

**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Peru's
Private Sector Nutrition/Child Survival Project
Managed by the
Nutritional Institute of Investigation
June 26, 1986 to December 31, 1990**

**Audit Report No. 1-527-92-35-N
June 17, 1992**



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**INSPECTOR
GENERAL**

**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/Peru's
Private Sector Nutrition/Child Survival Project
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June 26, 1986 to December 31, 1990**

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June 17, 1992**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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June 17, 1992

MEMORANDUM

TO: D/USAID/Peru, Craig G. Buck



FROM: RIG/A/T, Reginald Howard

SUBJECT: Audit of USAID/Peru's Private Sector Nutrition/Child Survival Project, Managed by the Nutritional Institute of Investigation, June 26, 1986 to December 31, 1990

This report presents the results of a financial audit of the Private Sector Nutrition/Child Survival Project (Project), USAID/Peru Project No. 527-0308, managed by the Nutritional Institute of Investigation (Institute) for the period June 26, 1986 to December 31, 1990. The audit firm of Price Waterhouse prepared the report dated April 23, 1992.

The purpose of the Project was to support investigation and training in the treatment of acute diarrhea and child malnutrition in Peru. The Project budget provided for a total of \$1,264,000 of which USAID/Peru was to provide grant funds of \$914,000 and the Institute \$350,000 as counterpart contributions. The audit coverage included USAID/Peru funds of \$859,257 provided to the Institute during the audit period.

The objectives of the audit were to determine whether: (1) the Institute's fund accountability statement presents fairly, in all material respects, the financial activities of the Project for the period audited, (2) the Institute's internal control structure was adequate to manage Project operations, and (3) the Institute had complied with Project agreement terms and applicable laws and regulations. The scope of the audit included an examination of the Institute's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

In the auditors' opinion the fund accountability statement does not present fairly, in all material respects, the financial position of the Project during the period of the audit, due to the significance of the effect of the questionable costs, amounting to \$161,199, included in the statement.

With respect to the Institute's internal control structure for Project activities, the auditors identified eight material weaknesses. These weaknesses were related primarily to

inadequate management controls, lack of adequate Project accounting and purchasing systems, and lack of controls over counterpart contributions.

With respect to compliance with agreement terms and applicable laws and regulations, Price Waterhouse identified two material instances of noncompliance concerning the Institute's lack of compliance with several of the Agreement's standard provisions and other miscellaneous Agreement terms as well as with several applicable laws and regulations.

The report was discussed with management officials of the Institute who generally agreed with the report and acknowledged that certain problems had existed. Management's comments are presented as an annex to the audit report.

Since the Project has ended and, according to Mission officials, USAID/Peru has no existing agreements with the Institute, we are not including the auditors' recommendations related to internal controls and compliance in the Office of the Inspector General's recommendation follow-up system. However, in considering any future projects with the Institute, we strongly recommend that USAID/Peru management obtain assurance, as a part of the evaluation process, that these problems have been corrected prior to the release of A.I.D. funds to the Institute.

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

Recommendation No. 1

We recommend that USAID/Peru resolve the questionable costs of \$161,199 (\$31,566 questioned and \$129,633 unsupported) identified in the Price Waterhouse audit report dated April 23, 1992 and recover from the Institute all amounts determined to be unallowable.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendation.

AUDIT OF THE PRIVATE SECTOR NUTRITION/CHILD
SURVIVAL PROJECT USAID/PERU No.527-0308
MANAGED BY THE NUTRITIONAL INSTITUTE OF
INVESTIGATION - NII FOR THE PERIOD
JUNE 26, 1986 TO DECEMBER 31, 1990

**AUDIT OF THE PRIVATE SECTOR NUTRITION/CHILD
SURVIVAL PROJECT USAID/PERU No.527-0308
MANAGED BY THE NUTRITIONAL INSTITUTE OF
INVESTIGATION - NII FOR THE PERIOD
JUNE 26, 1986 TO DECEMBER 31, 1990**

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Price Waterhouse



April 23, 1992

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 Private Sector Nutrition/Child Survival Project USAID/Perú No.527-0308, managed by the Nutritional Institute of Investigation - NII for the period June 26, 1986 to December 31, 1990.

I BACKGROUND

In Peru, the high level of child malnutrition is a permanent problem which is translated into high health and education cost due to the presence of diseases which originate high level of morbidity and mortality. This nutritional problem affects Peru's economic growth, limiting the formation of human capital and labor productivity.

The United States Government through its Agency for International Development in Peru, USAID/Peru, has supported the private sector nutrition/child survival Project managed by the NII, training nutritionists and promoters and investigating the treatments for acute diarrhea and malnutrition, with the purpose of reducing child morbidity and mortality in Peru.

This support to NII from USAID/Peru was formalized by means of Grant Agreement No.527-0308-G-006583-00, Agreement dated June 26, 1986, which was modified on August 16, 1988, March 1, 1989 and November 8, 1989. The final budget of the Project amounts to US\$914,000. The Project completion date was December 31, 1990.

The aforementioned budget is as follows:

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	Original Agreement dated <u>June 26, 1986</u> US\$	Amendments of August 16, 1988, March 1, 1989 and <u>November 8, 1989</u> US\$
I. Training		
- Personnel	142,220	177,220
- Material and equipment	103,900	68,900
- Travel and transport	58,110	50,110
- Other direct adminis- trative costs	<u>60,846</u>	<u>60,846</u>
	<u>365,076</u>	<u>357,076</u>
II. Dietary Management of Diarrhea		
- Personnel	48,600	114,600
- Office expenses and equipment	6,822	16,822
- Travel and transport	32,600	10,849
- Intensive training	152,750	83,750
- Clinical studies	50,000	57,751
- Other direct adminis- trative costs	<u>58,152</u>	<u>58,152</u>
	<u>348,924</u>	<u>341,924</u>
III. Applied Diarrheal Disease Research		
- Personnel	84,695	84,695
- Office and lab. supplies	44,325	44,325
- Equipment	27,056	27,056
- Transportation	15,100	15,100
- Other direct adminis- trative costs	<u>28,824</u>	<u>28,824</u>
	<u>200,000</u>	<u>200,000</u>
IV. Audit	<u>-</u>	<u>10,000</u>
V. Final project evaluation	<u>-</u>	<u>5,000</u>
Total	914,000 -----	914,000 -----
NII counterpart	350,000 -----	350,000 -----



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The Project included the following activities:

1 **Training**

Consisted of the following:

- a) Improve the capacity of the private voluntary organizations (PVO'S), previously trained by the USAID/Peru Project No. 527-0219, with the purpose of assisting the most vulnerable population groups with acute diahrrea and child malnutrition treatment.
- b) Technical assistance to each PVO to develop and implement programs of nutrition, health education, growth monitoring and other child survival interventions.
- c) Development of educational materials for communities health promoters and mothers to identify the causes of malnutrition and child mortality in their communities.

2 **Dietary management of diahrrea (DMD)**

Intensive studies regarding beliefs and practices for feeding children during and after episodes of diahrrea were carried out in Huaraz, Department of Ancash. These studies began in February 1986 and continued through October 1988. The field work was supplemented by studies that measured clinical and nutritional effects of the alternative feeding regimen.

This activity served as a basis for: i) expanding the research to gather comparative information in the poor areas of Lima (Pueblo Joven), ii) carrying out training courses for health professionals to explain DMD research activities and their implications for the nutritional health program in Peru, iii) developing messages for promoting proper dietary management of diahrrea in the home, and iv) supporting training course for peruvian medical professionals in DMD and diarrhea research.

3 **Applied diarrheal disease research (ADDR)**

Studies regarding beliefs and feeding practices in the home, as well as epidemiological studies of different geographical and cultural regions of the country, were carried out. With the information obtained from both studies, home-level interventions and mass media messages for dietary management of diarrhea and other child survival activities were designed.



II OBJECTIVES AND SCOPE

We performed a financial audit of the Private Sector Nutrition/Child Survival Project USAID/Peru No.527-0308, managed by the Nutritional Institute of Investigation - NII for the period June 26, 1986 to December 31, 1990. Our audit and evaluation were performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (Revision 1988) and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary to determined whether:

- The fund accountability statement for the period June 26, 1986 to December 31, 1990 present fairly, in all material respects, the financial activities of the Private Sector Nutrition/Child Project - NII and whether the costs reported and reimbursed by USAID/Peru during the period ended December 31, 1990 are allowable, allocable and reasonable in accordance with program terms and applicable laws and regulations.
- The internal control structure of the NII is adequate to manage the Project's operations.
- The NII has complied with agreement terms and applicable laws and regulations which may affect the Project's goals and incurred costs.

The scope of our work included:

- 1 An evaluation of the Nutritional Institute of Investigation - NII utilization of funds, commodities and supplies provided under the program agreement. Our audit activities included:
 - Performing selective review of the program related documentation of accounting records and the internal control structure.
 - Reviewing the program's procurement procedures used to determine that sound commercial practices were used, including competition, reasonable prices and adequate qualities as agreed in the program's agreement.
 - Reviewing the procedures used to control the Project's funds.
- 2 Examining the fund accountability statement for the implementing agency and for each major component of the program taken as a whole



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through December 31, 1990. Reviewing for any costs which were not fully supported with adequate records or which were not allowable or reasonable under the term of the program. This work included:

- a) Determining whether advances of program's funds were justified with documentation, including reconciliation of funds advanced, disbursed and available.
 - b) Reviewing costs billed to USAID/Peru identifying and quantifying any questionable costs.
 - c) Reviewing bank accounts and related controls. Obtaining confirmation of balances.
- 3 Reviewing and evaluating the implementing agency's internal control structure to manage the program. Conducting 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 USAID/Peru 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.

III RESULTS OF AUDIT

As a general conclusion of the audit performed of the Private Sector Nutrition/Child Survival Project USAID/Peru No.527-0308, managed by the Nutritional Institute of Investigation - NII, for the period June 26, 1986 to December 31, 1990, we observed important situations which are described below and constitute the basis of the issuance of our reports that are presented in the following section of this document:

- a) Multiple instances of negligence of NII employees in complying with the terms of the agreement and applicable laws and USAID regulations. This situation was caused by the lack of an adequate coordination between the people in charge of the operative and administrative areas in the NII.



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- b) Lack of communication, coordination and prompt solution of problems presented during the course of the Project between the NII and USAID/Peru employees. This situation was caused by the numerous changes in NII's directors.
- c) Lack of an adequate accounting system for the recording and budgetary control of the Project's transactions. Also the procurement procedures and the expenses liquidations presented to USAID/Peru did not follow the Project's Agreement Standard Provisions.

Fund accountability statement -

The fund accountability statement was prepared on a basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Based on work performed by means of alternative audit procedures due to initial audit scope limitations; in our opinion, due to the importance and the quantified effects of the audit findings (see the internal control structure reports and the compliance with agreement terms and applicable laws and regulations report), the fund accountability statement for the period June 26, 1986 to December 31, 1990 does not present fairly the financial activities of the Project and costs reported as incurred and reimbursed by USAID/Peru for the period June 26, 1986 to December 31, 1990. Our audit determined the existence of questioned costs and unsupported expenses of US\$31,566, and US\$129,633, respectively, which are detailed in the fund accountability statement and in Annex 2.

Internal control structure -

In planning and performing our audit of the fund accountability statement we considered the internal control structure implemented by the NII 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 system of internal control surrounding:

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



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For all the components described above, we obtained an understanding of the transactions and most relevant aspects in order to determine the control risks.

As a result of our selective tests performed to the components described above, we noted situations reportable under the standards of the American Institute of Certified Public Accountants related to multiple instances of negligence of NII employees in complying with agreement terms and applicable laws and USAID regulations; lack of an adequate accounting system for the Project to assure the integrity; failure in establishing policies and procedures that guarantee the identification and control of questionable costs; failure in establishing adequate internal control procedures relating to the Project's purchases of goods and services; lack of a bank current account exclusive for the Project; lack of periodic reconciliation; and lack of communication, coordination and opportune solution to problems presented during the course of the Project.

These situations, summarized in Annex 3, had a negative effect in our opinion of the Project's internal control structure and consequently on the reasonableness of the fund accountability statement. In our accompanying internal control structure report we detail the audit findings corresponding to the Project's reportable condition.

Compliance with agreement terms and applicable laws and regulations -

According to the results of our tests of compliance we consider that the NII has not complied with agreement terms and applicable laws and regulations. Situations noted include; not carrying out an effective budgetary control; inadequate procedures to control the Project's funds; not including price quotations; inadequate and inopportune travel expenses documentation or liquidation; inadequate procedures to control routes, mileage gasoline and maintenance of rented vehicles; lack of an accounting system during the course of the Project; periodic reconciliation of the Project's balances with those of USAID/Peru were not carried out; disbursements lacking legal formalities; excessive service expenses; renting vans instead of hiring them; and quarterly reports were not sent to USAID/Peru during the first stage of the Project (Annex 3 summarizes our recommendations).

Questioned costs of US\$31,566 and unsupported expenses of US\$129,633 resulted from this noncompliance. In our accompanying report on compliance with agreement terms and applicable laws and regulations, we detail the audit findings corresponding to the Project's reportable condition.



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MANAGEMENT COMMENTS

This report has been discussed with the General Directors of the NII, who recognized that certain problems arose because lack of due care in following the Project's Agreement Standard Provisions. Specific comments are reproduced in Annex 1. However, we disagree with their comments in respect that our findings were satisfactorily explained with supporting documentation.

Price Waterhouse



Price Waterhouse



**AUDIT OF THE PRIVATE SECTOR NUTRITION/CHILD
SURVIVAL PROJECT USAID/PERU No.527-0308
MANAGED BY THE NUTRITIONAL INSTITUTE OF
INVESTIGATION - NII FOR THE PERIOD
JUNE 26, 1986 TO DECEMBER 31, 1990**

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITORS' REPORT

October 4, 1991

- 1 We have audited the fund accountability statement of the Private Sector Nutrition/Child Survival Project USAID/Peru No.527-0308, managed by the Nutritional Institute of Investigation - NII for the period June 26, 1986 to December 31, 1990. This fund accountability statement is the responsibility of the Nutritional Institute of Investigation. Our responsibility is to express an opinion on this fund accountability statement based on our audit.
- 2 We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (Revision 1988). 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 fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 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.
- 4 As described in Note 4, the accompanying funds accountability statement, includes questioned and unsupported costs of US\$31,566 and US\$129,633, respectively.

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- 5 In our opinion, due to the significance of the effect of the situation described in the previous paragraph, the audited fund accountability statement does not reasonably present the fund's position of the Private Sector Nutritional/Child Survival Project, USAID/Peru No.527-0308 managed by the Nutritional Institute of Investigation - NII, for the period June 26, 1986 to December 31, 1990 according to the accounting basis described in Note 2.
- 6 This report is intended solely for the use of the United States Agency for International Development and the Nutritional Institute of Investigation - NII. 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

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**PRIVATE SECTOR NUTRITION/CHILD SURVIVAL PROJECT
 USAID/PERU No.527-0308 MANAGED BY THE NUTRITIONAL
 INSTITUTE OF INVESTIGATION - NII FOR THE PERIOD
 JUNE 26, 1986 TO DECEMBER 31, 1990
 FUND ACCOUNTABILITY STATEMENT**

	<u>Budget</u>	<u>Actual</u>	<u>Available</u>	<u>Questionable costs</u>	
	US\$	US\$	US\$	<u>Questioned</u>	<u>Unsupported</u>
				US\$	US\$
INCOME -					
Funds received	<u>914,000</u>	<u>845,935</u>	<u>68,065</u>	-	-
DISBURSEMENTS -					
I. Training					
- Personnel	177,220	180,945	(3,725)	5,550	6,841
- Material and equipment	68,900	60,924	7,976	-	286
- Travel and transport	50,110	39,428	10,682	20,000	7
- Other direct administra- tive costs (1)	<u>60,846</u>	<u>56,334</u>	<u>4,512</u>	-	-
	<u>357,076</u>	<u>337,631</u>	<u>19,445</u>	<u>25,550</u>	<u>7,134</u>
II. Dietary Management of Diarrhea (DMD)					
- Personnel	114,600	116,022	(1,422)	4,805	44,565
- Office expenses and equipment	16,822	16,748	74	-	347
- Travel and transport	10,849	9,027	1,822	11	1
- Intensive training	83,750	77,924	5,826	-	996
- Clinical studies	57,751	61,039	(3,288)	-	5,211
- Other direct administra- tive costs (1)	<u>58,152</u>	<u>45,848</u>	<u>12,304</u>	-	-
	<u>341,924</u>	<u>326,608</u>	<u>15,316</u>	<u>4,816</u>	<u>51,120</u>
III. Applied Diarrheal Disease Research (ADDR)					
- Personnel	84,695	76,055	8,640	1,200	50,179
- Office and laboratory supplies	44,325	53,883	(9,558)	-	10,387
- Equipment	27,056	23,332	3,724	-	1,275
- Transportation	15,100	16,638	(1,538)	-	9,538
- Other direct administra- tive costs (1)	<u>28,824</u>	<u>25,110</u>	<u>3,714</u>	-	-
	<u>200,000</u>	<u>195,018</u>	<u>4,982</u>	<u>1,200</u>	<u>71,379</u>

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PRIVATE SECTOR NUTRITION/CHILD SURVIVAL PROJECT
 USAID/PERU No.527-0308 MANAGED BY THE NUTRITIONAL
 INSTITUTE OF INVESTIGATION - NII FOR THE PERIOD
 JUNE 26, 1986 TO DECEMBER 31, 1990
 FUND ACCOUNTABILITY STATEMENT (Continue)

	<u>Budget</u>	<u>Actual</u>	<u>Available</u>	<u>Questionable costs</u>	
	US\$	US\$	US\$	<u>Questioned</u>	<u>Unsupported</u>
				US\$	US\$
IV. Audit	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
V. Final project evaluation	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>-</u>
	<u>914,000</u>	<u>859,257</u>	<u>54,743</u>	<u>31,566</u>	<u>129,633</u>
Excess of expenses over income	<u>-</u>	<u>(13,322) (2)</u>	<u>13,322</u>		

(1) Other direct administrative costs comprise administrative staff salaries, utilities, office rent, etc. proportionally allocated to all projects managed by NII.

(2) Constituted by loans from other NII's financial sources.

Notes 1 to 6 form an integral part of this fund accountability statement.

**AUDIT OF THE PRIVATE SECTOR NUTRITION/CHILD
SURVIVAL PROJECT USAID/PERU No. 527-0308
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JUNE 26, 1986 TO DECEMBER 31, 1990**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

1 NATURE OF ACTIVITIES

The Nutritional Institute of Investigation is a non-profit association, established for the purpose to investigate the relation that nutrition has with the development, productivity and welfare. Additionally, the Association investigates the best use of the population's food resources.

On June 26, 1986, the NII signed a cooperation agreement with the United States Agency for International Development in Peru - USAID/Peru related to the Private Sector Nutrition/Child Survival Project No.527-0308. According to the last amendment dated November 8, 1989, the completion of the agreement was due December 31, 1990.

The purpose of the Project is to support the investigation and training in the treatment of acute diarrhea and child malnutrition in Peru.

For this purpose, the Project had three main stages: training nutritionists and trainers, dietary management of diarrhea and the epidemiological study of diarrhea.

2 ACCOUNTING PRACTICES

The following accounting practices have been used in the preparation of the fund accountability statement:

a) Basis of cash -

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

Revenues and expenditures are recorded at the time they take place, that is, when they are received or disbursed.

Since there are no estimations of provisions made, there are no liabilities recorded.

b) Translation into foreign currency -

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 based on first-in-first-out, applying the prevailing exchange rate on the date the funds were transmitted.

3 EXCHANGE RATES

The exchange rates applied to translate the amounts shown in the fund accountability statement have been those ruling on the date the advances were given to NII. The exchange rates applied during the period June 26, 1986 to December 31, 1990 fluctuated from S/.0.00002 to S/.0.52.

4 QUESTIONABLE COSTS

Questionable costs are costs which are not considered appropriate to be charged to the Project under the terms of the agreement, applicable laws and regulations, and those that lack documentation, do not seem reasonable or were not properly authorized (unsupported). The questionable costs arise to US\$161,199, and mainly comprise:

	US\$
Unreasonable hiring of temporary personnel	96,401
Unreasonable car rental expenses	28,011
Purchases of goods and services without price quotations	5,701
Extraordinary indemnities, bonuses and allowances granted to the permanent and temporary Project's personnel.	11,555
Budgetary overdraft	<u>19,531</u>
	<u>161,199</u>

5 TAX SITUATION

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

6 SUBSEQUENT EVENTS

The excess of expenses over income of US\$13,322 has not yet been reimbursed by USAID/Peru.

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**AUDIT OF THE PRIVATE SECTOR NUTRITION/CHILD
SURVIVAL PROJECT USAID/PERU No. 527-0308
MANAGED BY THE NUTRITIONAL INSTITUTE OF
INVESTIGATION - NII FOR THE PERIOD
JUNE 26, 1986 TO DECEMBER 31, 1990**

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the Private Sector Nutrition/Child Survival, Project USAID/Peru No.527-0308, managed by the Nutritional Institute of Investigation - NII for the period June 26, 1986 to December 31, 1990 and have issued our report thereon dated October 4, 1990, in which we expressed an adverse opinion.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (Revision 1988), and consequently included, selective tests in the Project's records and the application of other audit procedures considered necessary due to the circumstances. 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 Private Sector Nutrition/Child Survival, Project USAID/Peru No.527-0308, managed by the Nutritional Institute of Investigation - NII for the period June 26, 1986 to December 31, 1990, we considered the Nutritional Institute of Investigation - NII 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.

NII 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



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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 in the following categories: i) budgetary and financial aspects; ii) treasury (receipts and custody of funds); iii) liquidations (includes purchase of goods and services); iv) salaries; and v) 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.

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. Those reportable conditions are as follows:

- Multiple instances of negligence of NII employees in complying with the terms of the agreement and applicable laws and USAID regulations. This situation was caused by the lack of an adequate coordination between the people in charge of the operative and administrative areas in NII.



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- The NII did not have an adequate accounting system for the Project to assure the integrity and correctness of the transactions. This accounting system did not provide sufficient information to make a detailed comparison between the costs and the budget.
- The NII did not establish policies and procedures that guaranteed the identification and control of questionable costs, nor the accurate recording of the required counterpart contributed.
- The NII did not establish adequate internal control procedures relating to the Project's purchases of goods and services.
- The bank account that was opened to manage the funds granted by USAID includes commingled funds from other projects. The Project's regulations stated that the Projects's funds should be administrated in a separate bank account.
- The procedures followed by the NII for the preparation of the bank reconciliation were not adequate. During the course of the Project no bank register was kept.
- Periodic reconciliations of prepaid, disbursed and available funds were not performed during the Project.
- There was a lack of communication, coordination and opportune solution to problems presented during the course of the Project between NII and USAID employees. This situation was caused by the numerous changes of NII directors.

A material weaknesses 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

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necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described above are material weakness.

Likewise, we have noted other immaterial situations that involve the internal control structure and the operations that were reported to the General Director Office in a separate letter dated October 4, 1991.

This report is intended solely for the information and use of the United States Agency for International Development and the Nutritional Institute of Investigation - NII. 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.

October 4, 1991

Price Waterhouse

PRIVATE SECTOR NUTRITION/CHILD SURVIVAL
PROJECT USAID/PERU No.527-0308 MANAGED
BY THE NUTRITIONAL INSTITUTE OF
INVESTIGATION - NII FOR THE PERIOD JUNE
26, 1986 TO DECEMBER 31, 1990

INTERNAL CONTROL STRUCTURE

AUDIT FINDINGS

General Aspects -

- 1 Adequate and formal communication and coordination mechanisms were not established between NII and USAID/Peru employees. Additionally, this deficiency also occurred between the operative and administrative areas of NII.

Condition -

We have observed, that during the course of the Project, different problems and situations were not formally or opportunely informed, treated and solved by the NII. These situations were caused by deficient internal communication among the Project's personnel.

Criteria -

NII should have implemented adequate communication and coordination channels to treat and solve these problems.

Cause -

NII did not have a formal communication and/or coordination system to solve or treat its problems with USAID/Peru.

Effect -

This weakness negatively affected the funds accountability statement, the internal control structure and the compliance with laws and regulations. The effects of this weakness are questionable costs of US\$31,566 and unsupported expenses of US\$129,633.

Recommendation -

We recommended NII, in all future USAID projects, establish a formal communication and coordination system and/or channels to treat and solve the Project's important problems.

- 2 The Project did not have a simplified policies and procedures handbook.

Condition -

The instructions were verbally given to the personnel who worked based on their own criteria and experience.

Criteria -

Every Project should have a policies and procedures handbook which clearly specifies the steps to follow so that personnel can efficiently perform their work. This handbook should clearly state obligations and restrictions implanted by the granting entity.

Cause -

Inadequate time to prepare this handbook in writing.

Effect -

The Project's personnel have performed their work based on their own experience and criteria, contributing to NII's noncompliance with laws and regulations applicable to the Project.

Recommendation -

We recommend NII, in all future USAID projects, design and implement a simplified policies and procedures handbook that clearly describes the duties and responsibilities and obligations of personnel involved in the projects and the restrictions mandated by USAID/Peru.

- 3 The Project's filing system was inadequate.

Condition -

During our review we had serious difficulties finding documentation relating to the Project.

Criteria -

All the information relating to the Project should have been chronologically filed for easy access.

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Cause -

More attention was paid to the operating activities rather than administrative and accounting activities, especially filing of project documentation.

Effect -

Loss of information which could have, as a consequence, questionable costs.

Recommendation -

We recommend NII, in all future USAID projects, design and implement an adequate filing system to guarantee the adequate custody and chronological filing of the Project's documents.

Accounting and financial aspects -

- 4 **Budgetary or accounting system for the Project was not established.**

Condition -

During our audit, we observed that an adequate budgetary or accounting system for recording of transactions had not been established. There was no internal budgetary control system that considered the project expenditures at the detailed levels and periods (monthly, quarterly, etc.), in comparison to the authorized line item budget. The Project's transactions were not recorded in NII's accounting system.

Criteria -

The Project should have had a detailed budgetary system and an accounting system that guaranteed the entire, opportune and true record of their transactions.

Cause -

The NII employees were unaware of the Project Agreement's Standard provisions concerning budgetary and systems and in addition, the NII's internal control environment was weak.

Effect -

Noncompliance with the Project's laws and regulations. This situation to originate the existence of the budgetary overdrafts in the fund accountability statement of US\$19,531 at December 31, 1990.

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Recommendation -

We recommend NII, in all future USAID projects, design and implement a budgetary and accounting system to facilitate the control of the Project's operations. This system should have included at least:

- The construction of a trial balance in accordance to the Project's needs.
- Implementation of an adequate budgetary control system that can periodically analyze significant variation between the budget and disbursements.

5 There was an inadequate managerial information system.

Condition -

We observed the following situations:

- Cash flows were not prepared.
- Detailed Project budgets were not prepared.
- Funds accountability statements were not prepared. One was prepared at December 31, 1990 at our request.

Criteria -

A managerial information system should have been established as a tool for the direction of the Project in order to facilitate the decisions making process.

Cause -

This system was considered unnecessary due to inadequate time of the Project's personnel and unawareness of the Project Agreement's Standard Provisions concerning management information systems.

Effect -

The Project's administrative and accounting efforts were inadequate.

Recommendation -

We recommend NII, in all future USAID projects, design and implement a managerial information system for the Project.

- 6 There were no reconciliations of Project balances between NII and USAID/Peru records during the course of the Project.

Condition -

Periodic reconciliations were not made between the NII records and the USAID/Peru records of the advances and liquidations account until August, 1990. At December 31, 1990 reconciliation had not been made.

Criteria -

Periodic reconciliation of the Project's funds as recorded by NII with the records of USAID/Peru should have been made and written evidence should have been kept.

Cause -

Unawareness and/or negligence on behalf of the NII Directors in this control procedure.

Effect -

The difference of the total advances and liquidations of the Project at December 31, 1990 is US\$32,555. As of the date of this report, this difference has not been cleared.

Recommendation -

We recommend NII, in all future USAID projects, make periodic reconciliations of its accountable records and USAID/Peru records maintaining evidence of the work performed.

Treasury -

- 7 The Project's current bank account was not exclusively used for the Project's transactions.

Condition -

During our examination of the Project, we observed delays in the request of funds to USAID/Peru and consequently delays in their reception. Due to this situation, management had to borrow money from other grantees to be able to afford Project's expenses.

Criteria -

The Project's funds should have been managed in a current account, limiting its use to the Project's transactions.

Cause -

Payments were made with funds from other projects due to the inefficiency of the NII's administrative and accounting personnel, who received the USAID/Peru funds at the end of the month.

Effect -

Disbursements made at December 31, 1990 are greater than the funds delivered by USAID as they were canceled with funds from other projects.

Recommendation -

We recommend NII, in all future USAID projects, design and implement procedures to assure the proper use of the Project's current bank account and the obtainment of adequate project funds from USAID in a timely manner.

8 The NII's procedures for preparing bank reconciliation were not adequate.

Condition -

Bank reconciliations were prepared using the check books and bank notes, with an imminent error risk. Additionally, NNI did not keep a bank register for its respective control.

Criteria -

The NII should have established adequate procedures for the preparation of the Project's bank reconciliations.

Cause -

Administrative and accounting personnel did not have instructions in this respect.

Effect -

Bank reconciliations were not promptly and/or correctly prepared.

Recommendation -

We recommend NII, in all future USAID projects, design and implement clear and detailed policies and procedures for the preparation of the Project's bank reconciliations.

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9 Procurement procedures were not adequate.

Condition -

As a result of our test of liquidations, we observed the following situations:

- Purchase orders were not issued.
- Uniform request for quotations was not performed.
- Authorization limits for the approval of purchases of goods and services were not established.
- The benefit analysis of purchasing a van instead of renting was not performed. Vans were always rented from the same supplier without an adequate selection process.
- Several payments for services were made, instead of hiring temporary personnel, which would have been less expensive. These services were offered by a limited number of suppliers without an adequate selection process.

Criteria -

Purchases of goods and services should have been done under free competition, analyzing different alternatives, and choosing the most reasonable.

Cause -

Personnel were unaware of the Project Agreement's Standard Provisions concerning management information systems. Personnel in charge worked according to their own experience and criteria. There was no written evidence, in most of the cases, of price quotations when they were requested.

Effect -

Noncompliance with laws and regulations. Our evaluation determined the existence of questionable and unsupported costs of US\$20,000 and US\$109,121, respectively.

Recommendation -

We recommend NII, in all future USAID projects, design and implement procedures for purchasing goods and services that guarantee NII's compliance with terms and applicable laws and the agreement regulations.

- 10 Most of the travel advances were not adequately or opportunely documented, authorized or liquidated.

Condition -

As a result of our liquidations test, we observed that, generally, the supporting documentation for travel expenses was not sufficient or properly authorized. In addition, we observed that travel expenses were liquidated with three weeks delay.

Criteria -

Supporting documentation of travel expenses should have been prepared in a more timely fashion and approved by adequate level of management.

Cause -

There were no control procedures. NII established a requirement that advances be supported in five days. However, this practice was not complied with.

Effect -

Unsupported travel expenses (questionable costs) were noted in the amount of US\$37.

Recommendation -

We recommend NII, in all future USAID projects, design and implement procedures to ensure that the liquidations requests for all advances are reviewed and approved in a timely manner. Additionally, NII should establish procedures to ensure compliance with its own time requirement for supporting advances.

- 11 Adequate procedures for controlling routes, mileage, gasoline and maintenance expenses for rented vehicles were not established.

Condition -

During the course of the Project there was inadequate control over mileage, gasoline and maintenance expenses.

Criteria -

All expenses relating to the Project's vehicles were not controlled in order to assure their reasonableness.

Cause -

Control over the expenses relating to the Project's vehicles was considered unnecessary by NII.

Effect -

The existence of questionable and unsupported costs of US\$20,000 and US\$8,000, respectively.

Recommendation -

We recommend NII, in all future USAID projects, design and implement adequate controls to assure the reasonableness of the expenses relating to the Project's rented vehicles.

- 12 Documentation relating to disbursements was not referenced to indicate that the expenses correspond to the Project.

Condition -

We observed the lack of a system to cancel documentation supporting disbursements corresponding to the Project.

Criteria -

Documentation supporting disbursements must have a reference or restriction that may identify them with the Project and avoid inclusion in other projects.

Cause -

It was not considered necessary to stamp or restrict the Project's documentation.

Effect -

There could be errors and/or duplications in payments, mixing them with those of other projects.

Recommendation -

We recommend NII, in all future USAID projects, design and implement adequate controls to assure that all documents supporting disbursements have an indication to identify them with an specific project.

Price Waterhouse



**AUDIT OF THE PRIVATE SECTOR NUTRITION/CHILD
SURVIVAL PROJECT USAID/PERU No. 527-0308
MANAGED BY THE NUTRITIONAL INSTITUTE OF
INVESTIGATION - NII FOR THE PERIOD
JUNE 26, 1986 TO DECEMBER 31, 1990**

**COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS**

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the Private Sector Nutrition/Child Survival, Project USAID/Peru No. 527-0308, managed by the Nutritional Institute of Investigation - NII for the period June 26, 1986 to December 31, 1990 and have issued our report thereon dated October 4, 1991, in which we express an adverse opinion.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's Government Auditing Standards (Revision 1988), and consequently, included selective tests in the Project's records and the application of other audit procedures considered necessary due to the circumstances. 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 Nutritional Institute of Investigation - NII is responsible for compliance with the terms of the agreement and applicable laws and regulations. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of NII's compliance with the applicable laws and regulations which may affect the Projects's goals and incurred costs. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in statutes, regulations, contracts or grants, that cause us to conclude that the aggregate of the misstatements resulting from those failures or violators are material to the fund accountability statement. The results of our tests indicated the following instances of material noncompliance:



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- a) Multiple instances of negligence of NII employees in complying with the terms of the agreement and applicable laws and USAID regulations as described in detail in finding 1 in the following pages. This situation was caused by the inadequate coordination between the people in charge of the operative and administrative areas in NII.
- b) During the course of the Project, the "Standard Provisions" described in the agreement, annex 1, title G, were not taken into account, basically in the aspects relating to the maintenance of an accounting system and budgetary control of the Project's transactions, as well as procurement procedures and liquidation of allowable costs to USAID/Peru .
- c) The NII did not send the quarterly reports to USAID in the first stage of the Project as stated in the agreement, annex 1, caption F.1.

In our opinion, due to the importance of the effect of the situations described in the previous paragraphs, related to items tested, the Nutritional Institute of Investigation - NII had not complied in all material respects, with the terms of the agreement and applicable laws and regulations, resulting in questioned and unsupported costs of US\$31,566 and US\$129,633, respectively, in the period June 26, 1986 to December 31, 1990.

This report is intended solely for the information and use of the United States Agency for International Development and the Nutritional Institute of Investigation - NII. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the General Inspector, is a matter of public record.

October 4, 1991

Price Waterhouse

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PRIVATE SECTOR NUTRITION/CHILD SURVIVAL PROJECT
USAID/PERU No.527-0308 MANAGED BY THE NUTRITIONAL
INSTITUTE OF INVESTIGATION - NII FOR THE PERIOD
JUNE 26, 1986 TO DECEMBER 31, 1990

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

1 AUDIT FINDINGS

The "Standard Provisions" of the Agreement relating to compliance with the agreement terms and applicable laws and regulations described in Annex 4, caption 6, were not considered by the NII during the course of the Project.

Condition -

As we described in the internal control structure report, in the audit findings section, in findings Nos. 4, 7, 9, 10, and 11, our examination found the following situations:

- An effective budgetary control was not carried out.
- The procedures used to control the Project's funds were not adequate.
- Price quotations were not always included in the NII's procurement process.
- In most cases, advances for travel expenses were not adequately or opportunely documented or liquidated.
- Adequate procedures to control routes, mileage, gasoline, and maintenance expenses of rented vehicles were not established.

Additionally during our audit, we observed other situations of noncompliance with The Project's Laws and regulations:

- An accounting system was not kept during the course of the Project.
- The Project's balances were not periodically reconciliated with those of USAID/Peru. Additionally, there was no evidence of any reconciliations.
- Some disbursements did not have all the legal formalities (address, tax card, trade mark, etc.).
- The Project incurred in excessive service expenses instead of evaluating the possibility of hiring temporary personnel at reasonable costs.

The cost-benefit of purchasing vans instead of renting them should have been evaluated.

Criteria -

The "Standard Provisions" of the Agreement applicable to this Project were not followed.

Cause -

Lack of knowledge of the Agreement requirements and/or negligence of NII.

Effect -

The funds accountability statement includes questionable and unsupported costs of US\$31,566 and US\$129,633, respectively.

Recommendation -

We recommend NII, in all future USAID projects, coordinate with USAID/Peru to obtain the "Standard Provisions" in the grant agreement and design and implement procedures to ensure that NII's employees are informed of the requirements of the agreement and all its provisions and comply with them.

- 2 During the first stage of the Project, quarterly reports were not sent to USAID/Peru, as established in the agreement's Annex 1, caption F.1.

Condition -

The NII started to send quarterly reports to USAID/Peru in 1987, because the policies and procedures to evaluate the Project's activities had not been implanted since the beginning.

Criteria -

The NII should have established adequate procedures to evaluate the Project's activities.

Cause -

During the first stage of the Project, efforts were directed towards to the operating activities rather than to its evaluation.

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Effect -

USAID/Peru project management was not given adequate reporting of NII's project activities.

Recommendation -

We recommend the NII, in all future USAID projects, design and implement procedures to ensure that the Project's activities which it is managing are evaluated in compliance with the grant agreement's provisions.

Annex 1

**PRIVATE SECTOR NUTRITION/CHILD SURVIVAL
PROJECT USAID/PERU No.527-0308 MANAGED
BY THE NUTRITIONAL INSTITUTE OF
INVESTIGATION - NII FOR THE PERIOD JUNE
26, 1986 TO DECEMBER 31, 1990**

MANAGEMENT COMMENTS

We enclose to this annex the comments made by the General Directors of Nutritional Institute of Investigation.

INFORME DEL INSTITUTO DE INVESTIGACION NUTRICIONAL
EN REFERENCIA AL DOCUMENTO DE AUDITORIA PRESENTADO POR
PRICE WATERHOUSE: PROYECTO SUPERVIVENCIA INFANTIL
AID No: 527-0308-G-658300

1.- Antecedentes:

El Instituto de Investigación Nutricional (IIN) es una institución Peruana, privada, sin fines de lucro, registrada ante el Ministerio de Salud, el Ministerio de Economía y Finanzas y ante el Instituto Nacional de Planificación, como entidad de carácter asistencial y de investigación en el área de la nutrición.

La extensa labor realizada durante los últimos 30 años para entender el complejo fenómeno de la desnutrición infantil, y de esta manera, proponer soluciones costo efectivas para su prevención y tratamiento, le ha otorgado sólido prestigio a nivel nacional e internacional. Este prestigio ha permitido poder contar con la colaboración de numerosas instituciones nacionales e internacionales en la realización y financiamiento de proyectos.

La Agencia para el Desarrollo Internacional de los Estados Unidos (US-AID) por intermedio de sus programas centrales (AID-Washington), como de la misión local (AID-Lima) ha sido, desde la fundación del IIN en el año 1961, una de las principales fuentes para el desarrollo y mantenimiento de la institución, relación que no ha sido interrumpida hasta la actualidad.

En los últimos treinta años los mecanismos de contratos y financiamiento de proyectos entre la AID y el IIN han ido variando de acuerdo a las circunstancias específicas de cada uno de ellos, para lo cual la administración del IIN mantuvo siempre una relación cordial y abierta a las sugerencias administrativas de la AID. En determinados momentos el 75% del financiamiento del IIN provenía de AID, por lo cual el mecanismo administrativo de la institución obedecía al sistema sugerido y coordinado por AID para cubrir los requerimientos.

El proyecto actual, que se encuentra en análisis, fue una extensión de un proyecto anterior (Cooperative Agreement No. 527-0219-CA-00-5037-00) que se firmó en el mes de Diciembre de 1984 y que tuvo como fecha final el mes de Junio 30, 1986. El monto de este programa fue U.S. \$ 400,000, para desarrollar un programa de educación nutricional y control de crecimiento. La administración de este proyecto fue realizada de la misma manera que todos los anteriores, en los que el IIN cargaba al proyecto un costo administrativo fijo como costo indirecto y que la AID aceptaba. (Anexo 1)

Antes de terminar este proyecto, el IIN inicia conversaciones con la AID y con las agencias que participaron en el proyecto anterior, y presenta una propuesta (Marzo de 1986) para continuar el programa de control de crecimiento, y otras dos propuestas para complementar otros programas (Dietary Management of Diarrhea, Applied Diarrheal Disease Research), que venía implementando con fondos de AID/Wash. El presupuesto se presentó detalladamente para cada uno de los componentes, y en cada uno de ellos se consideró un porcentaje de 20% de costos administrativos. Después de revisar la propuesta, AID sugiere algunas modificaciones, dentro de las cuales no estaba el cambiar los costos indirectos administrativos a costos directos, por lo cual se presenta una segunda propuesta con las modificaciones sugeridas (Abril, 1986). Esta propuesta es aceptada en base a lo que dice textualmente el Attachment 2, página 2 del nuevo contrato "The training program was highly successful and continued support has been requested by these same MOH and private voluntary organizations...". El día 26 de Junio de 1986, se firma el convenio del Grant No 527-0308-G-00-6583-00, Private Sector Nutrition/Child Survival por la cantidad de U.S. \$ 914,000 para realizar las tres actividades descritas anteriormente y en cuyo presupuesto se habían unido los de las tres propuestas presentadas por el IIN, y los costos administrativos habían sido incluidos como costos directos en cada uno de los componentes. En el documento de la firma del contrato figuran como Attachments: 1. Schedule, 2. Program Description, 3. Mandatory Standard Provisions y 4. Optional Standard Provisions. Estos dos últimos no fueron enviados como anexos sino incluidos de manera muy breve dentro del attachment 1 (Página 3).

El IIN manejó este Grant de la misma manera que los anteriores, lo que indudablemente fue un error, pero creemos que este error también pasó desapercibido en AID; pues durante los tres primeros años del manejo del proyecto no se puso ningún reparo a la rendición de cuentas del IIN y se canceló como gastos administrativos el 20% de los gastos directos del proyecto. Cuando la AID notó que los gastos que se cobraban como indirectos, figuraban en el contrato como gastos directos, solicitaron a la administración del IIN, una justificación de los mencionados costos. Dicha justificación, que demandó un gran esfuerzo en realizarla, fue enviada a AID, y ha sido revisada por los auditores del proyecto.

Creemos también que es necesario tomar en cuenta que el proyecto inicial debió terminar el 31 de Diciembre de 1988 y que por motivos totalmente justificados y aprobados por AID, éste se prolongó hasta el 31 de Diciembre de 1990. Esta prórroga se realizó mediante tres "amendments" en el último de los cuales el IIN estuvo de acuerdo de financiar con fondos del proyecto una evaluación técnica y una auditoría al final del proyecto, las que no estaban dentro del contrato original.

I. ESTADO DE FONDOS

El informe de la auditoría ha cuestionado los siguientes gastos:

1. Contratación no razonable de personal temporal
(US \$ 96,401)

Estos gastos han sido cuestionados debido a que las contrataciones en mención se hicieron a través de una empresa de servicios, la cual obviamente tenía un margen de ganancia (15%).

Siendo el IIN una institución nacional, tiene que adecuarse a las regulaciones del Gobierno Peruano y establecer líneas de política que protejan a la institución contra eventuales errores que pudiesen poner en riesgo a la institución y a los proyectos que realiza. Por estos motivos cuenta con asesoría legal para la toma de decisiones sobretodo en el área laboral. Debe recordarse que solamente un pequeño porcentaje del personal que trabaja en la institución tiene carácter permanente, pues debido a la modalidad de trabajo, consistente en proyectos de duración limitada, se contrata personal por períodos cortos de tiempo. De acuerdo a las leyes de ese entonces, la estabilidad laboral se producía a los 3 meses de la contratación. Así mismo, se hacía imposible el uso de contratos de trabajo a plazo fijo debido a que estos no eran válidos, sin la aprobación expresa del Ministerio de Trabajo. En la mayoría de los casos, el Ministerio de Trabajo tomaba entre 4 a 6 meses para enviar un inspector a aprobar los contratos. Por estos motivos, nuestros asesores legales nos instruyeron a no incluir al personal temporal en nuestras planillas, ya que al tener los proyectos un carácter temporal, dichos empleados debían ser liquidados a la finalización de los proyectos. La manera más adecuada que se encontró de solucionar el problema, fue de buscar una empresa que contrate dicho personal. Se investigó cuidadosamente el mercado, y se contrató a 2 empresas, las cuales se utilizaron para todos los proyectos que en ese momento se realizaban en el IIN.

En determinado momento, la ley varió y requería que las empresas de servicios fueran de un tipo especializado. Luego de consultar con nuestra asesoría legal, se contrató a 4 empresas de servicios, especializadas en los siguientes rubros:

1. Encuestas de campo
2. Trabajos clínicos
3. Limpieza y mantenimiento
4. Seguridad

40.

2. Gastos de Alquiler de Vehículos No Razonables (\$ 28,011)

Se ha considerado dichos costos como no razonables, debido a que con el monto total del alquiler se hubiera podido comprar un vehículo al inicio del proyecto. Sin embargo, hay que tener en cuenta las siguientes consideraciones: En el presupuesto inicial presentado por el IIN (Marzo, 1986), en el rubro de Local Transportation figuraba la cantidad de US \$ 4,200 para la adquisición de una camioneta Volkswagen Van. Después de la revisión de esta primera propuesta, los funcionarios de AID nos sugirieron modificar este rubro, pues de acuerdo a las regulaciones de la agencia se tenía que adquirir un vehículo americano cuyo precio era alrededor de US \$ 15,000. Por este motivo en la segunda propuesta se modificó este rubro, incluyéndose el precio de alquiler de un vehículo. Con la autorización (verbal) del AID, se decidió alquilar una VW, del mismo Instituto, a un precio por debajo del mercado local (US \$ 16.6 dólares diarios). Las empresas comerciales que se consultaron en ese momento (AVIS, GRAF) cotizaron el alquiler de un vehículo similar, por encima de los \$ 25.00 diarios. Si esta decisión se mira retrospectivamente y se considera la duración total del proyecto, es posible que no justificase el gasto, pero en el momento que se tomó, sí era la correcta. Queremos enfatizar que el proyecto nunca alquiló 2 vehículos ni cargó gastos de alquiler simultáneamente, durante el período del mismo. En algunas oportunidades, si el vehículo alquilado al proyecto no estaba operativo, el Instituto asignaba otra unidad. Sin embargo, era solamente una unidad a la vez. Esto se puede constatar en los archivos, tanto del AID como del IIN.

3. Compra de Bienes y Servicios sin Cotizaciones (US \$ 5,701)

De acuerdo a las regulaciones, conocidas anteriormente por el IIN, existen cotizaciones de todas las compras de bienes y servicios que sobrepasan los \$ 5,000.

4. Indemnizaciones y Bonos Extraordinarios al Personal (US \$ 11,555)

El Instituto ha efectuado dichos bonos e indemnizaciones acatando las regulaciones del Gobierno. El IIN es una institución que se financia exclusivamente con el desarrollo de proyectos de Agencias Internacionales y no cuenta con un presupuesto central que pueda asumir gastos incurridos por los proyectos. En el caso de las indemnizaciones, el IIN tiene la obligación legal de cancelarlas en el momento de la liquidación de una persona. Si una persona ha trabajado en la institución durante cuatro años en cuatro proyectos diferentes, el IIN debe cargar

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a cada uno de los proyectos la cantidad que por ley le corresponde para reserva de indemnizaciones, por el periodo de tiempo trabajado en cada proyecto, pues de otra manera no tendría como cancelarlas. Si una persona es liquidada durante el desarrollo del proyecto o al término de este, los montos que se cargan al proyecto son solamente los correspondientes al periodo trabajado en él, independientemente a que esta persona pudo haber estado trabajando en el IIN varios años antes y para los cuales se debe tener una reserva acumulada, cargada a los proyectos anteriores. Por conveniencia de los proyectos, las personas que han sido capacitadas no son necesariamente canceladas del IIN al finalizar el proyecto, sino son recontratadas por otro proyecto.

5. Sobregiro Presupuestal (US \$ 12,845)

Se ha considerado como un gasto cuestionable el sobregiro de 2 categorías presupuestales por una suma de \$ 12,845. Sin embargo, el presupuesto global tiene un saldo a favor de \$ 13,322, el cual no ha sido reembolsado al IIN, habiendo la institución asumido dicha pérdida. Las dos categorías presupuestales sobregiradas son las siguientes:

Categ. Presup.	Presupuesto	Gastado	% Sobregiro
Mat. Laborat.	44,325	53,883	21.5
Estudio Clin.	57,751	61,038	5.6

Debe considerarse que un sobregiro de hasta el 20% de lo presupuestado por categoría, fue autorizado en proyectos anteriores y específicamente consultado en este contrato (Carta Octubre 2, 1982).

II. ASPECTOS GENERALES - CONTROL INTERNO

1. Comunicación IIN-AID

El sistema de informes financieros fue diseñado por el AID para el IIN. Por muchos años se ha trabajado mediante el sistema de reembolsos, que tiene la virtud de establecer una comunicación mensual. Mensualmente se enviaba una relación de gastos (documentados), detallando el saldo por categoría, gastos obligados y el saldo total. En los casos que el AID tenía alguna duda respecto a la legitimidad de algún gasto, o del cumplimiento de las regulaciones, simplemente hacía un "disallowance", sin reembolsar el gasto, hasta aclarar el

problema. De este modo, siempre se ha mantenido una comunicación entre las 2 instituciones, tanto en el aspecto administrativo, como en el aspecto técnico. El sistema se ha ido modificando de acuerdo a las indicaciones del AID. Por ejemplo, originalmente se había establecido una tarifa fija de viáticos para los viajes internos. Luego el AID solicitó que se reembolsara estrictamente lo gastado (con factura), y se empezó a trabajar de esta manera. Finalmente, el AID exigió copia de los pasajes, para asegurarse que el viaje se había realizado. Este procedimiento, asimismo, se reglamentó en el proyecto.

2. Manual de Procedimientos

Los técnicos que trabajaron en el proyecto, tienen amplia experiencia en este tipo de programas al haber trabajado en otros similares con financiamiento de diversas financieras (OMS, OPS, UNICEF, Fundaciones, Universidades, etc.). El no cumplimiento con algunas regulaciones del AID, se han debido más bien al desconocimiento de las mismas, ya que en los 20 años de trabajos conjuntos, el IIN nunca contó con un manual completo de regulaciones (Standard Provisions). Por estos motivos, el Instituto ha recurrido a través de los años en una serie de incumplimientos de dichos reglamentos administrativos/contables.

3. Sistema de Archivo del Proyecto

Debido a la mudanza de la administración del Instituto al 2do. piso del local, los archivos administrativos habían sido temporalmente guardados en un almacén, para su posterior re-organización. El sistema de archivos adolece, por consiguiente, de una serie de deficiencias.

4. Sistema Contable

Como se mencionó anteriormente, el IIN produjo un informe financiero mensual del proyecto, con el detalle del presupuesto, gastos y saldos por categoría presupuestal. Este informe le servía al investigador en el proceso de toma de decisiones. Este documento, junto con las facturas originales, eran enviadas a la oficina del AID para su revisión y reembolso respectivo. Debido al rápido crecimiento de la institución, y a pesar de una serie de esfuerzos para adaptar el área administrativa a las necesidades actuales, por la falta de recursos, el Instituto no cuenta con el personal suficiente, ni con un sistema computarizado apropiado para la contabilidad de los proyectos. Actualmente, sólo un contador está

encargado de la contabilidad institucional. A fin de simplificar dicha labor, se registraron en el sistema solamente las transacciones centrales del Instituto y no las de los proyectos. Esta deficiencia está tratando de superarse, pero al no existir los recursos necesarios, se hace sumamente difícil establecer un grupo técnico con una infraestructura adecuada.

5. Sistema de Información de Gerencia

Durante el desarrollo del proyecto, no se prepararon flujos de caja apropiados, para asistir al investigador en su toma de decisiones. Sin embargo, el investigador siempre ha contado con un informe de saldos por categoría presupuestal, el cual ha utilizado para este propósito.

6. Reconciliaciones de Saldos IIN-AID

Los saldos registrados en los informes mensuales fueron enviados periódicamente a la oficina del AID. Sin embargo, la conciliación de saldos entre ambas instituciones se realizó de manera muy esporádica.

7. Cuenta Bancaria del Proyecto

La administración del Instituto, se vió forzada a utilizar otros fondos y no parar la marcha del proyecto, debido a las siguientes circunstancias:

- . En ese entonces, el proceso inflacionario que vivía el país era intenso. Los adelantos que recibía el proyecto eran en moneda local, y rápidamente perdían su valor adquisitivo. Por este motivo, se solicitaban adelantos solamente para periodos muy cortos de tiempo por lo cual la administración del proyecto se hacía muy difícil y a veces la cuenta del mismo se quedaba sin fondos.
- . El proceso de reembolso de la oficina del AID-Lima, tomaba a veces más tiempo de lo programado. Por lo tanto, en esas oportunidades el proyecto estaba sin liquidez

Por lo expuesto anteriormente, se hacía imperativo utilizar otros fondos para garantizar la marcha del proyecto. Estos fondos eran posteriormente reembolsados en moneda local, lo cual produjo una pérdida al IIN, por el tipo de cambio. Este cálculo ha sido documentado y presentado a AID y a los auditores.

8. Procedimientos de Reconciliaciones Bancarias

En ese entonces, no existía libro de bancos dentro del sistema financiero contable del Instituto. Este problema se ha subsanado en la actualidad.

9. Procedimientos de Compras

En muchos casos, la oficina del AID, indicó puntualmente la necesidad de tener cotizaciones para compras específicas. En tales casos, siempre se cumplió con dichos requerimientos. Sin embargo, debido al desconocimiento de los "Standard Provisions", sólo se estableció un procedimiento uniforme para cotizaciones por montos mayores a U.S.\$ 5,000.

Los límites de autorización de gastos, para la compra de bienes y servicios, no se estableció ya que todos los gastos del proyecto debían ser autorizados por el investigador principal, de acuerdo a las indicaciones de la AID.

10. Adelantos de Gastos para Viajes

Los adelantos para viajes, como todos los adelantos y gastos en general, fueron aprobados por el Investigador Principal. La demora de 3 semanas en la liquidación de adelantos, se debió a la falta de control adecuado por no contar la administración con personal suficiente ni un sistema apropiado. Sin embargo, queremos hacer notar que la auditoría considera que el monto de estos gastos que no fueron presentados adecuadamente, asciende a US \$ 37.0 de un presupuesto total de US \$ 76,059.0

11. Control de rutas, millaje, gasolina y mantenimiento de vehículos.

La aprobación de dichos gastos, fue realizada por el investigador principal, al considerarlos razonables. Un control más exhaustivo de los mismos, fue imposible por las restricciones administrativas mencionadas anteriormente.

12. Cancelación de documentos del proyecto

El sistema de control interno que utiliza el IIN, es pasar mensualmente a todos los investigadores que están a cargo de los proyectos, una relación exacta de todos los gastos incurridos por el proyecto. Los investiga-

dores revisan esta información, y si no están de acuerdo, se lo hacen saber a la administración o no los autorizan. Después de este proceso los documentos originales, de cada proyecto, son enviados a las agencias financieras para su reembolso. Antiguamente el AID tenía la práctica de sellar dichos documentos como pagados por el AID a fin de evitar duplicidad de pago por las agencias.

Durante el proceso de la auditoría, se han llevado a cabo innumerables reuniones con los auditores de Price Waterhouse. Cada uno de los puntos anteriores se han explicado en detalle y con documentos sustentatorios. Sin embargo, nuestros descargos no han sido incluidos en el informe de auditoría.

Queremos indicar que a lo largo del desarrollo del proyecto el IIN se ha visto perjudicado por los siguientes motivos:

- 1.- Pérdida cambiaria al prestar fondos al proyecto en moneda nacional y ser reembolsados sin intereses, en la misma moneda.
- 2.- Desde el mes de Junio de 1989, en que la AID hace notar el problema de los gastos administrativos y pide que sean documentados como costos directos al proyecto, se deja de pagar todo tipo de costo administrativo. A pesar del esfuerzo del personal administrativo en preparar toda esta documentación, como la referente al proceso de auditoría, los gastos administrativos no han sido reconocidos, los cuales ascienden de acuerdo al balance final auditado a la cantidad de US \$ 20,530.
- 3.- En el mismo balance final auditado figuran gastos incurridos por el IIN y no reembolsados por la cantidad de US \$ 13,322.

Indicamos estos puntos para resaltar que el IIN siempre ha estado dispuesto a colaborar y a trabajar de la manera más armoniosa con AID y las otras agencias financieras. Queremos también reconocer que por mucho tiempo nuestro sistema administrativo/contable no ha podido adaptarse, a pesar de numerosos esfuerzos realizados, a la demanda que ha exigido la rápida expansión de la institución. En el pasado el IIN realizaba proyectos con 1 ó 2 agencias, situación que ha cambiado en los últimos años, en los que se han tenido proyectos con más de 10 agencias simultáneamente, cada una con requerimientos diferentes.

Por último queremos dejar en claro que a pesar de todos las deficiencias de nuestro sistema administrativo/contable, el IIN siempre ha hecho el esfuerzo de cumplir con las reglas de AID, mientras fueron conocidas, y que durante muchos años la relación entre ambas instituciones se basó en la confianza mutua, condiciones que esperamos mantener en el futuro.

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES AID MISSION TO PERU
C/O AMERICAN EMBASSY
LIMA, 1 PERU

TELEPHONE: 206200

CABLE: USAID/LIMA

Mr. Carlos Fitts
Administrative Director
Instituto de Investigación Nutricional
Av. La Universidad s/n
La Molina

SEP 28 1986

Subject: Cooperative Agreement No. 527-0219-CA-00-5037-00

Dear Mr. Fitts:

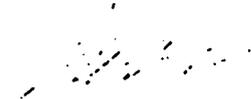
Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter referred to as "A.I.D." or "Grantor") hereby grants to the Instituto de Investigación Nutricional (hereinafter referred to as "IIN" or "Recipient"), the sum of Four Hundred Thousand United States Dollars (\$400,000) to provide support for a program of nutritional education and growth monitoring training of selected personnel from the Peruvian Ministry of Health, National Food Assistance Office, and private voluntary organizations working in supplementary feeding activities, as described in Attachment 1, the Schedule of this agreement, and the Attachment 2, entitled "Program Description."

This agreement is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Recipient in furtherance of program objectives during the period beginning with the effective date and ending June 30, 1986.

This agreement is made with the IIN on condition that the funds will be administered in accordance with the terms and conditions as set forth in Attachment 1, entitled "Schedule," Attachment 2, entitled "Program Description," and Attachment 3, entitled "Standard Provisions," which have been agreed to by your organization.

Please sign the original and seven (7) copies of this letter to acknowledge your receipt of the Agreement and return the original and six copies to USAID/Peru.

Sincerely,


Michael Snyder
Regional Contracting Officer

Attachments:

1. Schedule
2. Program Description
3. Standard Provisions

Acknowledged:

Instituto de Investigación Nutricional

Carlos Fitts

by: Carlos Fitts
Title: Administrative Director
Date: DEC 28, 1984

FISCAL DATA

Appropriation: 72-1151021
Budget Plan Code: LDAA-85-25527-AG13
Project No. 527-0219
Total Estimated Amount: \$400,000
Total Obligated Amount: \$400,000

SCHEDULE

A. Purpose of the Agreement

The purpose of this Agreement is to provide support for training of personnel of the Ministry of Health, National Food Assistance Office (ONAF), and private voluntary organizations (PVOs) in nutrition education and growth monitoring, as well as to support two research studies to develop follow-on training materials on infant feeding, oral rehydration, and feeding of children with diarrhea, as more specifically described in Attachment 2 to this Agreement, entitled "Program Description."

B. Period of Agreement

The effective date of this Agreement is December 28, 1984. The completion date is June 30, 1986.

C. Amount of Grant and Payment

1. A.I.D. hereby obligates the amount of \$400,000 for purposes of the agreement.

2. Payment shall be made to the Recipient in accordance with procedures set forth in Attachment 3, Standard Provision 9A, entitled "Payment - Periodic Advance."

D. Financial Plan

The following is the Financial Plan for this Agreement, including local cost financing items. Revisions to this Plan shall be made in accordance with the Standard Provision of this Agreement entitled "Revision of Financial Plans."

FINANCIAL PLAN
(U.S. \$000)

From December 28, 1984 to June 30, 1986

1. Training Program	\$230,848 ✓
2. Infant Feeding Study	76,331 ✓
3. Diarrhea Study	<u>92,821 ✓</u>
TOTAL	\$400,000 =====

E. Progress and Financial Reporting

The Recipient shall submit to A.I.D. quarterly financial reports as required by the Standard Provisions, Attachment 3. Technical reports in form and substance acceptable to A.I.D. shall be submitted every three months in English to A.I.D. The technical reports will describe implementation progress, by presenting briefly the following information on each component:

- 1) A comparison of actual accomplishments with goals established for the period for completion of sub-agreements, curriculum design, development and distribution of training manuals, procurement and distribution of scales to PVOs, and implementation of research plans for the studies.
- 2) Reasons why goals were not met; corrective actions planned.
- 3) Other pertinent information, when appropriate.

The Recipient will submit a copy in Spanish of each technical report to the Dirección General de Servicios de Salud of the Ministry of Health.

The IIN will provide a final report (five copies in both English and Spanish) study summarizing the results of the studies and recommended actions.

F. Special Provision

The following Standard Provisions are deleted from Attachment 3: 8A, "Negotiated Overhead Rates-Predetermined;" 8B, "Negotiated Overhead Rates-Nonprofit Organizations Other Than Educational Institutions;" 9B, "Payment-Reimbursement;" 12A, "Procurement of Goods and Services Under \$250,000;" 15B, "Title To and Care of Property (U.S. Government Title);" and 15C, "Title To and Care of Property (Cooperating Country Title)."

G. Overhead Rate

The recipient agrees that it shall not be reimbursed by the Government under this Agreement for any indirect costs or fee. In lieu thereof, the Recipient will be paid a fixed amount in lieu of overhead, which is fixed at 15% of all direct expenses, excluding equipment, actually paid by the recipient and is not subject to adjustment.

H. Title to Property

Title to all property acquired under the Agreement and delivered to IIN or its designee in Peru shall vest in IIN or, with A.I.D. prior written approval of the A.I.D. agreement officer, any subgrantee of IIN.

i. Authorized Geographic Code

The authorized geographic code for procurement of goods and services under this agreement is the United States (Code 000) and Peru. Local currency financing up to \$300,000 is authorized under the agreement.

J. Substantial Involvement Understandings

IIN and A.I.D. agree that the nature of the activities to be carried out under the Cooperative Agreement require the direct involvement of A.I.D. and therefore, IIN agrees to furnish to A.I.D., in form and substance satisfactory to A.I.D., certain key documents, as described below but not be limited to the following elements:

1. The curricula vitae of all professional staff and key contract personnel proposed by IIN to carry out the training and research activities in this Agreement; written approval of A.I.D. must be received before these personnel can be compensated with funds from the agreement.

2. Copies of each sub-agreement between IIN and each of the participating private voluntary organizations, DANA, and ONAA which sets forth the rights and responsibilities of each party during the nutrition training program to be conducted by IIN for their personnel. The subordinate agreements between IIN and the PVOs will also specify number of balances to be procured for the PVO and the fact that title to the balances will be vested in the PVO. These subordinate agreements do not take effect until A.I.D. written approval is received.

3. If not included in the text of the sub-agreement, A.I.D. must subsequently approve in writing the curriculum plan developed by IIN for training of selected personnel from each participating PVO under IIN management before the training begins. The curriculum plan will contain, but not be limited to, the following elements:

- a. Major subject areas of course.
- b. Material to be covered in each subject area in order of presentation.
- c. Course time allotted to each subject area.
- d. Teaching methodology to be utilized for each subject area.
- e. Starting and ending date of each subject area.
- f. Cost budget.

A.I.D. will be informed of adjustments made to the curriculum following approval of the Curriculum Plan.

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4. Prior to the commencement of the studies, the Recipient shall obtain the written approval of A.I.D. of the research plans for the Infant Feeding Practices Study and for the Culturally Appropriate Management of Infant Diarrhea Study to be carried out by IIN. The research plans will contain, but not be limited to, the following elements:

- a. A statement of the problem.
- b. A statement of the working hypothesis.
- c. A discussion of the methodology which will be utilized to test the hypothesis.
- d. A description of the Resources required to carry out the study.
- e. A schedule of significant events.
- f. An expense budget.

After approval of the Research Plans by A.I.D., the IIN, will provide A.I.D. with a Spanish translation of elements a-c, above, of the research plans.

K. All payments to the recipient will be made in Peruvian currency at the official exchange rate in effect when the payment is authorized, unless otherwise authorized in writing by the agreement officer.

L. The recipient agrees that prior to purchasing scales utilizing funds provided under this agreement, he will present to the agreement officer a procurement plan setting forth the competition to be obtained and the basis for making award (see Standard Provision 12A, Attachment 3).

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Program Description

I. Purpose of the Cooperative Agreement

The purpose of the Agreement is to expand the number of community health workers and traditional birth attendants providing qualified nutrition education and continuous growth monitoring services to the target population of mothers and children under five years of age in marginal rural and urban communities. The Agreement will support a program by the Instituto de Investigación Nutricional (IIN) to train key personnel of the Ministry of Health, ONAA, and private voluntary organizations (PVOs) working in supplementary feeding who will in turn train community health workers to provide basic nutrition services, including growth monitoring. The IIN will also procure weighing scales for the PVOs to equip their community health workers. The I.I.N. will also conduct two nutrition research studies designed to produce follow-on training materials on infant feeding, oral rehydration, and feeding of children with diarrhea.

II. End of Program Status (EOPS)

The following are anticipated to result from the successful implementation of the Program activities:

1. Trained nutritionists: Not less than 74 nutritionists will be capable of training health promoters and volunteers to provide basic nutrition services, including growth monitoring.

2. Training Manuals: Not less than 10,000 copies of a training manual for health promoters and volunteers working in supplementary feeding programs will be distributed to ONAA, DANA, and PVOs for their use in training these workers to provide basic nutrition services, including growth monitoring and nutrition education.

3. Equipped PVO health promoters and volunteers: PVOs will be provided with infant weighing scales for not less than 2,000 PVO health promoters and volunteers.

4. Nutrition Studies: Follow-on training materials will be produced on the basis of the results of the two nutrition studies on infant feeding practices and culturally appropriate management of infant diarrhea.

III. Implementation Plan

IIN will implement this program. Financial, managerial, and planning functions as well as ultimate program responsibility will be the responsibility of IIN.

The IIN is governed by a Board of Directors. The IIN's Director reports directly to this Board, the IIN's Administrative Director reports to the Director. Day-to-day management of the training program will be the responsibility of an administrative assistant reporting directly to the Administrative Director. The principal investigators of each nutrition study will report directly to the Director on technical matters, and to the Administrative Director on administrative matters.

A. Program Components

This Program will consist of the three components described below:

1. Training Program

In consultation with the following organizations, the IIN will develop and implement nutrition training courses for trainers:

- a. Catholic Relief Services/CARITAS
- b. Adventist Development Relief Agency
- c. CARE/Peru
- d. Church World Service/SEPAS
- e. National Food Assistance Office (ONAA)
- f. Applied Nutrition and Feeding Division (DANA), MOH.

A subagreement with each organization will set forth the rights and responsibilities of each party during the nutrition training program to be conducted by the IIN for training of trainers. The objective of the training courses will be to prepare key personnel selected by each organization to train relatively unsophisticated community health promoters and volunteers in how to motivate the rural and urban poor to participate in a nutrition monitoring program centered on growth monitoring and how to take basic simple nutrition and health improvement actions to benefit their families. Each organization will make suggestions on the areas of greatest need for improvement by its personnel, and IIN will incorporate these needs into curriculum which will address the generic nature of nutrition education and growth monitoring while providing adequate coverage of the area specifically requested by the organization. Another important element in the training is the use of training methodologies in presenting the technical material on nutrition and growth monitoring in such a way that the graduates of the IIN course will be sensitive to the socio-cultural climate in which the community health workers function.

5

The graduates of the IIN course will develop curriculum for a short course in nutrition education and growth monitoring to be offered by their organizations (using the 74 course graduates) to their health promoters and volunteers working in supplementary feeding programs. After participating in this course, the community health workers and volunteers will be able to perform the following functions:

- a. Accurately perform growth monitoring of children under five, identify growth failure and malnutrition, and offer simple treatment or referral depending on severity.
- b. Understand and utilize weighing scales and growth charts.
- c. Motivate the target population of the community to participate in the growth monitoring program.
- d. Offer to the target population simple nutrition related preventive care which can be carried out in the home including oral rehydration therapy and recommended feeding practices.

The IIN will procure dial spring weighing scales for young children which will be the basic equipment provided by PVOs to their community health workers and volunteers. IIN will determine the quantities to be provided for each PVO in consultation with the PVO, this will be specified in the sub-agreement. The IIN will also develop and print training materials which it will use in the training of the ONAA, DANA, and PVO trainers and for their subsequent use in the training of health promoters and volunteers. ONAA and DANA will receive training materials, but not scales, under this agreement.

2. Infant Feeding Practices Study

The IIN has just completed a longitudinal field study of feeding practices, quantitative food intake, including breast feeding, growth, and prevalence of infectious disease, and contamination of food and water with diarrhea-causing agents in 135 infants from birth to one year of age in the Pueblo Joven of Huascar in Canto Grande, Lima. The data from this study have been coded and entered into the computer; editing and analysis of the data will be carried out under this Cooperative Agreement in order to develop follow-on training materials.

Complete analysis of the dietary data will provide a description of the common feeding practices and quantitative nutrient intake of infants in this setting. These data will be related to infant growth patterns and disease experience to identify practices which are associated with improved health. A prototype training manual will be developed reporting the results of these studies and practical recommendations on optimal infant feeding.

3. Culturally Appropriate Management of Infant Diarrhea Study

This study will develop and examine the effects of a culturally appropriate diarrheal treatment education program on maternal behavior during infant diarrhea. It will test the hypothesis that presenting the information in a culturally appropriate context will lead to higher compliance in the use of oral rehydration therapy and feeding during and after diarrhea than the same information presented in a routine manner.

Using a questionnaire developed for the study, a trained anthropologist will collect data on the specific traditional beliefs that govern a mother's behavior in relation to treatment of infant and childhood diarrhea. The data will be analysed, and the results will be incorporated into the design of a diarrhea treatment education program for children under diarrheal surveillance as part of another study. Outcomes will be assessed by measuring the volume of oral rehydration therapy and other fluids consumed, changes in breast feeding, type of food consumed, medicines given, need for further medical care, and number of episodes of diarrhea.

If a significant advantage is found to the presentation of information on oral rehydration and feeding in a manner compatible with traditional beliefs, training syllabus and prototype training materials incorporating these concepts will be developed for follow-on training of health care workers.

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Airtel
JAD. Lima
25-2



AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES AID MISSION TO PERU
C/O AMERICAN EMBASSY
LIMA, 1 PERU

TELEPHONE 335200

CABLE: USAID/LIMA

October 2, 1987

Mr. Kenneth H. Brown, MD
Division of Human Nutrition
Department of International Health
School of Hygiene and Public Health
The Johns Hopkins University
Baltimore, Maryland 21205

Dear Ken:

In reference to your two letters dated September 2 and 14, 1987 concerning Project 527-0308, no changes in the grant agreement are considered necessary at this time. However, any modifications involving transfers of funding of 20% or more of budget line items will require a grant amendment.

For purposes of complying with the terms of the grant agreement, the means of training physicians and nutritionists is not as important as the numbers. As long as transfers of funds between budget line items do not exceed 20% of each line item cumulative, the augmentation of training provided to nutritionists and mothers' club leaders is approved. These changes should be documented in the quarterly Project reports.

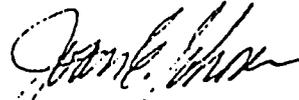
The grant agreement does not specifically state the number of clinical research centers to be established. It does, however, refer to 10 Peruvian physicians from various medical schools participating in two clinical studies to be conducted under the Project. The quarterly reports should document the participating physicians. The establishment of only one clinical research center is approved.

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58

- 2 -

Thank you for bringing these matters to my attention.

Sincerely,



Joan E. La Rosa
Chief, Health and
Nutrition Division

cc: Dr. López de Romaña, IIN

Annex 2

PRIVATE SECTOR NUTRITION/CHILD SURVIVAL
PROJECT USAID/PERU No.527-0308 MANAGED
BY THE NUTRITIONAL INSTITUTE OF
INVESTIGATION - NII FOR THE PERIOD JUNE
26, 1986 TO DECEMBER 31, 1990

QUESTIONABLE COSTS

<u>Check</u>	<u>Invoice No.</u>	<u>Receipt date</u>	<u>Concept</u>	<u>Comments</u>	<u>Questionable costs</u>	
					<u>Ques- tioned US\$</u>	<u>Unsu- ported US\$</u>
1229220	-	20.11.86	Víctor Córdova, petty cash Huaraz.	Includes receipts without tax cards. Expenses details are not accompanied.	-	829
076073666	-	29.12.87	Ramón Montoya, extraordinary bonification advance, according to Memorandum No.1295.	Ineligible concept. Invoice without tax card.	425	-
07687363	-	29.12.87	Claudia Lanatta, extraordinary bonification advance, according to Memorandum No.1295.	Ineligible concept. Invoice without tax card.	1,200	-
07637373	-	05.04.88	Laboratory's cold store insulation.	Price quotations were not requested.	-	1,275
03470964	642	16.12.88	Antonio Castellano, impression of 50 books.	Price quotations were not requested.	-	426
02570201	-	16.12.88	Claudia Lanatta, holidays advances.	Undocumented.	-	37
03183025	28504	15.08.89	Sergio Ruiz Muro, fuel.	Receipts nor consumption details are accompanied.	-	8
12631813	-	20.09.89	Analysis made by the bio-chemical laboratory.	Price quotations were not requested.	-	1,923
-	194	07.12.89	Purchase of four Good year tires 775-14 ring 14.	Price quotations were not requested.	-	246
142493026	-	18.04.90	Enrique Jacoby, materials, supplies, etc.	Invoices were not accompanied.	-	67
142493766	15396/ 15056	30.05.90	Automotriz Pegosa, maintenance of van RQ-5197.	This van does not correspond to the Project.	-	-
Carried forward:					<u>11</u> <u>1,636</u>	<u>-</u> <u>4,811</u>

09

19

<u>Check</u>	<u>Invoice No.</u>	<u>Receipt date</u>	<u>Concept</u>	<u>Comments</u>	<u>Questionable costs</u>	
					<u>Ques- tioned</u>	<u>Unsu- ported</u>
				Brought forward:	1,636	4,811
14249359	-	23.05.90	Enrique Muñante, professional services for drawings for the rotafolios.	Invoices do not indicate tax card.	-	40
-	-	31.08.90	Purchase of materials for August 1990.	Price quotations were not requested.	-	280
14249425	-	05.11.90	Antonio Castellano, service of impressions for exhibitions, diplomas, etc.	Price quotations were not requested.	-	570
-	-	-	Enrique Jacoby, Guillermo López La Romaña, Marisa Vega y other social benefits liquidations.	These employees continued working for the Institute after the Project was ended.	9,930	-
-	-	-	Rental of 2 vans for the period July 1986 to December 1990.	The cost-benefit of purchasing vans instead of renting them was not adequately evaluated. (Expense considered unreasonable). On the other hand, one van should not have been charged to the Project (questionable cost). There were no price quotations (undocumented).	20,000	8,000 (1)
-	-	-	Personnel services expenses during July 1986 and December 1990 such as indemnities, extraordinary bonuses, holidays, advances, etc., were included.	The possibility of hiring temporary personnel should have been evaluated, as the cost of services were very high in relation to the market (unreasonable expense). Payments were generally made to the same suppliers. Price quotations were not requested (undocumented). There are some unallocable costs (questionable costs).	-	96,401 (1)
-	-	-	Budgetary overdrafts.		-	19,531
					<u>31,566</u>	<u>129,633</u>
					=====	=====

(1) US\$104,401 qualified as unreasonable.

Annex 3

PRIVATE SECTOR NUTRITION/CHILD SURVIVAL
PROJECT USAID/PERU No.527-0308 MANAGED
BY THE NUTRITIONAL INSTITUTE OF
INVESTIGATION - NII FOR THE PERIOD JUNE
26, 1986 TO DECEMBER 31, 1990

LIST OF RECOMMENDATION

I Internal Control Structure -

1. We recommended NII, in all future USAID projects, establish a formal communication and coordination system and/or channels to treat and solve the Project's important problems.
2. We recommend NII, in all future USAID projects, design and implement a simplified policies and procedures handbook that clearly describes the duties and responsibilities and obligations of personnel involved in the projects and the restrictions mandated by USAID/Peru.
3. We recommend NII, in all future USAID projects, design and implement an adequate filing system to guarantee the adequate custody and chronological filing of the Project's documents.
4. We recommend NII, in all future USAID projects, design and implement a budgetary and accounting system to facilitate the control of the Project's operations. This system should have included at least:
 - The construction of a trial balance in accordance to the Project's needs.
 - Implementation of an adequate budgetary control system that can periodically analyze significant variation between the budget and disbursements.
5. We recommend NII, in all future USAID projects, design and implement a managerial information system for the Project.
6. We recommend NII, in all future USAID projects, make periodic reconciliations of its accountable records and USAID/Peru records maintaining evidence of the work performed.
7. We recommend NII, in all future USAID projects, design and implement procedures to assure the proper use of the Project's current bank account and the obtainment of adequate project funds from USAID in a timely manner.

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PRIVATE SECTOR NUTRITION/CHILD SURVIVAL
PROJECT USAID/PERU No.527-0308 MANAGED
BY THE NUTRITIONAL INSTITUTE OF
INVESTIGATION - NII FOR THE PERIOD JUNE
26, 1986 TO DECEMBER 31, 1990

LIST OF RECOMMENDATION

8. We recommend NII, in all future USAID projects, design and implement clear and detailed policies and procedures for the preparation of the Project's bank reconciliations.
9. We recommend NII, in all future USAID projects, design and implement procedures for purchasing goods and services that guarantee NII's compliance with terms and applicable laws and the agreement regulations.
10. We recommend NII, in all future USAID projects, design and implement procedures to ensure that the liquidations requests for all advances are reviewed and approved in a timely manner. Additionally, NII should establish procedures to ensure compliance with its own time requirement for supporting advances.
11. We recommend NII, in all future USAID projects, design and implement adequate controls to assure the reasonableness of the expenses relating to the Project's rented vehicles.
12. We recommend NII, in all future USAID projects, design and implement adequate controls to assure that all documents supporting disbursements have an indication to identify them with an specific project.

II Compliance with agreement terms and applicable laws and regulations -

1. We recommend NII, in all future USAID projects, coordinate with USAID/Peru to obtain the "Standard Provisions" in the grant agreement and design and implement procedures to ensure that NII's employees are informed of the requirements of the agreement and all its provisions and comply with them.
2. We recommend the NII, in all future USAID projects, design and implement procedures to ensure that the Project's activities which it is managing are evaluated in compliance with the grant agreement's provisions.

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APPENDIX

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AIG/A	1
D/AIG/A	1
IG/A/PPO	2
IG/LC	1
IG/RM	5
IG/I	1
IG/A/FA	1
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