PLANNING UNIT (USPADA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

FUND ACCOUNTABILITY STATEMENT
(expressed in Quetzales - Note 4)

	<u>Budget</u>	<u>Actual</u>	<u>Available</u>
INCOME			
Grant funds provided by USAID/Guatemala	<u>Q 51,051</u>	<u>Q 38,000</u>	<u>Q 13,051</u>
DISBURSEMENTS			
Personal services	Q 2,230	Q 50	Q 2,180
Non-personal services	34,596	20,581	14,015
Materials and supplies	2,225	11,224	(8,999)
Furniture and fixtures	<u>12,000</u>	<u>5,861</u>	<u>6,139</u>
Total disbursements	<u>Q 51,051</u>	<u>Q 37,716</u>	<u>Q 13,335</u>
Reimbursed to USAID/Guatemala		<u>Q 284</u>	

Note: As further explained in Note 3 to the Fund Accountability Statement, all project incurred costs (Q37,716) have been questioned.

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT - PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
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USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

NOTES TO THE FUND ACCOUNTABILITY STATEMENT FOR THE PERIOD
SEPTEMBER 30, 1983 TO JUNE 30, 1990

NOTE 1 - BACKGROUND:

The Agricultural Sector Planning Unit (USPADA) is the Ministry of Agriculture's unit for sector planning and coordination. It reports directly to the office of the Minister of Agriculture and is responsible for the following activities:

- Gathering, processing and analyzing data for policy formulation and establishment of priorities.
- Programming and budgeting resources in accordance with established priorities.
- Assisting the Minister in the coordination of all sector programs, and
- Evaluating sector activities in a systematic fashion to provide guidance for future planning and programming.

The organization of USPADA includes functional and/or technical divisions for carrying out these tasks. Basically they consist of divisions for policy analysis, programming and budgeting, studies and projects, and technical specialists.

By PIL No. 6, dated November 19, 1984, USPADA was authorized by USAID/Guatemala to undertake a baseline survey for the Highlands Development Project at the Ministry of Agriculture's Region V and selected portions of Regions I and IV. For such purposes, USAID/Guatemala committed funds for Q51,051, out of which USPADA spent only Q21,061 and assigned counterpart funds for Q 62,674. Subsequently and by PIL No. 15, dated November 29, 1985, USAID/Guatemala modified the original budget assigned to the Project, with an increase of Q17,789, out of which only Q16,655 were spent and Q284 were reimbursed to USAID/Guatemala.

NOTE 2 - ACCOUNTING RECORDS:

For project execution purposes USPADA did not maintain an accounting system, as it considered necessary only to accumulate Government's Forms 200 A, which are expressed in quetzales (local currency, denoted by the symbol Q), and which were the basis for management to compile the project's fund accountability statement for the period September 30, 1983 to June 30, 1990.

NOTE 3 - QUESTIONABLE COSTS:

At the time of the audit USPADA was not able to show us the original documentation supporting disbursements made and it represented to us that said documentation was destroyed by the GOG's Comptroller General's Office (Contraloría General de Cuentas). Therefore, all project incurred costs (Q37,716) have been questioned. Furthermore, and based on our review of photocopies of documentation kept by USPADA, the following costs, included in the total of Q37,716, could also be questioned for the specific reasons indicated below:

	<u>Amount</u>	<u>Reason for Questioning</u>
Tires and tubes and vehicle spare parts	Q 3,414	(1)
Bags, toner, tricket, sundries	275	(2)
Assorted services, metal products and structures, electrical materials, metal furniture and equipment, etc.	<u>3,889</u>	(1)
Total questionable costs	<u>Q 7,578</u>	

- (1) Disbursements in excess over the budget sums approved by PILs Nos. 6 and 15, dated November 19, 1984 and November 29, 1985, respectively.
- 2) Disbursements made for items not included in the budgets approved by USAID/Guatemala.

NOTE 4 - RATE OF EXCHANGE:

All receipts and disbursements shown in the fund accountability statement took place when the local currency unit (quetzal) was at par with the U. S. Dollar.

Price Waterhouse



THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT-PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE AGRICULTURAL SECTOR PLANNING UNIT (USPADA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by The Agricultural Sector Planning Unit (USPADA), USAID/Guatemala Project No. 520-0274, from September 30, 1983 to June 30, 1990, and have issued our report thereon dated January 15, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. 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 of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by The Agricultural Sector Planning Unit (USPADA), USAID/Guatemala Project No. 520-0274, from September 30, 1983 to June 30, 1990, 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 USPADA 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 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: procurement system, accounting and budgetary control system, controls and statistics on the project's activities and results and financial information system.

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they had 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 the 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 deficiencies noted are described in the following pages as finding No. 1 and are related to the lack of an accounting system, defined administrative procedures and budgetary controls.

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 financial statements being reviewed 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. However, the reportable condition described above is believed to be a material weakness.

This report is intended solely for the information of The Agricultural Sector Planning Unit (USPADA) 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.

A handwritten signature in cursive script, appearing to read "Price Waterhouse".

January 15, 1991

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT-PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE AGRICULTURAL SECTOR PLANNING UNIT (USPADA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

INTERNAL CONTROL STRUCTURE

FINDING

1. USPADA Lacked an Appropriate Accounting System, Administrative Procedures and Budgetary Controls to Adequately Manage the Project.

Condition:

During our evaluation, we identified the following deficiencies:

- Neither an accounting system nor adequate budgetary controls existed for project purposes.
- Administrative procedures were not properly defined and the segregation of functions for project purposes was not adequate.

Criteria:

USPADA was required to maintain an administrative and record-keeping system for it to capture, process and report data on the project operations.

Cause:

Because of the small amount of funds assigned to the entity up to the present date, its officers did not consider it necessary to implement more adequate procedures for the management of the project.

Effect:

It was not possible to quantify the counterpart contributions made to the project.

Recommendation:

For future projects USPADA should implement a more formal and reliable accounting system and administrative procedures that provide reasonable assurances regarding the proper recording and summarization of the projects transactions.

Price Waterhouse



THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT-PHASE I
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MANAGED BY THE AGRICULTURAL SECTOR PLANNING UNIT (USPADA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Highlands Agricultural Development Project, Phase I, Natural Resources Management Component managed by the Agricultural Sector Planning Unit (USPADA), USAID/Guatemala Project No. 520-0274, from September 30, 1983 to June 30, 1990, and have issued our report thereon dated January 15, 1991.

We conducted our audit in accordance with generally accepted auditing standards and met, whenever applicable, 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 statement is free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to USPADA is the responsibility of USPADA's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatements, we performed tests of USPADA's compliance with certain provisions of laws, regulations, contracts and grants. 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 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 financial statements. The results of our tests of compliance disclosed the following material instances

of noncompliance with agreement terms, the effects of which have been considered by us in forming an opinion on the fund accountability statement referred to in the first paragraph, above.

- The original documentation supporting project disbursements and incurred costs was destroyed by the Comptroller General's Office (Contraloría General de Cuentas).
- USPADA has not been able to demonstrate the counterpart contributions made to the project.

Except as described above, the results of our tests indicate that, with respect to the items tested, USPADA 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 USPADA had not complied, in all material respects, with those provisions.

This report is intended solely for the information of the Agricultural Sector Planning Unit (USPADA) and the U. S. Agency for International Development. This restriction is not intended to limit distribution of the report which, upon acceptance by the Office of the Inspector General, is a matter of public record.



January 15, 1991

THE HIGHLANDS AGRICULTURAL DEVELOPMENT PROJECT-PHASE I
NATURAL RESOURCES MANAGEMENT COMPONENT
MANAGED BY THE AGRICULTURAL SECTOR PLANNING UNIT (USPADA)
USAID/GUATEMALA PROJECT No. 520-0274
FROM SEPTEMBER 30, 1983 TO JUNE 30, 1990

LIST OF REPORT RECOMMENDATIONS

Internal Control Structure

Recommendation:

For future projects USPADA should implement a more formal and reliable accounting system and administrative procedures that provide reasonable assurances regarding the proper recording and summarization of the projects transactions.

APPENDIX

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