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Regional Inspector General for Audit
San José, Costa Rica

1.1.0002

**Audit of USAID/Guatemala's
Highland Potable Water and Sanitation Project
Activities Managed by the
Highland Potable Water and Sanitation Project
August 27, 1991 to December 31, 1992**

**Audit Report No. 1-520-95-03-N
February 24, 1995**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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February 24, 1995

MEMORANDUM

To: USAID/Guatemala Director, William S. Rhodes

FROM: RIG/A/San José, *Loisage N. Gothard* Coinage N. Gothard

SUBJECT: Audit of USAID/Guatemala's Highland Potable Water and Sanitation Project Activities, Managed by the Highland Potable Water and Sanitation Project, August 27, 1991 to December 31, 1992

This report presents the results of a financial audit of the Highland Potable Water and Sanitation Project, USAID/Guatemala Project No. 520-0399, managed by the Highland Potable Water and Sanitation Project (project). The audit firm of Arthur Andersen prepared the report dated October 1, 1993.

This project is designed to improve the health of low-income rural inhabitants in the Guatemala highlands through the reduction of diarrheal diseases. To accomplish this, the project combines two preventive health interventions: health education and building of potable water and latrine systems. The project is a continuation of the Integrated Health and Nutrition Community Systems Project, USAID/Guatemala Project No. 520-251 and acquired the assets of that previous project. At the end of the project, the Ministry of Public Health and Social Assistance will establish the methodology to effectively combine water supply and sanitation with health education on a sustainable basis.

The grant agreement provides for USAID funding of \$9,500,000, counterpart contributions from the Government of Guatemala amounting to \$6,993,612, and in-kind contributions from participating communities of \$2,800,640. The agreement was signed on August 27, 1991 and has an anticipated duration of six years.

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

Arthur Andersen was of the opinion that the fund accountability statement presents fairly, in all material respects, the project's receipts and expenditures under the agreement, except for the effect of being unable to determine the level of counterpart contributions from the Government of Guatemala and participating communities. There were no questioned costs reported.

Regarding the internal control structure, the auditors identified twelve reportable and material weaknesses. The auditors found that the project did not: (1) prepare fund accountability statements, (2) distribute procedure manuals to personnel, (3) maintain updated accounting records, (4) record certain transactions in the project's accounts, (5) adequately determine the cost of water systems, (6) establish a methodology for preparing reimbursement vouchers, (7) adequately manage disbursements, (8) adequately control fixed assets, (9) adequately maintain materials inventory area, (10) adequately manage payroll area, (11) maintain adequate controls in the management of community revolving funds, and (12) segregate functions in the management of cash.

Regarding the project's compliance with the terms of the agreements and applicable laws and regulations, the auditors identified nine material instances of noncompliance. The auditors found that the project: (1) did not reconcile its counterpart contributions and there was an insufficiency in counterpart contributions from the Government of Guatemala, (2) did not prepare counterpart reports as required, (3) paid certain employees' wages with Government of Guatemala funds but did not record them as counterpart contributions, (4) lacked adequate data for in-kind contributions by the participating communities, (5) had not notified the change of a representative to USAID/Guatemala, (6) discontinued supervision of the communities, (7) did not comply with certain requirements relative to the control of fixed assets, (8) lacked supervision of the communities regarding the management of the operations and maintenance fund, and (9) did not comply with certain fiscal requirements.

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/Guatemala obtain evidence that the Highland Potable Water and Sanitation Project has established procedures that will ensure that the Highland Potable Water and Sanitation Project: (1) prepares fund accountability statements, (2) distributes procedure manuals to personnel, (3) maintains updated accounting records, (4) records all transactions in the project's accounts, (5) adequately determines the cost of water systems, (6) establishes a methodology for preparing reimbursement vouchers, (7) adequately manages disbursements, (8) adequately controls fixed assets, (9) adequately maintains materials inventory area, (10) adequately manages payroll area, (11) maintains adequately controls in the management of community revolving funds, and (12) segregates functions in the management of cash.

Recommendation No. 2

We recommend that USAID/Guatemala obtain evidence that the Highland Potable Water and Sanitation Project has completed the following actions: (1) reconciled its counterpart contributions and ensured sufficient counterpart contributions from the Government of Guatemala, (2) prepared counterpart reports as required, (3) recorded certain employees' wages paid with Government of Guatemala funds that were not recorded as counterpart contributions, (4) compiled adequate data for in-kind contributions by the participating communities, (5) notified the change of representative to USAID/Guatemala, (6) established supervision of the communities, (7) complied with certain requirements relative to the control of fixed assets, (8) established supervision of the communities regarding the management of the operations and maintenance fund, and (9) complied with certain fiscal requirements, as identified in the Arthur Andersen report dated October 1, 1993.

Recommendation No. 1 can be resolved when USAID/Guatemala presents an acceptable firm plan of action to correct the reported deficiencies and can be closed when it presents acceptable evidence that the required procedures have been established. Recommendation No 2 will be considered resolved when USAID/Guatemala presents an acceptable firm plan of action to take action on the reported deficiencies and can be closed when it presents acceptable evidence that the required actions have taken place.

The report was discussed with representatives of the Highland Potable Water and Sanitation Project who agreed with a majority of the findings and recommendations included in the report. The comments of management are included as Annex I to the Arthur Andersen 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 recommendations.

**Regional Inspector General for Audit
San José, Costa Rica**

**Audit of USAID/Guatemala's
Highland Potable Water and Sanitation Project
Activities Managed by the
Highland Potable Water and Sanitation Project
August 27, 1991 to December 31, 1992**

**Audit Report No. 1-520-95-03-N
February 24, 1995**

FINANCIAL AUDIT OF
THE HIGHLAND POTABLE WATER AND SANITATION PROJECT
USAID/GUATEMALA PROJECT No. 520-0399
MANAGED BY

THE HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA)

FOR THE PERIOD AUGUST 27, 1991 TO DECEMBER 31, 1992

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June 8, 1994

Mr. Coinage N. Gothard
Regional Inspector General
United States Agency for International Development
San José, Costa Rica

Dear Mr Gothard:

This report presents the results of our financial audit of the HIGHLAND POTABLE WATER AND SANITATION PROJECT, USAID/GUATEMALA PROJECT No. 520-0399, managed by THE HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA), for the period August 27, 1991 to December 31, 1992.

I. BACKGROUND

On August 27, 1991, the United States Agency for International Development in Guatemala (USAID/GUATEMALA) and the Government of Guatemala, through the Ministry of Public Finance (MINFIN), the Ministry of Public Health and Social Assistance (MSPAS) and the Secretariat General of the National Economic Planning Council (SEGEPLAN) signed Grant Agreement No. 520-0399 for US\$ 3,945,000 in order to provide funds for the HIGHLAND POTABLE WATER AND SANITATION PROJECT which is managed by the HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA). Under amendments No. 1 of September 27, 1991 and Nos. 2 and 3 of September 11 and 30, 1992 respectively, the Grant Agreement was increased to US\$ 9,500,000.

This project is a continuation of the Integrated Health and Nutrition Community Systems Project, Project No. 520-0251 which was financed under the Loan and Grant Agreements No. 520-U-033 and 520-0251, respectively. The objective of the previous project was to increase the coverage and effectiveness of an integrated rural health system in the western highlands of Guatemala, and it ended in September, 1990. With the approval of USAID/GUATEMALA, the assets acquired with Project No. 520-0251 funds became part of PAYSA.

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The budget categories of the Project are the following: (1) Construction of water and latrine systems; (2) Health education; (3) Evaluations and audits; and (4) Inflation and contingencies. These categories include the following items: (a) acquisition of materials; (b) acquisition of vehicles, tools and equipment; (c) administration and maintenance; (d) studies, evaluations and audits; and (e) inflation and contingencies.

This Project, with a six-year duration, is designed to improve the health of low-income rural inhabitants in the Guatemalan highlands through the reduction of diarrheal diseases. To reduce the incidence of diarrhea, the Project combines two preventive health interventions: (1) Health education, and (2) The building of potable water and latrine systems. Part of the Project includes the construction of 200 potable water systems and 24,000 latrines in the six Departments of the Western Highlands, in 300 communities with populations ranging from 200 to 1,200 inhabitants. At the end of the Project, the Ministry of Public Health and Social Assistance will establish the methodology to effectively combine water supply and sanitation with health education on a sustainable basis for the communities served. That is, the communities which participate will receive training in basic personal hygiene and environmental sanitation, and they will be managing, maintaining and administering their community water systems efficiently.

The goal of the Project is to reduce infant mortality in the participating communities by twenty percent during a five-year period.

The objective of the Project is to reduce by about 40 percent the incidence of gastrointestinal disease in the target communities, especially among children under five years of age.

The Government of Guatemala is committed to providing (for the entire life of the Project) counterpart contributions for a sum no less than US\$ 6,993,612 in local currency, and the participating communities are to provide the equivalent of US\$ 2,800,640 in-kind.

The counterpart contributions required for the period August 27, 1991 to December 31, 1992 were as follows:

	<u>US\$</u>	<u>Q</u>
Government of Guatemala	1,983,000	10,256,526
Participating Communities	547,000	2,850,452
Total	<u>2,530,000</u>	<u>13,106,978</u>

II. AUDIT OBJECTIVES

The audit was performed in accordance with generally accepted auditing standards and "Government Auditing Standards" issued by the Comptroller General of the United States (1988 Revision). Consequently, it included tests of accounting records considered necessary in the circumstances.

The specific objectives of the audit were to determine whether:

1. The fund accountability statement of the Project financed with USAID funds reasonably presents, in all material respects, the income received and costs incurred for the period August 27, 1991 to December 31, 1992, according to generally accepted accounting principles or another comprehensive basis of accounting, including cash based accounting and modifications to this base.
2. The internal control structure is adequate to administer Project activities, through evaluating and obtaining sufficient understanding of the internal control structure of PAYSA, evaluating control risk, and identifying reportable conditions, including important internal control weaknesses.
3. PAYSA complied, in all material respects, with the terms of the agreement and with applicable laws and regulations, and to express positive assertion on the matters evaluated and a negative assertion on matters not evaluated.

III. SCOPE OF THE WORK

The scope of the work consisted of:

A. Preliminary audit procedures

We reviewed project-related documents to familiarize ourselves with the Project.

B. Examination of fund accountability statement

We examined the Project fund accountability statement for the period August 27, 1991 to December 31, 1992, including all direct assistance funds received from USAID identified by loan, grant and budget amounts for category and principal item. Income received from USAID less costs incurred, after taking into account accruals, should reconcile with the cash balance on hand and/or in bank accounts.

C. Internal control structure

We reviewed and evaluated PAYSA's internal control structure to obtain sufficient understanding of the design of important control policies and procedures, and whether such policies and procedures have been put into practice. The report on the evaluation of the internal control identifies the important categories of the internal control structure, reportable conditions which affect the design and operation of the internal control structure, and reportable conditions considered to be significant weaknesses. Minor weaknesses are included in a letter to PAYSA management, as considered appropriate. Reportable conditions, including significant weaknesses, are presented in the report as "findings".

D. Compliance with the terms of the Agreement,
and with applicable laws and regulations

We verified compliance in all material respects with the terms of the agreement and with applicable laws and regulations. The report includes a positive assertion on matters evaluated; a negative assertion on matters not evaluated; and the important cases of noncompliance, which are included as "findings" in the report.

IV. RESULTS OF THE AUDIT

This section presents a summary of the results of the audit, briefly describing the more important points and problems encountered, which we comment on in more detail in the relevant section of this report.

Fund accountability statement

The State Accounting Department reported a difference of Q 239,919 less than what PAYSA reported to USAID/GUATEMALA as counterpart contributions for the period August 27, 1991 to December 31, 1992. It was not possible to determine the source of this difference as PAYSA does not have a detailed compilation to support the sum reported to USAID/GUATEMALA. In addition, because there are no proper records of the community contributions to the Project, we could not satisfy ourselves as to their reasonableness; which for the period August 27, 1991 to December 31, 1992, totalled Q 912,315.

Except for the effect of the matters mentioned in the preceding paragraph, the fund accountability statement presents fairly, in all material respects, the cash receipts and disbursements of the HIGHLAND POTABLE WATER AND SANITATION PROJECT, USAID/GUATEMALA PROJECT No. 520-0399 managed by the HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA) for the period August 27, 1991 to December 31, 1992, and its cash balances as of December 31, 1992, in accordance with the basis of accounting described in Note (3) to the fund accountability statement.

Internal control structure

The evaluation of the internal control structure of PAYSA revealed the following reportable conditions:

FINANCIAL INFORMATION

1. PAYSA does not follow the practice of preparing a monthly and accumulated fund accountability statement for Project activities. Moreover, PAYSA does not make reconciliations between the net of income and expenditure and cash on hand and in banks.
2. PAYSA does have administrative and procedures manuals but these have not been distributed to personnel involved. Some of the procedures described in these manuals are carried out as part of the routine functions of each employee, but this does not guarantee proper compliance with policies and procedures. In addition, these manuals are not sufficiently flexible to make amendments.

3. PAYSA's accounting records are not up to date. Additionally, the opening entry in the PAYSA accounts does not include the works executed with funds from the earlier Project.
4. PAYSA does not record reimbursements for expenses from USAID to PAYSA and refunds for advances from PAYSA to the Global Revolving Fund (fund by which the Government of Guatemala grants advances to PAYSA) in the Project main and subsidiary records.
5. Although there is a regional warehouse and costs manual, it does not define a methodology to determine the costs of the water systems installed or in the process of installation. Due to this, the following problems arise:
 - The reports of personnel activities (Form C-4), which are the source of information for distribution of personnel costs to each of the systems, are not delivered in time to the officer in charge of costs. On some occasions, the reports arrive six months late. The situation is the same with reports (C-2) and (C-5) on materials and wages contributed by the communities, respectively.
 - Indirect expenses are prorated in the same proportion for all projects instead of using a reasonable distribution base.

EXPENDITURE

6. PAYSA does not have an established methodology for the preparation of reimbursement vouchers which are submitted to USAID for refund. One reimbursement voucher includes disbursements for several months, which causes the following: (1) It is difficult to determine whether a document was or was not reimbursed or reimbursed more than once, because the individual expense documents are not detailed in running order, and (2) It is difficult to make monthly reconciliations between the accounting records (bank books) and the reimbursement vouchers, as monthly counts are not made for these.
7. We found the following weaknesses in the disbursements area:

PAYSA:

- Did not void expenses vouchers.
- Did not attach a copy of the check voucher as evidence of when payment was made or who made the payment in the case of types "B" and "C" purchase and payment orders.
- Did not attach invoices to the purchase and payment order in some purchases of fuel (see examples in finding described in the internal control section).

- Issued some invoices attached to type "A" purchase orders in the name of the National Treasury and not in the name of PAYSA (see examples in the finding described in the internal control section).

FIXED ASSETS AND INVENTORIES

8. We noted the following deficiencies in the control of fixed assets:

- PAYSA did not take annual physical inventories and make selective periodic counts in order to determine differences and determine responsibility in the case of shortages.
- The fixed assets subsidiary record:
 - . Includes many items with a cost of less than Q 100
 - . Does not identify what assets were acquired with grant funds and what assets were acquired with counterpart funds or funds from other sources
 - . Includes unserviceable assets or assets which no longer exist; for example, a motorcycle which was stolen and vehicles out of service in Totonicapán
 - . Lacks necessary information, for example, date of acquisition of assets, number of check or purchase order, number of invoice, name of supplier, and location of the assets
 - . Is not periodically reconciled against the balance according to the principal books of accounts
- PAYSA does not identify the assets with a label indicating code number assigned according to inventory records.
- There is a vehicle assigned to personnel of the Directorate of Environmental Sanitation (DSM) for which there are no reports as to its use to determine whether it is being used for project purposes.
- There are no controls on maintenance given to each vehicle.

9. We found the following deficiencies in the area of inventories:

- PAYSA does not take selective periodic inventories and end-of-year complete inventories to determine differences and adjust subsidiary and principal records.
- In the Totonicapán warehouse there are unprotected building materials out in the yard.

- In the Totonicapán warehouse there are differences between the physical stocks and balances according to cards (see examples in finding described in the internal control section).
- The fuel subsidiary control record is not reconciled periodically with stocks in tank, according to the service station. In addition, clearings in the fuel subsidiary records are done on the basis of the vouchers delivered to users before use and not on the basis of vouchers as despatched by each service station.

PAYROLLS

10. We found the following weaknesses in the payroll area:

- Some administrative employees working in the PAYSA central offices are included in the payroll of employees in Totonicapán under another category (see examples in finding described in the internal control section).
- Contracts for professional services under budget heading 079 are drawn up several months after the start of the service (see examples in finding described in the internal control section).

TREASURY

11. In the management of the community revolving funds (fund made up of contributions by the communities to refund part of the cost of the works), we found the following deficiencies.

- Although there is a written procedure for the management of community revolving funds, it has not been distributed to the personnel involved. The procedures are followed out of routine.
- No reconciliations are made of contributions according to PAYSA subsidiary records and collection receipts (Form 63-A) and against what is received by the Departmental Directorates General of Internal Revenue (see finding described in the internal control section, the difference between contributions according to source).
- The committee in each community has not been required to implement controls on amounts refunded and to be refunded to the revolving fund, in order to periodically reconcile against PAYSA subsidiary records and community controls.
- The balances pending refund by each community cannot be reconciled with the principal books because PAYSA's books are not up to date.

12. In the management of cash there is no proper segregation of functions because the general cashier receives deposits, makes out checks, updates the bank book and prepares the bank reconciliations. In the case of refunds of expenses from petty cash, the cashier prepares the settlement, receives the refund check, endorses and deposits it.

Compliance with terms of the agreement and applicable laws and regulations

Except for the noncompliance situations described in finding Nos. 1 to 9, the results of our tests of compliance indicate that, with respect to the matter tested, PAYSA complied in all material respects with the terms of the agreement and with applicable laws and regulations which could have a significant effect on the fund accountability statement. With respect to matters not tested, nothing came to our attention that caused us to believe that PAYSA has not complied, in all material respects, with the terms of the agreement and with applicable laws and regulations. Below is a summary of the findings reported:

1. The counterpart contributions for the Project, according to confirmation by the State Accounting Department, for the period August 27, 1991 to December 31, 1992, do not match the amount reported by PAYSA to USAID/GUATEMALA during the same period.
2. The quarterly counterpart reports are not sent to USAID/GUATEMALA within 30 calendar days following the close of each quarter. For example, the report for the first quarter of 1993 was sent to USAID/GUATEMALA on July 12 of the same year.
3. There are personnel working for PAYSA that are paid by the Government of Guatemala under budget heading 011, whose wages are not recorded as counterpart contributions. On the other hand, the wages of five persons working for the Directorate of Environmental Sanitation (DSM) are recorded as counterpart contributions although they are not working on the Project.
4. According to reports submitted to USAID/GUATEMALA, in-kind contributions from the communities to the Project during the period August 27, 1991 to December 31, 1992 totalled Q 912,315, but the report does not contain the details of their composition.
5. PAYSA has not notified USAID/GUATEMALA of the change of the representation of the new Minister of Public Health and Social Assistance for purposes of the agreement.
6. When we made selective visits to the communities, we noted that there is not a health technician for each water system nor are monthly visits being made to the communities.

7. In the area of fixed assets, PAYSA did not comply with the following requirements:

PAYSA did not:

- Identify fixed assets with the USAID logotype.
 - Take annual inventories.
 - Keep books for consumable assets (assets with a useful life of less than two years).
 - Send the inventory of fixed assets to the State Accounting Department.
 - Keep formal responsibility cards and maintain them up to date. In addition, in the book of non-consumable goods there is no indication as to whether the assets were acquired with own funds or grant funds.
8. PAYSA does not require any report from the community treasurer on the handling of the operations and maintenance fund (fund made up of contributions from the beneficiary communities).
9. In payments which PAYSA makes to third parties, PAYSA does not require invoices or vouchers with the Value Added Tax (VAT) nor does it make withholdings of income tax (see examples in finding described in the compliance section).

We also noted that in some payments made with grant funds there is no requirement for invoices and vouchers to show the Value Added Tax (see examples in findings described in the Compliance Section).

V. MANAGEMENT COMMENTS

According to PAYSA's letter dated September 19, 1994 (see Annex I) PAYSA agreed with the content of this report except to the finding Nos. 3, 4, 6, and 11 on the internal control structure and finding No. 4, on the compliance with the terms of the agreement and applicable laws and regulations. See in Annex II our responses to the management comments.

Arthur Andersen & Co.

HIGHLAND POTABLE WATER AND SANITATION PROJECT
USAID/GUATEMALA PROJECT No. 520-0399
MANAGED BY

THE HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA)
FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD AUGUST 27, 1991 TO DECEMBER 31, 1992

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying fund accountability statement of the HIGHLAND POTABLE WATER AND SANITATION PROJECT, USAID/GUATEMALA PROJECT No. 520-0399 managed by the HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA) (a decentralized entity organized in the Republic of Guatemala), for the period August 27, 1991 to December 31, 1992. This fund accountability statement is the responsibility of the management of PAYSA. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

Except as described in the fourth paragraph of this report, we performed our audit in accordance with general accepted auditing standards and, except as described in the following paragraph, in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States (1988 Revision). Both standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by the Administration, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our organization does not have an external quality control review by another accounting firm as required by paragraph 46 of chapter 3 of "Government Auditing Standards" issued by the United States Comptroller General (1988 Revision) as a quality control program is not required by professional standards in Guatemala. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material as we participate in the Arthur Andersen & Co. worldwide internal quality control program and are subjected, every three years, to a quality control review by partners and managers from other Arthur Andersen & Co. offices.

The State Accounting Department reported a difference of Q 239,919 less than reported by PAYSA to USAID/GUATEMALA as counterpart contributions for the period August 27, 1991 to December 31, 1992. It was not possible to determine the source of this difference because PAYSA does not have a detailed compilation to support the amount reported to USAID/GUATEMALA (see finding No. 1 in the section of compliance with terms of the agreement and applicable laws and regulations). In addition, because there are no proper records of the community contributions to the Project, we could not satisfy ourselves as to their

reasonableness which, during the period August 27, 1991 to December 31, 1992, totalled Q 912,315.

As explained at Note (3), the fund accountability statement has been prepared on the basis of cash received and disbursements made, which is a comprehensive basis of accounting base different from generally accepted accounting principles.

In our opinion, except for the effect of the matters mentioned in the fourth paragraph of this report, the fund accountability statement referred to above, presents fairly, in all material respects, the cash receipts and disbursements of the HIGHLAND POTABLE WATER AND SANITATION PROJECT, USAID/GUATEMALA PROJECT No. 520-0399, managed by the HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA), for the period August 27, 1991 to December 31, 1992 and its cash balances as of December 31, 1992, in accordance with the basis of accounting described in Note (3).

This report is intended for the information and use of the HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA) and the United States Agency for International Development. However, this restriction is not intended to limit the distribution of this report, which upon acceptance by the parties, is a matter of public record.

Arthur Andersen & Co.

Guatemala, C. A.

October 1, 1993

HIGHLAND POTABLE WATER AND SANITATION PROJECT

USAID/GUATEMALA PROJECT NO. 520-0399

MANAGED BY

THE HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA)

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD AUGUST 27, 1991 TO DECEMBER 31, 1992

<u>Budget category</u>	<u>Budget according to action plan</u>	<u>Actual</u>
INCOME:		
Funds received from-		
USAID/GUATEMALA	Q 23,092,428	Q -
Global Revolving Fund of the Government of Guatemala (Note 6)	-	265,850
	<u>23,092,428</u>	<u>265,850</u>
DISBURSEMENTS: (Note 6)		
Construction of water systems and latrines	16,845,464	164,050
Health education	1,982,962	101,800
Evaluations and audits	586,145	-
Inflation and contingencies	3,677,857	-
	<u>Q 23,092,428</u>	<u>Q 265,850</u>

The notes to the fund accountability statement should be read in conjunction with this statement.

HIGHLAND POTABLE WATER AND SANITATION PROJECT
USAID/GUATEMALA PROJECT No. 520-0399
MANAGED BY

THE HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA)

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD AUGUST 27, 1991 TO DECEMBER 31, 1992

(1) Description of project

On August 27, 1991, the United States Agency for International Development in Guatemala (USAID/GUATEMALA) and the Government of Guatemala, through the Ministry of Public Finance (MINFIN), the Ministry of Public Health and Social Assistance (MSPAS) and the Secretariat General of the National Economic Planning Council (SEGEPLAN) signed Grant Agreement No. 520-0399 for US\$ 3,945,000 in order to provide funds for the HIGHLAND POTABLE WATER AND SANITATION PROJECT which is managed by the HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA). Under amendments No. 1 of September 27, 1991 and Nos. 2 and 3 of September 11 and 30, respectively, in 1992, the Grant Agreement was increased to US\$ 9,500,000.

This project is a continuation of the Integrated Health and Nutrition Community Systems Project, Project No. 520-0251 which was financed under the Loan and Grant Agreements No. 520-U-033 and 520-0251, respectively. The objective of the previous project was to increase the coverage and effectiveness of an integrated rural health system in the western highlands of Guatemala, and it ended in September, 1990. With the approval of USAID/GUATEMALA, the assets acquired with Project No. 520-0251 funds became part of PAYSA.

The budget categories of the Project are the following: (1) Construction of water and latrine systems; (2) Health education; (3) Evaluations and audits; and (4) Inflation and contingencies. These categories include the following items: (a) acquisition of materials; (b) acquisition of vehicles, tools and equipment; (c) administration and maintenance; (d) studies, evaluations and audits; and (e) inflation and contingencies.

This Project, with a six-year duration, is designed to improve the health of low-income rural inhabitants in the Guatemalan highlands through the reduction of diarrheal diseases. To reduce the incidence of diarrhea, the Project combines two preventive health interventions: (1) Health education, and (2) The building of potable water and latrine systems. Part of the Project includes the construction of 200 potable water systems and 24,000 latrines in the six Departments of the Western Highlands, in 300 communities with populations ranging from 200 to 1,200 inhabitants. At the end of the Project, the Ministry of Public Health and Social Assistance will establish the methodology to effectively combine water supply and sanitation with health education on a sustainable basis for the communities served. That is, the communities which participate will receive training in basic personal hygiene and environmental sanitation, and they will be managing, maintaining and administering their community water systems efficiently.

The goal of the Project is to reduce infant mortality in the participating communities by twenty percent during a five-year period.

The objective of the Project is to reduce by about 40 percent the incidence of gastrointestinal disease in the target communities, especially among children under five years of age.

The Government of Guatemala is committed to providing (for the entire life of the Project) counterpart contributions for a sum no less than US\$ 6,993,612 in local currency, and the participating communities are to provide the equivalent of US\$ 2,800,640 in-kind.

The counterpart contributions required for the period August 27, 1991 to December 31, 1992 were as follows:

	<u>US\$</u>	<u>Q</u>
Government of Guatemala	1,983,000	10,256,526
Participating Communities	547,000	2,850,452
Total	<u>2,530,000</u>	<u>13,106,978</u>

(2) Brief history of the implementing entity

The HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA) is an office attached to the Directorate of Environmental Sanitation (DSM) of the Ministry of Public Health and Social Assistance and was created under Government Order No. 833-91 of November 18, 1991 as implementing entity of the HIGHLAND POTABLE WATER AND SANITATION PROJECT.

PAYSA is in charge of planning, organizing, developing, supervising, and evaluating the Project with the means provided by the United States Agency for International Development in Guatemala (USAID/GUATEMALA) and national funds budgeted by the Government of Guatemala.

The ending date of the Project is December 31, 1996, which is the date that the subscribing parties consider that all objectives and goals will have been met.

Project expenses are covered initially with advances which PAYSA receives from a Global Revolving Fund created in the Bank of Guatemala. USAID/GUATEMALA later refunds these expenses on presentation of reimbursement vouchers. When PAYSA receives the refunds from USAID/GUATEMALA, it proceeds to refund the Global Revolving Fund mentioned above.

(3) Principal accounting policies

Presentation basis

The Project fund accountability statement was prepared on the basis of cash received and disbursements made, which is a comprehensive basis of accounting different from generally accepted accounting principles. This base differs from

generally accepted accounting principles in that it does not record accruals, and the purchase of properties and equipment are recorded as disbursements instead of being capitalized. Moreover, cash received and disbursements made, may also include the net product of loans.

The fund accountability statement was prepared on the basis of subsidiary records (banks books and expense settlements) and does not include the direct purchases made by USAID for account of the project nor the counterpart contributions from the Government of Guatemala and the Communities.

(4) Monetary unit

PAYSA's accounting records for Project purposes are kept in quetzals (Q), the official currency of the Republic of Guatemala. As of December 31, 1992, the quetzal was quoted on the bank market, in relation to the United States dollar, at Q 5.37 : US\$ 1.00. The contributions (refunds) from USAID for the Project were in quetzals.

(5) Counterpart contributions of the Government of Guatemala

Below we show the difference between the counterpart contributions required in the action plan approved by USAID/GUATEMALA for the years 1991 and 1992 and the contributions actually made according to PAYSA:

<u>Item</u>	<u>According to action plan</u>	<u>According to PAYSA</u>	<u>Difference</u>
Building of water systems, latrines, and health education	Q 7,722,649	Q 3,183,922	Q 4,538,727
Operation and maintenance	2,533,877	85,161	2,448,716
	<u>Q 10,256,526</u>	<u>Q 3,269,083</u>	<u>Q 6,987,443</u>

(6) Subsequent events

The expenses incurred by PAYSA as of December 31, 1992 for Q 265,850 were covered with advance funds from the Global Revolving Fund in the Bank of Guatemala. These expenses were refunded by USAID/GUATEMALA on March 10, 1993. Refund to the Global Revolving Fund by PAYSA was made on March 12, 1993.

HIGHLAND POTABLE WATER AND SANITATION PROJECT
USAID/GUATEMALA PROJECT No. 520-0399
MANAGED BY

THE HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA)

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the HIGHLAND POTABLE WATER AND SANITATION PROJECT, USAID/GUATEMALA PROJECT No. 520-0399 managed by the HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA) (a decentralized entity organized in the Republic of Guatemala), for the period August 27, 1991 to December 31, 1992 and we have issued our report in which we expressed a qualified opinion dated October 1, 1993.

Except for not having an external quality control review conducted by another accounting firm as fully described in our report on the fund accountability statement, and except as mentioned in the fourth paragraph of such report, we conducted our audit in accordance with generally accepted auditing standards and "Government Auditing Standards" issued by the Comptroller General of the United States (1988 Revision). Both 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 the HIGHLAND POTABLE WATER AND SANITATION PROJECT, USAID/GUATEMALA PROJECT No. 520-0399 for the period from its beginning (August 27, 1991) to December 31, 1992, we considered the internal control structure of the HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA) to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of the HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA) is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the internal control structure, policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the 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 (3) to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following economic cycles: (1) financial information: preparation of reports; (2) conversion: control of fixed assets and inventories; (3) purchases; (4) payrolls; and (5) treasury: cash management.

For all of the internal control structure economic cycles listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. The reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management included in the fund accountability statement. Our evaluation of PAYSA's internal control structure related to Project activities, disclosed the reportable conditions which are described in finding Nos. 1 to 12 included on the following pages of this report.

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined in the foregoing paragraph.

In addition, we noted other matters involving the internal control structure and its operation that we have considered are not reportable conditions which have been reported to the management of PAYSA in a separate letter dated October 1, 1993.

This report is intended for the information and use of the HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA) and the United States Agency for International Development. However, this restriction is not intended to limit the distribution of this report, which upon acceptance by the parties, is a matter of public record.

Arthur Andersen & Co.

Guatemala, C. A.

October 1, 1993

HIGHLAND POTABLE WATER AND SANITATION PROJECT
USAID/GUATEMALA PROJECT No. 520-0399
MANAGED BY

THE HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA)

INTERNAL CONTROL STRUCTURE

FINDINGS

1. Lack of preparation of a fund accountability statement

Condition

PAYSA does not follow the practice of preparing a monthly and accumulated fund accountability statement for Project activities. Moreover, PAYSA does not make reconciliation between the net of income and expenditure and cash on hand and in banks.

Criteria

Under generally accepted accounting principles, PAYSA should keep proper records to show: (1) An accurate and timely status of each Project activity; (2) Source and application of Project funds; and (3) Balance of Project funds which should be reconciled with cash on hand and in banks.

Cause

The administrative and accounting procedures manual does not define the need to prepare a monthly and accrued fund accountability statement during the life of the Project. PAYSA prepares a report on budget execution but this is updated on the basis of funds committed and not on the basis of expenses incurred.

Effect

There is no timely information on the activities executed during the life of the Project. Moreover, responsibility cannot be determined for cash shortages or overages.

Recommendation

We suggest that PAYSA prepare a fund accountability statement showing: (1) Income received and disbursements made during the year and accumulated during the life of the Project, and (2) The balance of the fund (income less expenditure), which should match cash on hand and in banks. If there is any difference it should be investigated. Prior to preparation of the statement, income should be

reconciled with contributions according to USAID or the Revolving Fund, as applicable, and disbursements with the accounting records (bank book). This procedure should be defined in the administrative and accounting procedures manual. We also suggest that the budget execution report be prepared on the basis of expenses incurred and not disbursements committed.

2. Procedures manuals have not been distributed to personnel

Condition

PAYSA does have administrative and procedures manuals but these have not been distributed to personnel involved. Some of the procedures described in these manuals are carried out as part of the routine functions of each employee, but this does not guarantee proper compliance with policies and procedures. In addition, these manuals are not sufficiently flexible to make amendments.

Criteria

Written policies and procedures form part of a proper accounting internal control structure, and they should be made known to personnel involved. These policies and procedures should be designed for easy modifications, in case they are not functional when put into operation.

Cause

PAYSA does not have the resources to print several copies of the manuals and distribute them to interested personnel.

Effect

When policies and procedures are not known by personnel, they become dependent on the criteria of those who execute them. Personnel cannot assume responsibility by claiming lack of knowledge of such policies and procedures. Moreover, the resources invested in the design of the manuals are being wasted.

Recommendation

We suggest that PAYSA seek resources for the printing of the different administrative and procedures manuals, and that they be distributed to personnel involved; each member of the staff should receive at least the part which is relevant to his/her task. These manuals should preferably be printed on replaceable sheets, so that they can be easily amended.

3. PAYSA's accounting records are not up to date

Condition

PAYSA's accounting records are not up to date. Additionally, the opening entry in the PAYSA accounts does not include the works executed with funds from the earlier Project.

Criteria

One of the properties of an accounting system is that it should be reliable and timely so that it may serve as a tool for decision making.

Cause

There has been rotation of personnel in the Accounting Department and present personnel have only recently been contracted.

Effect

PAYSA's management may make wrong decisions without reliable and timely information. The risk of misuse of Project assets increases with the non-existence of principal records against which to reconcile the subsidiary records.

Recommendation

We suggest that PAYSA update its accounting records expeditiously using the accounting manual. We also suggest including, by means of an entry, works completed and those left in process under the earlier project.

4. Transactions not recorded in PAYSA accounts

Condition

PAYSA does not record reimbursements for expenses from USAID to PAYSA and refunds for advances from PAYSA to the Global Revolving Fund in the Project main and subsidiary records.

Criteria

Under generally accepted accounting principles, all transactions relative to an economic entity should be entered in the accounting records.

Cause

USAID issues reimbursement checks in the name of the National Treasury and not in name of PAYSA. PAYSA receives the checks, endorses them, and deposits them in the account of the Global Revolving Fund in the Bank of Guatemala. Moreover, accounting personnel do not know the procedure described in the accounting manual which requires the accounting of these transactions.

Effect

This condition makes it difficult for PAYSA to compile its accounting records for reimbursements made by USAID to PAYSA, and PAYSA's refunds to the Global Revolving Fund. Also it is difficult to prepare the fund accountability statement.

Recommendation

We suggest that PAYSA record in its principal and subsidiary records income from reimbursement of expenses by USAID/GUATEMALA and disbursements for refunds to the Global Revolving Fund, independently of whether the USAID refund checks are issued in name of the National Treasury.

5. Deficiencies in determining the cost of the water systems

Condition

Although there is a regional warehouse and costs manual, it does not define a methodology to determine the costs of the water systems installed or in the process of installation. Due to this, the following problems arise:

- The reports of personnel activities (Form C-4), which are the source of information for distribution of personnel costs to each of the systems, are not delivered on time to the officer in charge of costs. On some occasions, the reports arrive six months late. The situation is the same with reports (C-2) and (C-5) on materials and wages contributed by the communities, respectively.
- Indirect expenses are prorated in the same proportion for all projects instead of using a reasonable distribution base.

Criteria

Accounting practices require that proper methods be provided for the determination of cost of assets, works, products, etc.

Cause

No pertinent policy has been defined in the accounting manual.

Effect

The total cost of the water systems could be undervalued or overvalued because the cost of one system may be charged to another.

Recommendation

We suggest that PAYSA develop, in the regional warehouse and cost manual, a methodology to determine the cost of the water systems. This manual should describe: (1) reports required from each department involved and critical dates for delivery, and (2) establishment of a reasonable basis of distribution of indirect costs. For example, it should describe how to determine monthly how much direct costs applied to each water system represents in relation to total direct costs for all the systems in process, and then how to distribute indirect costs in that proportion.

6. There is no methodology for preparing reimbursement vouchers

Condition

PAYSA does not have an established methodology for the preparation of reimbursement vouchers which are submitted to USAID for refund. One reimbursement voucher includes disbursements for several months, which causes the following: (1) It is difficult to determine whether a document was or was not reimbursed or reimbursed more than once, because the individual expense documents are not detailed in running order, and (2) It is difficult to make monthly reconciliations between the accounting records (bank books) and the reimbursement vouchers, as monthly counts are not made for these.

Criteria

As part of policies and procedures to strengthen accounting internal controls, there should be a methodology for preparing the reimbursement vouchers which are presented to USAID.

Cause

There is no requirement in the accounting manual.

Effect

Errors could arise in the preparation of the fund accountability statement, because the recording of the disbursements could be omitted or duplicated. In addition, errors might occur and not be detected on time.

Recommendation

We suggest that PAYSA develop a methodology for the preparation of the reimbursement vouchers presented to USAID, and that it incorporate it in its administrative and accounting manual. As part of the methodology, provisions should be made for preparation of the reimbursement vouchers on the basis of expenses incurred during a certain period and counts made at the end of each month, in order to reconcile with the bank subsidiary record. It is important for this purpose that type "C" purchase and payment orders presented to the National Treasury for their approval should be settled in the same order as issued.

7. Deficiencies in the disbursements area

Condition

We found the following weaknesses in the disbursements area:

PAYSA:

- Did not void expenses vouchers.
- Did not attach a copy of the check voucher as evidence of when payment was made or who made the payment in the case of types "B" and "C" purchase and payment orders.

- Did not attach invoices to the purchase and payment order in some purchases of fuel, for example:

<u>Purchase order</u>	<u>Date</u>	<u>Supplier</u>	<u>Amount</u>
93/92	18-09-92	Gasolinera Corona Roja	Q 22,732
116/92	23-10-92	Servicentro Esso San Pedro	25,002
123/92	23-1-092	Gasolinera Texaco "G.S"	15,000

- Issued some invoices attached to type "A" purchase orders in the name of the National Treasury and not in the name of PAYSA, for example:

<u>Invoice</u>	<u>Date</u>	<u>Supplier</u>	<u>Amount</u>
A-183523	19-03-93	Esso Central América, S. A.	Q 44,516
124	25-02-93	Estación Shell Indolatino	28,663
122	25-02-93	Estación Shell Indolatino	19,107
91045	09-12-92	Estación Texaco San Miguel	15,711

Criteria

Sound commercial practices recognized here require that a purchase be duly documented with application to purchase, purchase orders, quotations or proforma invoices, check vouchers, invoices in the name of the buyer and evidence of receipt of the good and/or service. All these documents should be reviewed and authorized by competent personnel.

Cause

The procedures defined in the purchase and contracts manual are not being followed.

Effect

There is the risk that: (1) A document can be reimbursed more than once; (2) Purchases can be made under mistaken criteria; and (3) Expenses can be questioned because they are not properly documented.

Recommendation

We suggest that personnel involved in the purchasing procedure follow the steps established in the purchasing and contracts manual, and also implement the following procedures: (1) Cancel invoices and purchase orders (original and copies) with a stamp bearing the legend "Paid"; (2) Attach a copy of the check voucher to types "B" and "C" purchase orders; (3) Attach a copy of the invoice to all purchase and payment orders and; (4) Request invoices in the name of PAYSA or NATIONAL TREASURY/PAYSA for purchases made under type "A" purchase orders.

8. Deficiencies in the control of fixed assets

Condition

We noted the following deficiencies in the control of fixed assets:

- PAYSА did not take annual physical inventories and make selective periodic counts in order to determine differences and determine responsibility in the case of shortages.
- The fixed assets subsidiary record:
 - . Includes many items with a cost of less than Q 100
 - . Does not identify what assets were acquired with grant funds and what assets were acquired with counterpart funds or funds from other sources
 - . Includes unserviceable assets or assets which no longer exist; for example, a motorcycle which was stolen and vehicles out of service in Totonicapán
 - . Lacks necessary information, for example, date of acquisition of assets, number of check or purchase order, number of invoice, name of supplier, and location of the assets
 - . Is not periodically reconciled against the balance according to the principal books of accounts
- PAYSА does not identify the assets with a label indicating code number assigned according to inventory records.
- There is a vehicle assigned to personnel of the Directorate of Environmental Sanitation (DSM) for which there are no reports as to its use to determine whether it is being used for project purposes.
- There are no controls on maintenance given to each vehicle.

Criteria

The internal control structure should provide reasonable but not absolute assurance that assets are protected against loss by unauthorized use or disposal.

Cause

PAYSА does not have sufficient personnel to take periodic and annual inventories.

The administrative procedures manual has not been distributed to personnel involved.

The accounting manual does not define policies and procedures as to the amount of assets which should be capitalized.

Clearing of unserviceable or nonexistent assets involves a lengthy process because it must be authorized by the Office of the Comptroller of Accounts of the Nation.

Effect

(1) Time is invested in controlling unimportant assets; (2) The risk of unauthorized use or disposal of assets increases; (3) The accounting records do not accurately reveal the value of Project assets; and (4) The cost benefit of repair or disposing of certain assets, for example, vehicles, is unknown.

Recommendation

We suggest that PAYSA: (1) Evaluate the expediency of contracting additional personnel to take periodic selective inventories and a complete inventory at the end of each year, and that they be reconciled with the subsidiary and principal records in order to make the pertinent adjustments; (2) Define a policy for the capitalization of fixed assets; (3) Modify the structure of the fixed assets subsidiary records in such a manner as to identify (a) goods acquired with grant funds and funds from other sources, (b) check number, (c) invoice number, (d) name of supplier, and (e) location of the asset; (4) Exclude from the subsidiary records and the accounts those unserviceable or nonexistent goods, and for which approval should be requested promptly from the Office of the Comptroller of Accounts of the Nation; (5) Identify the goods with a label bearing the assigned code number; (6) Implement controls on maintenance provided to each vehicle; and (7) Implement controls to verify the use of the vehicle assigned to the Directorate of Environmental Sanitation and that it request periodic reports on its use. In addition, PAYSA should request the return of this vehicle if it is not being used for Project purposes.

The above suggestions should be incorporated into the PAYSA accounting and/or administrative procedures manuals.

9. Deficiencies in the materials inventory area

Condition

We found the following deficiencies in the area of inventories:

- PAYSA does not take selective periodic inventories and end-of-year complete inventories to determine differences and adjust subsidiary and principal records.
- In the Totonicapán warehouse there are unprotected building materials out in the yard.
- The fuel subsidiary control record is not reconciled periodically with stocks in tank, according to the service station. In addition, clearings in the fuel subsidiary records are done on the basis of

the vouchers delivered to users before use and not on the basis of vouchers as despatched by each service station.

- In the Totonicapán warehouse there are differences between the physical stocks and stocks according to stock cards. Our counting tests which included 27 articles that represent 3% of the universe on September 22, 1993, disclosed the following differences:

<u>Code</u>	<u>Description</u>	<u>Physical Count</u>	<u>Stock Cards</u>	<u>Difference</u>
AR220005	1/2" 300 WG gate valve	299	297	2
AR200129	1-1/2" 250 PSI PVC tube	500	455	45
AR200106	1" HG tube	392	237	155
MRO10009	SAE 40 motor oil (gallons)	240	245	(5)
AR200105	3/4" HG tube without coupling	76	96	(20)

Criteria

A proper internal control structure requires that the goods be protected against damage, loss and unauthorized use.

Cause

PAYSA does not have sufficient personnel to take inventories in the warehouses at different locations.

The Totonicapán regional warehouses are not sufficient to store all the material.

Procedures defined in the administrative manual are not being followed, and the manual itself does not provide for actions to be taken in the case of differences in the inventories.

Effect

The risk of materials being removed or used without authorization increases. Also, the accounting records do not precisely reveal stock levels at a given date.

Recommendation

We suggest that PAYSA (1) Evaluate the convenience of contracting additional personnel to take periodic selective inventories and a complete inventory at the end of each year, and that it reconcile them with the stock cards and the principal books. If there are differences, they should be investigated to identify responsibility; (2) Evaluate the possibility of enlarging the Totonicapán warehouse, for which it must apply for additional funds; (3) Identify unserviceable materials which take up space which could be better used to store usable goods, and apply to the Office of the Comptroller of Accounts of the Nation for authorization to clear such goods both physically and in the accounts; (4) Operate fuel outgoings on the basis of vouchers actually despatched by the service stations, and not when the vouchers are delivered to

the users of the fuel; and (5) Reconcile stocks of fuel according to subsidiary records with stocks held in tanks according to the service stations.

10. Weaknesses in the payroll area

Condition

We found the following weaknesses in the payroll area:

- Some administrative employees working in the PAYSА central offices are included in the payroll of employees in Totonicapán under another category. Some examples are:

<u>Name of employee</u>	<u>Post held in central offices</u>	<u>Reported in Totonicapán payroll as</u>
Hanz Escobar Batz	Computer operator	Warehouse assistant
Jislена Castañeda	Financial assistant	Payroll officer
Fabiola J. Colón	Secretary	Warehouse assistant
Glenda Miranda	Secretary	Warehouse assistant
Hugo Leonel García	Purchasing officer	Payroll clerk

- Contracts for professional services under budget heading 079 are drawn up several months after the start of the service. Some examples are:

<u>Contractor</u>	<u>Start date of services</u>	<u>Date of contract</u>
Erick Vinicio Mollinedo	07-01-93	09-01-93
Gilberto García Villatoro	07-01-93	09-01-93
Carlos Aroldo Zic	07-01-93	09-01-93
Hugo Leonel Pivaral	07-01-93	09-01-93
María Eugenia Vásquez	05-01-93	07-01-93

Criteria

A proper internal control system requires that the services relationship be regulated from the start, in order to demand rights and meet responsibilities.

Cause

The guidelines contained in the administrative procedures manual are not being followed.

The Government budget allocated to the PAYSА central offices is not enough to cover the administrative posts.

Approval procedures for contracts under budget heading 079 by Government entities are slow.

Effect

The risk of paying unauthorized wages increases.

There could be questions from the Comptroller's Office with respect to funds from one budget heading being used for another without prior authorization.

Contractors may avoid contractual responsibilities because the contractual relationship is not established from the beginning.

Recommendation

We suggest that PAYSA take the following actions: (1) Request the Ministry of Finance to transfer the allocation of funds from one budget heading to another to cover all administrative posts, and (2) Submit budget heading 079 contracts to Government departments in advance for approval so that they will be authorized in time.

11. Lack of controls in the management of community revolving funds

Condition

In the management of the community revolving funds (fund made up of contributions by the communities to refund part of the cost of the works), we found the following deficiencies.

- Although there is a written procedure for the management of community revolving funds, it has not been distributed to the personnel involved. The procedures are followed out of routine.
- No reconciliations are made of contributions according to PAYSA subsidiary records and collection receipts (Form 63-A) and against what is received by the Departmental Directorates General of Internal Revenue. The contributions by the communities for the period from October 1991, to December 31, 1992 show the following differences:

<u>Region</u>	<u>Records</u>	<u>Forms 63-A</u>	<u>Directorates of Internal Revenue</u>
Totonicapán	Q 113,757	Q 134,821	Q 163,222
San Marcos	84,286	77,273	87,584

- The committee in each community has not been required to implement controls on amounts refunded and to be refunded to the revolving fund, in order to periodically reconcile against PAYSA subsidiary records and community controls.
- The balances pending refund by each community cannot be reconciled with the principal books because PAYSA's books are not up to date.

Criteria

Recognized accounting practices require that reconciliations be made with external sources, for example, banks, clients, suppliers, in this case with the beneficiary communities and the Departmental Directorates General of Internal Revenue.

Cause

Personnel involved are ignorant of certain matters involved in the control of the community revolving funds because they have not been given the applicable guidelines. Moreover there are no defined procedures requiring reconciliation of contributions and balances to make refund to the funds, and between the subsidiary and principal controls of PAYSA and the controls of external sources.

Effect

Information on contributions and balances refundable to the community revolving fund in each place is not entirely reliable. The communities can also fall behind in the payment of their quotas because there is no control and supervision of the committees representing them.

Recommendation

We suggest that PAYSA publish the guidelines contained in the administrative procedures manual relative to control of community revolving funds, and that such guidelines be put into practice. In addition to these guidelines, it is important that PAYSA make periodic reconciliations with contributions and balances to be refunded to the community revolving funds according to its subsidiary and principal records with the income receipts (Forms 63-A) and as received according to the Departmental Directorates General of Internal Revenue. The community committees should also be required to implement controls on contributions and balances refundable to the fund, and that these be periodically reconciled with PAYSA's subsidiary and principal records.

12. There is no proper segregation of functions in the management of cash

Condition

In the management of cash there is no proper segregation of functions because the general cashier receives deposits, makes out checks, updates the bank book and prepares the bank reconciliations. In the case of refunds of expenses from petty cash, the cashier prepares the settlement, receives the refund check, endorses and deposits it.

Criteria

A proper internal control structure requires that there should be proper segregation of functions in any area.

Cause

Lack of implementation of the administrative procedures manual.

Effect

The risk of misappropriation or misuse of cash increases.

Recommendation

We suggest that PAYSA establish a proper segregation of functions in the handling of cash. We also suggest that PAYSA put into practice the administrative procedures manual relative to this area.

HIGHLAND POTABLE WATER AND SANITATION PROJECT
USAID/GUATEMALA PROJECT No. 520-0399
MANAGED BY

THE HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA)

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the HIGHLAND POTABLE WATER AND SANITATION PROJECT, USAID/GUATEMALA PROJECT No. 520-0399 managed by the HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA) (a decentralized entity organized in the Republic of Guatemala), for the period August 27, 1991 to December 31, 1992 and we have issued our report in which we expressed a qualified opinion dated October 1, 1993.

Except for not having an external quality control review conducted by another accounting firm as fully described in our report on the fund accountability statement, and except as mentioned in the fourth paragraph of such report, we conducted our audit in accordance with generally accepted auditing standards and "Government Auditing Standards" issued by the Comptroller General of the United States (1988 Revision). Both 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 the terms of the agreement and with applicable laws and regulations is the responsibility of the management of the HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA). As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of PAYSA's compliance with the terms of the Agreement and applicable laws and regulations. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of the terms of the agreement, and applicable laws and regulations 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 test of compliance disclosed material instances of noncompliance, which are described in finding Nos. 1 to No. 9, and are included on the following pages of this report.

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement of PAYSA, for the period August 27, 1991 to December 31, 1992, is presented fairly, in all material

respects, in conformity with the basis of accounting described in Note (3) to the fund accountability statement, and this report does not affect our report on the fund accountability statement dated October 1, 1993.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, PAYSA complied, in all material respects, with the provisions indicated in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that PAYSA had not complied, in all material respects, with those provisions.

This report is intended for the information and use of the HIGHLAND POTABLE WATER AND SANITATION PROJECT (PAYSA) and the United States Agency for International Development. However, this restriction is not intended to limit the distribution of this report, which upon acceptance by the parties, is a matter of public record.

Arthur Andersen & Co.

Guatemala, C. A.

October 1, 1993

HIGHLAND POTABLE WATER AND SANITATION PROJECT
USAID/GUATEMALA PROJECT No. 520-0399
MANAGED BY

THE HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA)

COMPLIANCE WITH TERMS OF AGREEMENT
AND APPLICABLE LAWS AND REGULATIONS

FINDINGS

1. Lack of reconciliation and insufficiency in counterpart contributions of the Government of Guatemala

Condition

The counterpart contributions for the Project, according to confirmation by the State Accounting Department, for the period August 27, 1991 to December 31, 1992, do not match the amount reported by PAYSA to USAID/GUATEMALA during the same period.

The difference is shown below:

<u>Source of information</u>	<u>Contributions during the period</u>
PAYSA reports	Q 3,269,083
State Accounting Department	3,029,164
Reported in excess by PAYSA	Q 239,919

The difference of Q 239,919 cannot be explained because these contributions are not detailed in the PAYSA reports.

There is an insufficiency of Q 6,987,443 in the counterpart contributions required for the years 1991 and 1992 according to the action plans approved by USAID/GUATEMALA for those years (see Note 5 to the fund accountability statement).

Criteria

The counterpart reports which PAYSA sends to USAID should include sufficient detail to permit reconciliation against the reports confirmed by the Government of Guatemala.

Under the Project execution plan approved by USAID/GUATEMALA, the counterpart contributions for 1991 and 1992 should have reached approximately Q 10,256,526.

Cause

PAYSA includes purchase orders in the reports submitted to USAID/GUATEMALA which are paid after the cutoff date of the reports.

PAYSA does not follow the practice of reconciling the amount of the counterpart contributions according to its own controls with the records of the State Directorate of Accounting.

The Government of Guatemala has not allocated the funds required for the Project.

Effect

The reports on counterpart contributions presented to USAID/GUATEMALA are not accurate. Moreover, Project goals are not reached because the budgeted funds are not available.

Recommendation

We suggest that the reports on counterpart contributions include only those purchase and payment orders actually paid, and that, before the reports are sent to USAID, they be reconciled against contributions according to the State Directorate of Accounting. We also suggest that PAYSA compile adequate data for the counterpart contributions for Q 3,269,083 as of December 31, 1992, to explain the difference of Q 239,919.

2. Counterpart reports are not sent within the time provided

Condition

The quarterly counterpart reports are not sent to USAID/GUATEMALA within 30 calendar days following the close of each quarter. For example, the report for the first quarter of 1993 was sent to USAID/GUATEMALA on July 12 of the same year.

Criteria

Under Section IX of Implementation Letter No. 1, the quarterly reports on counterpart contributions should be sent to USAID/GUATEMALA within 30 calendar days after the end of each quarter.

Cause

Lack of proper procedures to allow quantifying the counterpart contributions in a timely manner.

Effect

Noncompliance with the terms of the grant agreement and/or project implementation letters.

Recommendation

We suggest that PAYSA implement proper control procedures to allow quantifying the Project counterpart contributions in a timely manner. In future, PAYSA should send to USAID/GUATEMALA the quarterly reports on counterpart contributions within 30 calendar days following the end of each quarter.

3. PAYSA has certain employees' wages that are paid with Government of Guatemala funds but are not recorded as counterpart contributions

Condition

There are personnel working for PAYSA that are paid by the Government of Guatemala under budget heading 011, whose wages are not recorded as counterpart contributions. On the other hand, the wages of five persons working for the Directorate of Environmental Sanitation (DSM) are recorded as counterpart contributions although they are not working on the Project.

Criteria

Counterpart reports should include all and only those counterpart contributions which are eligible under the terms of the agreement.

Cause

Personnel working for the Project are included in the payrolls of other Government departments because PAYSA does not have a sufficient budget allocated to pay their wages. In addition, at the request of the Head of the Division of Environmental Sanitation, five PAYSA employees were temporarily transferred to this Division.

Effect

This situation increases the insufficiency of the counterpart contributions according to the budget approved by USAID, and results in inaccurate accounting records for counterpart contributions.

Recommendation

PAYSA should include in the counterpart contribution reports the wages of all employees who work for the Project, but currently appear in the payrolls of other Government departments. For this purpose, PAYSA should request the Ministry of Finance to include these employees in PAYSA's budget. Moreover, there should be excluded as counterpart contributions wages paid to those persons who do not work for the Project, independently of whether they are paid with PAYSA funds.

4. Lack of adequate data for in-kind contributions by the communities

Condition

According to reports submitted to USAID/GUATEMALA, in-kind contributions from the communities to the Project during the period August 27, 1991 to December 31, 1992 totalled Q 912,315, but the report does not contain the details of their composition.

Criteria

Under Section B.5 (b) of annex B to the Agreement, PAYSA should keep adequate records related to Project activities.

Cause

Lack of personnel in the financial area to verify the information provided by the infrastructure component.

Effect

Noncompliance with the terms of the Agreement, and it is not known whether the communities have complied with the contributions under the action plan approved by USAID.

Recommendation

We suggest that PAYSA prepare a detailed itemized report of the headings and amounts which make up the communities' in-kind contributions. In the future, this itemized report should be prepared monthly and reported to USAID quarterly.

5. PAYSA has not notified USAID/GUATEMALA of the change of a representative

Condition

PAYSA has not notified USAID/GUATEMALA of the change of the representation of the new Minister of Public Health and Social Assistance, for agreement purposes.

Criteria

Under Section 8.2 of the Grant Agreement, notification of any appointment of additional representatives for Agreement purposes should be sent to USAID in writing. Although the names of officers of the Guatemalan Government are a matter of public knowledge, USAID reserves the right to accept them as representatives, depending on the reputation of each.

Cause

PAYSA is not aware of this Agreement clause.

Effect

Noncompliance with the terms of the Grant Agreement.

Recommendation

We suggest that PAYSA notify USAID in writing, for its approval, of the appointment of the new Minister of Public Health and Social Assistance as the grantee's representative. We also suggest that notification of any change in an appointment or an additional appointment in future be sent in a timely manner to USAID for its approval.

6. Discontinuation of supervision of the communities

Condition

When we made selective visits to the communities, we noted that there is no health technician for each water system nor are monthly visits being made to the communities.

Criteria

Under Section III (2) of Annex A to the agreement, a minimum of one health worker should be assigned to each water system installed, and he should visit the beneficiary communities at least once a month.

Cause

A new health volunteer system is in process of implementation.

Effect

Community problems might not be detected nor attended to on time.

Recommendation

We suggest that PAYSA implement the new health education system which should envisage monthly visits to the communities and the appointment of a health technician for each water system.

7. PAYSA did not comply with certain requirements relative to the control of fixed assets

Condition

In the area of fixed assets, PAYSA did not comply with the following requirements:

PAYSA did not:

- Identify fixed assets with the USAID logotype.
- Take annual inventories.
- Keep books for consumable assets (assets with a useful life of less than two years).
- Send the inventory of fixed assets to the State Accounting Department.
- Keep formal responsibility cards and maintain them up to date. In addition, in the book of non-consumable goods there is no indication as to whether the assets were acquired with own funds or grant funds.

Criteria

Under Section B.8 of Annex B to the Agreement, assets financed with the grant should be marked with the USAID logotype.

According to Circular 3-57 issued by the Office of the Accountant General of the Nation, PAYSA should:

- Take an annual inventory and conclude it at December 31 each year.
- Keep a subsidiary book of consumable assets (assets with a useful life of less than two years), which should be authorized.
- Add the fixed assets in the book of non-consumable goods and in the responsibility cards at the exact moment when they are acquired. These records should show what goods were acquired with own funds and what goods were acquired with Grant funds.
- Send to the State Directorate of Accounting, in the month of January each year, a certified copy of moveable and immovable property.

Cause

PAYSA does not have sufficient personnel to take annual inventories.

Lack of supervision of personnel responsible for updating books and responsibility cards and sending the inventories to the State Directorate of Accounting.

Effect

Noncompliance with the terms of the Agreement. Additionally, in a review by the Office of the Comptroller of Accounts by the Nation, PAYSA could be subject to questions from the comptroller.

Recommendation

We suggest that PAYSA comply with the requirements described in the condition section of this finding. For this purpose, PAYSA advise personnel of their responsibilities. It should also apply for an increase in its budget to contract for additional staff.

8. Lack of supervision of the communities regarding the management of the operations and maintenance fund

Condition

PAYSA does not require any report from the community treasurer on the handling of the management of the operations and maintenance fund (fund made up of contributions from the beneficiary communities).

Criteria

Under Articles 22 and 25 of Government Order No. 293-82 (REGULATIONS FOR THE ADMINISTRATION, OPERATION AND MAINTENANCE OF RURAL POTABLE WATER SYSTEMS), the committees should report to the communities, at the end of each calendar year, on the financial status of the operations and maintenance fund, and send a copy of this report to the departments referred to in the regulations (departments specialized in potable water and rural sanitation).

Cause

Lack of technical training of the persons who make up the community committees.

Effect

It is not known whether the fund is being properly used by the communities.

Additional costs in repairing the water systems could be incurred if maintenance checks are not properly made.

Recommendation

We suggest that PAYSA personnel provide training for community committee members on how to prepare reports on the management of operations and maintenance funds. As a minimum the committees should be required to prepare a quarterly detail of balance at the beginning, quotas collected, expenses incurred, and ending balance.

9. PAYSA is not complying with certain fiscal requirements

Condition

In payments which PAYSA makes to third parties with counterpart funds, PAYSA does not require invoices or vouchers with the Value Added Tax (VAT) nor does it make withholdings of income tax. Some examples are:

<u>Purchase Order</u>	<u>Date</u>	<u>Beneficiary</u>	<u>For</u>	<u>Amount</u>
60-92	07-23-92	Oscar E. Rios/Ana Ochaita	Lease of buildings	Q 30,000
113-92	11-02-92	Oscar E. Rios/Ana Ochaita	Lease of buildings	16,050
02-93	03-25-93	Blas Orlando Marroquín	Professional fee	12,840
03-93	03-25-93	Anibal Alejandro Galindo	Professional fee	12,840
04-93	03-25-93	David Rene Guay	Professional fee	12,840

We also noted that, in some payments made with grant funds, invoices or vouchers with the Value Added Tax are not required, for example:

<u>Purchase Order</u>	<u>Date</u>	<u>Beneficiary</u>	<u>For</u>	<u>Amount</u>
27-92	12-15-92	Francisco Rafael Juárez	Professional fee	Q 7,500
28-92	12-22-92	Anibal Alejandro Galindo	Professional fee	25,000
28-92	12-22-92	Miguel Angel Guzmán	Professional fee	21,000
29-92	12-22-91	Miguel Antonio De León	Professional fee	12,600

Criteria

The Value Added Tax Law does not exempt Government departments from the payment of the tax, whether the goods or services contracted are paid with Government funds or grant funds. However, because the grant funds cannot be used for the payment of taxes (according to the provisions of Section B.4 of Annex B to the Agreement), such taxes should be covered with PAYSA's own funds or with counterpart funds.

Under Article 6 literal K of the Income Tax Law, PAYSA is not required to make tax withholding except when the payments are made with counterpart funds.

Cause

PAYSA is not aware of these requirements.

Effect

Because responsibility for the lack of collection and remittance of taxes to the Treasury is joint and several, PAYSA would be responsible in the event of a fiscal inquiry. In addition, third parties are encouraged not to comply with their tax obligations.

Recommendation

We suggest that PAYSA comply with the following fiscal requirements: (1) In the purchase of goods and services with counterpart funds, invoices should be required with the Value Added Tax or receipts with 7% of the value in tax stamps, and income tax withholdings should be made in the percentages provided in the law. If the withholding is paid by the beneficiary to the Directorate General of Internal Revenue, a copy of the payment receipt should be required. In the case of purchase and payment orders paid directly by the Ministry of Finance, the withholding percentage should be discounted; (2) In the purchase of goods and services with grant funds, an invoice should be required with the value added tax or a receipt with 7% of the value in tax stamps. The tax should be paid with counterpart funds, as the grant is exempt of all taxes.

HIGHLAND POTABLE WATER AND SANITATION PROJECT
USAID/GUATEMALA PROJECT No. 520-0399
MANAGED BY

THE HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA)

SUMMARY LIST OF RECOMMENDATIONS

INTERNAL CONTROL STRUCTURE

1. We suggest that PAYSA prepare a fund accountability statement showing: (1) Income received and disbursements made during the year and accumulated during the life of the Project, and (2) The balance of the fund (income less expenditure), which should match cash on hand and in banks. If there is any difference it should be investigated. Prior to preparation of the statement, income should be reconciled with contributions according to USAID or the Revolving Fund, as applicable, and disbursements with the accounting records (bank book). This procedure should be defined in the administrative and accounting procedures manual. We also suggest that the budget execution report be prepared on the basis of expenses incurred and not disbursements committed.
2. We suggest that PAYSA seek resources for the printing of the different administrative and procedures manuals, and that they be distributed to personnel involved; each member of the staff should receive at least the part which is relevant to his/her task. These manuals should preferably be printed on replaceable sheets, so that they can be easily amended.
3. We suggest that PAYSA update its accounting records expeditiously using the accounting manual. We also suggest including, by means of an entry, works completed and those left in process under the earlier project.
4. We suggest that PAYSA record in its principal and subsidiary records income from reimbursement of expenses by USAID/GUATEMALA and disbursements for refunds to the Global Revolving Fund, independently of whether the USAID refund checks are issued in name of the National Treasury.
5. We suggest that PAYSA develop, in the regional warehouse and cost manual, a methodology to determine the cost of the water systems. This manual should describe: (1) reports required from each department involved and critical dates for delivery, and (2) establishment of a reasonable basis of distribution of indirect costs. For example, it should describe how to determine monthly how much direct costs applied to each water system represents in relation to total direct costs for all the systems in process, and then how to distribute indirect costs in that proportion.

6. We suggest that PAYSA develop a methodology for the preparation of the reimbursement vouchers presented to USAID, and that it incorporate it in its administrative and accounting manual. As part of the methodology, provisions should be made for preparation of the reimbursement vouchers on the basis of expenses incurred during a certain period and counts made at the end of each month, in order to reconcile with the bank subsidiary record. It is important for this purpose that type "C" purchase and payment orders presented to the National Treasury for their approval should be settled in the same order as issued.
7. We suggest that personnel involved in the purchasing procedure follow the steps established in the purchasing and contracts manual, and also implement the following procedures: (1) Cancel invoices and purchase orders (original and copies) with a stamp bearing the legend "Paid"; (2) Attach a copy of the check voucher to types "B" and "C" purchase orders; (3) Attach a copy of the invoice to all purchase and payment orders and; (4) Request invoices in the name of PAYSA or NATIONAL TREASURY/PAYSA for purchases made under type "A" purchase orders.
8. We suggest that PAYSA: (1) Evaluate the expediency of contracting additional personnel to take periodic selective inventories and a complete inventory at the end of each year, and that they be reconciled with the subsidiary and principal records in order to make the pertinent adjustments; (2) Define a policy for the capitalization of fixed assets; (3) Modify the structure of the fixed assets subsidiary records in such a manner as to identify (a) goods acquired with grant funds and funds from other sources, (b) check number, (c) invoice number, (d) name of supplier, and (e) location of the asset; (4) Exclude from the subsidiary records and the accounts those unserviceable or nonexistent goods, and for which approval should be requested promptly from the Office of the Comptroller of Accounts of the Nation; (5) Identify the goods with a label bearing the assigned code number; (6) Implement controls on maintenance provided to each vehicle; and (7) Implement controls to verify the use of the vehicle assigned to the Directorate of Environmental Sanitation and that it request periodic reports on its use. In addition, PAYSA should request the return of this vehicle if it is not being used for Project purposes.

The above suggestions should be incorporated into the PAYSA accounting and/or administrative procedures manuals.

9. We suggest that PAYSA (1) Evaluate the convenience of contracting additional personnel to take periodic selective inventories and a complete inventory at the end of each year, and that it reconcile them with the stock cards and the principal books. If there are differences, they should be investigated to identify responsibility; (2) Evaluate the possibility of enlarging the Totoncapán warehouse, for which it must apply for additional funds; (3) Identify unserviceable materials which take up space which could be better

used to store usable goods, and apply to the Office of the Comptroller of Accounts of the Nation for authorization to clear such goods both physically and in the accounts; (4) Operate fuel outgoings on the basis of vouchers actually despatched by the service stations, and not when the vouchers are delivered to the users of the fuel; and (5) Reconcile stocks of fuel according to subsidiary records with stocks held in tanks according to the service stations.

10. We suggest that PAYSA take the following actions: (1) Request the Ministry of Finance to transfer the allocation of funds from one budget heading to another to cover all administrative posts, and (2) Submit budget heading 079 contracts to Government departments in advance for approval so that they will be authorized in time.
11. We suggest that PAYSA publish the guidelines contained in the administrative procedures manual relative to control of community revolving funds, and that such guidelines be put into practice. In addition to these guidelines, it is important that PAYSA make periodic reconciliations with contributions and balances to be refunded to the community revolving funds according to its subsidiary and principal records with the income receipts (Forms 63-A) and as received according to the Departmental Directorates General of Internal Revenue. The community committees should also be required to implement controls on contributions and balances refundable to the fund, and that these be periodically reconciled with PAYSA's subsidiary and principal records.
12. We suggest that PAYSA establish a proper segregation of functions in the handling of cash. We also suggest that PAYSA put into practice the administrative procedure manual relative to this area.

COMPLIANCE WITH TERMS OF THE AGREEMENT
AND APPLICABLE LAWS AND REGULATIONS

1. We suggest that the reports on counterpart contributions include only those purchase and payment orders actually paid, and that, before the reports are sent to USAID, they be reconciled against contributions according to the State Directorate of Accounting. We also suggest that PAYSA compile adequate data for the counterpart contributions for Q 3,269,083 as of December 31, 1992, to explain the difference of Q 239,919.
2. We suggest that PAYSA implement proper control procedures to allow quantifying the Project counterpart contributions in a timely manner. In future, PAYSA should send to USAID/GUATEMALA the quarterly reports on counterpart contributions within 30 calendar days following the end of each quarter.
3. PAYSA should include in the counterpart contribution reports the wages of all employees who work for the Project, but currently appear in the payrolls of other Government departments. For this

purpose, PAYSA should request the Ministry of Finance to include these employees in PAYSA's budget. Moreover, there should be excluded as counterpart contributions wages paid to those persons who do not work for the Project, independently of whether they are paid with PAYSA funds.

4. We suggest that PAYSA prepare a detailed itemized report of the headings and amounts which make up the communities' in-kind contributions. In the future, this itemized report should be prepared monthly and reported to USAID quarterly.
5. We suggest that PAYSA notify USAID in writing, for its approval, of the appointment of the new Minister of Public Health and Social Assistance as the grantee's representative. We also suggest that notification of any change in an appointment or an additional appointment in future be sent in a timely manner to USAID for its approval.
6. We suggest that PAYSA implement the new health education system which should envisage monthly visits to the communities and the appointment of a health technician for each water system.
7. We suggest that PAYSA comply with the requirements described in the condition section of this finding. For this purpose, PAYSA should advise personnel of their responsibilities. It should also apply for an increase in its budget to contract for additional staff.
8. We suggest that PAYSA personnel provide training for community committee members on how to prepare reports on the management of operations and maintenance funds. As a minimum the committees should be required to prepare a quarterly detail of balance at the beginning, quotas collected, expenses incurred, and ending balance.
9. We suggest that PAYSA comply with the following fiscal requirements: (1) In the purchase of goods and services with counterpart funds, invoices should be required with the Value Added Tax or receipts with 7% of the value in tax stamps, and income tax withholdings should be made in the percentages provided in the law. If the withholding is paid by the beneficiary to the Directorate General of Internal Revenue, a copy of the payment receipt should be required. In the case of purchase and payment orders paid directly by the Ministry of Finance, the withholding percentage should be discounted; (2) In the purchase of goods and services with grant funds, an invoice should be required with the value added tax or a receipt with 7% of the value in tax stamps. The tax should be paid with counterpart funds, as the grant is exempt of all taxes.

ANNEX I
MANAGEMENT COMMENTS



Ministerio de Salud Pública y Asistencia Social
 División de Saneamiento del Medio
 Proyecto Agua Potable y Saneamiento del Altiplano PAYSA
 Avenida Simeón Cañas 7-33, Zona 2 Tels. 536049 512475
 Guatemala, C. A.

NUM. AC-103-94
REF. AAG/epf.

Al contestar sírvase mencionar el
 Número de referencia de esta nota.

19 de septiembre de 1994.

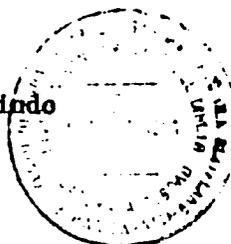
Señores
 Arevalo Pérez, Aranky
 & Asociados S.C.
 Guatemala, Ciudad

Estimados Señores:

En virtud de que en la sesión de salida, realizada los días 8 y 12 de septiembre de 1994, se estableció que era posible ampliar los conceptos de nuestras notas aclaratorias a los hallazgos detectados como resultado de la auditoría practicada al **PROYECTO AGUA POTABLE Y SANEAMIENTO DEL ALTIPLANO -PAYSA-** al 31 de diciembre de 1992, atentamente me permito trasladarles las ampliaciones que consideramos convenientes de acuerdo a cada hallazgo, por lo que agradeceré analizarlos y tomarlos en cuenta para su informe final.

Sin otro particular me suscribo de ustedes como su seguro servidor,

Anibal Alejandro Galindo
 Lic. Anibal Alejandro Galindo
 Administrador
 PAYSA/AID



Vo.Bo.:

René David Guay B...
 Ing. René David Guay B...
 Jefe Unidad Ejecutiva
 PAYSA/AID



Adj.: Lo indicado.

"AÑO DEL CINCUENTENARIO DE LA REVOLUCION DEL 20 DE OCTUBRE DE 1944"

SALUD PARA TODOS LOS GUATEMALTECOS

4/10



NUM. _____
REF. _____

Al contestar sírvase mencionar el
Número de referencia de esta nota.

**AMPLIACION A LAS NOTAS ACLARATORIAS A LOS
HALLAZGOS DE LA ESTRUCTURA DE CONTROL INTERNO**

1. Es conforme.
2. Al 31 de diciembre de 1992, el Proyecto contaba con los originales de los manuales administrativos y de procedimientos para todas las actividades, las cuales por falta de recursos financieros no habían sido posible imprimirlos, sin embargo el "Manual de Funciones" y el "Manual de Procedimientos Administrativos" fueron impresos en el mes de noviembre de 1993, como se comprueba con fotocopia de las facturas correspondientes. A la presente fecha, estos manuales ya fueron distribuidos dentro del personal del Proyecto. Anexo 1 y 2.

Los siete manuales que restan, serán financiados con la Donación AID 520-0399, y la Orden de Compra y Pago ya fue presentada al Ministerio de Finanzas Públicas, según fotocopia adjunta. Anexo 3.
3. Parcialmente de acuerdo, excepto en lo que se refiere a las obras en proceso y que se concluyeron en la administración de PAYSA.
4. Se ratifica la nota aclaratoria del 2 de diciembre de 1993.
5. Es conforme
6. A criterio de los auditores, no es adecuada la presentación de los Voucher, pero previo a la elaboración de los mismos se consultó a USAID la mejor manera de presentarlos, quedando complacida la Agencia Financiera.

En cuanto a que se incluyen documentos de varios meses, efectivamente se realiza así por los montos, ya que hay meses que es poco el gasto realizado.
7. La condición en su tercer y cuarto párrafo se eliminó en la sesión del 12 de septiembre de 1994.
8. Es conforme.

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Ministerio de Salud Pública y Asistencia Social
División de Saneamiento del Medio
Proyecto Agua Potable y Saneamiento del Altiplano PAYSA
Avenida Simeón Cañas 7-33, Zona 2 Tels. 536049 512475
Guatemala, C. A.

NUM. _____
REF. _____

Al contestar *árvase* mencionar el
Número de referencia de esta nota.

Hoja No. 2

9. Se ratifican los conceptos vertidos en la nota aclaratoria del 02 de diciembre de 1993, y se adjunta el resultado de la investigación a través del oficio del Administrador Regional a.i. No. 354-94 del 14 de diciembre de 1993. Anexo 4.
10. Se ratifican los conceptos vertidos en la nota aclaratoria del 02 de diciembre de 1993, a la fecha de esta nota no se han confirmado la totalidad de las 159 plazas con Contrapartida de Gobierno, debido a lo engorroso de los trámites burocráticos, fuera del control del Proyecto.
11. Se amplía la aclaración en lo que respecta al reporte trimestral que los auxiliares administrativos elaboran, y en el que se establece la deuda de cada comunidad, la amortización a su deuda y el saldo correspondiente. Se adjunta fotocopia. Anexo 5.
12. Es conforme, por la situación de limitación de personal.



Ministerio de Salud Pública y Asistencia Social
División de Saneamiento del Medio
Proyecto Agua Potable y Saneamiento del Altiplano PAYSA
Avenida Simeón Cañas 7-33, Zona 2 Tels. 536049 512475
Guatemala, C. A.

NUM. _____
REF. _____

Al contestar sírvase mencionar el
Número de referencia de esta nota.

**AMPLIACION A LAS NOTAS ACLARATORIAS AL
CUMPLIMIENTO CON LOS TERMINOS DEL CONVENIO, LEYES
Y REGULACIONES APLICABLES**

1. La Contabilidad del Estado proporcionó en forma especial, reportes de la ejecución presupuestaria del año 1992 y los efectos subsiguientes operados en 1993 que corresponden al año anterior.

Actualmente se está analizando esta información para posteriormente trasladarla debidamente conciliada a la Misión USAID.
2. Al 31 de diciembre de 1992 es conforme, pero en la actualidad este reporte es presentado oportunamente al oficial del Proyecto USAID, debidamente sustentado como se observa en toda la documentación que se adjunta. Anexo 1.
3. Se ratifican los conceptos de la nota aclaratoria del 2 de diciembre de 1992, a este respecto.
4. Se ratifica la nota aclaratoria al respecto presentada el 2 de diciembre de 1992, y para el efecto su comprobación se presentó en el anexo 1 en su última parte.
5. Se hará la notificación de la representación legal de las nuevas autoridades del Ministerio de Salud Pública y Asistencia Social para propósitos del Convenio.
6. De acuerdo a la información que se nos proporcionó el día lunes 12 de los corrientes en la reunión realizada en USAID, la única comunidad visitada como muestra fue Pasaquiquim del municipio de Momostenango-Totonicapán.

El responsable del Componente Educativo de ese Proyecto desde el mes de mayo de 1992, es el Técnico en Salud Rural, Martín Batz (Se adjunta memoranda que respalda dicha información).

El señor Batz tiene bajo su supervisión a la voluntaria de salud Carmen Sotay Torres, quien fue seleccionada desde el mes de septiembre de 1992, pero debido a problemas de recursos, fue capacitada inicialmente del 6 al 17 de diciembre de 1993, por lo que su desempeño fue irregular durante todo ese período, pero a partir de su capacitación ya sus actividades de Educación en Salud se han desarrollado regularmente.

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Ministerio de Salud Pública y Asistencia Social
División de Saneamiento del Medio
Proyecto Agua Potable y Saneamiento del Altiplano PAYSA
Avenida Simeón Cañas 7-33, Zona 2 Tels. 536049 512475
Guatemala, C. A.

NUM. _____
REF. _____

Al contestar sérvase mencionar el
Número de referencia de esta nota.

Hoja No. 2

En el anexo 2 encontrará el listado de los voluntarios capacitados durante el año de 1993, desde el mes de agosto fecha en que se iniciaron las capacitaciones iniciales de voluntarios.

PROYECTO AGUA POTABLE Y SANEAMIENTO DEL ALTIPLANO
CONVENIO DE DONACION AID 520-0399
PAYSA/AID

NOTAS ACLARATORIAS A LOS HALLAZGOS DE LA
ESTRUCTURA DE CONTROL INTERNO

1. Efectivamente no se prepara el Estado de Rendición de Cuentas, empero, el Proyecto elabora en cada solicitud de reembolso un reporte financiero el cual refleja el estado de Ejecución del Presupuesto autorizado por la Agencia para el Desarrollo Internacional (AID), el cual se ha venido utilizando y ha cumplido con los requisitos solicitados por AID.

2. Procede.

3. El Proyecto no es del criterio de incluir dentro de sus registros, las obras terminadas del Proyecto anterior.

Las instrucciones recibidas por parte de AID eran de realizar la apertura de la contabilidad con todos los bienes en existencia de Sistemas Comunitarios Integrados de Salud y Nutrición, a través de actas debidamente presentadas y autorizadas.

4. El Proyecto Agua Potable y Saneamiento del Altiplano (PAYSA) presenta la Orden de Compra y Pago tipo "C" con su respectivo recibo fiscal (92-A) a la Tesorería nacional (Fondo Rotativo Global), ésta emite el cheque a favor del PAYSA y se registra en el libro de Banco y se deposita en la cuenta del Banco de Guatemala; por otro lado, el recibo fiscal que acompaña este tipo de Ordenes de Compra y Pago, se registra en caja fiscal, con la documentación de soporte.

En cuanto al reembolso, USAID emite el cheque a nombre de la Tesorería Nacional a nombre de Fondo Rotativo Global, en este caso el Proyecto solamente es intermediario de esta operación a solicitud de la dependencia de la Tesorería Nacional. Ver Manual de Procedimientos de Contabilidad Fiscal.

5. Sí procede.

6. Dentro del Manual de Procedimientos de la Firma Lara y González, se

determina la metodología para elaborar los Voucher Liquidación.

En cuanto a la recomendación de que las Ordenes de Compra y Pago tipo "C" que se presentan a la Tesorería Nacional para su aprobación, no está al alcance del PAVSA liquidarlos en el mismo orden que se emiten, en vista que es la Tesorería Nacional quien determina qué Ordenes cancela.

7. El primer párrafo sí procede.

- En el caso de las Ordenes de Compra y Pago tipo "B" se adjunta un listado detallado de todos los comprobantes (este listado es obligatorio, según las normas presupuestarias).
- En las Ordenes de Compra y Pago tipo "C" en el recibo 92-A que se emite, se describe la información de quien obtuvo el pago.
- Lo que sucede en este caso, es que según el procedimiento, los proveedores entregan directamente a la Tesorería Nacional, la factura original y debe estar a nombre de la Tesorería (instrucciones de la Tesorería). Sin embargo en PAVSA queda copia de las Ordenes de Compra y Pago con firma de "recibí conforme del Proveedor", acta certificada cuando se trata de combustible y constancia de ingreso a almacén.

Son disposiciones internas de la Tesorería Nacional.

8. La Administración ordenó una investigación de todos los activos para determinar la responsabilidad de cada empleado y su ubicación.

El resultado de esta investigación fue trasladada a la Auditoría para su respectiva depuración.

- En el año 1992 el Proyecto no adquirió bienes, todo el activo fue heredado de Sistemas Comunitarios Integrados de Salud y Nutrición.

9. Sí se presenta un informe mensual de existencias de materiales.

- El espacio físico es insuficiente para embodegar todos los materiales

existentes. Se prevee para 1994 una remodelación del Complejo Regional.

- A partir del borrador preliminar de la Auditoría Externa, la Administración consideró conveniente investigar y se concluyó que no existen tales diferencias, a excepción del tubo HG de 1" que efectivamente existe tal diferencia.
- El procedimiento de conciliar periódicamente los registros del PAVSA con los de las gasolineras, no se aplicó en 1992.

En cuanto al segundo párrafo no se puede cambiar el procedimiento.

10. Los empleados administrativos del Proyecto están incluidos en esas categorías, debido a que son los cargos definidos por el rubro de planillas que más se asemejan a las funciones que desempeñan.

Este procedimiento fue utilizado por PAVSA, debido a que no se contaba con los puestos legalmente autorizados, esto se está resolviendo a través de la creación de las 159 plazas autorizadas por el Gobierno.

En cuanto a los contratos del Renglón 079, no esta en manos del Proyecto establecer las fechas de aprobación, debido a que éstos sufren trámites burocráticos.

11. El Encargado del Fondo Rotativo Comunitario con sede en el Complejo Regional, tiene su Manual, los procedimientos indicados los hace por rutina debido a la experiencia en el desempeño de su actividad.

- Sí se han efectuado conciliaciones, por lo menos en Totonicapán.
- Los Auxiliares Administrativos tienen como función asesorar a los Tesoreros de los Comités, de como reportar ante la Administración de Rentas Departamentales los fondos recaudados.

12. Sí procede.

PROYECTO AGUA POTABLE Y SANEAMIENTO DEL ALTIPLANO
CONVENIO DE DONACION AID 520-0399
PAYSA/AID

NOTAS ACLARATORIAS AL CUMPLIMIENTO CON LOS TERMINOS DEL
CONVENIO, LEYES Y REGULACIONES APLICABLES
~ HALLAZGOS

1. El Proyecto Agua Potable y Saneamiento del Altiplano (PAYSA) sí cuenta con un detalle de los aportes de contrapartida de acuerdo con todas las Ordenes de Compra y Pago ejecutadas en el año 1992.

La Contabilidad del Estado, proporcionó a la Auditoría Externa un monto global de gastos por actividad, código presupuestario y fuente de financiamiento, sin detallar la integración de dichos montos.

El Proyecto ha realizado esfuerzos por ejecutar el presupuesto al máximo, pero la iliquidez del Gobierno Central a través del Ministerio de Finanzas, no ha permitido la correcta ejecución de sus programas en los años 1991 y 1992.
2. Sí procede.
3. Lo observado por la Auditoría Externa en relación a sueldos de empleados del PAYSA pagados con fondos del Gobierno de Guatemala, que no se cuantifican como contrapartida, se debe a que el Proyecto para iniciar sus actividades y como emergencia, le fue asignado personal de apoyo de otras dependencias del Ministerio de Salud Pública, esta situación se estabilizará cuando se concluya el trámite de las 159 plazas creadas exclusivamente para el PAYSA.
4. La información pormenorizada de los aportes en especie de las comunidades se encuentran en los archivos y registros del Complejo Regional, de allí envían los resultados en informes que sirven para su presentación a USAID/Guatemala.
5. Según la Carta de Ejecución No. 2, se nombra al Ing. Julio Guillermo García Ovalle, como representante legal ante USAID/Guatemala, por lo tanto la Sección 8.2 del Convenio de Donación no se ha incumplido en vista que

él sigue siendo el representante legal, lo que ha cambiado es el Ministerio.

6. Descontinuación de la supervisión a las comunidades:
Actualmente todos los sistemas construidos o en construcción por el PAVSA, cuentan con un trabajador de Salud como Responsable del Componente Educativo. Este trabajador de Salud no necesariamente es Técnico en Salud Rural, sino que también puede ser Inspector de Saneamiento Ambiental o Auxiliar de Enfermería (contamos con la nómina correspondiente).

La implementación del nuevo Sistema de Educación en Salud es parte de un proceso el cual recientemente se ha iniciado, por lo que actualmente solo en algunas comunidades, donde se tiene algún tiempo de estarse trabajando, se están desarrollando las visitas mensuales.

NOTA: Nos gustaría que se indicaran las comunidades visitadas y la forma en que se obtuvo dicha información para verificar con la nómina correspondiente.

7. Procede.

8. Procede.

ANNEX II

AUDITORS' RESPONSES TO MANAGEMENT COMMENTS

HIGHLAND POTABLE WATER AND SANITATION PROJECT
USAID/GUATEMALA PROJECT No. 520-0399
MANAGED BY

THE HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA)
AUDITORS' RESPONSES TO MANAGEMENT COMMENTS

In this section we include our responses to management comments on those findings that they disagreed:

INTERNAL CONTROL STRUCTURE

2. Procedures manuals have not been distributed to personnel

Management comments do not eliminate this finding.

3. PAYSA's accounting records are not up to date

PAYSA's accounting manual (pages 15 and 17) defines that construction expenses of those projects executed under the previous Project (Project No. 520-0251) must be registered in the balance sheet accounts Nos. 31 and 41.04.

Therefore, management comments do not eliminate the related part of this finding.

4. Transactions not recorded in PAYSA accounts

Although PAYSA is an intermediary between USAID and the National Treasury, we suggest that cash reimbursements from USAID to the Global Revolving Fund shall be controlled in subsidiary records with the purpose to know the amounts pending of reimbursement to the Global Revolving Fund. Consequently the finding continues open.

6. There is no methodology for preparing reimbursement vouchers

We agree with management comments, therefore, this finding is not valid any more.

7. Deficiencies in disbursements area

Management explanations eliminate third and fourth paragraphs of this finding, however, we understand that from now on PAYSA will require certified invoices to support those purchases made with counterpart funds. However, the other paragraphs of our finding continue open.

HIGHLAND POTABLE WATER AND SANITATION PROJECT
USAID/GUATEMALA PROJECT No. 520-0399
MANAGED BY

THE HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA)

AUDITORS' RESPONSES TO MANAGEMENT COMMENTS

9. Deficiencies in the material inventory area

Management comments just eliminate the last part of this finding regarding to some differences between the physical stocks and stocks according to stocks cards. The other points of this finding continue open.

10. Weaknesses in the payroll area

Management comments do not eliminate this finding.

11. Lack of controls in the management of community revolving funds

We agree that PAYSA has prepared integrations of the community contributions; however, they are not reconciled against the receipts (Form 63-A) and the balances according to the Directorates of Internal Revenue; therefore, this finding continues applying.

The other comments do not eliminate the other points of this finding.

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

1. Lack of reconciliation and insufficiency in counterpart contributions of the Government of Guatemala

Management comments only explain the reason of this finding, but they do not eliminate the finding.

2. Counterpart reports are not sent within the time provided

Management comments will be subject to follow-up of this finding in the next audit.

3. PAYSA has certain employee's wages that are paid with Government of Guatemala funds, but are not recorded as counterpart contributions

Management comments only explain the reason of this finding, but they do not eliminate the finding.

HIGHLAND POTABLE WATER AND SANITATION PROJECT
USAID/GUATEMALA PROJECT No. 520-0399
MANAGED BY

THE HIGHLAND POTABLE WATER SANITATION PROJECT (PAYSA)

AUDITORS' RESPONSES TO MANAGEMENT COMMENTS

4. Lack of adequate data for in-kind contributions by the communities

The annex included by PAYSA together with its comments shows the communities contributions for the period January to June, 1994, but it does not show the contributions for the period August 27, 1991 to December 31, 1992 totalled Q 912,315.

Therefore, this finding will be subject to follow-up in the next audit.

5. PAYSA has not notified USAID/GUATEMALA of the change of a representative

This finding continues open.

6. Discontinuation of supervision to the communities

Management explanations justify the condition and cause of this finding; however, this situation will be subject to follow-up for the next audit.