

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

**Audit of USAID/Guatemala's
Maternal Health Care Project
Activities Managed by the
Ministry of Public Health
July 1, 1990 to August 31, 1992**

**Audit Report No. 1-520-95-11-N
July 24, 1995**



Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.



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July 24, 1995

MEMORANDUM

TO: Director USAID/Guatemala, ~~William S. Rhodes~~

FROM: RIG/A/San José Acting, ~~Wayne Watson~~

SUBJECT: Audit of USAID/Guatemala's Maternal Health Care Project Activities, Managed by the Ministry of Public Health, July 1, 1990 to August 31, 1992

This report presents the results of a financial closeout audit of the Maternal Health Care Project activities, USAID/Guatemala Project No. 520-0288, managed by the Reproductive Health Unit of the Ministry of Public Health (Ministry), for the period July 1, 1990 to August 31, 1992. The accounting firm of Price Waterhouse prepared the report dated January 19, 1994.

On August 27, 1982, USAID approved the grant agreement with the Government of Guatemala for \$2,855,000. The goal of the project was to provide family planning training and supervision services, together with the delivery of supplies to the Ministry's network of health posts and centers. Additionally technical assistance was provided to assist the Ministry in the delivery of intrauterine devices and in rendering vasectomy services at both selected health centers and the national hospitals.

The objectives of the audit were to determine whether: (1) the Ministry's fund accountability statement presents fairly, in all material respects, the agreement's financial situation, (2) the Ministry's internal control structure was adequate to manage its agreement activities, (3) the Ministry complied, in all material respects, with agreement terms and applicable laws and regulations. The scope of the audit included an examination of the Ministry's activities and transactions to the extent considered necessary to issue a report thereon for the period audited. The audit included coverage of \$669,666 of USAID/Guatemala disbursements to the project during the audited period.

Price Waterhouse was of the opinion that the fund accountability statement presents fairly, in all material respects, the Ministry's income and

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expenditures under the agreement during the period audited except for the effects of: (1) questionable costs amounting to \$38,798 and (2) the lack of information in the fund accountability statement regarding the value of procurement and technical services provided directly by USAID/Guatemala.

With respect to the Ministry's internal control structure, the auditors identified two material weaknesses: (1) financial records were not properly maintained and financial reports were not generated and (2) purchases, acquisitions, transfers, and technical assistance received directly from USAID/Guatemala were not recorded in the Ministry's accounting records.

Regarding compliance with agreement terms and applicable laws and regulations, the auditors noted one material instance of noncompliance related to the a lack of documentation for counterpart funds and a lack of approval of certain purchases.

Although the project ended August 31, 1992, the Mission is using the Ministry as an implementing entity in the follow-on project. Therefore, we are recommending that the procedural deficiencies listed above be corrected. In addition, **we strongly suggest that USAID/Guatemala obtain a full accounting of the Government of Guatemala counterpart contributions provided through the Ministry of Public Health to the project over the period of audit, taking appropriate actions should shortfalls be noted.**

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 resolve the questionable costs of \$38,798 (unsupported) identified in the Price Waterhouse report dated January 19, 1994, and recover from the Ministry of Health the amounts determined to be unallowable.

Recommendation No. 2

We recommend that USAID/Guatemala ensure that the Ministry of Health designs and implements procedures that will ensure that: (1) financial records are properly maintained and financial reports are properly generated, (2) purchases, acquisitions, transfers, and technical assistance provided directly by USAID/Guatemala are recorded in the Ministry's accounting records, (3) counterpart contributions are properly documented, and (4) all purchases are properly approved.

Recommendation No. 1 will be considered resolved upon USAID/Guatemala's determination of the amount of recovery and will be considered closed upon the recovery of funds, offset of funds, or issuance of a bill for collection. Recommendation No. 2 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 designed and placed in operation.

The draft report was discussed with representatives from USAID/Guatemala and the Ministry. Based upon the comments and further documentation provided, the final report was modified as deemed appropriate.

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.

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**CLOSE-OUT AUDIT OF THE ACTIVITIES AND COMPONENTS OF THE
MATERNAL HEALTH CARE PROJECT, USAID/G-CAP PROJECT No.
520-0288, MANAGED BY THE REPRODUCTIVE HEALTH UNIT -USR-
OF THE MINISTRY OF PUBLIC HEALTH OF GUATEMALA FOR THE
PERIOD JULY 1, 1990 TO AUGUST 31, 1992**

CLOSE-OUT AUDIT OF THE ACTIVITIES AND COMPONENTS OF THE
MATERNAL HEALTH CARE PROJECT, USAID/G-CAP PROJECT No.
520-0288, MANAGED BY THE REPRODUCTIVE HEALTH UNIT -USR-
OF THE MINISTRY OF PUBLIC HEALTH OF GUATEMALA FOR THE
PERIOD JULY 1, 1990 TO AUGUST 31, 1992

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Price Waterhouse



November 17, 1994

Mr. Coinage N. Gothard
Office of the Regional
Inspector General for Audit
(RIG/A/SJ)
San José, Costa Rica

Dear Mr. Gothard:

This report presents the results of our close-out audit of the activities and components of the Maternal Health Care Project, USAID/G-CAP Project No. 520-0288, managed by the Reproductive Health Unit -USR- (formerly the Family Planning Unit -UPF-) of the Ministry of Public Health of Guatemala, during the period from July 1, 1990 to August 31, 1992.

BACKGROUND

On August 27, 1982, USAID approved the Expansion of Family Planning Services Project, USAID/G-CAP Project No. 520-0288 (whose title was subsequently changed for that of Maternal Health Care Project, per amendment No. 2 dated July 27, 1988), whereby US \$ 2,855,100 were to be donated to the Reproductive Health Unit -USR- (formerly the Family Planning Unit -UPF-) of the Ministry of Public Health of Guatemala.

The project purpose was to cover family planning training and supervision services, together with the delivery of supplies to the Ministry's network of health posts and centers.

It was estimated that 80% of all functional posts and centers were offering some type of family planning methods. The technical assistance in this respect was to assist the Ministry in the delivery of intrauterine devices and in rendering vasectomy services at both selected type A centers and the national hospitals.

The Ministry's philosophy behind the supply of family planning services is grounded on the reduction of reproduction risks and the unit's activities have been well received since the project's inception. To date, USR has supplied more than 80,000 couple year

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protection (CYP) units per semester, and to that end it is currently implementing USAID/G-CAP Project No. 520-0357, as a continuation of USAID/G-CAP Project No. 520-0288.

AUDIT OBJECTIVES

The objectives of the close-out audit of the activities and components of the Maternal Health Care Project, USAID/G-CAP Project No. 520-0288, which was conducted in accordance with generally accepted auditing standards and "Government Auditing Standards" issued by the Comptroller General of the United States, were the following:

1. Express an opinion on whether the fund accountability statement for the USAID funded project presents fairly, in all material respects, the Project No. 520-0288 cash receipts and costs disbursed for the period July 1, 1990 to August 31, 1992.
2. Evaluate and obtain sufficient understanding of USR's internal control structure, assess control risk, and identify reportable conditions, including material internal control weaknesses.
3. Perform tests to determine whether USR complied, in all material respects, with agreement terms and applicable laws and regulations.
4. Determine whether USR had adopted corrective action on prior audit report recommendations.

AUDIT SCOPE

As a basis for our audit programs and examination, we reviewed all project financial and progress reports, and charts of accounts, organizational charts, accounting system descriptions, procurement policies and procedures, and receipt, warehousing and distribution procedures, as necessary, together with the applicable agreements, contracts, budgets, project implementation letters and circulars on OMB and USAID standards.

Our tests were specifically designed to meet audit objectives, as described above, and to conform with generally accepted auditing standards and "Government Auditing Standards".

RESULTS OF AUDIT

A. Fund Accountability Statement:

As more fully explained in Note 4 to the fund accountability statement, our tests revealed unsupported costs for Q. 192,051. Also, the unit was not supplied either with documentation or data on the procurement and technical assistance directly provided by USAID/G-CAP and, consequently, the related amounts were not disclosed in the fund accountability statement.

The fund accountability statement examined by us was prepared on the basis of the documentation which supports the cash receipts and the liquidations submitted to USAID/G-CAP with respect to the disbursements, as explained in Note 2 thereto.

B. Internal Control Structure:

We noted certain matters involving the internal control structure and its operations that we consider to be reportable conditions in accordance with standards established by the American Institute of Certified Public Accountants. These conditions are summarized below:

1. The financial structure (budget and accounting manual) designed during 1992 for USR and its attendant application system (software) were not adopted nor fully applied for all the transactions conducted during the project's life. The transactions pertaining to 1992 were processed but the key reports called by the system were not printed.
2. At present USR has no documented knowledge of the procurement and technical assistance directly provided by USAID/G-CAP to the project and consequently, it has no record thereto.

C. Compliance with Agreement Terms and Applicable Laws and Regulations:

Our tests and procedures disclosed the following instances of noncompliance:

1. USR did not submit written evidence to demonstrate that it had paid to the project the counterpart contribution of US\$ 1,288,578 required by the grant agreement.
2. USR failed to obtain written approval from USAID/G-CAP to acquire spare parts for Q. 192,051 for the Japanese

motorcycles; these spare parts are outside the project's geographical code and were not originally included in the budget component under which they were acquired. Also, and for the reasons mentioned, these costs have been considered as unsupported.

D. Follow-Up On Prior Audit Recommendations:

Our work revealed that at August 31, 1992, USR had not implemented a number of recommendations included in the audit report issued on September 23, 1991 by the accounting firm of Deloitte, Ross, Tohmatsu, and whose characteristics are more fully described in the corresponding section of this report.

The recommendations pending implementation deal with the findings concerning the documentation of counterpart contributions and the reimbursement to USAID/G-CAP of taxes paid with project funds.

MANAGEMENT COMMENTS:

This report was discussed with and generally agreed upon by PROJECT'S management, whose specific comments made in connection therewith are detailed in Annex I to this report and summarized below:

1. The key reports called for by the agreement have already been printed by using the unit's TECAPRO facilities.
2. The unit's internal auditor has now been given authority to gather complete data on the project purchases made directly by USAID.
3. Beginning May 2, 1994 new personnel was contracted for the unit by USAID/G-CAP, and action has been initiated to clear the auditors' findings.
4. The cash balance pending reimbursement to USAID/G-CAP was cleared in several dates beginning September 1992, either by liquidation of expenses or by their partial acceptance by USAID.
5. The prior audit report recommendations, one of them considered already closed, will be followed up until their clearance by the unit's internal auditor.



**MATERNAL HEALTH CARE PROJECT, USAID/G-CAP PROJECT,
No. 520-0288; ACTIVITIES AND COMPONENTS MANAGED BY
THE REPRODUCTIVE HEALTH UNIT -USR- (FORMERLY UNIDAD
DE PLANIFICACION FAMILIAR -UPF-) OF THE MINISTRY OF
PUBLIC HEALTH OF GUATEMALA FOR THE PERIOD
JULY 1, 1990 TO AUGUST 31, 1992**

FUND ACCOUNTABILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying fund accountability statement of the activities and components of the Maternal Health Care Project, USAID/G-CAP Project No. 520-0288, managed by the Reproductive Health Unit of the Ministry of Health (Unidad de Salud Reproductiva -USR-, formerly known as Unidad de Planificación Familiar -UPF-), for the period July 1, 1990 to August 31, 1992. This statement is the responsibility of USR's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and "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. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully explained in Note 4 to the accompanying fund accountability statement, our tests revealed unsupported costs for Q. 192,051. Also, as more fully explained in finding No. 2 in the internal control structure section, the unit was not supplied either with documentation or data on the procurement and technical assistance directly provided by USAID/G-CAP and, consequently, the related amounts were not disclosed in the fund accountability statement.

As described in Note 2, the fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the effects of the unsupported costs, and the lack of disclosure of data on the procurement and technical assistance provided directly by USAID/G-CAP to the project, the fund accountability statement examined by us presents fairly, in all material respects, the cash receipts and disbursements for the activities and components of the Maternal Health Care Project, USAID/G-CAP Project No. 520-0288, managed by the Reproductive Health Unit (USR) of the Ministry of Public Health of Guatemala, for the period July 1, 1990 to August 31, 1992, in conformity with the basis of accounting described in Note 2.

This report is intended for the use of USR management and the United States Agency for International Development (USAID). This restriction does not intend to limit distribution of this report which, upon acceptance by the Office of the USAID Regional Inspector General for Audit, is a matter of public record.



January 19, 1994

**MATERNAL HEALTH CARE PROJECT, USAID/G-CAP PROJECT,
No. 520-0288; ACTIVITIES AND COMPONENTS MANAGED BY
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**FUND ACCOUNTABILITY STATEMENT
(Expressed in Quetzales)**

<u>Explanations</u>	<u>Budget for the period</u>	<u>Executed</u>	<u>Unsupported costs</u>
Balance July 1, 1990		Q 140,572	
Receipts during the period:			
Through 12-31-90		636,334	
Through 12-31-91		1,737,823	
Through 08-31-92		773,330	

Total availability		3.288,059	

Disbursements during the period:			
Salaries and fringe labor benefits	701,024	700,844	
Training activities	1,257,241	700,665	
Personnel transportation and per diem allowances	975,810	625,201	
Administrative costs	557,757	285,044	
Supplies	159,109	124,398	
Evaluations and audits	10,000	10,019	
Specific programs	<u>1,065,550</u>	<u>546,732</u>	192,051
Total budget and disbursements	<u>4,726,491</u>	<u>2,992,903</u>	
Cash balance at end of period (*)		295,156	
		=====	

(*) The cash balance of Q. 295,156 was subsequently liquidated to the satisfaction of USAID/G-CAP by the application of reimbursement requests for Project 520-0357, the authorization of expenses in PIL 46, and the reimbursement of cash in the amount of Q. 12,688.

The accompanying notes are an integral part of the
fund accountability statement

MATERNAL HEALTH CARE PROJECT, USAID/G-CAP PROJECT,
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NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - HISTORY AND OPERATIONS

The Ministry of Public Health established the Family Planning Unit (Unidad de Planificación Familiar - UPF), within the General Health Services Directorate (Dirección General de Servicios de Salud) under project No. 520-0263. From January 1, 1984 to December 31, 1985, UPF conducted a program to cover staff training, preparation of a logistics system and the establishment of a filing and reporting system. The Maternal Health Care Project, USAID/G-CAP Project No. 520-0288, is a continuation and expansion of the activities of USAID/G-CAP 520-0263 project.

Grant agreement No. 520-0288, managed by the Reproductive Health Unit (Unidad de Salud Reproductiva - USR, formerly known as UPF) was signed with the Ministry of Public Health on May 20, 1985, and its originally estimated completion date was established at August 31, 1992. The original grant amounted to US\$ 300,000, and the project components were: 1) logistics and support system; 2) training; 3) compilation and processing of data on family planning; 4) project management; and 5) technical assistance.

The project's overall goal is to improve the quality of life of mothers and children. The project intends to expand the use of services and information provided by the public sector for responsible parenthood, through the integration of maternal health services and selected child survival interventions designed to reduce reproductive risks in women of fertile age.

Amendment No. 3, issued on July 3, 1989, increased to US\$ 2,855,100 the grant amount and the main project components were modified as follows: 1) salaries; 2) technical assistance; 3) training; 4) transportation/per diem; 5) commodities; 6) equipment/vehicles; 7) administrative costs; 8) supplies; 9) evaluations and audits; 10) special programs; 11) unforeseen expenses; and 12) inflation.

According to the agreement, grant funds were to be supplied by way of cash advances and the Government of Guatemala's counterpart contribution to the project was established at an amount originally equivalent to US\$ 147,000, which by amendment No. 2 dated July 27, 1988, was increased by US\$ 927,045 to US\$ 1,288,578, out of which

US\$ 766,055 would be provided from the Ministry of Health's ordinary budget for three subsequent years, and US\$ 160,990 would be additional contributions by the Government during the same period.

NOTE 2 - BASIS OF ACCOUNTING AND SIGNIFICANT POLICIES

Up to December 31, 1991, the project transactions were controlled outside the accounting records, as implementation and use of formal records began during 1992 under the accounting system designed for those purposes.

USR maintains its accounting records and prepares financial information therefrom under the cash basis of accounting, whereby receipts are recorded when collected and costs and expenses are recognized when paid, and not when incurred. However, the accompanying fund accountability statement was prepared on the basis of the accumulation of cash advances received and the liquidation of expenses submitted to USAID/G-CAP.

NOTE 3 - TRANSFERS OF GRANT FUNDS

USR has opened a bank account with Banco Inmobiliario, S. A. to handle the funds provided to the project under the "cash advances" method. Funds are withdrawn from said account to defray project disbursements, the liquidations of which are subsequently submitted to USAID/G-CAP.

NOTE 4 - UNSUPPORTED COSTS:

Unsupported costs are those which lack either adequate supporting documentation or the required prior approval. The audit of the project fund accountability statement disclosed unsupported costs for Q. 192,051, as detailed below:

<u>DATE</u>	<u>EXPLANATION</u>	<u>AMOUNT</u>
05/30/91	Spare parts for Suzuki motorcycles, manufactured in Japan, per invoices Nos. 152253, 152255, 152256, 152257, and 152260, paid for with check No. 5052 to Suzuki, S. A.	Q 121,472
07/18/91	Spare parts for Suzuki motorcycles, per invoices Nos. 153628 to 153646 paid for with check No. 5151 to Suzuki, S. A.	<u>70,579</u>
	Total	<u>Q 192,051</u> =====

NOTE 5 - EXCHANGE RATES:

Cash transactions during the audit period were recorded at the following weighted average rates of exchange:

	<u>US\$ dollars</u>	<u>Rate of exchange</u>	<u>Quetzales</u>
Cash advances during the period	641,084	4.91	3,147,487
Liquidations reimbursed during the period	(604,530)	4.95	(2,992,903)

NOTE 6 - CASH BALANCE AT END OF PERIOD:

Per agreement terms, any unspent funds at the project completion were required to be returned to USAID/G-CAP. However, the project cash ending balance for Q. 295,156 at August 31, 1992 had not been reimbursed, as required. The cash balance in question (in Quetzales), is broken down as follows:

Local currency disbursements disallowed by USAID/G-CAP in the liquidations submitted by USR:

Liquidation of December 1991:			
Salaries	Q. 14,091		
Transport and per diem	8,896		
Special programs	<u>2,358</u>		Q. 25,345
Liquidation of March 1992:			
Salaries			535
Liquidation of August 1992:			
Salaries	Q. 49,304		
Evaluation and audit	12,381		
Special programs	<u>31,622</u>		93,307
Supplementary liquidation of August 1992:			
Salaries			<u>1,875</u>
<u>Total disbursements disallowed (*)</u>			121,062
Carried over			Q.121,062

Brought forward

Q 121,062

Funds available, probably used at the completion of project 520-0288 in the execution of other USAID/G-CAP projects:

133,037

Other amounts not determined for lack of supporting documentation

28,369

Total unsupported costs

282,468

Balance of the project bank account

12,688

Total cash balance disclosed in the Fund Accountability Statement

Q 295,156

(* Subsequently liquidated to the satisfaction of USAID/G-CAP by the application of reimbursement requests for Project 520-0357, the authorization of expenses under PIL 46, and the reimbursement of cash in the amount of Q. 12,688.

NOTE 7 - PRIOR PERIODS ACCUMULATED DATA

The USAID/G-CAP Project No. 520-0288 was previously audited for the period from May 20, 1985 to June 30, 1990 by the local accounting firm (Lara & González) that represents Deloitte, Ross, Tohmatsu in Guatemala. The accumulated data for said period is shown below:

	Overall budget in US Dollars	Expressed in Quetzales				Total	
		Review by Lara y Gonzales Budget	Gonzales Executed	Review by Price Waterhouse Budget	Price Waterhouse Executed	Budget	Executed
Receipts:							
Advances from USAID/Guatemala			2,643,978		3,147,487		5,791,465
Disbursements:							
Commodities	362,900						
Equipment and Vehicles	514,400						
Unforeseen	177,700						
Inflation	100,000						
Salaries	353,200	517,600	327,804	701,024	700,844	1,218,624	1,028,648
Training activities	65,500	1,075,313	756,489	1,257,241	700,665	2,332,554	1,457,154
Transport and per diem	455,900	683,300	260,212	975,810	625,201	1,659,110	885,413
Clinical costs	193,300	344,000	92,960	557,757	285,044	901,757	378,004
Supplies	245,400	60,000	25,832	159,109	124,398	219,109	150,230
Evaluation and audits	28,100	24,200		10,000	10,019	34,200	10,019
Specific programs	147,900	634,738	99,995	1,065,550	546,732	1,700,288	646,727
Distribution and logistics		369,128	216,557			369,128	216,557
Data compilation and processing		168,000	81,341			168,000	81,341
Project administration		562,539	420,247			562,539	420,247
Other costs		150,536	100,672			150,536	100,672
Carried forward	2,644,300	4,589,354	2,382,109	4,726,491	2,992,903	9,315,845	5,375,012

Brought forward	<u>2,644,300</u>	<u>4,589,354</u>	2,382,109	<u>4,726,491</u>	<u>2,992,903</u>	<u>9,315,845</u>	5,375,012
Value-added taxes			11,812				11,812
AIDS program expenses			86,343				86,343
Other incurred disbursements pending to be reported			19,464				19,464

The overall budget is expressed in U. S. dollars, as disclosed in the agreement and amendments. The budget execution is expressed in quetzales, currency of execution, at different exchange rates.

NOTE 8 - COUNTERPART CONTRIBUTIONS

The fund accountability statement discloses only the use of project funds supplied by USAID/G-CAP to USR, and does not include the Guatemalan Government's counterpart contributions.

Per amendment No. 2 to the grant agreement, dated July 27, 1988, the counterpart contributions overall amount was established at US\$ 1,288,578 for the life of the project. However, USR did not show evidence or documentation to satisfactorily and sufficiently demonstrate compliance with these contributions, which at an exchange rate of Q. 2.70 to US\$ 1.00 would amount to Q. 3,479,160. This situation is more fully explained in the section of this report dealing with compliance with agreement terms and applicable laws and regulations.

MATERNAL HEALTH CARE PROJECT, USAID/G-CAP PROJECT,
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INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying fund accountability statement of the activities and components of the Maternal Health Care Project, USAID/G-CAP Project No. 520-0288, managed by the Reproductive Health Unit of the Ministry of Health (Unidad de Salud Reproductiva -USR-, formerly known as Unidad de Planificación Familiar -UPF-), for the period from July 1, 1990 to August 31, 1992, and have issued our report thereon dated January 19, 1994.

We conducted our audit in accordance with generally accepted auditing standards and "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 activities and components of the Maternal Health Care Project, USAID/G-CAP Project No. 520-0288, managed by the Reproductive Health Unit of the Ministry of Health (Unidad de Salud Reproductiva -USR-, formerly known as Unidad de Planificación Familiar -UPF-), for the period July 1, 1990 to August 31, 1992, we considered the internal control structure established by USR 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 the internal control structure.

The management of USR 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 internal control structure policies and procedures. The objectives of an

internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the basis of accounting used by the entity.

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 categories: a) accounting, budget and financial information systems; b) procurement and contracting procedures and practices; c) cash management and bank reconciliation procedures; and d) documentation and filing.

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 had been placed in operation, and we assessed control risk.

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

The reportable conditions noted during our audit are described in the following pages of this report as findings Nos. 1 and 2.

A material weakness is a reportable condition in which the design or operation of one or more of the 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.

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INTERNAL CONTROL STRUCTURE

FINDINGS

1. The Financial Structure (Budget and Accounting Manual) Designed During 1992 For USR And Its Attendant Application System (Software) Were Not Adopted Nor Fully Applied For All Transactions Entered During The Project Life.

Condition:

The project's accounting records were in arrears. This condition was especially noted for the period July 1, 1990 to December 31, 1991. During 1992, a financial manual was designed and implemented and a TECAPRO computerized system (software package) was installed. During the period from January 1 to August 31, 1992, the project transactions were processed but no reports related to the general journal and trial balances ledgers were ever printed.

Criteria:

Annex II to the grant agreement requires that USR maintains, or causes to maintain, project books and records in conformity with generally accepted accounting principles and sound administrative practices in order to demonstrate without restriction the receipt and use of goods and services acquired with grant funds.

Cause:

Up to December 1991, USR lacked formally defined accounting systems, and beginning in 1992, the staff trained on the application of both the designed manuals and the installed software left employment. During 1992, these positions were occupied by employees with little or no knowledge of the related systems, and they applied their own criteria in an attempt to comply with USAID requirements. Also, new mechanisms to handle cash were designed but they were not incorporated to the corresponding manuals.

Effect:

Noncompliance with agreement terms, and possibility of incurring in questionable costs or that errors or irregularities might occur without their timely detection.

Recommendation:

USR should prepare a plan to update its manuals and to train all new employees on the operation of the overall financial system (budget, accounting and the TECAPRO software). This plan should include, as needed, additional external assistance to follow up on and monitor the application of the systems, in order to obtain reasonable assurance regarding the consistent and correct application thereon.

2. At Present, USR Has No Documented Knowledge Of The Procurement And Technical Assistance Directly Provided By USAID/G-CAP to The Project and Consequently, It Has No Record Thereto.

Condition:

The purchases, acquisitions, transfers, and technical assistance received from and contracted directly by USAID/G-CAP for the project, are not recorded in USR's accounting records.

Criteria:

The unit's operating manual (accounting system section) establishes that any direct payments made by USAID/G-CAP for the project should be recorded and controlled by USR.

Cause:

The information in question has not been requested from USAID/G-CAP and consequently USR lacks the pertinent data for its control.

Effect:

By not having control over USAID/G-CAP payments for the project, USR lacks the required data to adequately identify the execution of the budget contained in the agreement and amendments. Also the risk exists that the items procured or services contracted might be used for other than project intended purposes.

Recommendation:

USR's management should periodically request information on the direct payments made by USAID/G-CAP for the project, together with data on the fixed assets acquired and delivered to the project. This information should be picked up and recorded by the unit's accounting system, as it is required by the above mentioned manual.

MATERNAL HEALTH CARE PROJECT, USAID/G-CAP PROJECT,
No. 520-0288; ACTIVITIES AND COMPONENTS MANAGED BY
THE REPRODUCTIVE HEALTH UNIT -USR- (FORMERLY UNIDAD
DE PLANIFICACION FAMILIAR -UPF-) OF THE MINISTRY OF
PUBLIC HEALTH OF GUATEMALA FOR THE PERIOD
JULY 1, 1990 TO AUGUST 31, 1992

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying fund accountability statement of the activities and components of the Maternal Health Care Project, USAID/G-CAP Project No. 520-0288, managed by the Reproductive Health Unit of the Ministry of Health (Unidad de Salud Reproductiva -USR-, formerly known as Unidad de Planificación Familiar -UPF-), for the period July 1, 1990 to August 31, 1992, and have issued our report thereon dated January 19, 1994.

Our audit was conducted in accordance with generally accepted auditing standards and "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 laws, regulations, contracts, and grants applicable to USR is the responsibility of USR's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement we performed tests of USR's compliance with certain provisions of laws, regulations, contracts, and grants. 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.

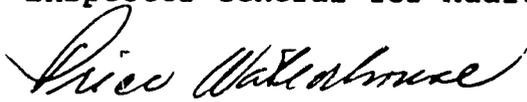
Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in statutes,

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 tests of compliance disclosed the material instance of noncompliance described in the following pages and identified as finding No. 1.

We considered this material instance of noncompliance in forming our opinion on whether the fund accountability statement of USR for the period July 1, 1990 to August 31, 1992 is presented fairly, in all material respects, in conformity with the basis of accounting described in Note 2 to the fund accountability statement, and this report does not affect our report on the fund accountability statement dated January 19, 1994.

Except as described above, the results of our tests of compliance indicate that with respect to the items tested USR 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 USR had not complied, in all material respects, with those provisions.

This report is intended for the use of USR management and the United States Agency for International Development (USAID). This restriction does not intend to limit distribution of this report which, upon acceptance by the Office of the USAID Regional Inspector General for Audit, is a matter of public record.



January 19, 1994

MATERNAL HEALTH CARE PROJECT, USAID/G-CAP PROJECT,
No. 520-0288; ACTIVITIES AND COMPONENTS MANAGED BY
THE REPRODUCTIVE HEALTH UNIT -USR- (FORMERLY UNIDAD
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JULY 1, 1990 TO AUGUST 31, 1992

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

FINDING

1. USR Did Not Comply With Certain Agreement Terms.

Condition:

The cases of noncompliance with agreement terms noted by our examination are summarized below:

- a) USR did not submit written evidence to demonstrate that it had paid to the project the counterpart contribution of US\$ 1,288,578 (or Q. 3,479,160 at the rate of Q 2.78 to US\$ 1.00 prevailing in July 1988) required by the grant agreement.
- b) USR failed to obtain written approval from USAID/G-CAP to acquire spare parts for Q. 192,051 for Japanese motor-cycles; these spare parts are outside the project's geographical code and were not originally included in the budget component under which they were acquired.

Criteria:

The above situations are in direct contravention of the provisions established by Section 3.2 (a), Annex I, Section C, project components and Sections B.3 and D.2 of Annex II to the agreement.

Cause:

- a) Lack of communication with the Ministry of Health as the authorizing entity of last resort for these purposes. Also, difficulty in documenting the formal issue of several required reports.
- b) Formal authorization to acquire the Japanese spare parts was requested but never obtained in writing.

Effect:

Noncompliance with agreement terms and questioning of project costs. Also, possibility of questioning counterpart contributions for US \$ 1,288,578 (or Q. 3,479,160) not adequately documented.

Recommendation:

USR's management should demonstrate to USAID/G-CAP's satisfaction its compliance with the required counterpart contributions to the project and seek settlement of this issue, and clarify the unsupported costs for Q. 192,051 detailed in this report.

**MATERNAL HEALTH CARE PROJECT, USAID/G-CAP PROJECT,
No. 520-0288; ACTIVITIES AND COMPONENTS MANAGED BY
THE REPRODUCTIVE HEALTH UNIT -USR- (FORMERLY UNIDAD
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PUBLIC HEALTH OF GUATEMALA FOR THE PERIOD
JULY 1, 1990 TO AUGUST 31, 1992**

FOLLOW-UP ON PRIOR AUDIT REPORT'S RECOMMENDATIONS

The prior audit report (issued on September 23, 1991 by the accounting firm of Deloitte, Ross, Tohmatsu) on the fund accountability statement of USAID/G-CAP Project No. 520-0288, for the period from May 20, 1985 to June 30, 1990, included several recommendations on internal control and on compliance with agreement terms and applicable laws and regulations.

As part of our current engagement, we attempted to determine whether USR had adopted adequate corrective measures on the above mentioned recommendations. Our work revealed that at August 31, 1992, USR had not implemented a number of these recommendations, the findings of which are summarized below as reported by the predecessor auditors:

1. There is a lack of controls over Government counterpart funds. There are execution reports based on estimated data, but, in any case, these have not been reported formally to the Ministry.
2. Occasionally project funds were used to pay value-added (IVA) taxes.

The recommendations submitted are the following:

1. Require the accounting department of the Ministry to prepare a detailed monthly report of the services that the personnel of the Ministry have provided to the Family Planning Unit - (FPU - UPF in Spanish), and implement the control accounts necessary to record these services. These will be reported

monthly to USAID with a report comparing this information to the counterpart budget. Additionally, the FPU (UPF in Spanish) should require supporting documentation for any expenses paid by the Ministry.

2. Take the necessary steps through the Ministry of Finance for the reimbursement of the taxes paid with funds of the grant and to make the arrangements so that the funds can be reimbursed during the month following the payment of the taxes.

During 1993, USR made the determination that it did not have sufficient human resources to undertake, among other matters, clearance of the above detailed findings. Action on the matter was initiated with the assistance of USAID/G-CAP and, as described in the memorandum attached herewith as Annex I, the related recommendations are now being addressed for closing.



**CLOSE-OUT AUDIT OF THE ACTIVITIES AND COMPONENTS OF THE
MATERNAL HEALTH CARE PROJECT, USAID/G-CAP PROJECT No.
520-0288, MANAGED BY THE REPRODUCTIVE HEALTH UNIT -USR-
OF THE MINISTRY OF PUBLIC HEALTH OF GUATEMALA FOR THE
PERIOD JULY 1, 1990 TO AUGUST 31, 1992**

LIST OF REPORT RECOMMENDATIONS

Internal Control Structure:

1. USR should prepare a plan to update its manuals and to train all new employees on the operation of the overall financial system (budget, accounting and the TECAPRO software). This plan should include, as needed, additional external assistance to follow up on and monitor the application of the systems, in order to obtain reasonable assurance regarding the consistent and correct application thereon.
2. USR's Management should periodically request information on the direct payments made by USAID/G-CAP for the project, together with data on the fixed assets acquired and delivered to the project. This information should be picked up and recorded by the unit's accounting system, as it is required by the manual.

**Compliance with Agreement Terms and
Applicable Laws and Regulations:**

1. USR's Management should demonstrate to USAID/G-CAP's satisfaction its compliance with the required counterpart contributions to the project and seek settlement of this issue and clarify the unsupported costs for Q. 192,051 detailed in this report.

ANNEX 1

CLOSE-OUT AUDIT OF THE ACTIVITIES AND COMPONENTS OF THE
MATERNAL HEALTH CARE PROJECT, USAID/G-CAP PROJECT No.
520-0288, MANAGED BY THE REPRODUCTIVE HEALTH UNIT -USR-
OF THE MINISTRY OF PUBLIC HEALTH OF GUATEMALA FOR THE
PERIOD JULY 1, 1990 TO AUGUST 31, 1992

(Free translation of the Spanish letter Ref No. 144-94, dated June 13, 1994, and signed by Dr. Mario Roberto Garcia Maldonado, Chief of the Reproductive Health Unit of the Ministry of Health).

MANAGEMENT COMMENTS

Following is an evaluation of the audit findings made on the basis of the list of audit report recommendations and concerning the activities and components of the Expansion of Family Planning Services, USAID/GUATEMALA Project No. 520-0288, managed by the Reproductive Health Unit (Unidad de Planificación Familiar) of the Ministry of Public Health and Social Welfare of Guatemala, for the period from July 1, 1990 to August 31, 1992.

1. The financial structure (budget and accounting manual) designed for USR in 1992, together with the application (software) system were not adopted nor fully applied during 1992 because key reports were not printed.

By having Mr. Carlos H. Urrutia train the staff contracted by USAID/G-CAP, USR complied with printing both the key reports such as: General ledger and trial balances for the period January to August/92, and the Project 520-0357 financial reports, which are now stored by the TECAPRO system.

2. At present, USR lacks documented knowledge of the procurement and technical assistance amounts directly provided by USAID/Guatemala.

To the date of the review, the purchases made by USAID/Guatemala had not been recorded by the Unit.

The unit's internal auditor has been made responsible for requesting full information from USAID so that the purchases of vehicles and materials for the family planning activities, made by USAID, and the salaries directly paid by USAID for

projects 520-0288 and 520-0357 are recorded in the books of account.

3. With respect to compliance with Agreement Terms, and the applicable laws and regulations, the auditors state:

3.1 USR did not submit written evidence to demonstrate compliance with the counterpart contribution of US\$ 1,288,578 or Q.3,221,445 at the rate of exchange of Q. 2.50, required by the grant agreement.

The necessary steps to clear the auditors' finding have been adopted on the basis of the new structure and staff contracted by USAID/G-CAP beginning May 2, 1994.

On the other hand, the internal auditor is preparing a listing of Health Posts and Centers as well as the hospitals that worked during the project life from April/85 to August/92, including an estimate of the people who rendered family planning services. The Ministry of Finance will be requested to supply the amount of salaries earned by these people. A rate will be applied to the resulting total in order to determine the amount of counterpart contributions made during the life of Project No. 520-0288.

4. USR did not reimburse the unspent cash of Q.295,156 at the project completion, as required by Annex II to the grant agreement, nor did it reimburse the costs for Q.22,593, questioned in the prior auditors' report and confirmed by USAID/Guatemala under PIL No. 44.

4.1 According to the analysis made by Mr. Carlos H. Urrutia over the liquidation of the advance, USAID charged US \$ 8,431.41 or Q.48,480.61 at the exchange rate of Q. 5.75 to the mentioned taxes or cash advance, by way of Bill of Collection No. 520 12289. This amount includes the expenses for US\$4,058.78 revealed by the audit conducted by Deloitte, Ross, Tohmatsu, and the disbursements for US\$3,764.60 disallowed by the review conducted by the USAID/Guatemala's Finance Department and mentioned in PIL No. 44. This amount was deducted by voucher No. 520-1748 from the reimbursement of salaries paid by the Ministry of Public Health under entry 079, thus canceling said expenses by the Ministry.

- 4.2 The amount of Q.295,156 was liquidated according to the analysis made by Mr. Carlos H. Urrutia as follows:

Liquidation of expenses of September/92, Project 520-0288 for Q.37,770.50.

Liquidation of expenses of January 1993, Project 520-0288 for Q.123,139.52.

Expenses accepted by USAID/Guatemala upon their submission, by PIL No. 46 for Q.155,598.92.

Return in February/94 of the unused cash balance for Q. 12,688.22 maintained with Banco Inmobiliario.

Liquidation of the cash advance by reimbursement of salaries for Q.30,992.08 by the Ministry of Public Health, Project No. 520-0288.

5. Follow up on prior audit recommendations:

The Audit revealed that USR has not implemented certain recommendations made by prior audits, whose characteristics are fully described under the internal control structure finding of this report.

5.1 Lack of documentation of the counterpart contributions made for the period May 20, 1985 to June 30, 1990.

This recommendation will be implemented upon completion of the work presently conducted by the Internal Auditor, mentioned in paragraph 2.2.

5.2 Lack of follow-up on the reimbursement to USAID/GUATEMALA for the taxes paid with grant funds.

This recommendation was implemented with the analysis of the liquidation of the cash, conducted by Mr. Carlos H. Urrutia. USAID charged US\$8,431.41 or Q.48,480.61 at the exchange rate of Q. 5.75 to the mentioned taxes or cash advance, by way of Bill of Collection No. 520 12289. This amount includes the expenses for US\$4,058.78 revealed by the audit conducted by Deloitte, Ross, Tohmatsu, and the disbursements for US\$3,764.60 disallowed by the review conducted by the USAID/-Guatemala's Finance Department and mentioned in PIL No. 44. This amount was deducted by voucher No. 520-1748

from the reimbursement of salaries paid by the Ministry of Public Health under entry 079 thus canceling said expenses by the Ministry.

5.3 The transactions for the period May 20, 1985 to June 30, 1990 are pending to be recorded.

This recommendation is considered closed as during the audits performed by Deloitte, Ross, Tohmatsu and Price Waterhouse the receipts and disbursements were reviewed. The auditors concluded that these transactions were recorded through the Fiscal Cash Reports of the period January/85 to December/91. In January 1992 the TECAPRO computerized accounting system was implemented, and consequently the above mentioned recommendation was implemented.