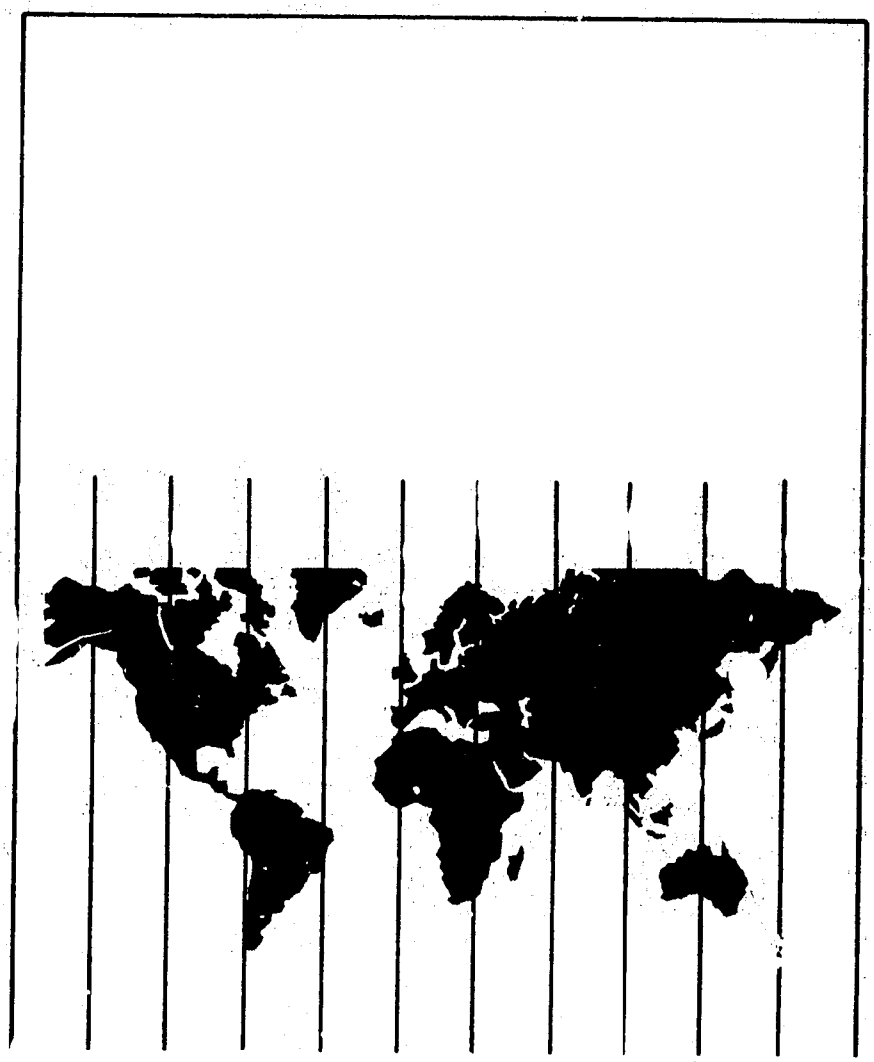
PD-ABD-387

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL



Regional Inspector General for Audit

TEGUCIGALPA

PD-ABD-387

AUDIT OF USAID/BOLIVIA'S CHAPARE REGIONAL DEVELOPMENT PROJECT ACTIVITIES MANAGED BY THE NATIONAL SERVICE OF ROADS FOR THE YEAR ENDED DECEMBER 31, 1990

Audit Report No. 1-511-91-54-N
September 20, 1991

U. S. MAILING ADDRESS:
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AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
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September 20, 1991

MEMORANDUM

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

FROM: RIG/A/T, Reginald Howard

SUBJECT: Audit of USAID/Bolivia's Chapare Regional Development Project, Activities Managed by the National Service of Roads, for the Year Ended December 31, 1990

This report presents the results of a financial audit of the National Service of Roads (Service) for the year ended December 31, 1990. This audit was one of six audits performed to evaluate entities receiving funds under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543. The accounting firm of Price Waterhouse prepared the report, which is dated August 23, 1991.

The Project was initiated in 1983 as a part of the Government of Bolivia's program to reduce coca plantings. The Project focuses on the agroindustrial and institutional development of the Chapare region--Bolivia's principal illicit coca growing area. The life-of-project budget as of December 31, 1990, was $73.2 million, of which USAID/Bolivia is providing grant and loan funds of $38.5 million and the Government of Bolivia the balance of $34.7 million. The Government of Bolivia has also developed a program whereby it makes compensation payments of $2,000 per hectare to peasant farmers who voluntarily reduce their coca plantings.

The Service has participated in the Project since 1987, improving the basic infrastructure of roads and building bridges in Chapare region. The audit coverage included $1.2 million of A.I.D. funds provided to the Service, as well as $41,728 provided by the Government of Bolivia during the audit period. The audit did not include $829,434 in direct payments made by USAID/Bolivia and the Government of Bolivia for the procurement of goods and audit and evaluation services on behalf of the Service for the year ended December 31, 1990.

The purpose of the audit was to determine whether: (1) the Service's fund accountability statement presents fairly, in all material respects, cash receipts and disbursements for the period audited; (2) the Service's internal control structure was adequate for Project purposes; and (3) the Service had complied with the terms of the Project's Agreement and implementation letters and applicable laws and regulations. The scope of the audit included an examination of the Service's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

Price Waterhouse found that, except for the inclusion of certain questionable costs amounting to $2,099, the fund accountability statement presents fairly, in all material

respects, the cash receipts and disbursements of the activities managed by the Service. The questionable costs were related to the procurement of materials without obtaining three quotations from vendors[1].

With respect to the internal control structure of the Service, Price Waterhouse identified three material weaknesses. These weaknesses disclosed that the Service had not: (1) implemented procedures for reconciling goods actually received to goods purchased directly by A.I.D. and charged to the Service; (2) adequately documented Project materials distributed from the Villa Granado warehouse; and (3) disclosed direct payments made to subcontractors in its accounting records and the quarterly reports to USAID/Bolivia.

In its report on compliance Price Waterhouse found that the Service had complied, in all material respects, with the terms of the Project's Agreement and implementation letters and applicable laws and regulations, .

The report was discussed with management of the Service, who expressed general agreement with the content of the report and indicated that corrective actions had been or were in the process of being implemented. Management's comments are included in Appendix II to the report.

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

Recommendation No.1

We recommend that USAID/Bolivia negotiate a recovery with the National Service of Roads for $2,099 in questioned costs (unsupported), relating to purchases made without the required number of vendor quotations, detailed in the Price Waterhouse report dated August 23, 1991.

Recommendation No. 2

We recommend that USAID/Bolivia, in conjunction with the National Service of Roads, develop a plan, including a timetable for implementation, for: (1) implementing procedures to reconcile goods actually received to goods purchased directly by USAID/Bolivia and charged to the accounting records of the National Service of Roads; (2) establishing and implementing procedures to document Project materials distributed from the Villa Granado warehouse; and (3) establishing controls to ensure that all financial activity related to the Project is accurately reflected in the accounting records of the National Service of Roads and the quarterly reports to USAID/Bolivia.

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

[1] *This weakness was identified in the prior audit of the Service for the year ended December 31, 1989 (Audit Report No. 1-511-91-11-N, dated December 27, 1990). Correction of this weakness by the Service was reported to RIG/A/T by USAID/Bolivia. Accordingly, RIG/A/T has closed the related recommendation in the prior report and has not repeated corrective action for this weakness in the above recommendation.*

CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES MANAGED BY THE NATIONAL SERVICE OF ROADS (SNC)
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990

CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES MANAGED BY THE NATIONAL SERVICE OF ROADS (SNC)
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990

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Moreno Muñoz

August 23, 1991

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

Dear Mr. Howard:

This report presents the results of our audit of the activities managed by the National Service of Roads (Servicio Nacional de Caminos - SNC) under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, for the year ended December 31, 1990.

BACKGROUND

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

The project is a complementary part of the Government of Bolivia (GOB)'s program to reduce the coca plantings in Bolivia, and includes different activities and sub-projects designed to focus development resources on Bolivia's principal transitory coca growing area which is used for illicit purposes, the Chapare region. Due to different causes, the implementation of project activities had to be delayed and the project itself was significantly modified. The amended project concentrates on four principal development areas: 1) agriculture and forestry production; 2) rural industry and marketing; 3)

productive and transport infrastructure; and 4) a project investment fund. Each area includes activities of immediate impact and applied research components to support medium and long-term activities. The current project assitance completion date is May 31, 1992 and the life-of-project budget as modified in July 1990, expressed in thousands of U.S. dollars, includes the following:

	USAID/BOLIVIA		GOVERNMENT OF BOLIVIA		
	Grant	Loan	PL-480	GOB	Total
Technical assistance	$ 12,558				$ 12,558
Training	2,092	$ 1,070	$ 2,523		5,685
Constructions	3,060	1,019	3,246	$ 1,600	8,925
Commodities	3,780	2,662	240		6,682
Operating costs	3,280	7,258	2,300	1,147	13,985
Evaluations	530	53			583
Other	700	438	22,831		23,969
Contingencies			860		860
	$ 26,000	$ 12,500	$ 32,000	$ 2,747	$ 73,247

Additionally the Government of Bolivia has developed a program to reduce the cultivation of coca and make compensation payments of US$ 2,000 per hectare from its own resources to the peasant farmers who voluntarily reduce their coca plantations. The plan foresaw the eradication of 6,000 hectares of coca plants in 1990. In accordance with DIRECO's reports, 7,382 hectares were in fact eradicated.

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

	Phase	Administrative Unit
1	Administration of the project and overall supervision and coordination of the Government of Bolivia's programs related to coca eradication.	Subsecretariat for Alternative Development and Coca Planting Substitution (Subsecretaría de

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

The National Service of Roads (SNC), has contributed to the regional development project of the Chapare and associated high valleys since November 1987, improving the basic infrastructure of existing roads, improving rural roads, and building bridges. These operations are exclusively carried out through the Rural Roads Department, District 4 of the National Service of Roads (Servicio Nacional de Caminos - SNC).

SNC operates with funding from USAID/Bolivia and the Government of Bolivia (GOB). The funding is received in the following manner:

- National Treasury's transfers of funds to the SNC's bank account for the program - called special account.

- Goods and services paid for directly by USAID/Bolivia - called direct account.

- Support from the Government of Bolivia through the PL-480 Executive Secretariat.

AUDIT OBJECTIVES AND SCOPE

We were contracted by USAID/Bolivia, to conduct a financial audit of the Chapare Regional Development Project for the year ended December 31, 1990. The audit included the operations carried out by each administrative unit under the loan and grant agreement signed between the Government of Bolivia and USAID/Bolivia, and their corresponding fund accountability statement.

The audit did not include the examination of the documentation and operations of periods prior to January 1, 1989 nor transactions made directly by USAID/Bolivia and the Government of Bolivia through direct payments. However, for information purposes only, we include as Annex I, a fund accountability statement of the project's accumulated costs as of December 31, 1990, including direct payments made by USAID/Bolivia and the Government of Bolivia. This statement is expressed in United States dollars.

Our audit was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision) and accordingly included such tests of the accounting records and documentation, evaluation of the internal control structure and other auditing procedures as we considered necessary in the circumstances to determine whether:

1. The fund accountability statement of the activities managed by the National Service of Roads (SNC) presents fairly in all material respects, the cash receipts and disbursements for the year ended December 31, 1990, identifying costs which were not fully supported with adequate records or which were not allowable, allocable, and reasonable under the agreement terms, project implementation letters, and applicable laws and regulations;

2. SNC's internal control structure is adequate for project purposes; and

3. SNC complied in all material respects, with agreement terms, project implementation letters, and applicable laws and regulations.

Based on monthly field work, during the year, the scope of our work included:

- Reviewing the accounting records and bank accounts used by SNC to record the receipt of funds, and obtaining direct confirmation from the banks.

- Confirming the funds received for the project with the records of USAID/Bolivia and the PL-480 Executive Secretariat.

- Reviewing the supporting documentation of the principal disbursements made by SNC. This test covered 91% of the amount spent during the year. The objective of this test was to determine whether the expenses were properly supported with documentation, the expenditures were made to achieve the objectives of the project in accordance with agreement terms and project implementation letters, and that the recording was adequate.

- On-site visits and inspection of roads on which improvement and maintenance works had been performed.

- Physical inspection of the primary equipment and an evaluation of the procedures and controls employed by SNC to ensure its maintenance and preservation.

- Understanding the control environment, accounting system and control procedures used by SNC to account for project funds. For this purpose we evaluated the following significant categories: cash receipts and disbursements, budgeting controls, bank accounts and fund controls, inventory management and procurement system.

- Reviewing and evaluating SNC's compliance with agreement terms, implementation letters, and applicable laws and regulations.

RESULT OF AUDIT

Fund Accountability Statement

The National Service of Roads (SNC) recorded its transactions on the basis of cash receipts and disbursements. Consequently, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. This is a comprehensive basis of accounting other than generally accepted accounting principles. Our audit disclosed questionable costs in the amount of Bs6,695 which are summarized in the fund accountability statement.

In our opinion, except for the inclusion of certain questionable costs amounting to Bs6,695, the fund accountability statement audited by us presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the National Service of Roads under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, for the year ended on December 31, 1990, on the basis of accounting described in the preceding paragraph.

Internal Control Structure

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

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

We also noted other matters involving the internal control structure and its operations that we have reported to the management of the National Service of Roads in separate letters.

Findings from the year

1. Differences between goods received and the goods charged by USAID/Bolivia to SNC were not properly investigated.

2. Deficiencies in the "Villa Granado" warehouse.

3. Incomplete information in the quarterly reports.

Reiteration of Previous Year Findings

1. Lack of proper safekeeping of materials and supplies in stores and warehouses.

2. The Bolivian counterpart contribution was not made in full.

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

The results of our tests indicate that, with respect to the items tested, SNC complied in all material respects, with the terms and provisions of the agreement, project implementation letters, and applicable laws and regulations. With respect to items not tested nothing came to our attention that caused us to believe that SNC had not complied, in all material respects, with those terms and provisions.

MANAGEMENT COMMENTS

In its written response to this report, see Appendix II, the management of the National Service of Roads (SNC) expressed overall agreement with the findings and indicated that corrective actions have been or are in the process of being taken.

Price Waterhouse.

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CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES MANAGED BY THE NATIONAL SERVICE OF ROADS (SNC) USAID/BOLIVIA PROJECT No. 511-0543 FOR THE YEAR ENDED DECEMBER 31, 1990

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities managed by the National Service of Roads (Servicio Nacional de Caminos - SNC) under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, for the year ended December 31, 1990. This fund accountability statement is the responsibility of SNC's management. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As mentioned in Note 4, our audit disclosed certain questionable costs amounting to Bs6,695, which are summarized in the fund accountability statement.

In our opinion, the fund accountability statement audited by us presents fairly, in all material respects, the cash receipts and disbursements of the activities managed by the National Service of Roads under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, for the year ended December 31, 1990, on the basis of accounting described in paragraph 3.

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

February 15, 1991

Price Waterhouse.

CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE NATIONAL SERVICE OF ROADS (SNC)
USAID/BOLIVIA PROJECT No. 511-0543

FUND ACCOUNTABILITY STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1990
(Expressed in Bolivianos - Note 3)

Special Account (Note 2)	Funds balance as of December 31, 1989 Bs	Funds received during 1990 Bs	Funds available Bs	1990 Disbursements Bs	Funds balance as of December 31, 1990 Bs	Questionable Costs (Note 4) Bs
USAID/BOLIVIA						
Training, Studies and Communication	2,220	28,680	30,900	8,512	22,388	-
Goods	-	1,862,169	1,862,169	1,862,169	-	6,695
Operating Costs	7,106	1,756,944	1,764,050	1,557,222	206,828	-
	9,326	3,647,793	3,657,119	3,427,903	229,216	6,695
BOLIVIAN TREASURY - SPECIAL ACCOUNT						
Operating Costs	332	133,112	133,444	133,444	-	-
Totals	9,658	3,780,905	3,790,563	3,561,347	229,216	6,695

CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES MANAGED BY THE NATIONAL SERVICE OF ROADS (SNC) USAID/BOLIVIA PROJECT No. 511-0543

NOTES TO THE FUND ACCOUNTABILITY STATEMENT FOR THE YEAR ENDED DECEMBER 31, 1990

NOTE 1 - DESCRIPTION OF THE PROGRAM AND NATURE OF OPERATIONS

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

The project is a complementary part of the Government of Bolivia (GOB)'s program to reduce the coca plantings in Bolivia, and includes different activities and sub-projects designed to focus development resources on Bolivia's principal illicit coca growing area, the Chapare region. Due to different causes, the implementation of project activities had to be delayed and the project itself was significantly modified. The amended project concentrates on four principal development areas: 1) agriculture and forestry production; 2) rural industry and marketing; 3) productive and transport infrastructure; and 4) a project investment fund. Each area includes activities of immediate impact and applied research components to support medium and long-term activities. The current project assistance completion date is May 31, 1992, and the life-of-project budget as modified in July 1990, expressed in thousands of U.S. dollars, includes the following:

	USAID/BOLIVIA		GOVERNMENT OF BOLIVIA		
	Grant	Loan	PL-480	GOB	Total
Technical assistance	$ 12,558				$ 12,558
Training	2,092	$ 1,070	$ 2,523		5,685
Constructions	3,060	1,019	3,246	$ 1,600	8,925
Commodities	3,780	2,662	240		6,682
Operating costs	3,280	7,258	2,300	1,147	13,985
Evaluations	530	53			583
Other	700	438	22,831		23,969
Contingencies			860		860
	$ 26,000	$ 12,500	$ 32,000	$ 2,747	$ 73,247

SNC was incorporated to the Chapare Regional Development Project on November 23, 1987 to work on basic infrastructure and to maintain the system of rural roads in Chapare and associated high valleys.

SNC is a decentralized institution which depends from and reports to the Ministry of Transport, Communications and Civil Aeronautics of the Government of Bolivia. Operations and works related to the project are exclusively carried out through the Rural Roads Department, District 4 of the SNC.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

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

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

The fund accountability statement includes only the income and expenditures related to the special account, which includes only the funding provided to SNC and does not include the direct payments made by USAID/Bolivia and the Government of Bolivia for their procurement of technical assitance and equipment and supplies on behalf of the project.

NOTE 3 - EXCHANGE RATES

The fund accountability statement is presented in "Bolivianos" the local currency of Bolivia. During 1990 the Bolivian currency devalued against the United States dollar from Bs2.98 per US$ 1 on January 1, 1990 to Bs3.40 on December 31, 1990.

NOTE 4 - QUESTIONABLE COSTS (AUDITOR'S NOTE)

The following costs incurred by SNC and charged to the project during 1990, are considered to be unsupported costs:

Purchases Without the Required Number of Quotations

Voucher No.		Description		Questionable costs Bs
01-22-90	407/1	Import. Campero, Chalk	(1)	210
03-01-90	404/3	Unit Support PW-208	(1)	110
10-18-90	474/10	Spare parts	(2)	6,375
				6,695

(1) There were three quotation requests, but only two quoted;

(2) There are only two quotations;

NOTE 5 - ACCUMULATED FUND ACCOUNTABILITY STATEMENT THROUGH DECEMBER 31, 1990 EXPRESSED IN UNITED STATES DOLLARS (NOT AUDITED)

The project activities managed by SNC have been supported by equipment purchased for past projects of similar nature

funded by USAID/Bolivia and the Government of Bolivia. Also, as of December 31, 1990, the total accumulated costs through both the special and the direct accounts were as follows:

	Source of Funding	
	USAID/Bolivia US$	Government of Bolivia US$
Special account	2,919,123	142,252
Direct account	1,267,153	800,581
	4,186,276	942,833

The accumulated fund accountability statement for the period from the beginning of project activities by SNC through December 31, 1990 (expressed in United States dollars), is included for the reader's information in the following pages. This statement has been prepared on the basis of cash receipts and disbursements. Direct payments made in U.S. dollar by USAID/Bolivia have been recorded as such. Operations carried out in bolivianos have been translated into U.S. dollars using the following basis:

a) Transactions involving the special account were translated using the exchange rates current when the transfers of funds were received, using the first-in first-out basis.

b) Direct payments by USAID/Bolivia were translated at the exchange rate of the day of payment. Information on direct payments (both for dollar and boliviano expenditure) was provided by USAID/Bolivia to SNC for recording purposes only. SNC does not manage the funds but has control and uses the assets and commodities thus provided.

c) The operations carried out with funds provided by Bolivia's National Treasury were translated using the average exchange rate in force on a quarterly basis.

NOTE 6 - FUNDS BALANCE

The funds balance as of December 31, 1990 consist of:

	Bs	US$
A.I.D. Funds		
Banco Nacional de Bolivia	229,216	69,459

CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES
MANAGED BY THE NATIONAL SERVICE OF ROADS (SNC)
USAID/BOLIVIA PROJECT No. 511-0543

ACCUMULATED FUND ACCOUNTABILITY STATEMENT AS OF DECEMBER 31, 1990 (UNAUDITED)

	Budget 1990 US$	Actual Costs as of 12-31-89 US$	Actual Costs 1990 US$	Actual Costs as of 12-31-90 US$	Excess (deficit) over 1990 budget US$
RECEIPTS					
Special Account:					
USAID/Bolivia		1,830,632	1,157,950	2,988,582	
Bolivian National Treasury		100,524	41,728	142,252	
Direct Payments:					
USAID/Bolivia		735,597	531,556	1,267,153	
Bolivian National Treasury		502,703	297,878	800,581	
Total receipts		3,169,456	2,029,112	5,198,568	
EXPENDITURES					
Special Account					
USAID/Bolivia:					
Training, studies and communications	10,000	227	2,856	3,083	(7,144)
Goods	1,269,184	913,623	593,728	1,507,351	(675,456)
Operating costs	1,459,826	913,533	495,156	1,408,689	(964,670)
Subtotal	2,739,010	1,827,383	1,091,740	2,919,123	(1,647,270)
Bolivian National Treasury:					
Operating costs	110,000	100,408	41,844	142,252	(68,156)
Subtotal Special Account	2,849,010	1,927,791	1,133,584	3,061,375	(1,715,426)
Direct Payments:					
USAID/Bolivia:					
Technical assistance	-	70,274	-	70,274	-
Training, studies and communications	10,000	-	-	-	(10,000)
Goods	1,985,000	665,323	284,120	949,443	(1,700,880)
Audition/Evaluation	-	-	247,436	247,436	247,436
	1,995,000	735,597	531,556	1,267,153	(1,463,444)
Bolivian National Treasury:					
Operating cost	180,000	502,703	297,878	800,581	117,878
Subtotal Direct Payments	2,175,000	1,238,300	829,434	2,067,734	(1,345,566)
Total expenditures	5,024,010	3,166,091	1,963,018	5,129,109	(3,060,992)

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CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES MANAGED BY THE NATIONAL SERVICE OF ROADS (SNC)
USAID/BOLIVIA PROJECT No. 511-0543
FOR THE YEAR ENDED DECEMBER 31, 1990

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities managed by the National Service of Roads (Servicio Nacional de Caminos - SNC) under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0543, for the year ended December 31, 1990 and have issued our report thereon dated February 15, 1991.

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

In planning and performing our audit of the fund accountability statement of the activities managed by the National Service of Roads under the Chapare Regional Development Project, for the year ended December 31, 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 the National Service of Roads is responsible for establishing and maintaining an internal control structure. In fulfilling this reponsibility, estimates and judgments by management are required to ass :s the expected benefits and related costs of internal control structure policies and procedures.

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

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

- cash receipts and disbursements,
- budgeting controls,
- banks accounts and fund controls,
- inventory management, and
- procurement system.

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 statement. The reportable conditions noted are included in the following pages as finding Nos. 1 through 3 and findings from previous year not yet implemented Nos. 1 and 2 included

in the follow up of the previous year's recommendations, Appendix I to this report.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

This report is intended solely for the information of the management of the National Service of Roads and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

February 15, 1991

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CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES MANAGED BY THE NATIONAL SERVICE OF ROADS (SNC) USAID/BOLIVIA PROJECT No. 511-0543 FOR THE YEAR ENDED DECEMBER 31, 1990

REPORT ON INTERNAL CONTROL STRUCTURE

FINDINGS

1. Differences Between Goods Received and the Goods Charged by USAID/Bolivia to SNC were not Properly Investigated

Condition:

During the first half of 1990 certain spares for Ford vehicles were purchased by USAID/Bolivia using the direct account. A comparison between the spares actually received with those on the charge made by USAID/Bolivia showed that certain spares valued in approximately US$ 9,800 were not delivered. USAID/Bolivia charged SNC with the full amount of the spares, SNC has made a claim against USAID/Bolivia, but at the year end the missing spares had not been received nor the charge by USAID/Bolivia reversed.

Criteria:

All differences between the delivery notes and documentation from USAID/Bolivia should be followed-up so that all losses are clarified. The procedures should clearly identify the responsibility for clarifying these differences.

Cause:

In the absence of formal procedures there was no evidence that these differences have been satisfactorily cleared.

Effect:

The project has been charged for goods which have never been received, which could generate a questionable cost in the direct account.

Recommendation:

SNC should establish procedures to ensure that differences between the goods received and the goods charged in direct account are properly investigated and satisfactorily cleared.

2. Deficiencies in the "Villa Granado" Warehouse

Condition:

The following deficiencies were noted in the controls over the "Villa Granado" warehouse:

- The documentation of the use of material was not properly filed to support the dispatch of material from the store.

- In the case of hand written corrections in the delivery notes to the quantity of material delivered, there was no evidence that the amended quantity of materials was the quantity received by the section requesting the material.

Criteria:

Goods dispatched from the warehouse should be supported by dispatch notes containing proper evidence of the actual quantity received by the requesting section and should be properly filed.

Cause:

There are no specific instructions on the procedures to be followed when the original request is modified.

Effect:

Errors or ommissions in the recording of dispatch of materials may not be detected. Also because of unapproved hand written corrections, the amount processed may not be the amount actually delivered.

Recommendation:

SNC should issue instructions to be followed when the original request is modified and require that supporting documentation is properly filed.

3. Incomplete Information in the Quarterly Reports

Condition:

During the year PL-480 has made direct payments to sub-contractors for the construction of bridges amounting to approximately Bs2,600,000 for the account of National Service of Roads (SNC). These direct payments are not included in the accounting records or the quarterly reports presented by SNC to USAID/Bolivia.

Criteria:

SNC is responsible, in accordance with the operating plan, for the supervision and approval of the construction of these bridges and therefore the expenses incurred should be recorded in the accounting records of SNC and included in the quarterly reports sent to USAID/Bolivia.

Cause:

There are no procedures which require that SNC records these payments nor coordinate with PL-480 to obtain the necessary information.

Effect:

SNC is accountable for these operations, but does not include the operation in its accounting records. Also there is a distortion in the information presented to USAID/Bolivia.

Recommendation:

SNC in conjuction with USAID/Bolivia must establish procedures and standards so that there is full accountability for the use of funds and so that the information received is useful in taking management decisions. These procedures should require that there is proper coordination between entities to obtain accurate information to prepare proper accounts.

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CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES MANAGED BY THE NATIONAL SERVICE OF ROADS (SNC) USAID/BOLIVIA PROJECT No. 511-0543 FOR THE YEAR ENDED DECEMBER 31, 1990

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

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the activities managed by the National Service of Roads (Servicio Nacional de Caminos - SNC) under the Chapare Regional Development Project, USAID/Bolivia Project No. 511-0443, for the year ended December 31, 1990 and have issued our report thereon dated February 15, 1991.

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

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

The results of our tests indicate that, with respect to items tested, the National Service of Roads complied in all material respects with the terms and provisions referred to in the preceeding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the National Service of Roads had not complied, in all material respects, with those terms and provisions.

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

February 15, 1991

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CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES MANAGED BY THE NATIONAL SERVICE OF ROADS (SNC) USAID/BOLIVIA PROJECT No. 511-0543 FOR THE YEAR ENDED DECEMBER 31, 1990

LIST OF REPORT RECOMMENDATIONS

INTERNAL CONTROL STRUCTURE

Recommendation 1:

SNC should establish procedures to ensure that differences between the goods received and the goods charged in direct account are properly investigated and satisfactorily cleared.

Recommendation 2:

SNC should issue instructions to be followed when the original request is modified and that supporting documentation is properly filed.

Recommendation 3:

SNC in conjunction with USAID/Bolivia must establish procedures and standards so that there is full accountability for the use of funds and so that the information received is useful in taking management decisions. These procedures should require that there is proper coordination between entities to obtain accurate information to prepare proper accounts.

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APPENDIX I

CHAPARE REGIONAL DEVELOPMENT PROJECT, ACTIVITIES MANAGED BY THE NATIONAL SERVICE OF ROADS (SNC) USAID/BOLIVIA PROJECT No. 511-0543 FOR THE YEAR ENDED DECEMBER 31, 1990

FOLLOW-UP OF PREVIOUS YEAR RECOMMENDATIONS

We were engaged to perform a financial audit of the fund accountability statement of the Chapare Regional Development Proyect, activities managed by National Service of Roads (SNC), for the year ended December 31, 1990. The scope of our work included a follow-up of the recommendations to improve the Internal Control Structure and compliance with Agreement Terms, Project implementation Letters and Applicable Laws and Regulations, presented by us in our report dated November 30, 1990 on the project, covering the period January 1, 1989 through December 31, 1989 and to review what actions were subsequently taken by National Service of Roads (SNC) and for USAID/Bolivia to provide adequate documentation and settle the questionable costs of Bs216,945 identified in such audit report.

The following is a summary of our follow-up work:

A RECOMMENDATIONS TO IMPROVE INTERNAL CONTROL STRUCTURE

1. Lack of Proper Safekeeping of Materials and Supplies in Stores and Warehouses

Previous Recommendation

The National Service of Roads should:

a) Conduct a review of its existing rules and procedures pertaining to the physical safekeeping of project assets, in order to determine their adequacy;

b) if current rules and procedures are inadequate, design and implement needed rules and procedures pertaining to the physical safekeeping of project assets; and

c) assign responsibility to specific individuals for compliance with the rule and regulations.

2. The Bolivian Counterpart Contribution was not made in full

Previous Recommendation

SNC should obtain USAID/Bolivia's assistance in obtaining the total budgeted and agreed-upon counterpart contribution from the Government of Bolivia.

3. Formal Deficiencies in Accounting and Administrative Documentation

Previous Recommendation

SNC should assign to a specific individual in its internal audit department the responsibility for verifying that:

a) The work contracts, the certificates for work performed, and the payment vouchers have all the required signatures; and

b) Purchases are supported with an adequate number of price quotations and the corresponding official vendor invoices.

Implementation Status of Previous Recommendations:

1. At the date of our report SNC was still in process of designing procedures manuals and in centralizing stores in the Arocagua Workshop. SNC commented to us that this recommendation will be fully implemented during the first half of 1991.

2. Not implemented regarding the special account. Only 40% of the budgetted contribution from the counterpart was received during 1990.

3. No similar cases were detected during our 1990 examination.

RECOMMENDATIONS TO COMPLY WITH AGREEMENT TERMS, PROJECT IMPLEMENTATION LETTERS, AND APPLICABLE LAWS AND REGULATIONS

1. Non Compliance in Carrying Out Maintenance and Improvement Tasks

Previous Recommendation

SNC should review its technical planning procedures and implement needed changes to ensure that the proper quality and quantity of materials and supplies are timely provided for accomplishing the planned road improvement works.

2. SNC Made Some Simultaneous Purchases That, if Taken Together, Would Have Required Previous Authorization from USAID/Bolivia

Previous Recommendation

SNC should design and implement procedures to ensure that all of its purchases for project activities are conducted in compliance with A.I.D. rules and regulations.

3. SNC did not Comply with the State Social Security System and INFOCAL Requirements

Previous Recommendation

SNC should study the requirements of the Bolivian Social Security System and INFOCAL and then design and implement procedures to ensure its compliance with the Bolivian laws in this area.

4. Lack of Identification and Marking of Goods

Previous Recommendation

SNC should:

a) Implement a procedure to ensure that all goods acquired with A.I.D. funds are marked with the A.I.D. emblem in accordance with the provisions of the agreement, and

b) Mark with the A.I.D. emblem all assets acquired with A.I.D. funds and currently held by SNC.

Implementation Status of Previous Recommendations:

1. Except for drainage work on the road Kury-Yacuparticu (labour contracts Nos. 3 and 4) which were pending completion at December 31, 1990, the maintenance and improvement roads tasks were completed.

2. Simultaneous purchases were made, but taken together, these did not exceed the amount of US$ 7,500 established over which purchase require previous authorization of USAID/Bolivia.

3. Implemented 1990 the personnal are included in the state social security system. Public entities are not required to register with INFOCAL.

4. Implemented. During the year SNC established procedures to ensure that all goods acquired with A.I.D. funds are marked with the A.I.D. emblem.

C. DISPOSITION OF QUESTIONABLE COSTS FOR Bs216.945 IDENTIFIED IN OUR PREVIOUS YEAR REPORT

Questionable costs well classified in the following cost categories:

	Bs
Goods	208,907
Operating costs	8,038
	216,945

The above items were questioned because SNC has carried out simultaneous purchases which taken together would have required previous authorization from USAID/Bolivia (Bs195,183), purchases with no quotations (Bs4,206), purchases without legal invoices (Bs8,038) and purchases voucers not found for our examination (Bs9,518).

SNC has forwarded to USAID/Bolivia explications for these expenses and these have been accepted by USAID/Bolivia and RIG/AT. As a result these matters are consideral closed.

SERVICIO NACIONAL DE CAMINOS
BOLIVIA

Cochabamba,
10 de Julio de 1.991
CV-1/91

Señor
Lic. Edmundo Ballivian
AUDITOR USAID/BOLIVIA
La Paz.-

Señor Licenciado:

Ref: ENVIO DOCUMENTACION:

Adjunto a la presente le envío un ejemplar de las Medidas Adoptadas a Recomendaciones de Auditoria Externa Gestión 1.990.

Sin otro particural, saludo a Ud. con todas las consideraciones de estima personal.

SERVICIO NACIONAL DE CAMINOS

Ing. Victor Ovando B.
JEFE PROY.CC.VV.D-4

cc.- Jefatura CC.VV.D-4

VOB/jaa

Cochabamba,
10 de Julio de 1.991

MEDIDAS ADOPTADAS A RECOMENDACIONES DE AUDITORIA EXTERNA

1.- La Jefatura Proyecto ha encomendado a Ing. Mecánico de USAID que trabaja en el Proyecto, efectuar el seguimiento, objeto dar solución a la diferencia existente de repuestos adquiridos en forma directa por USAID.

2.- Relativo a las deficiencias en el Almacén de "Villa Granado" aclaramos en los siguientes puntos:

a) El S.N.C. tiene normas y procedimientos para mantener los documentos apropiadamente archivados, si Auditoria encontró algún desorden se debe a que constantemente el Proyecto se encuentra en movimiento y cambios de campamento.

b) Cualquier salida de materiales o repuestos se efectúa mediante pedido por el mecánico, electricista, soldador, etc., bajo el visto bueno del Ingeniero Residente, la utilización de los mismos está controlada por el Informe de actividades del que lo procesa y supervisada periódicamente por el Asesor Mecánico de USAID.

c) En cuanto a correcciones manuscritas puede ser evidente, sin embargo objeto corregir éstas anormalidades se ha emitido una circular para que ello no suceda; caso de presentarse éstos casos el responsable debe firmar en la tarjeta su conformidad de reingreso.

3.- De acuerdo a Recomendaciones de Auditoria Externa la Jefatura de Proyecto ha cursado notas al P.D.A.R. para que la Agencia PL-480 nos haga llegar la relación de pagos directos a Contratistas por la Construcción de Puentes al efecto podemos indicar que dicha observación se está regularizando con el envío de documentos de PL-480 al S.N.C.

CONTROL INTERNO:

1.- El Proyecto Caminos Vecinales como una división dependiente del Servicio Nacional de Caminos tiene manuales diseñados de Procedimientos y Manejo de Almacenes, y con la construcción y centralización de nuestros almacenes en Oficinas de Distrito (Arocagua), tenemos subsanadas todas las observaciones a la fecha relativo a los almacenes.

...///

...///

2.- Referente a la Contribución Boliviana de contraparte está por demás dar una explicación, yá que es de conocimiento general que el gobierno no cuenta con fondos disponibles para éste efecto, sin embargo el Proyecto cumple el paripasu de acuerdo a términos de Convenio.

3.- Se ha tomado en cuenta la Recomendación de Auditoria en los Incisos a y b implementando personal para dicho efecto.

1.- El S.N.C. de acuerdo a notas de USAID a partir del mes de Octubre elabora los planes operativos y cronogramas de trabajo para una gestión, sin embargo los trámites de aprobación a nivel de USAID originan los desfases en el mejoramiento de Caminos Programados.

2.- El S.N.C. efectúa compras de acuerdo a requerimientos de campamentos y no creemos nada práctico acumular pedidos de un material ó repuesto para efectuar una compra global y a cuya causa originar serios perjuicios a los requerimientos de campamentos y además de no contar con la infraestructura necesaria para almacenar materiales en cantidad (cemento y carburantes).

3.- La Jefatura Proyecto da estricto cumplimiento a todos los descuentos establecidos por la Dirección Ejecutiva del S.N.C.

4.- Se ha dado estricto cumplimiento a la identificación y marcado de bienes con el emblema de A.I.D.

SERVICIO NACIONAL DE CAMINOS

Original Firmado por,
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Ing. Victor Ovando B.
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APPENDIX

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