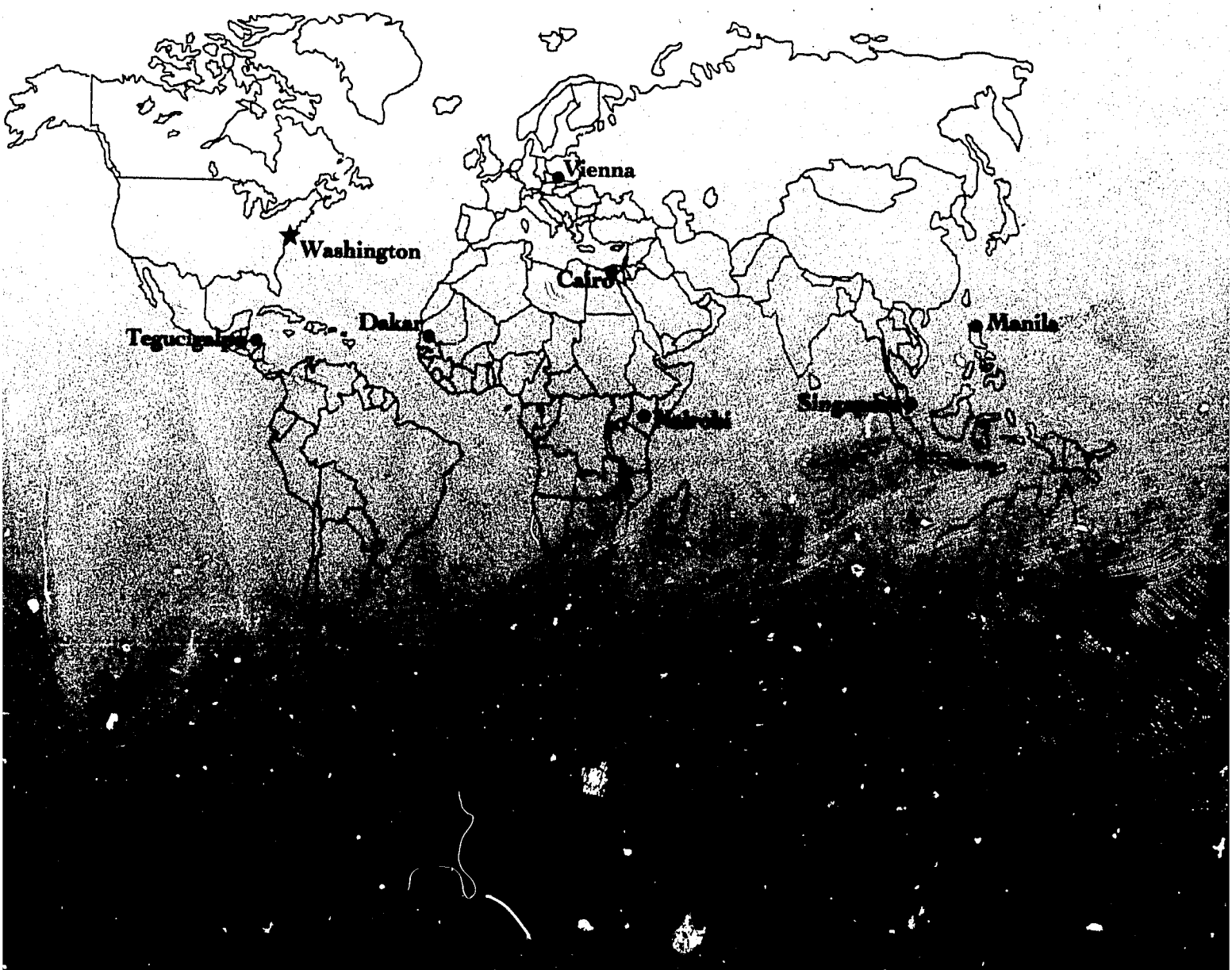
PD-ABF-718

Regional Inspector General for Audit
Tegucigalpa, Honduras

Audit of USAID/Peru's Technical Assistance and Personnel Training Contract for the Agricultural Planning and Institutional Development Project Managed by Farm Management Services, S.A. June 1, 1989 to December 31, 1991

Audit Report No. 1-527-93-15-N
April 1, 1993



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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April 1, 1993

MEMORANDUM

TO: D/USAID/Peru, George Wachtenheim

FROM: RIG/A/T, Lou Mundy

SUBJECT: Audit of USAID/Peru's Technical Assistance and Personnel Training Contract for the Agricultural Planning and Institutional Development Project, Managed by Farm Management Services, S.A., June 1, 1989 to December 31, 1991

This report presents the results of a financial audit of the Technical Assistance and Personnel Training Contract for the Agricultural Planning and Institutional Development Project, USAID/Peru Contract No. 527-0238-C-00-9235-00 (Contract), managed by Farm Management Services S.A. (Farm Services) for the period June 1, 1989 to December 31, 1991. The accounting firm of KPMG-Oscar Caipo y Asociados, the Klynveld Peat Marwick Goerdeler affiliate in Peru, prepared the report dated February 2, 1993.

According to the Contract, Farm Services was to ensure that: (1) an organizational unit consisting of specialists would be retained to work with the Ministry of Agriculture, (2) office space and support services would be provided, (3) economic and analytical studies would be performed, and (4) training and seminars would be provided. The Contract completion date was December 31, 1991. During the audit period, Farm Services received the equivalent of $1,812,000 and disbursed the equivalent of $1,810,000 in local currency under the Contract.

The objectives of the audit were to determine whether: (1) Farm Services' contract cost accountability statement presents fairly, in all material respects, the financial position of the Contract for the period audited, (2) Farm Services' internal control structure was adequate to manage the Contract, and (3) Farm Services had complied with the Contract's terms and applicable laws and regulations. The scope of the audit included an

examination of Farm Services activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

KPMG-Oscar Caipo y Asociados found that Farm Services' contract cost accountability statement, with the exception of questionable (unsupported) costs of $181,240, presents fairly in all material respects, the Contract's receipts and expenditures for the audit period. Questionable costs related to expenses for which Farm Services could not provide supporting documentation at the time the audit was performed. The auditors reported that the fund balance remaining at the completion of the Contract had been reimbursed to USAID/Peru. They also reported that there was no A.I.D.-owned non-expendable property in the possession of Farm Services at the completion of the Contract.

Regarding Farm Services' internal control structure, the auditors identified one material weakness related to documenting Contract costs. Regarding Farm Services' compliance with the Contract's terms and applicable laws and regulations, the auditors identified no material instances of noncompliance.

Since the Contract has ended and according to Mission officials, Farm Services is not involved in any other contract with USAID/Peru, we are not including the auditors' procedural recommendation concerning the internal control weakness. However, before awarding any future contracts to Farm Services we strongly suggest that USAID/Peru management obtain assurance that this procedural problem has been corrected.

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 $181,240 (unsupported) identified in the KPMG-Oscar Caipo y Asociados report dated February 2, 1993, and recover from Farm Management Services S.A. the amounts determined to be unallowable.

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.

The report was discussed with representatives from Farm Services who agreed that they could not provide documents to the auditors to support certain claimed costs. They explained that original supporting documents had been forwarded to USAID/Peru with the requests for reimbursement

as part of the vouchering process according to terms of the Contract. Farm Services stated that USAID/Peru acknowledged that it had misplaced the documents. Management comments from officials of Farm Services are detailed in Annex I of the report.

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.

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Regional Inspector General for Audit
Tegucigalpa, Honduras

Audit of USAID/Peru's Technical Assistance and Personnel Training Contract for the Agricultural Planning and Institutional Development Project Managed by Farm Management Services, S.A. June 1, 1989 to December 31, 1991

Audit Report No. 1-527-93-15-N
April 1, 1993

AUDIT OF THE TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT

MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/PERU CONTRACT Nº 527-0238-C-00-9235-00

For the Period June 1, 1989 to December 31, 1991

AUDIT OF THE TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT

MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/PERU CONTRACT Nº 527-0238-C-00-9235-00

For the Period June 1, 1989 to December 31, 1991

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KPMG Oscar Caipo y Asociados

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February 2, 1993

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

Dear Mr. Mundy:

This report presents the results of our close-out Cost Incurred Financial Audit of the Technical Assistance and Personnel Training Contract for the Agricultural Planning and Institutional Development Project USAID/Peru Contract Nº 527-238-C-00-9235-00 managed by Farm Management Services S.A. for the period June 1, 1989 to December 31, 1991.

BACKGROUND

On August 25, 1983, the Government of the United States of America, through the Agency for International Development, Mission to Peru (USAID/Peru), executed an agreement with the Government of Peru (GOP) to develop the Agricultural Planning and Institutional Development Project (APID), identified as AID Project Nº 527-0238 created with the purpose of increasing agricultural production, farmers' income and satisfy consumer demand, goals that should be reached through:

- Meeting current demand and stimulating increased demand for information and analysis for agricultural policy making.

- The improvement of the capacity of GOP for creating and evaluating alternatives to agricultural policy.

- The improvement of the information basis for the implementation of agricultural policy.

- An enlargement of the human resource base of technical and administrative talent in Peru.

The Mission determined that a new mechanism would be needed to overcome several problems encountered during the execution of the project, therefore a contract was entered into with Farm Management Services S.A. on June 1, 1989, identified as AID

Contract Nº 527-0238-C-00-9235-00. According to the contract, Farm Management Services S.A. would ensure that the following was met:

- The retaining of a discreet organizational unit comprising a group of specialists in policy analysis and support personnel for a policy analysis group (GAPA), which in effect could work jointly with the Ministry of Agriculture.

- The provision of necessary office space, support equipment and utilities and everything necessary for the operations of GAPA, the Oficina General de Economía Agrícola (OGEA) and the Coordinating Office.

- The performance of economic and analytical studies.

- The management and organization of training and seminars.

Farm Management Services S.A. received funds amounting to US$ 412,763 as of December 31, 1989, date that was estimated as the contract completion date. By means of subsequent amendments the amount assigned to the contract was increased to US$ 1,931,090 ; and the contract completion date was extended to December 31, 1991.

Contract funds were provided by USAID/Peru through a loan granted for the financing of the APID Project, in the following manner:

- Advances of funds (local currency)
- Reimbursements of expenses (foreign currency)

In accordance with the requirements of USAID/Peru for the fulfilment of the APID Project objectives, the Management of Farm Management Services S.A. (FMS) prepared the following cumulative budget at December 31, 1991:

Components	Stated In thousands of US$
Salaries and wages	608
Fringe benefits	43
Consultants	352
Other direct costs	605
Administrative costs	150
Fee	173
	1,931

The description of said components is as follows:

Salaries and Wages

Correspond to fees paid to key personnel for the APID Project and FMS support personnel, with prior compliance with the terms of reference of their individual contracts.

Fringe benefits

This component includes the medical insurance and extra bonus, according to the months worked, for key and support personnel.

Consultants

This component corresponds to the fees paid to short-term technical personnel, at the request of key personnel.

Other Direct Costs

This component corresponds to self-help studies, seminars, trips, publications, goods and services for achieving the goals of the APID Project.

Administrative Costs

This component comprises the monthly payment on a percentage basis of the total expenses incurred as a result of indirect costs (telephone calls, office equipment and supplies etc.) assumed by FMS.

Fee

This component corresponds to the monthly payment made on a percentage basis of the total costs incurred as a result of the general management of the contract by FMS.

AUDIT OBJECTIVES AND SCOPE

We were engaged to perform a close-out cost incurred financial audit of the contract cost accountability statement of the contract Nº 527-238-C-00-9235-00 managed by Farm Management Services S.A. for the period June 1, 1989 to December 31, 1991. Our audit was performed in accordance with generally accepted auditing standards and the "Government Auditing Standards" of the U.S. Comptroller General (1988 Revision) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The specific audit objectives are to determine whether:

a. The contract cost accountability statement presents fairly, in all material respects, the financial activities of the contract managed by Farm Management Services S.A. for the period June 1, 1989 to December 31, 1991; the costs reported as incurred and reimbursed by USAID/Peru during the period are allowable, allocable

and reasonable in accordance with contract terms and applicable laws and regulations.

b. The internal control structure of Farm Management Services S.A. is adequate to manage the contract's operations.

c. Farm Management Services S.A. complied with the contract terms and applicable laws and regulations which may affect the contract's goals and incurred costs.

Additionally, we have been alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

The scope of our work covered the following:

Contract Cost Accountability Statement

- Verification of its preparation on a cash basis.
- Evaluation of accounting practices utilized.
- Reconciliation of advance payments and costs incurred with the accounting reports of USAID/Peru.
- Bank confirmation as of December 31, 1991.
- Verification that costs incurred are related to contract objectives.
- Verification that liquidations of expenses (both advances and reimbursements) are fully supported by original documents and approved by USAID/Peru.
- Verification that expenses have been duly recorded in accordance with each component of the contract.
- Identification of questionable costs.

Internal Control Structure

- Verification that the advances received agree with the records of USAID/Peru and have been timely deposited in a special bank account.
- Review of bank reconciliations for different periods.
- Verification that key personnel and consultants had been hired; and whose professions and skills are suitable for the APID project, and that their remunerations are approved by USAID/Peru.
- Verification of compliance for contracts of key personnel and consultants considering the submission of reports approved by the Director of GAPA and the payments of remunerations and tax withholdings according to the law, duly supported by original vouchers and the respective signatures.

- Review of expenses for self-help studies, seminars, travelling and publications, goods and services, verifying their approval by the Chief of the APID Project Coordinating Unit.

Compliance with Contract Terms and Applicable Laws and Regulations

- Verification of the approval of transfers between budget components greater than 15%.

- Verification that the expenses reported are allowable, necessary and reasonable for the contract objectives.

- Verification that key personnel were hired in accordance with the minimum qualifications established in the contracts.

- Verification that the advances were deposited with the Banco Continental, in a bank account exclusively set up for the contract.

- Verification of the fulfilment by Farm Management Services S.A. of its responsiblities in accordance with the contract.

RESULTS OF AUDIT

According to the scope of our audit, we have reached the following conclusions:

Contract Cost Accountability Statement:

The contract cost accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. In our opinion, except for the effect of questionable costs amounting to US$ 181,240, the contract costs accountability statement presents fairly, in all material respects, the contract's receipts and expenditures for the period June 1, 1989 to December 31, 1991.

Internal Control Structure

The internal control structure of FMS for the purposes of the contract, permitted the evaluation of the contract cost accountability statement and the application of our audit procedures.

Our examination considered the internal control policies and procedures in the following areas:

- Receipt of funds in local currency granted by USAID/Peru.

- Accountability of costs incurred, classified as salaries and wages, consultants and other direct costs.

Except for the finding described on page 16 , we did not identify any other situation that could be considered a material weakness in the internal control structure of FMS.

Compliance with the Terms of the Contract and Applicable Laws and Regulations

The compliance with the terms of the contract and applicable laws and regulations for the period June 1, 1989 to December 31, 1991 was considered by FMS in the contract cost accountability statement, keeping in mind the application of the accounting principles established by USAID/Peru.

The results of our tests of compliance indicate that, with respect to items tested, Farm Management Services S.A. 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 Farm Management Services S.A. had not complied, in all material respects, with those provisions.

MANAGEMENT COMMENTS OF FARM MANAGEMENT SERVICES S.A.

This report has been discussed with the officials of FMS. Their comments are briefly summarized in Annex 1.

February 2, 1993

Countersigned by:

Oscar Caipo (Senior Partner)
Peruvian Public Accountant
Registration Nº 2782

KPMG Oscar Caipo y Asociados

Av. República de Chile 388 - 7 piso Teléfono 336130
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TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/ PERU CONTRACT Nº 527-0238-C-00-9235-00

Contract Cost Accountability Statement
June 1, 1989 to December 31, 1991

INDEPENDENT AUDITORS' REPORT

We have audited the contract cost accountability statement of the Technical Assistance and Personnel Training contract for the Agricultural Planning and Institutional Development Project managed by Farm Management Services S.A., USAID/Peru Contract Nº 527-0238-C-00-9235-00 for the period June 1, 1989 to December 31, 1991. The contract cost accountability statement is the responsibility of the management of Farm Management Services S.A.. Our responsibility is to express an opinion on the contract cost accountability statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the "Government Auditing Standards" of the U.S. Comptroller General. These standards require that we plan and perform the audit to obtain reasonable assurance that the contract cost accountability statement is free of material misstatement. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the contract cost accountability statement. Our audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the contract cost accountability statement. We believe that our audit provides a reasonable basis for our opinion.

We do not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Peru. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the KPMG Peat Marwick worldwide internal quality control program which requires our Peru office to be subject, every three years, to an extensive quality control review by partners and managers from other KPMG Peat Marwick offices.

As described in Note 3 (a) the contract cost 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 described in Note 5, our audit disclosed unsupported costs for US$ 181,240 which have been considered questionable in accordance with the contract terms.

TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/ PERU CONTRACT Nº 527-0238-C-00-9235-00

Contract Cost Accountability Statement
June 1, 1989 to December 31, 1991

INDEPENDENT AUDITORS' REPORT (Continued)

In our opinion, except for US$ 181,240 of questionable costs as mentioned in the preceding paragraph, the accompanying contract cost accountability statement presents fairly, in all material respects, the Technical Assistance and Personnel Training Contract for the Agricultural Planning and Institutional Development Project managed by Farm Management Services S.A., USAID/Peru Contract 527-0238-C-00-9235-00 for the period June 1, 1989 to December 31, 1991 in conformity with the accounting practices described in Note 3.

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

September 1, 1992

Countersigned by:

Oscar Caipo (Senior Partner)
Peruvian Public Accountant
Registration Nº 2782

TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT

MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/PERU CONTRACT Nº 527-0238-C-00-9235-00

Contract Cost Accountability Statement
for the Period June 1, 1989 to December 31, 1991

(Stated in thousands of U.S. dollars)

				Questionable Costs	
	Budget	Actual	Available	Questioned	Unsupported
INCOME					
Funds provided by USAID/Peru	1,931	1,812	119	-	-
DISBURSEMENTS					
Salaries and wages	608	610	(2)	-	132
Fringe benefits	43	28	15	-	5
Consultants	352	344	8	-	30
Other direct costs	605	506	99	-	14
Administrative costs	150	149	1	-	-
Fee	173	173	-	-	-
Total Disbursements	1,931	1,810	121	-	181
Balance	-	2	(2)	-	181

See accompanying notes to the contract cost accountability statement .

TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/PERU CONTRACT Nº 527-0238-C-00-9235-00

Notes to the Contract Cost Accountability Statement
June 1, 1989 to December 31, 1991

(1) **Nature of Activities**

On June 1, 1989 the Agency for International Development, Mission to Peru (USAID/Peru) executed a contract with Farm Management Services S.A. to provide assistance to the Agricultural Planning and Institutional Development Project (APID) in the hiring of long-term and short-term specialists, including the office space, equipment, furniture and fixtures necessary for the carrying out of their tasks; and also providing tickets and expenses for personnel attending seminars and participating in training program at both local and international levels; as well as in the conducting of economic and analytical studies, and in the development of seminars and the publication of reports and research results.

The contract completion date was December 31, 1991.

(2) **Financing Sources for the Contract**

For the execution of the functions of Farm Management Services S.A., USAID/Peru undertook to provide funds amounting to US$ 1,931,090 as of December 31, 1991 through a loan for the financing of the APID Project granted by the Government of the United States of America.

The funds granted were used to finance the costs in US dollars (reimbursements) and the costs in local currency (liquidations of advance payments). Reimbursements of expenses included mainly the payment of salaries and wages, fringe benefits, consultants, administrative costs and fee. The liquidation of advance payments included the payment of other direct costs and withheld taxes.

(3) **Significant Accounting Practices**

(a) The contract cost accountability statement is prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

(b) Reimbursements of expenses are represented by disbursements in US dollars actually made by USAID/Peru.

(c) Local currency costs were incurred in intis and in nuevos soles and were translated into U.S. dollars based on the date of the oldest advance of funds pending liquidation, the equivalent of which in U.S.

dollars, is determined by USAID/Peru in the moment of granting the funds to Farm Management Services S.A.

(d) Reimbursements of expenses and liquidations of advance payments are recorded according to the components of the contract cost accountability statement.

(e) Expenses reported are considered as costs incurred after having been reviewed and approved by USAID/Peru.

(4) **Local Currency Costs and Reimbursement of Expenses**

As of December 31, 1991, actual disbursements in local currency and reimbursements for contract expenses are as follows:

	Stated In thousands of U.S. dollars		
	In local currency	Reimbursement of expenses	Total
Salaries and wages	60	550	610
Fringe benefits	1	27	28
Consultants	31	313	344
Other direct costs	269	237	506
Administrative costs	-	149	149
Fee	-	173	173
	361	1,449	1,810

(5) **Questionable Costs (Questioned and Unsupported)**

According to A.I.D. procedures, costs charged to contracts must meet the following criteria in order to be allowable:

(a) Be reasonable for the performance of the contract. A cost is reasonable if, by its nature or amount, does not exceed what would be incurred by a prudent person under the same circumstances.

(b) Be allocable to the contract. A cost is allocable in accordance with the relative benefit received.

(c) Be adequately documented.

There are two categories of questionable costs: (a) questioned costs, which are those costs unallocable or unallowable in accordance with contract terms and applicable laws and regulations, and (b) unsupported costs, which are

those costs not properly supported by the recipient, are in excess of the budgeted line items, or are considered unreasonable under the circumstances.

The costs incurred by Farm Management Services S.A. amounting to US$ 181,240 for which no supporting documents were available, are determined to be questionable (unsupported) and they are stated in detail on page 16.

(6) Available Balance

The balance available at the closing of the contract period, amounting to US$ 2,047, was reconciled, approved, and reimbursed to USAID/Peru.

(7) Non-Expendable Property

There was no AID-Owned Non-Expendable property in the possession of Farm Management Services S.A., at the completion of the contract.

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TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/PERU CONTRACT Nº 527-0238-C-00-9235-00

Internal Control Structure
June 1, 1989 to December 31, 1991

INDEPENDENT AUDITORS' REPORT

We have audited the contract cost accountability statement of the Technical Assistance and Personnel Training Contract for the Agricultural and Institutional Development Project managed by Farm Management Services S.A., USAID/Peru Contract Nº 527-0238-C-00-9235-00 for the period June 1, 1989 to December 31, 1991 and have issued a quality opinion thereon dated September 1, 1992.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the contract cost accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the "Government Auditing Standards" of the U.S. Comptroller General (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance that the contract cost accountability statement is free of material misstatement.

In planning and performing our audit of the Contract Cost Accountability Statement of the Technical Assistance and Personnel Training Contract for the Agricultural Planning and Institutional Development Project managed by Farm Management Services S.A. USAID/ Peru Contract Nº 527-0238-C-00-9235-00 for the period June 1, 1989 to December 31, 1991, we considered the internal control structure of Farm Management Services S.A. in order to determine our auditing procedures for the purpose of expressing our opinion on the contract cost accountability statement and not to provide assurance on the internal control structure.

The management of Farm Management Services S.A. is responsible for establishing and maintaining an internal control structure to manage the contract operations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management authorization and recorded properly to permit the preparation of the contract cost accountability statement in conformity with the accounting practices described in note 3 to the contract cost 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 design and operation of policies and procedures may deteriorate.

TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/PERU CONTRACT Nº 527-0238-C-00-9235-00

Internal Control Structure
June 1, 1989 to December 31, 1991

INDEPENDENT AUDITORS' REPORT (Continued)

For the purpose of this report, we have classified significant internal control structure policies and procedures into the following categories: (1) receipt of funds; (2) salaries and wages/consultants (3) other direct costs.

For all 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 have noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants and the "Government Auditing Standards" of the U.S. Comptroller General (1988 revision). 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 the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the contract cost accountability statement. The reportable condition is described in finding 1 on the pages following this report.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that might be material in relation to the contract cost 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 problems in the internal control structure that might be considered to be material weaknesses as defined above. However, we believe that the reportable condition described above is a material weakness.

TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/PERU CONTRACT Nº 527-0238-C-00-9235-00

Internal Control Structure
June 1, 1989 to December 31, 1991

INDEPENDENT AUDITORS' REPORT (Continued)

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

September 1, 1992

Countersigned by:

Oscar Caipo (Senior Partner)
Peruvian Public Accountant
Registration Nº 2782

TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/PERU CONTRACT Nº 527-0238-C-00-9235-00

Internal Control Structure
June 1, 1989 to December 31, 1991

Findings

1. UNSUPPORTED COSTS

Condition

During our review we could not obtain documentation that supported the following expenses:

Voucher		Amount	
Date	Number	Nuevos soles	U.S. dollars
August 1st., 1989	3882	-	14,488
September 8, 1989	4333	-	25,232
September 21, 1989	0018	-	5,523
September 29,1989	0195	-	18,941
January 11, 1990	1380	-	23,499
March 5, 1990	1902	-	17,986
March 28, 1990	2214	-	1,000
May 21, 1990	2866	47.35	3,312
May 22, 1990	2548	21.90	1,531
July 4, 1990	3349	-	18,129
July 11, 1990	3649	54.50	3,811
January 17, 1991	1418	-	47,788
			181,240

Criteria

According to Part I, Section B, Item 3 of the Contract "Reimbursable Cost Amounts and Logistic Support", allowable amounts in both US dollars and local currency must be limited to reasonable, allocable and necessary costs. Therefore, it is required that expenses be adequately supported.

Cause

Farm Management Services S.A. did not establish adequate procedures to document expenses made on behalf of the contract.

Effect

The expenses reported to USAID/Peru are not supported by adequate or valid documentation. This results in unsupported costs of US$ 181,240.

Recommendation

We recommend that FMS properly document all expenditures related to the contract.

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TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/PERU CONTRACT Nº 527-0238-C-00-9235-00

Compliance with Contract Terms and Applicable Laws and Regulations
June 1, 1989 to December 31, 1991

INDEPENDENT AUDITORS' REPORT

We have audited the contract cost accountability statement of the Technical Assistance and Personnel Training Contract for the Agricultural and Institutional Development Project managed by Farm Management Services S.A., USAID/Peru Contract Nº 527-0238-C-00-9235-00 for the period June 1, 1989 to December 31, 1991 and have issued a quality opinion thereon dated September 1, 1992.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the contract cost accountability statement , we conducted our audit in accordance with generally accepted auditing standards and the "Government Auditing Standards" of the U.S. Comptroller General (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Farm Management Services S.A. is responsible for compliance with the terms of the contract and applicable laws and regulations. As part of obtaining reasonable assurance as to whether the contract cost accountability statement is free of material misstatement, we performed tests of compliance with certain agreement terms and applicable laws and regulations which may affect the contract goals and incurred costs. However, our objective was not to provide an opinion on overall compliance with such provisions, accordingly we do not express such an opinion.

The results of our test of compliance indicate that, with respect to items tested, Farm Management Services S.A. 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 Farm Management Services S.A. had not complied, in all material respects, with those provisions.

TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/PERU CONTRACT Nº 527-0238-C-00-9235-00

Compliance with Contract Terms and Applicable Laws and Regulations
June 1, 1989 to December 31, 1991

INDEPENDENT AUDITORS' REPORT (Continued)

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

September 1, 1992

Countersigned by:

Oscar Caipo (Senior Partner)
Peruvian Public Accountant
Registration Nº 2782

TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/PERU CONTRACT Nº 527-0238-C-00-9235-00

List of Report Recommendations
June 1, 1989 to December 31, 1991

Internal Control Structure

1. UNSUPPORTED COSTS

We recommend that FMS properly document all expenditures related to the contract.

TECHNICAL ASSISTANCE AND PERSONNEL TRAINING CONTRACT FOR THE AGRICULTURAL PLANNING AND INSTITUTIONAL DEVELOPMENT PROJECT MANAGED BY FARM MANAGEMENT SERVICES S.A.
USAID/PERU CONTRACT Nº 527-0238-C-00-9235-00

Management Comments of Farm Management Services S.A.
June 1, 1989 to December 31, 1991

ANNEX 1

Internal Control Structure

1. UNSUPPORTED COSTS

The Management of FARM MANAGEMENT SERVICES S.A. does not agree with said finding because of the reasons indicated below, which we transcribe literally:

Condition

In order for the condition to be fully shown and thus be useful for a Proper and Fair DECISION MAKING we opine that the following points, the documentation of which has been seen and reviewed by you, must be pointed out:

a) The total incurred costs (amounting to US$ 1,810,000.00), Including Questioned Costs, were covered by a request for reimbursement sent to USAID/Perú. The corresponding receipts are in the possession of F.M.S.S.A..

b) All requests for reimbursement (180) submitted by F.M.S.S.A. to USAID/Peru contained the Original Expense Supporting Documents, in compliance with USAID Nº 2 format (Liquidation Format) and with FAR 52.232-12 items (a) Requisites for payment and (I.i).

c) All requests for reimbursement corresponded, entirely, to services required by the FAR 52.216-7 (April 1984) contract (Contracted and eligible costs). F.M.S.S.A. has NEVER received the return of NON ELIGIBLE documents.

d) All requests for reimbursements have been Totally Processed, Liquidated (to F.M.S.S.A.), Reimbursed and Conciliated by USAID/Peru; F.M.S.S.A. having returned the balance of the total advances received in local currency resulting from the conciliation made with the Accounting office of USAID.

e) Additionally, we are in possession of the letters exchanged between F.M.S.S.A. and USAID, indicating the physical location of the supporting documentation, and of the USAID letter in which they acknowledge the misplacement of the documents and even forward to us photocopies of the original documents they had had.

C.2. Criteria

Actually, according to Part I, Section B, Item 3 of the Contract (page 3) "Reimbursable Cost Amounts and Logistic Support": Permisible amounts in U.S. dollars and in local currency shall be limited to Reasonable, Allocable and Necessary Costs, determined in conformity with the contract clause entitled "Permisible Costs and Payments" FAR 52.216-7 (April, 1984):

> FAR 52.216-7 conditions the Recognition of a cost as SUPPORTED COST to the physical presentation to USAID (or its representative authority of the Contract Official), in a reasonable and detailed manner, of the original supporting document of the expense together with the voucher and supporting formats.

Thus, expenses are required to be duly supported during their presentation to USAID (or its representative authority of the Contract official).

C.3 Cause

FARM MANAGEMENT SERVICES S.A. established adequate procedures for documenting expenses made on behalf of the contract, by submitting the vouchers and supporting formats indicated in FAR 52.216-7 to USAID/Peru.

As of August, 1991 it has not been possible to locate at F.M.S.S.A. the original supporting documents for expenses incurred, submitted and accounted for by USAID/Peru, amounting to US$ 181,240

C.4 Effect

All expenses reported by F.M.S.S.A. to USAID were duly supported by Eligible, Adequate, Original and Valid documentation.

To summarise, there is no supporting documentation in the F.M.S.S.A. files for the expenses amounting to US$ 181,240.

C.5 Recommendation

We recommend to take actions leading to a certification of the timely existence of the supporting documents and/or the execution of legal documents enabling their incorporation to the docket of existing documents.

APPENDIX I

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IG/A/PPO	2
IG/LC	1
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