

PD-ABL-932

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

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**Audit of USAID/Peru's  
Contract No. 527-0285-C-00-9035-00  
Managed by  
Alpha Consult S.A.  
January 1, 1989 to December 31, 1992**

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**Audit Report No. 1-527-95-24-N  
September 21, 1995**



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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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AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL  
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September 21, 1995

**MEMORANDUM**

TO: USAID/Peru Director, George Wachtenheim

FROM: RIG/A/San Jose, *Wayne Watson*  
Wayne Watson

SUBJECT: Audit of USAID/Peru's Contract No. 527-0285-C-00-9035-00  
Managed by Alpha Consult S.A., January 1, 1989 to December  
31, 1992

This report presents the results of a financial audit of USAID/Peru's Contract No. 527-0285-C-00-9035-00 managed by Alpha Consult S.A., for the period January 1, 1989 to December 31, 1992. The accounting firm of Price Waterhouse prepared the report dated May 16, 1994.

Under the cost-plus-fixed-fee contract, USAID/Peru engaged Alpha Consult to furnish the necessary personnel and administrative services as required by USAID/Peru to support the Child Survival Action Project. These services included financial services, communication services, and commercial services such as making travel arrangements and procuring supplies. The contract was terminated early when USAID/Peru and the government of Peru decided that the services of Alpha Consult were no longer necessary for the development of the Child Survival Action Project. Price Waterhouse audited \$598,481 in disbursements by USAID/Peru to the contract during the audited period.

The objectives of the audit were to determine whether: (1) the contract cost accountability statement presented fairly, in all material respects, the financial situation of the contract managed by Alpha Consult for the period January 1, 1989 through December 31, 1992, and costs reported as incurred and reimbursed by USAID/Peru were allowable, allocable, and reasonable in accordance with contract terms and applicable laws and regulations, (2) the internal control structure of Alpha Consult was adequate to manage its contract activities, and (3) Alpha Consult complied with agreement terms and applicable laws and regulations which may affect the contract's incurred costs. The scope of the audit included an examination of Alpha Consult's activities and transactions to the extent considered necessary to issue a report thereon for the period audited.

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Price Waterhouse disclaimed an opinion on the contract cost accountability statement because of the following scope limitations: (1) a control environment sufficient to guarantee adequate control and use of contract funds was not designed nor implemented, and levels of authority or responsibility for personnel of the financial and accounting areas were not clearly and concisely established, (2) an adequate accounting, budget, and management information system to enable the preparation of a contract cost accountability statement and compliance with applicable laws and regulations was not implemented, and the contract cost accountability statement was prepared with nonofficial accounting information, (3) an adequate filing system was not maintained which resulted in the failure to provide key documentation to support costs, and (4) there was no written evidence of reconciliations between the non-official accounting records of Alpha Consult and those of USAID/Peru. We consider the entire amount of USAID/Peru funds provided to Alpha Consult during the audit period to be unsupported due to the conditions listed above.

With respect to the internal control structure of Alpha Consult, the auditors identified as material weaknesses the same four problem areas listed in the above paragraph as scope limitations. Similarly, regarding compliance with agreement terms and applicable laws and regulations, the auditors cited as material instances of noncompliance the problem areas identified above as scope limitation item numbers two and three. Additionally, the auditors cited the lack of support for travel expenses as another material instance of noncompliance.

The project was terminated in April 1991 and USAID/Peru does not plan to use Alpha Consult as an implementing entity in the future. Therefore, we are not recommending any action to correct procedural deficiencies identified by the auditors with respect to Alpha Consult's internal control structure and compliance. We are including the following recommendation in the Office of the Inspector General's audit recommendation follow-up system:

**Recommendation No. 1**

**We recommend that USAID/Peru resolve: (1) the questionable costs of (a) \$184 (questioned) and \$29,796 (unsupported) representing the questionable costs identified in the Price Waterhouse report dated May 16, 1994, and (b) \$568,501 (unsupported) which represents the remainder of the USAID/Peru funds received by Alpha Consult under the Child Survival Action Project during the period January 1, 1989 to December 31, 1992 and (2) recover from the Alpha Consult the amounts determined to be unallowable.**

Recommendation No. 1 will be considered resolved upon USAID/Peru's determination of the amount of recovery with respect to the questionable costs and will be considered closed upon the recovery of funds, offset of funds, or issuance of a bill for collection.

The report was discussed with the Administrative Coordinator for Alpha Consult who stated that to the extent that the contract's liquidation vouchers were paid and reimbursed by USAID/Peru, USAID/Peru had provided its acceptance and approval of the costs incurred by Alpha Consult under the contract.

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendation.

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

**Audit of USAID/Peru's  
Contract No. 527-0285-C-00-9035-00  
Managed by  
Alpha Consult S.A.  
January 1, 1989 to December 31, 1992**

**Audit Report No. 1-527-95-24-N  
September 21, 1995**



**AUDIT OF COST REIMBURSEMENT PLUS FIXED FEE  
CONTRACT No.527-0285-C-00-9035-00 WITH ALPHA  
CONSULT S.A. FOR THE PERIOD JANUARY 1, 1989  
TO DECEMBER 31, 1992**

**AUDIT OF COST REIMBURSEMENT PLUS FIXED FEE  
CONTRACT No.527-0285-C-00-9035-00 WITH ALPHA  
CONSULT S.A. FOR THE PERIOD JANUARY 1, 1989  
TO DECEMBER 31, 1992**

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I/. = Inti

US\$ = United States dollar

*Price Waterhouse*

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August 14, 1995

Mr. Wayne J. Watson  
Regional Inspector General for Audit  
United States Agency for International  
Development - USAID  
San José  
Costa Rica

Dear Mr. Watson:

This report presents our audit results of cost reimbursement plus fixed fee Contract No.527-0285-C-00-9035-00 with Alpha Consult S.A. for the period January 1, 1989 to December 31, 1992.

#### BACKGROUND

This contract was signed on December 15, 1988 by the United States Agency for International Development - USAID and Alpha Consult S.A. for the purpose of providing personnel and administrative services as required by USAID Mission to Peru (USAID/Peru) to support the Child Survival Action Project in Peru.

The contract activities began on January 1989 but they were suspended on December 31, 1991 by USAID/Peru. However, disbursements were made only until April 1991. During the time the contract was in force, five amendments were made to the Contract, which modified and/or clarified the terms of the contract made between USAID/Peru and Alpha Consult S.A.

The required services are classified in the following categories:

- a) Administrative personnel
- b) Financial services
- c) Vehicle-related services
- d) Commercial services
- e) Communication services



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#### Personnel administration

The contract directed Alpha Consult S.A. to recruit and hire 10 Peruvian people on an exclusive dedication basis for two years, optionally extendable for two and a half more years, for a total of four and half years. Subsequent amendments determined the need to hire one additional person.

The positions of the people to be hired are as follows:

- An administrative supervising coordinator
- A family planning advisor
- An economist
- Eight regional administrative coordinators

Specific services of this category are related to the process of recruiting and hiring the personnel described above, defining their additional benefits according to Alpha Consult S.A. policies and practices, maintaining personnel records, recording licenses and permissions as well as settling conflicts, if necessary.

Candidates will be presented to USAID/Peru and the selection is the responsibility of a committee including representatives of USAID/Peru and the Ministry of Health.

#### Financial services

The contract directed Alpha Consult S.A. to develop and implement three systems: payrolls, advances for travel expenses (including per diem) and funds for petty cash. Per diem rates are established by USAID/Peru.



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#### Vehicle - related services

The contract directed Alpha Consult S.A. to acquire an insurance policy against all risks for the ten vehicles financed by the Contract and which will be exclusively used by the Regional Administrative Coordinators. As a result, Alpha Consult S.A.'s responsibility is to assume all legal liability for the operation of the vehicles. It also is directed to provide a line of credit to supply gasoline, oil, spare parts, and cover repair costs of assigned vehicles. Alpha Consult S.A. may, if necessary and upon authorization by USAID/Peru, rent vehicles and boats for the use of the contract employees.

#### Commercial services

The contract directed Alpha Consult S.A. to: a) acquire office supplies and equipment, travel arrangements, secretary support and miscellaneous; b) open a commercial account in Lima for the acquisition of office material; c) acquire type writers, calculators and similar office equipment in local businesses with prior consent of USAID/Peru; d) make arrangements for travel, opening and account in a travel agency approved by IATA in Lima; and e) provide secretary and miscellaneous support as required by hired employees, upon authorization by USAID/Peru.

#### Communication services

The contract directed Alpha Consult S.A. to pay reasonable expenses of telephone calls, cables, telegrams and local telex expenses of the hired personnel, and the maintenance of documents, records, and personal files which are confidential.

#### Limit of responsibility

The relation of Alpha Consult S.A. and the personnel hired under this contract is restricted to logistic and administrative matters. It is not responsible for the technical supervision of employees, which is the responsibility of USAID/Peru or the person USAID/Peru appoints.



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## Budget

After amendments made to the original contract, the final budget approved is as follows:

Category	Budget					Total
	1989	1990	1991	1992	1993	
	US\$	US\$	US\$	US\$	US\$	US\$
Salaries and benefits	186,244	230,160	241,229	252,847	129,352	1,039,832
Consultants	5,583	5,000	5,000	5,000	5,417	26,000
Travel and per diem	81,919	79,765	79,765	79,765	42,844	364,058
Vehicle expenses	33,415	30,840	30,840	30,840	15,420	141,355
Office expenses	9,938	5,460	5,460	5,460	2,897	29,215
Miscellaneous	1,387	1,200	1,200	1,200	683	5,670
Administration fees	<u>89,311</u>	<u>64,676</u>	<u>68,148</u>	<u>68,148</u>	<u>34,074</u>	<u>324,357</u>
	<u>407,797</u>	<u>417,101</u>	<u>431,642</u>	<u>443,260</u>	<u>230,687</u>	<u>1,930,487</u>

This budget was executed until April 1991 because USAID/Peru and the Ministry of Health considered that the services rendered by Alpha Consult S.A. were no longer necessary for the development of the Child Survival Action Project managed by the Ministry of Health. In this context only US\$598,481 was executed, and it consisted of:

	US\$
Salaries and additional benefits	181,273
Consultants, travel, per diem, vehicle and office expenses and miscellaneous	240,505
Administration fees	<u>176,703</u>
	<u>598,481</u>

## Administration of the contract

In order to carry out activities related to this contract, Alpha Consult S.A. designated an Administrative Coordinator to perform administrative functions, who rendered services until April 1991. The Administrative Coordinator was in charge of, among other duties, the preparation and supervision of liquidations vouchers to USAID/Peru.



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## II OBJECTIVES AND SCOPE OF AUDIT

We were engaged to conduct an audit of cost reimbursement plus fixed fee contract No.527-0285-C-00-9035-00, with Alpha Consult S.A., for the period January 1, 1989 and December 31, 1992.

Our audit was intended to be performed in accordance with generally accepted auditing standards and the "Government Auditing Standards" of the U.S. Comptroller General (1988 Revision).

The objectives of this audit were to determine whether:

- a) The fund accountability statement of contract No.527-0285-C-00-9035-00, Alpha Consult S.A. for the period January 1, 1989 and December 31, 1992 presents fairly, in all material respects, the financial situation of the contract, and costs reported as incurred and reimbursed by USAID/Peru during the period are allowable, allocable and reasonable in accordance with contract terms, and applicable laws and regulations.
- b) The internal control structure of Alpha Consult S.A. related to this contract was adequate to manage its operations.
- c) Alpha Consult S.A. complied with agreement terms, and applicable laws and regulations which may affect costs incurred under contract No.527-0285-C-00-9035-00.

### Scope

Our audit of the contract cost accountability statement presented limitations in the scope of work due to the lack of an adequate financial and accounting system and the lack of basic documentation for its development.

The required documentation which was not provided is described as follows:



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- a) The contract cost accountability statement of this contract. This statement was partially prepared, upon our repeated demand, by the Administrative Supervising Administrator, and on the basis of non-official accounting information (see Note 2 to the contract Cost Accountability Statement).
- b) Bank statements of the contract's checking account and bank reconciliations from January 1989 and April 1991.
- c) Requests of travel authorizations and reimbursements from January 1989 to December 1990.
- d) Documentation concerning the return to USAID/Peru of vehicles assigned to the contract.
- e) Work contracts of the selected personnel approved by the Ministry of Labor.
- f) Documentation supporting payments for social contributions, and income tax for personnel from January 1989 and December 1990.

Taking into consideration the information that was not provided, our audit was not performed as planned. It was impossible to relate the work partially performed concerning the review of vouchers paid under the contract and the total amounts stated in the accompanying contract cost accountability statement.

The limitations described above caused us to cancel our examinations of the contract cost accountability statement two times. The first time was in October 1993 and the second in April 1994, with prior coordination and agreement with USAID/Peru, and giving Alpha Consult S.A. the opportunity to prepare the accounting records of the contract and the contract cost accountability statement and order and/or obtain the documentation described in the above paragraphs in order to make feasible the review of such statement.



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### III RESULTS OF AUDIT

#### Contract Cost Accountability Statement

Due to the limitations described in the preceding section, we are not able to express and we do not express a professional opinion on the contents of the contract cost accountability statement of the contract.

The accompanying contract cost accountability statement was partially prepared on the basis of non-official accounting information and it is included only for informative purposes, as it was not possible to conduct an audit of it.

#### Internal Control Structure

In planning and performing our audit of the contract cost accountability statement we considered the internal control structure implemented by Alpha Consult S.A. in order to determine our auditing procedures for the purpose of expressing our opinion on the contract cost accountability statement.

Our evaluation of the internal control structure included the following categories:

- General aspects
- Accounting and financial aspects
- Treasury (receipt and custody of funds)
- Liquidations (including advances and services payments)
- Payroll
- Fixed assets

For all the categories listed above, we obtained an understanding of the most significant transactions and aspects in order to assess control risks.

As a result of the selective tests to the categories listed above, we noted significant situations that we consider to be reportable under the standards established by the American Institute of Certified Public Accountants. These situations affected adversely our report on the internal control structure of this contract. The reportable situations are as follows:



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- a) The control environment for the financial and accounting management during the effective period of the contract was weak. A control environment sufficient to guarantee adequate control and use of the contract's funds was neither designed nor implemented and the levels of authority or responsibility of the personnel in charge of the financial and accounting areas were not clearly and concisely established.
- b) An adequate accounting, budget, and management information system was not implemented to enable the preparation of the fund accountability statement and compliance with applicable laws and regulations. The accompanying contract cost accountability statement was prepared on the basis of non-official accounting information.
- c) The filing system is not adequate. This deficiency resulted in the failure to provide the following information: liquidation vouchers, documentation supporting disbursements, bank statements, bank reconciliations, requests and authorization for travel and disbursements, documentation for the return of vehicles assigned to the contract, copies of the work contracts approved by the Ministry of Labor, and documentation supporting payment of social contributions and income tax of personnel.
- d) There is no written evidence of reconciliations for the amounts stated on the non-official accounting information of Alpha Consult S.A. (see Note 2 in page 13) and USAID/Peru.

We detail audit findings in the accompanying internal control structure report.

#### **Compliance with the Contract Terms and Applicable Laws and Regulations**

As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement and in order to express an opinion on compliance with the contract terms and applicable laws and regulations, we performed tests of Alpha Consult S.A. compliance with contract terms and applicable laws and regulations which may affect incurred costs under the contract.



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The results of our tests indicate that Alpha Consult S.A. did not comply with the contract terms, and applicable laws and regulations. These situations, described in the following paragraph, affected adversely our report on compliance with the contract terms and applicable laws and regulations:

- a) No accounting, budget and management information system was maintained during the effective period of the contract. The contract cost accountability statement was prepared in a partial form on the basis of non-official accounting information (see Note in page 13).
- b) The filing system of the contract was weak.
- c) In most cases, advances for travel expenses were not additionally supported.

These instances of non compliance gave rise to the existence of US\$184 questioned costs and US\$29,796 unsupported costs. In our report on compliance with the contract terms and applicable laws and regulations, we detail audit findings in regard to these reportable situations.

These instances of non compliance precluded us from forming an opinion on the reasonability of the amounts stated in the contract cost accountability statement of the contract.

#### Comments of the Executive Committee

This report was discussed with the Administrative Coordinator of the Contract, the official who was designated to coordinate the audit work.

The Administrative Coordinator stated that he was responsible and could give explanations on the operative management of the contract. He also indicated that, to the extent that the contract's liquidation vouchers were paid and reimbursed by USAID/Peru, USAID/Peru had provided its acceptance and approval of the incurred costs under the contract.



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He made no more financial comments because he was not aware of the activities performed under the contract.

Price Waterhouse

*Price Waterhouse*



**AUDIT OF COST REIMBURSEMENT PLUS FIXED FEE CONTRACT No.527-0285-C-00-9035-00 WITH ALPHA CONSULT S.A. FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1992**

**CONTRACT COST ACCOUNTABILITY STATEMENT**

**REPORT OF INDEPENDENT ACCOUNTANTS**

We have audited the contract cost accountability statement of cost reimbursement plus fixed fee contract No.527-0285-C-00-9035-00 managed by Alpha Consult S.A., for the period from January 1, 1989 to December 31, 1992. The contract cost accountability statement is the responsibility of Alpha Consult S.A. Our responsibility is to express an opinion on such contract cost accountability statement based on our audit.

Our firm has not been subjected to an internal quality control review by an unaffiliated audit organization as required by paragraphs 46, chapter 6 of the "Government Auditing Standards", since no such quality review program is offered by professional organizations in Peru. We believe that the effect of this departure from the financial audit requirements of "Government Auditing Standards" is not material because we participate in the Price Waterhouse South American Firm internal quality control program which requires the Price Waterhouse Lima Office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

The scope of our audit was affected by the following limitations:

- a) The control environment during the time the contract was in force was weak. A control environment sufficient to guarantee adequate control and use of the contract's funds was neither designed nor implemented; and the levels of authority or responsibility of the personnel in charge of the financial and accounting areas were not clearly and concisely established.
- b) An adequate accounting, budget and management information system was not implemented to enable the preparation of the contract cost accountability statement and compliance with applicable laws and regulations. As described in Note 2, the accompanying contract cost accountability statement was prepared, on a partial form on the basis of non-official accounting information.



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- c) There is no adequate filing system. This deficiency resulted in the failure to provide the following documentation: liquidation vouchers, documentation supporting disbursements, bank statements, bank reconciliations, requests and authorization for travel and disbursements, documentation of the return of vehicles assigned to the contract, copies of the work contracts approved by the Ministry of Labor, documentation supporting payment of social contributions and income tax of personnel.
- d) There is no written evidence of reconciliations between the amounts stated in the non-official accounting information of Alpha Consult S.A., as described in Note 2 and those of USAID/Peru.
- e) Alpha Consult S.A. received funding from USAID/Peru in US dollars, which were disbursed either in local currency or US dollar. The movement of this funding was not recorded on an accounting basis (see b) above). Additionally, non-official accounting information was not sufficient to enable us to identify exchange rates used for the preparation of the accompanying contract cost accountability statement.

As described in Note 3, the contract cost accountability statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

Due to the limitations described in the above paragraphs, the scope of our audit was not sufficient to express an opinion, and accordingly, we do not express such an opinion on the contract cost accountability statement referred to above.

Additionally, as described in Note 4, the accompanying contract cost accountability statement includes questioned costs and unsupported costs amounting to US\$184 and US\$29,796, respectively.



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This report is intended only for the use of the United States Agency for International Development and Alpha Consult S.A. 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.

May 16, 1994

*Prin Waterhouse*  
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**AUDIT OF COST REIMBURSEMENT PLUS FIXED FEE CONTRACT  
No.527-0285-C-00 WITH ALPHA CONSULT S.A. FOR  
THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1992**

**CONTRACT COST ACCOUNTABILITY STATEMENT**

<u>Date</u>	<u>Salaries and benefits (*)</u>	<u>Per Diem</u>	<u>Vehicle expenses</u>	<u>Office expenses</u>	<u>Miscellaneous</u>	<u>Total</u>	<u>Exchange rate (**)</u>	<u>Total US\$</u>
<u>l/.</u>	<u>l/.</u>	<u>l/.</u>	<u>l/.</u>	<u>l/.</u>	<u>l/.</u>	<u>l/.</u>	<u>l/.</u>	<u>US\$</u>
<b>ADVANCES</b>								
8. 7.89	95,898,595	11,839,458	-	632,400	1,685,000	110,055,453	2,900	37,950.16
17. 8.89	45,299,033	8,121,252	-	246,800	-	53,667,085	2,820	19,030.88
30. 8.89	14,916,605	8,447,500	66,951,176	1,000,000	3,600,000	94,915,281	3,310	28,675.31
13. 9.89	16,289,539	(4,497,176)	-	(1,844)	(577,092)	11,213,427	3,370	3,327.43
5.10.89	12,293,489	6,935,250	7,075,200	300,000	-	26,603,939	5,080	5,237.00
27.11.89	69,908,527	28,490,570	8,480,000	1,900,000	4,500,000	113,279,097	7,180	15,777.03
30. 1.90	93,978,206	45,660,940	-	2,000,000	-	141,639,146	13,020	10,878.58
30. 1.90	411,921,668	68,933,656	-	3,700,000	16,300,000	500,905,324	15,055	33,271.69
3. 5.90	207,987,490	92,687,686	12,400,000	4,400,000	45,000,000	362,475,176	28,200	12,853.73
12. 7.90	498,412,630	62,031,184	24,195,920	7,000,000	-	591,639,734	110,000	5,378.54
14. 8.90	989,765,029	265,818,544	75,874,015	6,000,000	189,811,685	1,527,269,273	180,000	8,484.83
26. 9.90	2,781,904,944	2,266,149,017	1,169,979,222	96,748,120	130,000,000	6,444,781,303	442,000	14,580.95
19.11.90	1,136,392,686	1,392,698,463	6,025,670,598	67,452,215	365,224,206	8,987,438,168	442,000	20,333.57
	<u>6,374,968,441</u>	<u>4,253,366,344</u>	<u>7,390,626,131</u>	<u>191,377,691</u>	<u>755,543,799</u>	<u>18,965,882,406</u>		<u>215,779.70</u>
<b>LIQUIDATIONS</b>								
12. 7.89	23,291,840	4,796,114	-	319,101	1,107,908	29,514,963	2,900	10,177.57
1. 8.89	88,896,294	2,546,168	-	311,455	-	91,753,917	2,900	31,639.28
12. 9.89	21,737,430	7,149,202	52,976,153	240,280	-	82,103,065	30,525	27,142.85
11.10.89	17,058,394	11,444,237	-	982,337	5,602,577	35,087,545	3,310	10,600.47
15.11.89	32,607,171	8,286,609	-	531,589	-	41,425,369	3,634	11,398.72
28.12.89	25,750,887	16,313,408	-	349,685	-	42,413,980	6,182	6,861.27
2. 3.90	68,179,152	38,031,046	-	1,241,183	1,195,402	108,646,783	7,869	13,806.78
9. 4.90	94,320,204	16,561,492	-	5,030,163	11,254,466	127,166,325	13,114	9,697.04
30. 5.94	717,351,962	57,879,772	84,172,653	1,422,201	-	860,826,588	18,830	45,715.87
27. 7.90	412,700,389	118,231,628	22,556,500	3,940,536	50,708,101	608,137,154	11,474	5,455.40
10. 9.90	1,243,364,030	260,519,930	159,298,200	7,722,172	-	1,670,904,332	191,142	8,741.69
22.10.90	818,647,290	1,225,091,038	223,095,000	16,499,914	-	2,283,333,242	442,000	5,165.91
30. 4.91	5,214,269,454	2,395,251,400	6,815,927,436	81,469,376	258,927,499	14,765,845,165	442,000	33,406.89
	<u>8,778,174,497</u>	<u>4,162,102,044</u>	<u>7,358,025,942</u>	<u>120,059,992</u>	<u>328,795,953</u>	<u>20,747,158,428</u>		<u>219,809.74</u>
	<u>(2,403,206,056)</u>	<u>91,264,300</u>	<u>32,600,189</u>	<u>71,317,699</u>	<u>426,747,846</u>	<u>(1,781,276,022)</u>		<u>(4,030.04)</u>

(\*) Not including salaries and fees paid in U.S. dollars and reimbursed in this currency.

(\*\*) Rates of exchange according to AID's vouchers.

The accompanying notes are integral part of the Contract Cost Accountability Statement.

**AUDIT OF COST REIMBURSEMENT PLUS FIXED FEE CONTRACT No.527-0285-C00-9035-00 WITH ALPHA CONSULT S.A. FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1992**

**NOTES TO THE CONTRACT COST ACCOUNTABILITY STATEMENT**

**1 OPERATIONS**

Alpha Consult S.A. is a consulting firm that provides professional services to carry out and/or manage studies and projects which require, due to their size and complexity, specialized and interdisciplinary participation.

On December 15, 1988 Alpha Consult S.A. and USAID/Peru signed Contract No.527-0285-C-00-9035-00 in order to provide personnel and administrative services as required by USAID/Peru to support the Child Survival Action Project in Peru.

The required services are classified in the following categories:

- a) Personnel administration
- b) Financial services
- c) Vehicle-related services
- d) Commercial services
- e) Communication services

The contract's activities began in January 1989 but were suspended on December 31, 1991 upon request of USAID/Peru and the Ministry of Health.

**2 CONTRACT COST ACCOUNTABILITY STATEMENT**

The accompanying contract cost accountability statement is presented only for informative purposes and was prepared in a partial form by Alpha Consult S.A. on the basis of non-official accounting information. The accounting practice in Peru requires maintaining the accounting transactions in a comprehensive manner by means of the adequate use of an official set of accounting records, which comprises: i) inventory and balances (open and closing balances), ii) journal, iii) general ledger and iv) cash book. Alpha Consult S.A. registered the contract's transactions in a manner different than the one described above; therefore, it was not possible to conduct an audit of such statement because there were no adequate accounting records for the contract and some supporting documentation concerning the transactions performed was missing.

3 ACCOUNTING PRACTICE

The contract cost accountability statement was prepared on the basis of cash receipts and disbursement.

4 QUESTIONABLE COSTS

Those costs considered to be inappropriate for the contract cost accountability statement under the contract terms, and applicable laws and regulations, and those costs that are not supported with adequate documentation (unsupported), are unreasonable or do not have required prior approvals or authorizations. Questioned costs amount to US\$29,980 and consist of the following:

	<u>Questionable costs</u>	
	<u>Questioned</u>	<u>Unsupported</u>
	US\$	US\$
General sales tax	184	-
Salaries and remunerations	-	6,979
Social contributions and other taxes	-	16,834
Travel and per diem	-	5,983
	<u>184</u>	<u>29,796</u>

*Price Waterhouse*



**AUDIT OF COST REIMBURSEMENT PLUS FIXED FEE CONTRACT No.527-0285-C00-9035-00 WITH ALPHA CONSULT S.A. FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1992**

**INTERNAL CONTROL STRUCTURE**

**REPORT OF INDEPENDENT ACCOUNTANTS**

We have audited the contract cost accountability statement of cost reimbursent plus fixed fee contract No.527.0285-C-00-9035-00 with Alpha Consult S.A., for the period January 1, 1989 to December 31, 1992, and we have issued our report thereon dated May 16, 1994 in which we do not express an opinion because of significant limitations in the scope.

Our firm has not been subjected to an internal quality control review by an unaffiliated audit organization as required by paragraph 46 chapter 6 of the "Government Auditing Standards", since no such quality review program is offered by professional organizations in Peru. We believe that the effect of this departure from the financial audit requirements of Government Auditing standards is not material because we participate in the Price Waterhouse South American firm internal quality control program which requires the Price Waterhouse Lima office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

In planning and performing our audit of the contract cost accountability statement we could not examine the amounts stated in such statement because of the lack of an adequate accounting and budget system which made it impossible to reasonably prepare such statement, and the lack of some basic documentation of the contract's activities.

The Executive Committee of Alpha Consult S.A. is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by the Executive Committee 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 the Executive Committee 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 the Executive Committee's authorization and recorded properly to permit the preparation of the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of procedures may deteriorate.

For the purpose of this report we have classified significant internal control structure policies and procedures into the following categories: i) general aspects, ii) financial accounting aspects, iii) treasury (receipt and custody of funds) v) payroll, and vi) fixed assets.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the ability of Alpha Consult S.A. to record, process, summarize, and report financial data in a manner that is consistent with the assertions of the Executive Committee in the contract cost accountability statement for the period January 1, 1989 to December 31, 1992. These reportable conditions are described in detail in the following pages and are summarized as follows:

- a) The control environment during the effective period of the contract was weak. A control environment sufficient to ensure adequate control and use of the contract's funds was neither designed nor implemented and the levels of authority or responsibility of the personnel in charge of the financial and accounting areas were not clearly and concisely established.



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- b) An adequate accounting, budget and management information system was not implemented to enable the preparation of the contract cost accountability statement and compliance with applicable laws and regulations. The accompanying contract cost accountability statement was prepared on the basis of non-official accounting information.
- c) There is no adequate filing system. This deficiency resulted in the failure to provide the following information: liquidation vouchers, documentation supporting disbursements, bank statements, bank reconciliations, requests and authorization for travel and disbursements, documentation of the return of vehicles assigned to the contract, copies of the work contracts approved by the Ministry of Labor, and documentation supporting payments of social contributions and income tax of personnel.
- d) There is no written evidence of reconciliations between the amounts stated in the non-official accounting information of Alpha Consult S.A. and USAID/Peru.

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 contract cost accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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



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This report is intended only for the use of the United States Agency for International Development and Alpha Consult S.A. 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.

May 16, 1994

Price Waterhouse

AUDIT OF COST REIMBURSEMENT PLUS FIXED FEE CONTRACT No.527-0285  
C-00-9035-00 WITH ALPHA CONSULT S.A. FOR THE PERIOD JANUARY 1, 1989  
TO DECEMBER 31, 1992

INTERNAL CONTROL STRUCTURE

AUDIT FINDINGS

- 1 The control environment implemented by Alpha Consult S.A. for the financial and accounting management of the contract activities was weak.

Condition -

A control environment sufficient to guarantee the adequate control and use of the contract's funds was not implemented. The levels of authority and responsibility of the personnel in the accounting and financial areas were not established in a concise and clear fashion.

Criteria -

Alpha Consult S.A. should have designed an adequate control environment for the efficient performance of the contract's activities and guaranteed its implementation.

Cause -

More emphasis was placed on the operating areas than on the financial and accounting areas. Also, there was a lack of experience in the design and accounting recording of the contract's operations.

Effect -

This weakness adversely affected the contract cost accountability statement and the internal control structure of the contract for an adequate control of assigned funds.

Recommendation -

We recommend that prior to signing future contracts and/or agreements with USAID, Alpha Consult S.A. should establish and implement a strong control environment in the financial and accounting areas.

- 2 No accounting, budget, and management information system was implemented to efficiently control the use and application of funds assigned to the contract.

**Condition -**

No accounting budget, and management information system was implemented for the recording of the contract's operations. Transactions were recorded on the basis of non-official accounting information.

**Criteria -**

The contract should have had an accounting and budget system to guarantee the integral, timely and correct recording of transactions. Also, a management information system would have facilitated the management of funds assigned to the contract.

**Cause -**

A weak internal control environment existed due to a lack of experience and/or financial and accounting ability of the coordinator. It was considered sufficient to maintain extra-accounting information. An accountant's advice was not considered necessary for the recording of the contract's transactions.

**Effect -**

In addition to non-compliance with the contract terms, and applicable laws and regulations, the control of the contract's transactions and budget execution and preparation of the contract cost accountability statement became more difficult.

**Recommendation -**

We recommend that Alpha Consult S.A., for all future contracts and/or projects with USAID, design and implement an accounting, budget, and management information system to facilitate the control of operations.

- 3 During the effective period of the contract there was no written evidence of periodical reconciliations between the amounts stated in the non-official accounting information of Alpha Consult S.A. and those of USAID/Peru.

**Condition -**

Amounts stated in the non-official accounting information of Alpha Consult S.A. were not periodically reconciled with information provided by USAID/Peru.

**Criteria -**

Periodic reconciliations should have been performed between balances of the contract's funds and USAID/Peru, leaving written evidence of the work performed.

**Cause -**

Ignorance and/or negligence of Alpha Consult S.A.

**Effect -**

We cannot quantify the effect of this condition because Alpha Consult S.A. did not maintain accounting records.

**Recommendation -**

We recommend that Alpha Consult S.A., for future contracts and/or projects with USAID, perform periodical reconciliations of balances stated in its non-official accounting information and USAID/Peru, leaving written evidence of the work performed.

**4 There is no adequate filing system.**

**Condition -**

During our review we encountered serious difficulties in finding certain documentation related to the contract. Such documentation was kept in a disorderly fashion in three boxes.

**Criteria -**

All the documentation related to the contract should be chronologically filed, together with financial and accounting records. This documentation should be kept in custody at least for five years as from the termination date of the contract.

**Cause -**

Negligence or lack of attention of Alpha Consult S.A.

**Effect -**

In addition to non-compliance with USAID regulations, this situation may result in the existence of questionable costs. Specific documents which could not be located include: liquidation vouchers, documentation supporting disbursements, bank statements, bank reconciliations, requests and authorization for travel and disbursements, documentation of the return of vehicles assigned to the contract, copies of the work contracts approved by the Ministry of Labor, and documentation supporting payments of social contributions and income tax.

**Recommendation -**

We recommend that Alpha Consult S.A., for future contracts and/or projects with USAID, design and implement an adequate filing system to ensure custody and filing of documents related to the contract.

**Price Waterhouse**



**AUDIT OF COST REIMBURSEMENT PLUS FIXED FEE CONTRACT No.527-0285-C-00-9035-00 FIXED WITH ALPHA CONSULT S.A. FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1992**

**COMPLIANCE WITH THE CONTRACT TERMS, AND APPLICABLE LAWS AND REGULATIONS**

**REPORT OF INDEPENDENT ACCOUNTANTS**

We have audited the contract cost accountability statement of cost reimbursement plus fixed fee contract No.527-0285-C-00-9035-00 with Alpha Consult S.A., for the period January 1, 1989 to December 31, 1992, and have issued our report thereon dated May 16, 1994 in which we do not express an opinion because of significant limitation to the scope.

Our firm has not been subjected to an internal quality control review by an unaffiliated audit organization as required by paragraph 46 chapter 6 of the "Government Auditing Standards", since no such quality review program is offered by professional organizations in Peru. We believe that the effect of this departure from the financial audit requirements of Government Auditing standards is not material because we participate in the Price Waterhouse South American firm internal quality control program which requires the Price Waterhouse Lima office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

The Executive Committee of Alpha Consult S.A. is responsible for compliance with the contract terms and applicable laws and regulations. In obtaining a reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of compliance by Alpha Consult S.A. with contract terms and applicable laws and regulations that may affect the incurred costs under the contract. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions enclosed in the laws, regulations, contracts or donations that cause us to conclude that the aggregate of the misstatements resulting from those failures or violations are material for the contract cost accountability statement for the period January 1, 1989 to December 31, 1992. The results of our tests indicated the following instances of noncompliance, which we will describe in detail in the following pages:



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- a) An adequate accounting, budget and management information system was not implemented during the effective period of the contract.
- b) The filing system of the contract was weak.
- c) In most cases, advances on account of travel expenses were not additionally supported.

In our opinion, due to the significance of the effect of the situations described above, and with respect to items tested, Alpha Consult S.A. did not comply, in all material respects, with the contract terms, and applicable laws and regulations. This resulted in the existence of questioned costs and unsupported costs amounting to US\$184 and US\$29,796, respectively, from January 1989 and December 1992.

This report is intended only for the use of the United States Agency for International Development and Alpha Consult S.A. 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.

May 16, 1994

*Price Waterhouse*

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AUDIT OF COST REIMBURSEMENT PLUS FIXED FEE CONTRACT No.527-0285-C-00-9035-00 WITH ALPHIA CONSULT S.A. FOR THE PERIOD JANUARY 1, 1989 TO DECEMBER 31, 1992

COMPLIANCE WITH CONTRACT TERMS AND APPLICABLE LAWS AND REGULATIONS

AUDIT FINDINGS

- 1 Control procedures established in the Manual of Administrative Operations of the contract were not taken into consideration.

Condition -

Our examination determined the existence of the following situations:

- No accounting, budget, and management information system was implemented. The fund accountability statement was prepared in partial form on the basis of non-official accounting information.
- The filing system was deficient.
- In most cases, advances for travel expenses were not supported with adequate documentation.

Criteria -

All standard provisions established in the contract being examined, including those related to the condition under this finding should be followed.

Cause -

Ignorance and/or negligence of Alpha Consult S.A.

Effect -

The contract cost accountability statement includes questioned costs and unsupported costs amounting to US\$184 and US\$29,796, respectively.

Recommendation -

We recommend that Alpha Consult S.A., for all future contracts and/or projects with USAID/Peru, should take into consideration USAID regulations.