

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

**Audit of
USAID/Bolivia's Management Training Project
Managed by the Institute for the Development of
Entrepreneurs and Administrators
January 1, 1989 to December 31, 1990**

**Audit Report No. 1-511-92-42-N
August 7, 1992**



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this report may be privileged. The
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be considered before any information
is released to the public.**



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AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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August 7, 1992

MEMORANDUM

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

FROM: RIG/A/T, Lou Mundy 

SUBJECT: Audit of USAID/Bolivia's Management Training Project, Managed by the Institute for the Development of Entrepreneurs and Administrators, January 1, 1989 to December 31, 1990

This report presents the results of a financial audit of the Management Training Project, USAID/Bolivia Project No. 511-0580, managed by the Institute for the Development of Entrepreneurs and Administrators (Institute) for the period January 1, 1989 to December 31, 1990. The audit firm of Ernst & Young International prepared the report dated June 8, 1992.

The purpose of the Project is to support the development of the Institute as an independent training center to provide training in business and management skills for the Bolivian private sector. The Project's budget provides for A.I.D. funding of \$7.5 million in grant funds and \$4.5 million in counterpart contributions from Bolivian governmental and private organizations. The audit coverage included A.I.D. funds of \$810,084 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.

The auditors concluded that, except for questionable costs amounting to \$41,662 (\$33,485 questioned, \$8,177 unsupported), the fund accountability statement presents fairly, in all material respects, the financial position of the Project during the period of

the audit. Also, the Ernst & Young report contained no material weaknesses with regard to the Institute's internal control structure as related to Project activities.

With respect to the Institute's compliance with Agreement terms and applicable laws and regulations, the auditors identified four material instances of noncompliance. The Institute: (1) used grant funds for payment of taxes, (2) purchased materials for the Project without obtaining competitive quotations, (3) did not maintain supporting documentation for all Project expenditures, and (4) incurred expenses not in accordance with Agreement terms.

The report was discussed with Institute officials who expressed general agreement with the findings and content of the audit report. Management's comments are included as an annex to the report.

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

Recommendation No. 1

We recommend that USAID/Bolivia resolve the questionable costs of \$41,662 (\$33,485 questioned and \$8,177 unsupported) identified in the Ernst & Young audit report dated June 8, 1992, and recover from the Institute for the Development of Entrepreneurs and Administrators all amounts determined to be unallowable.

Recommendation No. 2

We recommend that USAID/Bolivia, in conjunction with the Institute for the Development of Entrepreneurs and Administrators, establish procedures which will: (a) ensure that no taxes are paid with Project funds, (b) ensure that competitive purchase quotations are utilized when required, (c) require supporting documentation for all Project expenditures, and (d) ensure that Project funds are utilized only for authorized expenditures.

Recommendation No. 1 will be considered resolved upon the Mission's determination of the amount of recovery, and will be considered closed upon the recovery of funds, offset of funds or issuance of a Bill for Collection. Recommendation No. 2 will be considered resolved upon the Mission's presentation of an acceptable firm plan of action to correct the reported deficiencies, and will be considered closed upon the Mission's presentation of acceptable evidence that the required procedures have been established.

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 recommendations.

**AUDIT OF THE MANAGEMENT TRAINING PROJECT
MANAGED BY THE INSTITUTE FOR THE DEVELOPMENT
OF ENTREPRENEURS AND ADMINISTRATORS
USAID/BOLIVIA PROJECT NO. 511-0580
FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1990**

**AUDIT OF THE MANAGEMENT TRAINING PROJECT
 MANAGED BY THE INSTITUTE FOR THE DEVELOPMENT
 OF ENTREPRENEURS AND ADMINISTRATORS
 USAID/BOLIVIA PROJECT NO. 511-0580
 FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1990**

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ABBREVIATIONS USED IN THIS REPORT

USAID	United States Agency for International Development
IDEA	The Institute for the Development of Entrepreneurs and Administrators
DIFAD	Management of External Finance and Disbursement Facilitation

**AUDIT OF THE MANAGEMENT TRAINING PROJECT
MANAGED BY THE INSTITUTE FOR THE DEVELOPMENT
OF ENTREPRENEURS AND ADMINISTRATORS
USAID/BOLIVIA PROJECT NO. 511-0580
FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1990**

La Paz, June 8, 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 the financial audit of the Management Training Project managed by the Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA) for the period January 1, 1989 to December 31, 1990 regarding the funds provided by U.S. Agency for International Development Mission to Bolivia (USAID/Bolivia) under cooperative agreement No. 511-0580-A-005162.

BACKGROUND

On August 30, 1985 USAID/Bolivia signed cooperative agreement No. 511-0580-A-005162 implementing the Management Training Project, USAID/Bolivia Project No. 511-0580. This project provided US\$ 3,000,000 over the period of August 30, 1985 to June 30, 1990, including subsequent amendments.

The objective of the Project is to support the development of IDEA as an independent Institute of training on a short term basis and to promote intensive administrative capacity to the Bolivian businessman.

The project execution was based on a strategy divided in three parts:

1. The activities of the Institute will be completely self-financed at the end of the Project, with tuition fees, membership fees, donations and charges for special services.
2. It is required that the project is entirely directed by the Private Sector. The participation of the Public Sector will be limited to attendance of courses and conferences.
3. The final element of the strategy is the controlled expansion, starting in a modest scale and only growing as success is obtained.

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On April 25, 1990, IDEA and USAID/Bolivia signed cooperative agreement No. 511-0580-A-00-0136-00 to support IDEA's efforts to expand its role in the strengthening and growth of the Bolivian Private Sector by providing training in business and management skills. Under this agreement, USAID/Bolivia will provide US\$ 3,530,000 of which US\$ 1,513,000 are to support the Program of Financial Capacity (PROCAF). In addition to this funding, USAID/Bolivia will provide IDEA with short and long term technical assistance for an approximate cost of US\$ 983,000.

The counterpart contribution was to be US\$ 4,527,000, including funding from IDEA for US\$ 2,208,000, contributions from other institutions from the Private Sector for US\$ 1,632,000 and the Bolivian government for US\$ 687,000. The government contributions are to be obtained from the Economic Support Fund and will be administered by DIFAD. The total estimated funding for this stage of the project is US\$ 9,040,000, the life of the project will be from April 25, 1990 to July 31, 1995.

AUDIT OBJECTIVES AND SCOPE

Objectives

The audit was to be performed in accordance with generally accepted auditing standards and the "Government Audit Standards" of the United States Comptroller General, and consequently included the necessary tests of the accounting books and audit steps to determine whether:

- a. The fund accountability statement fairly presents, in all material respects, the financial situation of the activities of the project administered by IDEA for the period January 1, 1989 to December 31, 1990. The costs reimbursed by USAID/Bolivia are allowable, allocable and reasonable in accordance with agreement terms and applicable laws and regulations.
- b. The internal control structure of IDEA is adequate to manage the project operations.
- c. IDEA complied with agreement terms and applicable laws and regulations which may affect the incurred costs and objectives of the project.

Although it was not the purpose of the audit, we were alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

Scope

The following documents were reviewed to familiarize ourselves with the project:

- a. Project's annual report.
- b. The Project agreements between USAID/Bolivia and the implementing entity.

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- c. Complementary agreements between USAID/Bolivia, the implementing entity and other institutions.
- d. The budgets, letters about the project execution and written procedures approved by USAID/Bolivia to administer the project.
- e. The Procedures Manual approved by USAID/Bolivia.
- f. The budgets approved by USAID for each fiscal year.
- g. Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Nonprofit Organizations".
- h. OMB Circular A-110 "Grants and Agreements with Institutions of Higher Education, Hospitals and other Nonprofit Organizations".
- i. OMB Circular A-123 "Internal Control System".
- j. OMB Circular A-21 "Cost Principles for Educational Institutions".
- k. Federal Acquisition Regulations (FAR) that include principles and procedures for contracts subscribed after April 1, 1984.
- l. A.I.D. Acquisition Regulations (AIDAR), that include additional procedures to those in the FAR.
- m. Mandatory Standard Provisions for Non-U.S. Nongovernmental Grantees (A.I.D. Handbook 13).

The fund accountability statement for the project activities administered by IDEA during the period under revision was examined. We included:

- a. The examination of 100% of project funding received by IDEA from USAID/Bolivia during the years ending December 31, 1989 and 1990. In regard to counterpart funds we examined 80%, considered compliance requirements. We reviewed 85% of the expenditures related to the grant funds. The selection method we employed for our sample was non-statistical.

The fund accountability statement does not include contributions from the counterpart provided by IDEA's own funds or other sources, in the same manner the statement does not include costs directly incurred by USAID/Bolivia for the purchase of vehicles, equipment, products and technical assistance for the receiving organization.

- b. Examination of contributions from the counterpart according to the agreement and the verification of the incorporation of direct purchases by USAID/Bolivia which are subject to control procedures protecting such purchases.

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- c. Evaluation of the project execution and attainment of the objects to determine that the costs incurred are allowable, allocable and reasonable under the terms of the agreement, by:
- Reviewing direct and indirect costs charged and reimbursed by USAID/Bolivia; identifying and quantifying questioned costs, or such costs that are not in accordance with the terms of the agreements, and identification of unsupported costs, or such costs that are not supported with proper documentation or that previous authorizations were not obtained.

Our work relating to the evaluation of control risks was performed with sufficient understanding of the three elements of internal control: control environment, accounting system and control procedures.

Substantive compliance tests were performed to determine the extent to which the established controls and procedures function. For this purpose we performed the following:

- a. Obtained a sufficient understanding of the structure of the internal control to plan the audit and determine its nature and the opportunity and scope of the tests to be developed.
- b. Obtained an understanding of the policies and procedures related to the ability of IDEA to record, process, summarize and report in a consistent way with the fund accountability statement and ensure compliance with the terms of the agreement and the applicable laws and regulations.
- c. Evaluated the procurement system of IDEA to determine if it follows sound commercial practices in accordance with A.I.D. regulations.
- d. Identified the separate bank accounts that IDEA maintains for the activities of the project and determined if the controls for these accounts were adequate.
- e. Reviewed the policies implemented by IDEA for planning and evaluating the activities and accomplishments of the project.
- f. Evaluated the input and output procedures of the electronic data processing department (EDP).

As part of our audit we reviewed IDEA's compliance with agreement terms and applicable laws and regulations. We identified the terms, project implementation letters, laws and relevant regulations, which if not complied with may have an important effect on the fund accountability statement.

Each material requirement was evaluated for the material risks of noncompliance. We also included considerations and evaluations of the internal controls established to insure compliance with laws and regulations.

We designed procedures for performance tests according to the agreement terms and applicable laws and regulations that provide a reasonable assurance that intentional and unintentional noncompliance, which may have a significant effect on the accountability statement, are detected.

We performed tests that allowed us to determine if the project funds have been used for purposes not authorized by the agreement and if the contribution of the counterpart and the technical assistance, are suitably obtained according to the project's agreement and needs.

RESULTS OF AUDIT

Fund Accountability Statement

Except for not having an external quality control review program by an unaffiliated audit organization as required by paragraph 46 Chapter 3 of the Government Auditing Standards, we conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards of the U.S. Comptroller General.

In our opinion, except for questionable costs amounting to Bs 121,236; Bs 97,442 questioned and Bs 23,794 unsupported, identified in our audit, the fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements of the project activities managed by IDEA during January 1, 1989 to December 31, 1990.

Internal Control Structure

We identified no material weakness in IDEA's internal control structure related to project activities. However, we identified the following weakness that we consider a reportable condition: (1) the computer program to control inventories has not been properly used because it is not accessible to IDEA's employees.

Compliance with Agreement Terms and Applicable Laws and Regulations

In regard to items tested, except for the noncompliance described below, IDEA complied, in all material respects, with agreement terms and applicable laws and regulations. In regards to items not tested, nothing came to our attention that caused us to believe that IDEA had not complied, in all material respects, with those provisions.

The audit disclosed the following noncompliance: (1) IDEA used grant funds to pay taxes, (2) IDEA purchase some materials for the project without obtaining competitive quotations, (3) IDEA did not maintain supporting documentation for all project expenditures, and (4) IDEA incurred expenses not in accordance with agreement terms. All costs incurred not in accordance with the project agreement and purposes, were disclosed as questionable costs in our audit report.

MANAGEMENT COMMENTS

A draft copy of this report was submitted to IDEA's management Officials and was discussed with them on December 4, 1991 who expressed general agreement with the report findings and recommendations. The specific comments concerning the fund accountability statement was discussed with IDEA's management Officials on May 4, 1992. This entire text of the written management comments is included as an annex to this report.

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**AUDIT OF THE MANAGEMENT TRAINING PROJECT
MANAGED BY THE INSTITUTE FOR THE DEVELOPMENT
OF ENTREPRENEURS AND ADMINISTRATORS
USAID/BOLIVIA PROJECT NO. 511-0580
FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1990**

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Management Training Project managed by the Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA) for the period January 1, 1989 to December 31, 1990 in regard to the funding provided to it by the U.S. Agency for International Development Mission to Bolivia (USAID/Bolivia), Project No. 511-0580. The fund accountability statement is the responsibility of the management of IDEA. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

Except for what is described in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the fund accountability statement is free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our firm did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 Chapter 3 of the Government Auditing Standards during the 1991 fiscal year. Our firm believes that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material.

As described in Note 9, this 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.

As mentioned in Note 8 to the fund accountability statement, IDEA has recorded Bs 121,236 in project expenses that USAID/Bolivia has reimbursed and that we consider questionable (Bs 97,442 questioned and Bs 23,794 unsupported).

In our opinion, except for the questionable costs amounting to Bs 121,236 mentioned in the prior paragraph, the accompanying fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements and fund balance of the activities managed (by IDEA) during the period January 1, 1989 to December 31, 1990, in conformity with the basis of accounting described in Note 9 to the Fund Accountability Statement.

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This report is intended solely for the use of the Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA) and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of the report, which upon acceptance by the office of the Inspector General, is a matter of public record.

BERTHIN AMENGUAL Y ASOCIADOS
Members of Ernst & Young
International

(Partner)

Hugo Berthín Amengual
C.P.C.E.B. Reg. No. 150
RUC 02190934

La Paz, October 30, 1991

AUDIT OF MANAGEMENT TRAINING PROJECT
 MANAGED BY THE INSTITUTE FOR THE DEVELOPMENT
 OF ENTREPRENEURS AND ADMINISTRATORS
 USAID/BOLIVIA PROJECT No. 511-0580
 FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1990

FUND ACCOUNTABILITY STATEMENT

D E T A I L	BUDGET Bs	ACTUAL Bs	AVAILABLE Bs	QUESTIONABLE COSTS	
				QUESTIONED Bs	UNSUPPORTED Bs
Funds received from USAID/Bolivia (Note 2)		2,362,060			
Less: 1988 expenditures not reimbursed by USAID/Bolivia		113,250			
Net amount received from USAID/Bolivia		2,248,810			
D I S B U R S E M E N T S					
Technical Assistance	47,574	16,074	31,500		
Training	119,817	70,394	49,423		
Operating Costs	1,784,423	1,789,488	(5,065)	38,242	15,359
Commodities	211,922	130,936	80,986		8,435
Course Costs	32,944	32,944			
TOTAL EXPENDITURES	2,196,680	2,039,836	156,844		
EXCESS OF RECEIPTS OVER DISBURSEMENTS		208,974			
FUND BALANCE AS OF 12/31/88		34,565			
LESS: EXPENSES TO BE REIMBURSED BY IDEA'S OWN FUNDS		(59,200)		59,200	
FUND BALANCE AS OF 12/31/90		184,339		97,442	23,794

The notes to the Fund Accountability Statement form an integral part of this statement.

**AUDIT OF THE MANAGEMENT TRAINING PROJECT
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 FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1990**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 CASH

A description of the cash flow from January 1, 1989 to December 31, 1990 follows:

	<u>Bs</u>
1988 expenditures recorded by IDEA as project expenditures not reimbursed by USAID/Bolivia	(113,250)
Cash Balance as of 12/31/88	34,565
Disbursements made by USAID/Bolivia during 1989 and 1990	2,362,060
Less: Expenditures incurred by IDEA and recognized by USAID/Bolivia during 1989 and 1990	(2,039,836)

	243,539
Less: Expenses to be reimbursed by IDEA's own funds	(59,200)

Cash Balance as of 12/31/90	184,339
	=====

The Cash Balance as of December 31, 1990 consisted of the following bank account balances:

<u>BANK</u>	<u>ACCOUNT</u>	<u>Bs</u>
Banco Mercantil S.A.	6001330-3	1,966
Banco Mercantil S.A.	6003226-0	154,661
Banco Mercantil S.A.	451667-2	9,079
Banco Mercantil S.A.	410039-5	13,357
Banco Nacional de Bolivia S.A.	100-0067195	412
Banco de Santa Cruz de la Sierra S.A.	2000175124	4,864

		184,339
		=====

NOTE 2 PROJECT FUNDS RECEIVED BY IDEA FROM USAID/BOLIVIA

The Grant funds received by IDEA during the period were disbursed by USAID/Bolivia in the following manner:

<u>DATE</u>	<u>VOUCHER NUMBER</u>	<u>US\$</u>	<u>Bs</u>
03/13/89	1166	172,000	429,140
07/19/89	2364	127,195	335,795
10/16/89	3187	166,805	477,062
07/11/90	2007	54,681	172,245
08/31/90	2583	100,000	319,000
11/30/90	1447	189,403	628,818
		-----	-----
		810,084	2,362,060
		=====	=====

NOTE 3 TECHNICAL ASSISTANCE

In 1989 USAID/Bolivia directly acquired and paid for technical assistance on behalf of the project in the amount of Bs 16,074. This technical assistance consisted of professional support for the organization of the Institute and for instructors and/or counselors not included in the fund accountability statement and not included in the scope of our audit.

NOTE 4 TRAINING

The training expenses are those expenses incurred that were related to course assistance of the staff of IDEA in Bolivia or in foreign countries, such as travelling expenses, tickets, etc., other expenses related to training of non-institutional staff are also included (counselors and instructors). They encompass the following:

<u>YEAR</u>	<u>QUARTER</u>	<u>Bs</u>
1989	First	1,325
	Second	699
	Third	6,605
	Fourth	8,629

		17,258

1990	Second	4,293
	Third	10,193
	Fourth	38,650

		53,136

		70,394
		=====

NOTE 5 OPERATING COSTS

Operational costs, included items such as:

- Wages, benefits, social charges and other staff related expenses
- Stationary, photocopies and desk accessories
- Computer material
- Maintenance costs
- Tickets and travelling expenses
- Administrative expenses
- Professional fees
- Bank and legal expenses and others

<u>YEAR</u>	<u>QUARTER</u>	<u>Bs</u>
1989	First	116,566
	Second	52,612
	Third	251,046
	Fourth	400,521

		820,745

1990	First	70,494
	Second	167,149
	Third	298,475
	Fourth	432,625

		968,743

		1,789,488
		=====

NOTE 6 COMMODITIES

Commodities include the expenses for the basic project related necessities of furniture and equipment for IDEA offices, classrooms, library material, printing equipment and computers.

<u>DATE</u>	<u>QUARTER</u>	<u>Bs</u>
1989	First	15,089
	Second	27,080
	Third	37,047
	Fourth	10,957

	(to following page)	90,173

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(from previous page)		90,173

1990	First	26,639
	Second	803
	Third	10,332
	Fourth	2,989

		130,936
		=====

NOTE 7 COURSE COSTS

Cost of courses include: publicity, fees, academic material and others.

Starting July 1990, the cost of courses are entirely covered with IDEA's own funds, as detailed in the following manner:

<u>YEAR</u>	<u>QUARTER</u>	<u>Bs</u>
1989	First	15,778
	Second	11,895
	Third	3,452
	Fourth	1,819

		32,944
		=====

NOTE 8 QUESTIONABLE COSTS

During the examination of the period January 1, 1989 to December 31, 1990, we identified questionable costs amounting to Bs 121,236. These questionable costs are also discussed in the findings of the compliance with agreement terms and applicable laws and regulations section of this report. The questionable costs are summarized as follows:

	<u>QUESTIONED COSTS</u>	<u>UNSUPPORTED COSTS</u>
	<u>Bs</u>	<u>Bs</u>
Operating costs	38,242	15,359
Commodities		8,435
Transfer of project funds to IDEA's own funds corresponding to reimbursements of project expenses incurred before December 31, 1988	59,200	
	-----	-----
	97,442	23,794
	=====	=====

NOTE 9 BASIS OF ACCOUNTING

IDEA prepared the fund accountability statement on a cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the cash basis of accounting:

- Revenues and expenditures are recorded at the time they take place; when they are received or disbursed.
- Since no estimates or provisions are made, no liabilities are recorded under this accounting system.

NOTE 10 EXCHANGE RATES

IDEA's accounting records are maintained in "Bolivianos", the local currency in Bolivia, represented by the symbol Bs in the fund accountability statement. As of December 31, 1989 and 1990, the ending of each fiscal year, the exchange rates of Bs per US\$ 1.00 were as follows:

January 1989 to December 31, 1989	Bs 2.50 to 2.95
January 1990 to December 31, 1990	Bs 2.98 to 3.40

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**AUDIT OF THE MANAGEMENT TRAINING PROJECT
MANAGED BY THE INSTITUTE FOR THE DEVELOPMENT
OF ENTREPRENEURS AND ADMINISTRATORS
USAID/BOLIVIA PROJECT NO. 511-0580
FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1990**

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Management Training Project managed by the Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA) for the period January 1, 1989 to December 31, 1990 in regard to the funds supplied by the U.S. Agency for International Development Mission to Bolivia (USAID/Bolivia) under Project No. 511-0580 and have issued our report thereon dated October 30, 1991 in which we qualified our opinion due to certain questionable costs incurred by IDEA.

Except for not having an external quality control review by an affiliated organization, as further explained in our opinion of the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement of IDEA for the period January 1, 1989 to December 31, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to express an opinion on IDEA's internal control structure taken as a whole.

The management of the Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA) is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the basis of accounting described in Note 9 to the fund accountability statement. Because of inherent limitations in any internal control structure, error or irregularities may nevertheless, occur

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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 condition or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- **Cycles of the entity's activity**
 - Treasury or financing
 - Revenue/receipts
 - Purchases/disbursements

- **Controls used in administering compliance with laws and regulations**
 - General controls
 - Specific controls

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 one matter, involving the internal control structure and its operation that we consider to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect IDEA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

The reportable condition noted relates to the lack of accessibility of IDEA's employees to the computerized control on inventories.

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

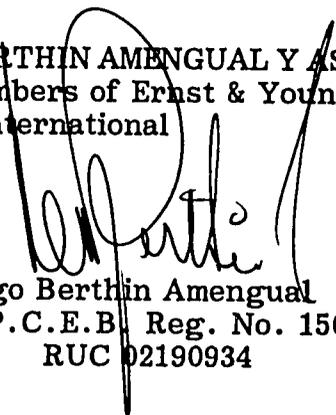
Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be immaterial weaknesses as defined above. However, we believe that the reportable condition described above is not a material weakness.

- 17 -

We noted some minor weaknesses involving the internal control structure and its operation that we have reported to the management of IDEA in a separate letter dated October 27, 1991.

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

BERTHIN AMENGUAL Y ASOCIADOS
Members of Ernst & Young
International


(Partner)
Hugo Berthin Amengual
C.P.C.E.B. Reg. No. 150
RUC 02190934

La Paz, October 30, 1991

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FINDINGS

ELECTRONIC DATA PROCESSING

CONDITION

As a result of our review and evaluation of the procedures of electronic data processing, we determined that the program that controls the movement of inventory cannot be utilized because it is not accessible to the employees of the Entity.

CRITERIA

All the programs acquired or developed by IDEA for the electronic processing of data, should be previously tested to ensure their correct functioning.

CAUSE

The deficiency originated in errors of the program developed to control the inventories.

EFFECT

The inventory control program does not provide adequate information.

RECOMMENDATION

We recommend that IDEA contract specialized consultants for the development of a new Inventory Control System, which must be tested before being put into use.

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**AUDIT OF THE MANAGEMENT TRAINING PROJECT
MANAGED BY THE INSTITUTE FOR THE DEVELOPMENT
OF ENTREPRENEURS AND ADMINISTRATORS
USAID/BOLIVIA PROJECT NO. 511-0580
FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1990**

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

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Management Training Project managed by the Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA) for the period January 1, 1989 to December 31, 1990 in regard to the funds supplied by the U.S. Agency for International Development Mission to Bolivia (USAID/Bolivia) under Project No. 511-0580 and have issued our report thereon dated October 30, 1991 in which we qualified our opinion due to certain questionable costs incurred by IDEA.

Except for not having an external quality control review by an unaffiliated organization, as further explained in our opinion of the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms, laws and regulations, and contracts applicable to the Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA) is the responsibility of the management of IDEA. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of IDEA's compliance with certain provisions of agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in the cooperative agreement, statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the following material instances of noncompliance.

- 20 -

As discussed in the findings on the following pages, IDEA did not comply with the agreement terms: (1) using USAID Grant funds to make tax payments, (2) purchasing material for the project without obtaining the required competitive quotations, (3) failing to maintain supporting documentation for all of project expenditures and (4) IDEA incurred expenses not in accordance with agreement terms.

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement of the **Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA)** for the period January 1, 1989 to December 31, 1990 is presented fairly, in all material respects, in conformity with the basis of accounting described in Note 9 to the fund accountability statement, which does not affect our report dated October 30, 1991 on that fund accountability statement.

Except for the noncompliance described above, the results of our tests of compliance indicates that, with respect to the items tested, the **Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA)** complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the **Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA)** had not complied, in all material respects, with those provisions.

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

BERTHIN AMENGUAL Y ASOCIADOS
Members of Ernst & Young
International

(Partner)

Hugo Berthin Amengual
C.P.C.E.B. Reg. No. 150
RUC 02190934

La Paz, October 30, 1991

**AUDIT OF THE MANAGEMENT TRAINING PROJECT
 MANAGED BY THE INSTITUTE FOR THE DEVELOPMENT
 OF ENTREPRENEURS AND ADMINISTRATORS
 USAID/BOLIVIA PROJECT NO. 511-0580
 FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1990**

1. TAX PAYMENTS

CONDITION

During the revision of our selected sample we verified that the Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA) made payment of the following taxes with project funds:

	<u>Bs</u>
- Transactions tax	7,153
- Complementary V.A.T.	8,182
- Others	20,256

	35,591
	=====

The detail of observed vouchers is as follows:

<u>DATE</u>	<u>VOUCHER NUMBER</u>	<u>Bs</u>
01/16/89	5/89/1	3,336
04/14/89	9/89/1	2,054
05/11/89	21/89/5	2,692
06/14/89	20/89/6	2,264
07/18/89	28/89/7	3,095
08/14/89	26/89/8	2,340
09/15/89	34/89/9	3,295
10/16/89	34/89/10	2,553
11/15/89	33/89/11	5,329
12/15/89	51/89/1	3,241
01/11/90	4/90/1	2,274
02/15/90	25/90/2	668
03/15/90	33/90/3	2,450

		35,591
		=====

CRITERIA

According to what is instructed on the A.I.D. (App. 4D-2) the taxes are considered non-allowable costs, therefore those costs must be covered with IDEA's own funds.

CAUSE

The expenses due to accrued taxes emerge as a consequence of IDEA following guidelines established in Circular OMB A-21 "Cost Principles for Educational Institutions" (page 42, paragraph 41), that indicates:

"Permissible costs are those taxes that the Institution is subject to for payment, that are accrued according to generally accepted accounting principles".

EFFECT

IDEA has stopped paying taxes with project funds since March 1990. The taxes are now paid with their own funds.

RECOMMENDATION

We recommend that IDEA reimburse these taxes to the project funding or to USAID/Bolivia as appropriate.

2. ACQUISITIONS WITHOUT THREE QUOTATIONS

CONDITION

The Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA) made some purchases without the three quotations required by its own Acquisition regulations, the purchases included:

<u>DATE</u>	<u>VOUCHER NUMBER</u>	<u>Bs</u>
07/21/89	49/89/7	8,379
12/22/89	81/89/12	3,040
03/15/90	32,90,3	740

		12,159
		=====

CRITERIA

According to IDEA's Acquisitions regulations the observed purchases should be selected among, at least, three quotations.

CAUSE

The observed expenses refer to commodities that are not easily obtained, or that are a special product from an establishment or business.

EFFECT

The Institute did not comply with the acquisitions regulations.

RECOMMENDATION

We recommend that IDEA should conduct all its purchases following its Acquisition regulations. In the case of goods not easily obtained in the market, and for which there is no way to obtain three quotations, IDEA's management should document its decision describing the procedures followed to make the purchase.

3. UNSUPPORTED EXPENSES

CONDITION

The Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA) incurred various expenses, primarily shared with other institutions, that were not supported by invoices, receipts, contracts or similar documentation.

The detail of the vouchers is as follows:

<u>DATE</u>	<u>VOUCHER NUMBER</u>	<u>Bs</u>
10/19/89	44/89/10	56
11/15/89	39/89/11	411
11/22/89	57/89/11	9,969
12/08/89	24/89/12	1,199

		11,635
		=====

CRITERIA

According to IDEA's Acquisition regulations and procedures, the observed expenses should be supported by invoices, receipts, contracts or similar documentation.

CAUSE

Lack of adequate supervision of expenses.

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EFFECT

Noncompliance with the Acquisition regulations and questioning of all costs.

RECOMMENDATION

We recommend that IDEA should properly document all expenditures related to the project.

4. USE OF USAID/BOLIVIA PROJECT FUNDS TO COVER OTHER IDEA PROJECT EXPENDITURES

CONDITION

In our review of the fund accountability statement, we found that the **Institute for Development of Entrepreneurs and Administrators (IDEA)** used Bs 59,200 of project funds provided by USAID/Bolivia, to cover project expenditures supposed to be covered with IDEA's own funds. As of December 31, 1990, this amount was reflected in the fund accountability statement as "expenses to be reimbursed by IDEA's own funds".

CRITERIA

Project funds provided by USAID/Bolivia should be used exclusively for the financing of the amounts agreed upon, in accordance with the project agreement, with USAID/Bolivia.

CAUSE

Inadequate controls on IDEA's cash flows led management to use USAID/Bolivia funds to cover project expenditures to be financed by IDEA.

EFFECT

As a result we are considering questionable the amount of Bs 59,200 in the fund accountability statement.

RECOMMENDATION

We recommend that IDEA reimburse the amount of Bs 59,200 to the project bank accounts or directly to USAID/Bolivia, as considered appropriate. In future transactions with USAID/Bolivia, IDEA should establish procedures to ensure that project funds are used only for intended purposes.

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5. EXPENSES NOT IN ACCORDANCE WITH AGREEMENT TERMS

CONDITION

The Institute for the Development of Entrepreneurs and Administrators (Instituto para el Desarrollo de Empresarios y Administradores - IDEA) incurred some representation expenses amounting to Bs 2,651 that were not in accordance with agreement terms.

The detail of vouchers is as follows:

<u>DATE</u>	<u>VOUCHER NUMBER</u>	<u>Bs</u>
08/03/89	10-11/89/8	1,171
12/19/89	44/89/12	1,480

		2,651
		=====

CRITERIA

According to the agreement terms that govern the expenses with project funds, IDEA should limit its expenses only to those permitted by the mentioned regulations, absorbing the rest with their own funds.

CAUSE

Lack of adequate supervision of expenses.

EFFECT

Noncompliance with the acquisition regulations.

RECOMMENDATION

We recommend that IDEA follow the regulations that govern all expenses to be covered by project funds.

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ANNEX I

MANAGEMENT COMMENTS

Fund Accountability Statement

Concerning the fund accountability statement, the first concerns the transfer of Bs 113,250 authorized by USAID/Bolivia in a verbal manner with no observations by part of the Entity to our fund accountability statements for the month of March 1989 in which they took place.

Internal Control Structure

In regards to electronic data processing, management commented that a contract with consultants will be signed and they will design a new program for inventory control. Finally, the Institution will take the necessary measures to correct the immaterial weaknesses in the internal control structure of the Institution discovered during our audit and communicated to them in our letter No. 2903 dated October 27, 1991.

Compliance with Agreement Terms and Applicable Laws and Regulations.

Compliance with agreement terms and applicable laws and regulations generated four specific comments by management. In the area of tax payments, until the month of February 1990 taxes for the value added tax, taxes for transactions and for the complementary value added tax have been paid according to the guidelines established in OMB Circular A-21 "Cost Principles for Educational Institutions" (Page 42, paragraph 41) which states that the taxes the institution is required to pay are considered permissible and that they are accrued according to Generally Accepted Accounting Principles. In the area of acquisitions without three quotations, there are some goods that due to their nature or to the existence of monopolies, are not available in several establishments, forcing them to realize direct purchases (Book purchases, hardware, software and others). In the case of unsupported expenses, we observed that several expenses could not be supported because they were shared with other institutions. Lastly, the observations made concerning expenses not in accordance with agreement terms, were accepted, with the compromise to absorb the mentioned expenses with their own funds, given the condition that they agree with the project objectives.



La Paz, diciembre 8 de 1991

Señores
BERTHIN AMENGUAL & ASOCIADOS
Presente

De nuestra consideración:

Con referencia a la revisión del Informe de Auditoría del Proyecto de Entrenamiento Gerencial implementado por el Instituto para el Desarrollo de Empresarios y Administradores "Ing. Jorge E. Lonsdale" (I.D.E.A.), Proyecto USAID/B. No. 511-0580 por el período del 1ro. de enero de 1989 al 31 de diciembre de 1990, la Gerencia de I.D.E.A. tiene los siguientes comentarios al respecto:

En referencia al procesamiento electrónico de datos, I.D.E.A. contratará los servicios de consultores que diseñen un nuevo programa para el control de las existencias. Nuestra Institución también tomará las medidas necesarias para corregir las observaciones inmateriales efectuadas por la auditoría que nos fueron comunicadas en la carta No. 2903 del 27 de octubre de 1991.

En referencia al pago de impuestos, hasta el mes de febrero de 1990 se han cancelado los impuestos al Valor Agregado, a las Transacciones, al Régimen Complementario al Impuesto al Valor Agregado, siguiendo las normas establecidas en la Circular OMB A-21 "Principios de Costo para Instituciones Educativas" (página 42, párrafo 41) que a la letra dice: "Se consideran costos permisibles, los impuestos que la institución está sujeta a pagar, que están devengados de acuerdo con principios de contabilidad generalmente aceptados".

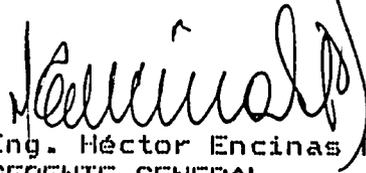
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Las adquisiciones que no cumplen con tres cotizaciones se debe a que existen algunos bienes que por su naturaleza o por la existencia de monopolios, no se encuentran disponibles en varios establecimientos, obligándonos a efectuar compras directas (compras de libros, hardware, software y otros).

Los gastos que no se encuentran respaldados es debido al hecho que dichos gastos fueron compartidos con otras instituciones tales como mantenimiento de edificio y servicio de agua potable.

En referencia a gastos no permisibles, por no ajustarse a las regulaciones específicas del Proyecto, se aceptan las observaciones efectuadas, comprometiéndonos a absorber dichos gastos con Fondos Propios, siempre que ellos estén de acuerdo con los objetivos del Proyecto.

Sin otro particular saludamos a ustedes con la mayor atención.



Ing. Héctor Encinas P.
GERENTE GENERAL

JCC/ichn.



INSTITUTO PARA EL DESARROLLO DE EMPRESARIOS Y ADMINISTRADORES
"ING. JORGE E. LONSDALE"

La Paz, mayo 6 de 1992

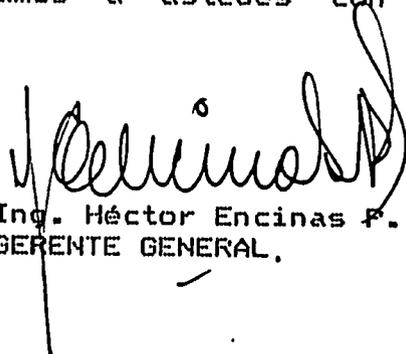
Señores
BERTHIN AMENGUAL & ASOCIADOS
Presente

De nuestra consideración:

En relación a la revisión del Informe de Auditoría del Proyecto USAID/B. No. 511-0580 ejecutado por el Instituto para el Desarrollo de Empresarios y Administradores "Ing. Jorge E. Lonsdale" (IDEA), por el período enero 1 de 1989 a diciembre 31 de 1990, la Gerencia de I.D.E.A. tiene el siguiente comentario.

Sobre Bs. 113.250.-- transferidos de Fondos Donación a Fondos Propios, corresponden a devolución de préstamos que efectuó I.D.E.A. al Proyecto, teniendo conocimiento USAID/B. de esta situación y dando su autorización verbal para dicho préstamo; así mismo no se ha recibido comentario alguno sobre la rendición de fondos por el trimestre enero/marzo 89 donde se efectúa la transferencia de fondos, por lo que se considera como aprobado este informe.

Sin otro particular saludamos a ustedes con la mayor atención.



Ing. Héctor Encinas F.
GERENTE GENERAL.

JCC/ichn.

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