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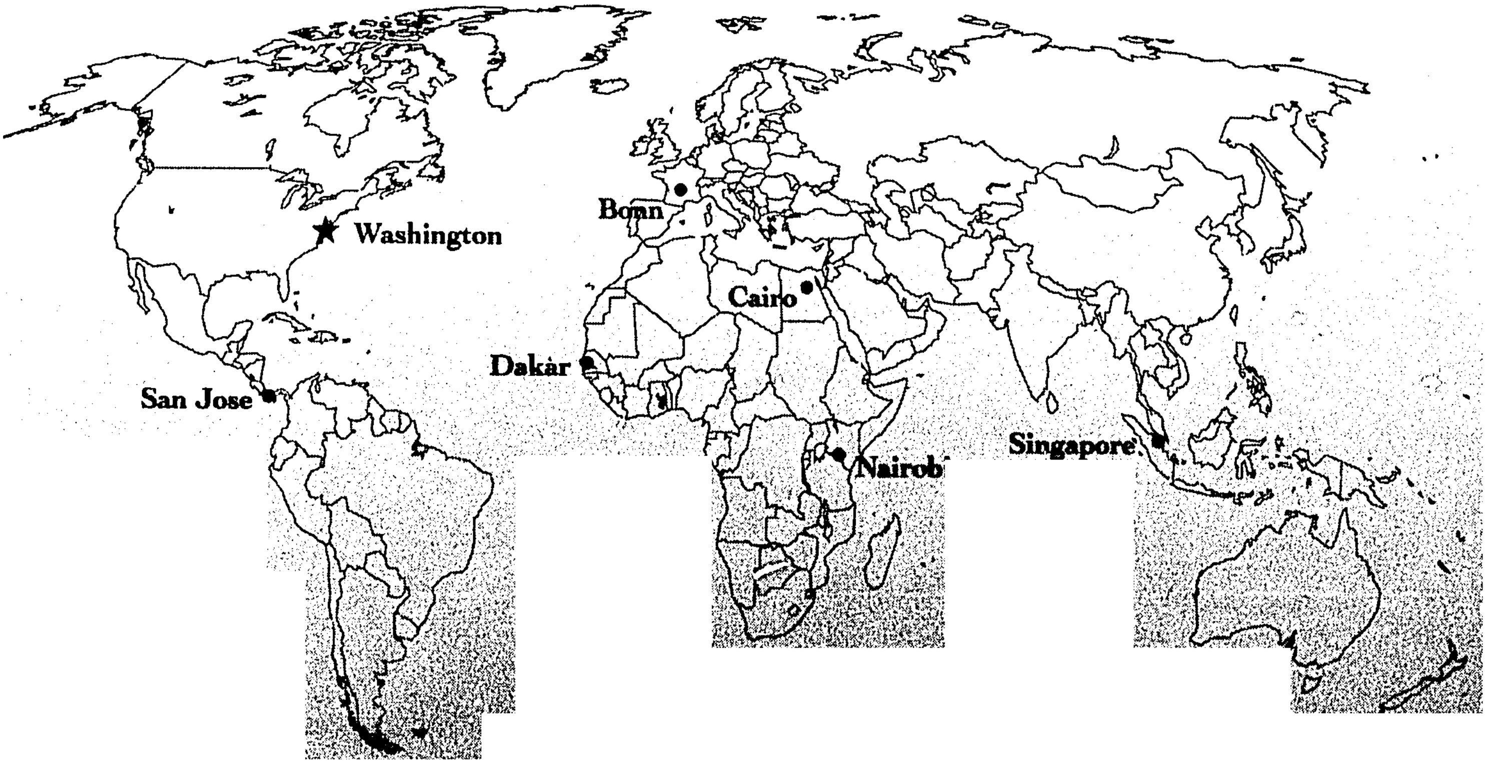
Regional Inspector General for Audit
San José, Costa Rica

Audit of USAID/Dominican Republic's Commercial Farming Systems Project Component Managed by the Reserve Bank of the Dominican Republic August 1, 1990 to July 31, 1992

Audit Report No. 1-517-95-06-N
March 14, 1995



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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OFFICE OF THE REGIONAL INSPECTOR GENERAL
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March 14, 1995

MEMORANDUM

TO: Director USAID/Dominican Republic, Marilyn Zak

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

SUBJECT: Audit of USAID/Dominican Republic's Commercial Farming Systems Project Component, Managed by the Reserve Bank of the Dominican Republic, August 1, 1990 to July 31, 1992

This report presents the results of a financial audit of the loan agreement for the Bridge Credit Component of the Commercial Farming Systems Project, USAID/Dominican Republic Project No. 517-0214, managed by the Reserve Bank of the Dominican Republic (Bank) for the period August 1, 1990 to July 31, 1992. The audit firm of Price Waterhouse prepared the report dated September 26, 1994.

The Bridge Credit Fund was created as part of the Commercial Farming Systems Project to provide capital through other participating financial institutions to agribusinesses under the overall project goal of accelerating the movement of the agricultural sector into nontraditional crops. The specific purpose of the bridge credit component of the project was to increase the income and broaden the commercial farming experience of approximately 6,000 farmers.

The loan agreement was signed by the Government of the Dominican Republic, represented by the Technical Secretariat of the Presidency. The Secretariat delegated all administrative functions to the Reserve Bank of the Dominican Republic. The total USAID funding authorized under the agreement was $10 million, all of which was disbursed except for $945,837. In addition, the Government of the Dominican Republic provided $2.5 million in counterpart contributions. The project assistance completion date was July 31, 1992.

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

Price Waterhouse was of the opinion that the fund accountability statement presents fairly, in all material respects, the Bank's receipts and expenditures under the loan agreement, except for the effect of past due balances of loans and interests granted to participating financial institutions. This effect, however, which amounts to $978,224, is the responsibility of the participating financial institutions and not the Bank. No questionable costs were noted.

Regarding the internal control structure, the auditors identified no material weakness. And concerning the Bank's compliance with the terms of the agreements and applicable laws and regulations, the audit firm identified one instance of noncompliance that they considered to be material. The audit firm found that there was a lack of audits and an audit plan for the participating financial institutions and final beneficiaries.

The report was discussed with representatives of the Bank, who generally agreed with the finding and recommendation included in the report. The Bank's comments are included in Annex 1 to the Price Waterhouse report.

The project ended July 31, 1992, and according to USAID/Dominican Republic officials, they do not plan to use the Bank as an implementing entity in the foreseeable future. We therefore are not recommending any action to correct the procedural deficiency described above.

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Regional Inspector General for Audit
San José, Costa Rica

Audit of USAID/Dominican Republic's Commercial Farming Systems Project Component Managed by the Reserve Bank of the Dominican Republic August 1, 1990 to July 31, 1992

Audit Report No. 1-517-95-06-N
March 14, 1995

AUDIT OF

BRIDGE CREDIT COMPONENT OF THE

COMMERCIAL FARMING SYSTEMS PROJECT

MANAGED BY

BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA/

SPECIAL CREDIT DEPARTMENT

USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0214

AUGUST 1, 1990 TO JULY 31, 1992

AUDIT OF

BRIDGE CREDIT COMPONENT OF THE

COMMERCIAL FARMING SYSTEMS PROJECT

MANAGED BY

BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA/

SPECIAL CREDIT DEPARTMENT

USAID/DOMINICAN REPUBLIC PROJECT 517-0214

Table of Contents

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Santo Domingo, Rep Dom

Telefono (809) 567-7741

Price Waterhouse

September 26, 1994

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

Dear Mr. Gothard:

This report presents the results of our audit of Bridge Credit Component of the Commercial Farming Systems Project managed by Banco de Reservas de la República Dominicana/Special Credit Department, USAID/Dominican Republic Project No. 517-0214, for the period August 1, 1990 to July 31, 1992.

BACKGROUND

By the mid-1980s it was evident that non-traditional agricultural products offered great economic promise for the Dominican Republic but deficiencies in the financial market were impeding both export and domestic production efforts by farmers and agribusinesses. Agribusinesses themselves began to offer production financing to their individual suppliers, an approach that drew many smaller farmers into agricultural diversification. Demand began to outstrip the financing which agribusinesses could offer from their own (or borrowed) capital, while banks remained reluctant to extend credit secured only by the promise to deliver a crop. The Bridge Credit Fund was created as part of the Commercial Farming Systems (CFS) Project, USAID/Dominican Republic Project No. 517-0214 to provide the capital these agribusinesses would need to expand their offering of short-term working capital commodity inputs, technical services, and cash to offer individual producers.

The CFS project goal was to contribute to sustaining and equitably distributing economic growth in the Dominican Republic by accelerating the movement of the agricultural sector into non-traditional crops, thereby increasing small farmer incomes and rural employment, and earning or saving foreign exchange. The CFS project purpose was to increase production of non-traditional crops through expanded farmer linkages with agribusinesses and direct access to credit improved technology. The purpose of this bridge credit component of the project was to increase the income and broaden the commercial farming experience of approximately 6,000 farmers.

The fund was established with a $10 million United States Agency for International Development (USAID) loan to the Government of Dominican Republic (GODR), represented by the Technical Secretariat of the Presidency, complemented by GODR's counterpart contribution equivalent to US$2.5 million. The fund was administered by GODR's Banco de Reservas (BRRD), which distributed funds among local participating financial institutions, which in turn lent to the agribusinesses which provide credit to their production supplier i.e. "outgrowers". The loan was signed on September 15, 1987, with an initial obligation of $3 million, which was increased to $7,580,000 by Amendment No. 1 on June 24, 1988. The loan is repayable in 25 years with interest charged at 2 percent for the first five years, 3 percent for the second five years, and 5 percent thereafter, and a ten year grace period on repayment of principal. USAID discontinued lending after this amendment, and on September 22, 1989 Amendment No. 2 added the third phase of $2,420,000 as a grant, bringing the total USAID financing up to the $10 million originally authorized. The conditions precedent to disbursement were met in December, 1988.

The Technical Secretarial of the Presidency, representing the government of the Dominican Republic, was the signatory of the loan agreement and responsible to meet all agreement obligations. The Technical Secretarial of the Presidency delegated all administrative functions to the Reserve Bank of the Dominican Republic, the Depository Bank, through a subagreement approved on December 30, 1988.

The entire grant and loan were executed by PACD on July 31, 1992, except for US$945,837 of the loan, which was not disbursed and is not in possession of the recipient. More than double the number of targeted farmers had received credit from the fund.

Inputs were originally scheduled as "the local currency equivalent of US$12.5 million and any interest earned on such principal." However, due to disruptions in local financial markets and a severe depreciation of the dominican peso against the dollar during the four years of project execution, the USAID and GODR inputs were recalculated at RD$42 million and RD$8 million respectively. At the end of the project, RD$38.3 million in sub-loans had been approved with an USAID loan balance of US$945,837 left unused. While the number of sub-loans approved was only 91% of the number originally planned, the number of growers receiving credit was 212 % for the original target, suggesting that this credit went out in smaller units and reached further down the economic scale than originally expected.

The number of pesos necessary to meet the original counterpart requirement of the peso equivalent of US$2.5 million rose throughout the project term, but PIL No. 15, issued on April 5, 1989 set a fixed figure of RD$8 million. This requirement was exceeded by the BRRD, which contributed RD$12.8 million of PL-480 Host Country-Owned Local Currency to the project.

Thus, there were four adjustments during the project:

1) Three months after authorization, Banco de Reservas replaced Fondo de Inversiones para el Desarrollo Económico (FIDE);

2) Cash input values were recalculated several times as the peso fell against the dollar;

3) The third USAID phase of $2,420,000 was provided as a grant, rather than a loan, due to USAID's discontinuance of lending; and

4) $945,837 of loan funds were not utilized.

AUDIT OBJECTIVES AND SCOPE

1. Express an opinion on whether the fund accountability statement presents fairly, in all material respects, the financial situation of the project's activities managed by Banco de Reservas de la República Dominicana/Special Credit Department (BRRD/SCD) from August 1, 1990 to July 31, 1992 and costs reported as incurred and reimbursed by USAID/ Dominican Republic during the period are supported, allowable, allocable, and reasonable in accordance with agreement terms, and applicable laws and regulations.

2. Evaluate and obtain sufficient understanding of the internal control structure of the Special Credit Department, to determine whether the internal control structure of the Special Credit Department is adequate to manage the project's operations.

3. Perform tests to determine whether the Special Credit Department complied with agreement terms, and applicable laws and regulations which may affect the project's goals and incurred costs.

Our audit was performed in accordance with generally accepted auditing standards, the United States Comptroller General's "Government Auditing Standards" and other tests of the accounting records as deemed necessary under the circumstances, to determine if the funds were properly accounted for and used as intended by the agreements and the applicable laws and regulations. During the audit we were alert to situations or transactions that could be indicative of fraud, abuse or illegal expenditures and acts.

RESULTS OF AUDIT

Fund Accountability Statement

As mentioned in Note 4, there are past due balances of loans and interests granted to participating financial institutions amounting to RD$12,550,611 (US$978,224) that could present collection difficulties. As established on Banco de Reservas/Participating Financial Institutions (PFI) Bridge Credit Fund Participation Agreement, Participant Financial Institutions have the responsibility to cover the cost of uncollected loans.

In our opinion, except for the effect of the matter discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in accordance with the basis of accounting described in Note 1, the financial position of the Bridge Credit Component of the Commercial Farming Systems managed by Banco de Reservas de la República Dominicana/Special Credit Department during the period August 1, 1990 to July 31, 1992.

Internal Control Structure

We have evaluated the internal control categories related to: 1) documents and records, 2) credit review, 3) bank accounts, and 4) disbursements.

Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control structure and its operation that we consider to be a reportable condition. However, certain matters were reported to management in a separate letter dated October 5, 1993.

Compliance with Agreement Terms and Applicable Laws and Regulations

We evaluated BRRD/SCD's in compliance with the terms of the agreement and applicable laws and regulations as part of our audit of the project's fund accountability statement, and not to provide an opinion on overall compliance with such provisions. Our evaluation disclosed the following deficiency.

1. Lack of Audits of Participating Financial Institutions and Final Beneficiaries

Except as described above, the results of our tests of compliance indicate that, with respects to items tested, BRRD/SCD complied, in all material respects, with the terms of the agreement and applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that BRRD/SCD had not complied, in all material respects, with those provisions.

Follow-up on Prior Audits Report Recommendations

O. Gonzalez & Asociados and the Technical Secretariat of the Presidency had issued management control assessment reports of BRRD/SCD. BRRD/SCD has taken corrective action, except for recommendation 5 of the Technical Secretariat of the Presidency report, that states:

- Extensions granted to loans must be based on total payment of due interest at the date of the negotiation.

MANAGEMENT COMMENTS

On July 19, 1994 a draft copy of this audit report was submitted to BRRD/SCD for their analysis and on July 21, 1994 we were provided with BRRD/SCD's comments. BRRD/SCD agreed with the contents of the audit report. A copy of BRRD/SCD's comments are included in this report.

Price Waterhouse

AUDIT OF
BRIDGE CREDIT COMPONENT OF THE
COMMERCIAL FARMING SYSTEMS PROJECT
MANAGED BY
BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA/
SPECIAL CREDIT DEPARTMENT
USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0214
FUND ACCOUNTABILITY STATEMENT
INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Bridge Credit Component of the Commercial Farming Systems managed by Banco de Reservas de la República Dominicana/Special Credit Department, USAID/Dominican Republic for the period August 1, 1990 to July 31, 1992. The fund accountability statement is the responsibility of the management of BRRD/SCD. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

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

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

As described in Note 1, the fund accountability statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

As mentioned in Note 4, there are past due balances of loans and interests granted to participating financial institutions amounting to RD$12,550,611 (US$978,224) that could present collection difficulties. As established on Banco de Reservas/PFI Bridge Credit Fund Participation Agreement, PFI have the responsibility to cover the cost of uncollected loans.

In our opinion, except for the effect of the matter discussed in the preceding paragraph, the accompanying fund accountability statement presents fairly, in all material respects, the financial position of USAID/Dominican Republic Bridge Credit Component of the Commercial Farming Systems managed by Banco de Reservas de la República Dominicana/Special Credit Department for the period August 1, 1990 to July 31, 1992, in conformity to the basis of accounting described in Note 1.

This report is intended solely for the use of Banco de Reservas de la República Dominicana/Special Credit Department and United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General is a matter of public record.

Price Waterhouse

October 5, 1993

AUDIT OF

BRIDGE CREDIT COMPONENT OF THE

COMMERCIAL FARMING SYSTEMS PROJECT

MANAGED BY

BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA/

SPECIAL CREDIT DEPARTMENT

USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0214

FUND ACCOUNTABILITY STATEMENT

TWO YEAR PERIOD ENDED ON JULY 31, 1992

(Expressed in Dominican RD$ pesos)

Balance at the beginning of the period	1,719,381
Income	
Collections of:	
Capital	35,279,117
Interest	23,390,696
	58,669,813
Funds received from USAID (Note 3)	29,162,490
	87,832,303
Disbursements for:	
Loans	85,575,000
Administrative expenses (Note 6)	2,874,676
	88,449,676
Balance at the end of the period represented by current account (Note 7)	1,102,008

The accompanying notes are an integral part of the Fund Accountability Statement.

AUDIT OF

BRIDGE CREDIT COMPONENT OF THE

COMMERCIAL FARMING SYSTEMS PROJECT

MANAGED BY

BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA/

SPECIAL CREDIT DEPARTMENT

USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0214

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM AUGUST 1, 1990 TO JULY 31, 1992

NOTE 1 - NATURE OF ACCOUNTING AND SUMMARY OF ACCOUNTING POLICIES:

Entity

By the mid-1980s it was evident that non-traditional agricultural products offered great economic promise for the Dominican Republic but deficiencies in the financial market were impeding both export and domestic production efforts by farmers and agribusinesses. Agribusinesses themselves began to offer production financing to their individual suppliers, an approach that drew many smaller farmers into agricultural diversification. Demand began to outstrip the financing which agribusinesses could offer from their own (or borrowed) capital, while banks remained reluctant to extend credit secured only by the promise to deliver a crop. The Bridge Credit Fund was created as part of the Commercial Farming Systems (CFS) Project, USAID/Dominican Republic Project No. 517-0214, to provide the capital these agribusinesses would need to expand their offering of short-term working capital commodity inputs, technical services, and cash to offer individual producers.

The CFS project goal was to contribute to sustaining and equitably distributing economic growth in the Dominican Republic by accelerating the movement of the agricultural sector into non-traditional crops, thereby increasing small farmer incomes and rural employment, and earning or saving foreign exchange. The CFS project purpose was to increase production of non-traditional crops through expanded farmer linkages with agribusinesses and direct access to credit improved technology. The purpose of this bridge credit component of the project was to increase the income and broaden the commercial farming experience of approximately 6,000 farmers.

The fund was established with a $10 million United States Agency for International Development (USAID) loan to the Government of Dominican Republic (GODR), represented by the Technical Secretariat of the Presidency, complemented by a GODR's counterpart contribution equivalent to US$2.5 million. The fund was administered by GODR Banco de Reservas, which distributed funds among local participating financial institutions, which in turn lent to the agribusinesses which provide credit to their production suppliers i.e. "outgrowers". The loan was signed on September 15, 1987, with an initial obligation of $3 million, which was increased to $7,580,000 by Amendment No. 1 on June 24, 1988. The loan is repayable in 25 years with interest charged at 2 percent for the first five years, 3 percent for the second five years, and 5 percent thereafter, and a ten year grace period on repayment of principal. USAID discontinued lending after this amendment, and on September 22, 1989 Amendment No. 2 added the third phase of $2,420,000 as a grant, bringing the total USAID financing up to the $10 million originally authorized. The conditions precedent to disbursement were met in December, 1988.

The entire grant and loan were executed by PACD on July 31, 1992, except for $945,837 of the loan, which was not disbursed and is not in possession of the recipient. More than double the number of targeted farmers had received credit from the fund.

Inputs were originally scheduled as "the local currency equivalent of US$12.5 millions and any interest earned on such principal." However, due to disruptions in local financial markets and a severe depreciation of the dominican peso against the dollar during the four years of project execution, the USAID and GODR inputs were recalculated at RD$42 millions and RD$8 millions, respectively. At the end of the project, RD$38.3 million in sub-loans had been approved with an USAID loan balance of US$945,837 left unused. While the number of sub-loans approved was only 91% of the number originally planned, the number of growers receiving credit was 212% for the original target, suggesting that this credit went out in smaller units and reached further down the economic scale than originally expected.

The number of pesos necessary to meet the original counterpart requirement of the peso equivalent of US$2.5 million rose throughout the project term, but PIL No. 15, issued on April 5, 1989 set a fixed figure of RD$8 million. This requirement was exceeded by the BRRD, which contributed RD$12.8 million of PL-480 Host Country-Owned Local Currency to the project.

Thus, there were four adjustments during the project:

1) Three months after authorization Banco de Reservas replaced Fondo de Inversiones para el Desarrollo Económico (FIDE);

2) Cash input values were recalculated several times as the peso fell against the dollar;

3) The third USAID phase of $2,420,000 was provided as a grant, rather than a loan, due to USAID's discontinuance of lending; and

4) $945,837 of loan funds were not utilized.

Balance of loan payable to USAID as of the end of the period is US$6,634,163.

Accounting Records and Basis of Accounting:

The records of BRRD/SCD are maintained in Dominican pesos, denoted by the symbol RD$ in the accompanying fund accountability statement. The project's fund accountability statement was prepared on a cash basis; and consequently receipts and related assets are recognized when collected rather than when accrued and, expenditures are recognized when paid rather than when the obligation is incurred.

NOTE 2 - FOREIGN EXCHANGE REGULATION:

Transactions in US dollars and other foreign currencies are recorded at prevailing exchange rates when the transactions take place. Foreign currency is exchanged according to the procedures and rates established by the Central Bank. The prevailing official exchange rate as of July 31, 1992 was RD$12.50:US$1. The parallel market exchange rate at July 31, 1992 was RD$12.83:US$1.

NOTE 3 - FUNDS RECEIVED FROM USAID:

A detail of funds received from USAID/Dominican Republic is:

	US$ Dollars		Total		
Year	Loan	Grant	US$ Dollars	Exchange Rate	RD$ Pesos
1990	352,408	2,420,000	2,772,408	9.12	25,284,360
1991	304,167		304,167	12.75	3,878,130
	656,575	2,420,000	3,076,575		29,162,490

NOTE 4 - LOANS RECEIVABLE:

The balance of loans receivable as of July 31,1992 was RD$98,316,634 of capital and RD$11,314,958 of interest, at an interest rate of 16%.

As of July 31, 1992, past due balances of RD$12,550,611 corresponding to loans granted to participating financial institutions whose operations are supervised by the Superintendencia de Bancos, could present collection difficulties. A detail follows:

Loan No.	Date of contract	Due date	Participating Financial Institutions	Final Benficiaries	Capital RD$	Interest RD$	Total RD$
9	November 20, 1989	November 20, 1992	Banco Panamericano, S. A.	Perlita Agroindustrial, S. A.	1,000,000	387,611	1,387,611
14	January 3, 1990	January 3, 1993	Banco de Desarrollo del Este, S. A.	Agroindustria Romana, S. A.	2,000,000	918,222	2,918,222
34	May 22, 1991	May 22, 1995	Banco de Desarrollo Corporativo, S. A.	D.C. Agroindustrial, S. A.	5,000,000	1,111,111	6,111,111
39	January 27, 1992	January 27, 1995	Banco de Desarrollo Corporativo, S. A.	D.C. Agroindustrial, S. A.	2,000,000	133,667	2,133,667
					10,000,000	2,550,611	12,550,611

As established on Banco de Reservas/PFI Bridge Credit Fund Participation Agreement, PFI have the responsibility to cover the cost of uncollected loans.

NOTE 5 - COUNTERPART CONTRIBUTION:

The number of pesos necessary to meet the original counterpart requirement of the peso equivalent of US$2.5 million rose throughout the project term, but PIL No. 15, issued on April 5, 1989 set a fixed figure of RD$8 million. This requirement was complied with BRRD, which contributed on March 3, 1989 RD$8 million of PL-480 proceeds to the project. Counterpart contribution was deposited in project's current account and was available to final beneficiaries sub-loans.

NOTE 6 - ADMINISTRATIVE EXPENSES:

The compensation of the depositary bank was established with mutual approval of USAID and the TSP. TSP/Banco de Reservas Management Agreement establishes that TSP will pay a quaterly management fee to Banco de Reservas equal to 5% per annum of the interest collected from PFI under the agreement. This fee was paid out of the interest payments collected by Banco de Reservas de la República Dominicana.

NOTE 7 - BALANCE AT THE END OF THE PERIOD:

Banco de Reservas/PFI agreement approved by USAID establishes that the entire amount of program funds(plus interest earnings net of associated costs and losses) will remain in the Banco de Reservas for ten years from the initial drawing of USAID funds, and will thereafter be reduced in accordance with a fifteen year repayment schedule.

NOTE 8 - ACCUMULATIVE FUND ACCOUNTABILITY STATEMENT:

Accumulated project funds and costs from March 1, 1989 to July 31, 1992 consist of:

	Budget	Actual	Available
Balance at the beginning of the period	RD$ 8,000,000	RD$ 8,000,000	
Income			
Collections of:			
Capital		37,879,116	
Interest		28,094,014	
		65,973,130	
Funds received from USAID	78,761,162	66,701,740	RD$12,059,422
		140,674,870	
Disbursements for:			
Loans		136,195,750	
Administrative expenses		3,377,112	
		139,572,862	
Balance at the end of the period represented by current account		RD$ 1,102,008	

AUDIT OF
BRIDGE CREDIT COMPONENT OF THE
COMMERCIAL FARMING SYSTEMS
MANAGED BY
BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA/
SPECIAL CREDIT DEPARTMENT
USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0214
INTERNAL CONTROL STRUCTURE
INDEPENDENT AUDITORS REPORT

We have audited the fund accountability statement of the Bridge Credit Component of the Commercial Farming Systems Project managed by Banco de Reservas de la República Dominicana/Special Credit Department, USAID/Dominican Republic Project No. 517-0214 for the period August 1, 1990 to July 31, 1992 and have issued our report thereon dated October 5, 1993 in which we qualified our opinion.

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

In planning and performing our audit of the fund accountability statement of the Bridge Credit Component of the Commercial Farming Systems managed by Banco de Reservas de la República Dominicana/Special Credit Department, USAID/Dominican Republic during the two-year period ended on July 31, 1992, we considered BRRD/SCD's internal control structure applicable to the project in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on BRRD/SCD's internal control structure.

The management of BRRD/SCD is responsible for establishing and maintaining an internal control structure to manage the project operations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the basis of accounting described in Note 1 to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may 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 categories: 1) documents and records, 2) credit review, 3) bank accounts, and 4) disbursements.

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements do 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 audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control structure and its operation that we have reported to the management in a separate letter dated October 5, 1993.

This report is intended solely for the use of Banco de Reservas de la República Dominicana/Special Credit Department and United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse

October 5, 1993

AUDIT OF

BRIDGE CREDIT COMPONENT OF THE

COMMERCIAL FARMING SYSTEMS

MANAGED BY

BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA/

SPECIAL CREDIT DEPARTMENT

USAID/DOMINICAN REPUBLIC PROJECT 517-0214

COMPLIANCE WITH THE TERMS OF THE AGREEMENTS

AND APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the Bridge Credit Component of the Commercial Farming Systems Project managed by Banco de Reservas de la República Dominicana/Special Credit Department (BRRD/SCD), USAID/Dominican Republic Project No. 517-0214 for the period August 1, 1990 to July 31, 1992 and have issued our report thereon dated October 5, 1993, in which we qualified our opinion.

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

Compliance with the terms of the agreement and applicable laws and regulations applicable to the Bridge Credit Component of the Commercial Farming Systems is the responsibility of BRRD/SCD management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of BRRD/SCD's compliance with the terms of the agreement and applicable laws and regulations. However, our objective 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 prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our evaluation disclosed the material instance of noncompliance described as finding No. 1 in the following page of this report.

We considered these material instances of noncompliance in forming our opinion on whether the project's fund accountability statement as of July 31, 1992 is presented fairly, in all material respects, in accordance with the basis of accounting described in Note 1 to the fund accountability statement. This report does not affect our report dated October 5, 1993 on the fund accountability statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, Banco de Reservas de la República Dominicana/Special Credit Department complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that Banco de Reservas de la República Dominicana/Special Credit Department, had not complied, in all material respects, with those provisions.

This report is intended solely for the use of Banco de Reservas de la República Dominicana/Special Credit Department and United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse

October 5, 1993

AUDIT OF

BRIDGE CREDIT COMPONENT OF THE

COMMERCIAL FARMING SYSTEMS

MANAGED BY

BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA/

SPECIAL CREDIT DEPARTMENT

USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0214

REPORT ON COMPLIANCE WITH THE AGREEMENTS TERMS

AND APPLICABLE LAWS AND REGULATIONS

FINDINGS

1. Lack of Audit of Participating Financial Institutions (PFIs) and Beneficiaries

Condition:

An audit plan as part of the Bridge Credit Program for PFIs performance and PFIs borrowers was not established and required audits were not made.

Criteria:

Attachment I, Section B4 of the agreement between BRRD and the Technical Secretariat of the Presidency (TSP) states that the TSP will establish an audit plan as part of the Bridge Credit Program. There will be at least three general audit areas, all financed by the Fund: audits of the depository bank; audits of PFIs performance, and audits of bridge credits extended by the PFIs borrowers.

Cause:

Limitation of staff did not allow plan advancement.

Effect:

Progress towards objectives of the fund and identification of problem areas will not be achieved.

Recommendation:

That the audit plan be implemented as established by the agreement.

AUDIT OF

BRIDGE CREDIT COMPONENT OF THE

COMMERCIAL FARMING SYSTEMS

MANAGED BY

BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA/

SPECIAL CREDIT DEPARTMENT

USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0214

LIST OF REPORT RECOMMENDATIONS

Report on Compliance with the Terms of the Agreement and Applicable Laws and Regulations

Recommendation 1:

That the audit plan be implemented as established by the agreement.

Follow-up on Prior Audits Report Recommendations

O. Gonzalez & Asociados and the Technical Secretariat of the Presidency had issued management control assessment reports of BRRD/SCD. BRRD/SCD has taken corrective action, except for recommendation 5 of the Technical Secretariat of the Presidency report, that states:

- Extensions granted to loans must be based on total payment of due interest at the date of the negotiation.

AUDIT OF

BRIDGE CREDIT COMPONENT OF THE

COMMERCIAL FARMING SYSTEMS

MANAGED BY

BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA/

SPECIAL CREDIT DEPARTMENT

USAID/DOMINICAN REPUBLIC PROJECT NO. 517-0214

MANAGEMENT COMMENTS

-23-

BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA
RNC No. 401010062
FUNDADO EN 1941
DIRECCION CABLEGRAFICA BANRESERVA
TELEX No 3460012 326101

DEPOSITARIO DESIGNADO DE LOS FONDOS DEL ESTADO

Santo Domingo, N. D.
July 21, 1994

RNC-401010062

DCE-992-13793

Rafael Garcia
Price Waterhouse
John F. Kennedy Av.
Nova Scotia Bank Bulding, Third Flat
P.O.B 1216
Santo Domingo

Dear sir:

In connection with the draft report of the audit of the Bridge Credit Component under the Commercial Farming Systems. We are please to send you our comments.

1) We are doing negotiations to collect all loans made to financial institution with problems. We are sostaining conversations with Banco de Desarrollo del Este to establish a payment plan however, we again proceded as established on the agrement: to comunicate to the Central Bank and banking superintendence about these loans.

2) The sub-agreement signed between this institution and the Technical Secretariat of the presidency establishes, very clear, that US$300,000 will be asigned to perform audits and evalustions of program activities, wich will be managed by STP. This sub-agreement's point does not exonerate the IFIS of follow-up and programming these audits.

3) Also, we inform you that the special credit departament's direction of Banco de Reservas has taken appropriate steps for any modification of original contract's payment. The applicant institution should cancel all due interest before be reviewed by the correspondent committee.

Without nothing else, regards,

Attentively
Lic. Freddy Espinosa
Special Credit Director