

Regional Inspector General for Audit
San Salvador, El Salvador

**Audit of USAID/Guatemala's
Expansion of Family Planning Services Project
Managed by Importadora de Productos Farmaceuticos, S.A
for the Period August 27, 1982 to August 31, 1992**

Audit Report No. 1-520-96-06-N
May 17, 1996



BEST AVAILABLE

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AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
SAN SALVADOR, EL SALVADOR

Unit 3110
APO AA 34023
Telephone 298-1866
FAX: (503) 228-5459

May 17, 1996

MEMORANDUM

TO: Director USAID/Guatemala, William S. Rhodes

FROM: RIG/San Salvador, Wayne J. Watson 

SUBJECT: Audit Report No. 1-520-96-06-N "Audit of USAID/Guatemala's Expansion of Family Planning Services Project No. 520-0288, Managed by Importadora de Productos Farmaceuticos, S.A., for the Period January 1, 1992 to August 31, 1992 and Compliance Review of All Program Income Funds for the Period August 27, 1982 to August 31, 1992"

This report presents the results of a financial audit of USAID/Guatemala Project No. 520-0288 managed by the Importadora de Productos Farmaceuticos, S.A. (IPROFASA) for the period January 1, 1992 to August 31, 1992 and a compliance review of all program income for the period August 27, 1982 to August 31, 1992. The report was prepared by the audit firm of Arthur Andersen & Co.

The purpose of this project was to improve the availability of modern contraceptives at affordable prices through a program of marketing of contraceptives. The principal disbursement categories of the project were: (a) salaries, (b) technical assistance, (c) transportation and food, (d) contraceptive products, (e) equipment and vehicles, (f) promotion and advertising, (g) administrative costs, and (h) special programs. Arthur Andersen & Co. audited \$628,349 of USAID/Guatemala disbursements to the project during the audit period.

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

Arthur Andersen & Co. was of the opinion that the fund accountability statement

presents fairly, in all material respects, IPROFASA's receipts and expenditures under the grant agreement, except for the following matters: (1) IPROFASA does not have a separate bank account for agreement funds, causing a commingling with other funds; (2) IPROFASA cannot reconcile between advances recorded as received and the amounts confirmed by USAID/Guatemala; (3) questionable costs of \$106,230 were identified, related primarily to a lack of supporting documentation for certain transactions and expenditures which were for unallowable items, unauthorized items, or items which were not actual expenses; and (4) IPROFASA did not make required counterpart contributions of \$88,014.

Regarding the internal control structure, the auditors identified 15 material weaknesses. The auditors found that IPROFASA: (1) did not regularly prepare fund accountability statements, (2) did not obtain proper authorizations for accounting and financial information, (3) could not reconcile between the products recorded as received and the products confirmed by USAID/Guatemala, (4) did not always have documentation concerning the procedures for selecting suppliers, (5) lacked supporting documentation for liquidations of advances, (6) did not properly cancel expense vouchers, (7) did not provide evidence that bank statements were prepared in a timely manner, (8) did not comply with their credit and collection manual, (9) did not comply with their internal controls for invoicing and shipping, (10) did not deposit income from sales in a timely manner, (11) lacked procedures to monitor compliance with the agreement and applicable laws and regulations, (12) lacked a system to identify and track counterpart funding and project income, (13) lacked signatures for the minutes of the Board of Directors, (14) lacked defined accounting procedures for severance payments to employees, and (15) lacked a system to identify and record direct payments made by USAID.

Regarding IPROFASA's compliance with the terms of the agreement and applicable laws and regulations, the auditors identified 14 material instances of noncompliance. The auditors found that IPROFASA: (1) commingled project funds with other sources of income; (2) did not maintain separate accounting records for project funds; (3) made unauthorized additions to the capital account; (4) liquidated amounts which did not agree with supporting documentation; (5) liquidated amounts which were not actually paid; (6) did not refund to USAID interest earned with USAID funds; (7) did not present quarterly sales statistics or a plan to gradually reduce USAID financing; (8) did not present a detailed work plan or an analysis of the annual plan; (9) did not submit quarterly narrative reports of project activities; (10) did not conduct executive committee meetings; (11) did not establish an adequate accounting system or provide for fidelity bonds for employees; (12) did not inventory project property nor identify property with the USAID insignia; (13) did not properly maintain documentation from previous years; and (14) did not conduct audits of project funds during the life of the project.

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 \$106,230 (\$71,290 questioned and \$34,940 unsupported) identified in the Arthur Andersen & Co. report and recover from Importadora de Productos Farmaceuticos, S.A., the amounts determined to be unallowable.

Recommendation No. 2

We recommend that USAID/Guatemala obtain evidence that Importadora de Productos Farmaceuticos, S.A., has taken proper action to design and implement procedures to address the 15 reportable internal control weaknesses detailed on pages 33 to 46 of the Arthur Andersen audit report.

Recommendation No. 3

We recommend that USAID/Guatemala obtain evidence that Importadora de Productos Farmaceuticos, S.A., has taken proper action to design and implement procedures to address the 14 material compliance weaknesses detailed on pages 49 to 61 of the Arthur Andersen audit report.

In addition we strongly suggest that USAID/Guatemala obtain a full accounting of the Government of Guatemala's counterpart contributions provided to the project, taking actions should insufficient contributions be noted. 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 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 report was discussed with representatives of IPROFASA who expressed agreement with some of the audit's findings, but disagreed with other findings. IPROFASA's comments are included as Annex V to the Arthur Andersen & Co. report.

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

**Regional Inspector General for Audit
San Salvador, El Salvador**

**Audit of USAID/Guatemala's
Expansion of Family Planning Services Project
Managed by
Importadora de Productos Farmaceuticos, S.A.
for the Period
January 1, 1992 to August 31, 1992**

**Audit Report No. 1-520-96-06-N
May 17, 1996**

ARTHUR
ANDERSEN

AUDIT OF THE
EXPANSION OF FAMILY PLANNING SERVICES PROJECT
USAID/GUATEMALA PROJECT No. 520-0288
AND COMPLIANCE REVIEW OF ALL PROGRAM INCOME FUNDS
FOR THE PERIOD AUGUST 27, 1982 TO AUGUST 31, 1992

IMPLEMENTED BY
IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA
FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

AUDIT OF THE
EXPANSION OF FAMILY PLANNING SERVICES PROJECT
USAID/GUATEMALA PROJECT No. 520-0288
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FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

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ARTHUR ANDERSEN

ARTHUR ANDERSEN & Co. S. C.

Edificio Centro Gerencial Las Margaritas
Diagonal 6, 10-65 zona 10 5o. Nivel
PBX: 327030, FAXES: 316014, 316016
Guatemala, C. A.

May 14, 1996

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

Dear Sir:

This report presents the results of our financial audit of the EXPANSION OF FAMILY PLANNING SERVICES PROJECT, USAID/GUATEMALA PROJECT No. 520-0288, implemented by IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA, for the period January 1 to August 31, 1992 and of a compliance review of all program income funds for the period August 27, 1982 to August 31, 1992.

I. BACKGROUND

On August 27, 1982, the United States Agency for International Development in Guatemala (USAID/GUATEMALA) and Importadora de Productos Farmacéuticos, S. A. - IPROFASA signed Cooperative Agreement No. 520-0288 with the purpose of expanding and improving the availability of modern contraceptives at popular prices through a program for the social marketing of contraceptives.

The original agreement provided that the date of expiring of the Agreement was December 31, 1987. By Amendment No. 10 to the Agreement, the date of expiring was extended to August 31, 1992.

The USAID/GUATEMALA budget for the total life of the project is US\$ 6,603,698, the total sum after twelve amendments to the original cooperative agreement.

The principal disbursement categories of the project were: (a) salaries, (b) technical assistance, (c) transportation and food, (d) products (contraceptives), (e) equipment and vehicles, (f) promotion and advertising, (g) administrative costs, and (h) special programs. According to the original cooperative agreement, during the initial years and until IPROFASA consolidates

its market, it is not expected nor is it required that it contribute counterpart funds. However, at the beginning of 1989 it is expected that IPROFASA will contribute 10% of the funds for its total operations budget.

The operations budget from January 1 to August 31, 1992 authorized by USAID totalled Q 4,400,675, consequently, the counterpart contribution should have been Q 440,068.

During the life of the project, IPROFASA carried out transactions with the following related companies.

- Distribuidora de Productos Médicos y de Consumo, S. A. (DIMECO)

Engaged in the distribution of over the counter pharmaceutical products to pharmacies and distributors in Guatemala City and the interior of the country. IPROFASA bought over the counter pharmaceutical products from others and sold them to DIMECO for DIMECO to resell.

- Computación, Asesoría y Servicios, S. A. (COMPASA)

Engaged in the sale of computer equipment and accessories, service and maintenance of computer equipment, and sale of office materials and supplies. COMPASA provided IPROFASA with computer services, maintenance, and office materials.

- Interpublicidad, S. A. (IPSA)

Engaged in the provision of advertising services in the media as well as development and contracting of third parties for the creation of advertising. Its relation with IPROFASA began in 1988 for the purpose of managing and controlling all advertising in any media.

II. OBJECTIVES OF THE AUDIT

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

The specific objectives of the audit were to determine whether:

1. The fund accountability statement of the project financed with USAID funds presents fairly, in all material respects, project revenues received and the costs incurred for the period January 1 to August 31, 1992, in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including cash receipts and disbursement basis and modifications of the cash basis.

2. The internal control structure is adequate for administration of project activities, through evaluation and obtainment of sufficient understanding of the internal control structure of IPROFASA to evaluate control risk and identify reportable conditions, including material internal control weaknesses.
3. IPROFASA complied, in all material respects, with agreement terms and applicable laws and regulations, and to express positive assurance on those items tested and negative assurance on those items not tested.
4. IPROFASA properly recorded the donated assets.
5. IPROFASA has taken adequate corrective actions on prior audit report recommendations.
6. IPROFASA properly recorded the sale of products as provided in the agreement from August 27, 1982 to August 31, 1992, as well as whether the utilization of income generated by these sales was in accordance with the terms of the agreement.
7. Interest generated by project bank accounts from August 27, 1982 to August 31, 1992 has been transferred to USAID.
8. The figures proposed for refunds/transfers to the program account for the operations of the companies DIMECO, COMPASA and IPSA are reasonable and follow appropriate accounting rules and concepts.
9. Accompanying financial statements based on audited figures (with titles and notes that provide adequate disclosures in the financial statements for program accounts) were provided.

III. SCOPE OF WORK

The scope of the work consisted of:

A. Preliminary audit procedures

We reviewed the documentation relative to the project to become familiar with it.

B. Examination of the fund accountability statement

We examined the fund accountability statement for the project for the period January 1 to August 31, 1992, the costs reported by IPROFASA (the Company) as incurred during the period covered by the audit, and the revenues received from USAID for that period, including all assistance funds received directly from USAID identified by grant. Income received from USAID less costs incurred, after considering any accruals, was reconciled with the balance of cash on hand and/or in bank accounts.

C. Internal control structure

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

D. Compliance with agreement terms and applicable laws and regulations

We verified compliance in all material respects with the terms of the Agreement and with applicable laws and regulations, observing the auditing standards of AICPA, AU 801 (SAS No. 68) entitled "Compliance Auditing Applicable to Government Entities and Other Recipients of Governmental Financial Assistance". The report includes a positive assurance on those items tested and a negative assurance on those items not tested. Material cases of noncompliance are included as "findings" in the report.

E. Review of accounting treatment which IPROFASA gave to donated assets

We evaluated whether the accounting treatment used for recording donated assets is in agreement with generally accepted accounting principles.

F. Follow-up on prior years' audit recommendations

We evaluated the actions taken on findings and recommendations derived from the financial reviews and diagnosis of IPROFASA conducted by the firms Price Waterhouse and Lara & González, affiliate of the international firm Touche Ross & Co.

G. Compliance with agreement terms regarding deposits and use of funds generated by sales of products

We performed a review of income generated by sales of products donated and the later use of these funds according to the terms of the agreement.

H. Review of transfer of assets from related companies to IPROFASA

We verified that the transfer of assets to IPROFASA by the companies COMPASA, DIMECO and IPSA was done following appropriate accounting rules and concepts.

I. Quantification of interest generated by project
bank accounts

We quantified the interest which was generated by funds deposited in different project-related bank accounts, as well as verification as to whether such interest was transferred to USAID.

IV. RESULTS OF THE AUDIT

This section presents a summary of the results of the audit and briefly describes the more important points and problems found, which are commented on in more detail in the corresponding section of this report.

Fund accountability statement

Except for the effect of the following matters: (1) lack of separate records for project operations and Company operations; (2) an uncleared difference of Q 1,429,328 less than the balance confirmed by USAID/Guatemala for the balance of the advance received as of August 31, 1992 according to the fund accountability statement; (3) questionable costs totalling Q 692, 203 equivalent to US\$ 189,894 for the cooperative agreement (see Notes 6 and 9 to the fund accountability statement), and (4) IPROFASA did not provide required counterpart contributions to the project for Q 440,068 equivalent US\$ 88,014, the fund accountability statement presents fairly, in all material respects, the income and disbursements of the EXPANSION OF FAMILY PLANNING SERVICES PROJECT, USAID/GUATEMALA PROJECT No. 520-0288, for the period January 1 to August 31, 1992, according to the basis of accounting described in Note (3) to the fund accountability statement.

Internal control structure

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

1. Lack of preparation of a fund accountability statement.
2. Reports and documents related to accounting and financial information without evidence of review and authorization.
3. Differences in receipt of products (contraceptives).
4. Lack of evidence of the procedure for selecting the supplier of medicines and of goods and services in some purchases for Q 84,106 (US\$ 16,200).
5. Liquidations of advances inadequately supported and expenses without supporting documentation for Q 11,548 (US\$ 2,223).
6. Expense vouchers not cancelled.
7. No evidence of bank reconciliations having been prepared on time.
8. The policies established in the Credit and Collection Manual not complied with.

9. Invoicing and shipping internal control procedures not complied with.
10. Income from sales not deposited in a timely manner.
11. Lack of defined procedures to ensure compliance with terms of the agreement and with applicable laws and regulations.
12. Lack of a system to identify and track counterpart funding and project income.
13. Lack of signature on the Minutes of the Board of Directors meetings.
14. Lack of definition of an accounting procedure for payment of severance to employees.
15. Lack of a system to identify and record direct payments made by USAID.

Compliance with agreement terms and with
applicable laws and regulations

Except for the instances of noncompliance described in Findings No. 1 to 14 below, the results of our tests of compliance indicate that, with respect to matters tested, IPROFASA complied in all material respects with the terms of the agreement and with applicable laws and regulations which could have a significant effect on the fund accountability statement. With respect to matters not tested, nothing came to our attention to make us believe that IPROFASA has not complied, in all material respects, with the terms of the agreement and with applicable laws and regulations. Following are summarized all the findings reported.

1. Commingling of project funds with other company income.

It is not possible to accurately determine all disbursements made with USAID funds.
2. Inadequate accounting record of IPROFASA and of the project's operations and noncompliance with the terms established in Amendment No. 7 of the agreement which originated questionable costs of Q 14,918 (US\$ 2,896).
 - No separate accounting records for IPROFASA and project operations exist.
 - No specific records exist which show counterpart contributions from 1989 to August 31, 1992.
3. Unauthorized additions to the capital account.

IPROFASA capitalized, without written authorization from USAID, cooperative agreement contributions for Q 1,545,000, with which its authorized capital increased to Q 2,200,000.
4. Amounts liquidated to USAID which do not agree with the support documentation.

There is a difference of Q 602,538 (US\$ 113,180) between the value liquidated to USAID and liquidation support documentation due to IPROFASA reporting purchases of eligible goods and services, which it paid for after the date of the close of the project.

5. Cancelled checks included in the expense liquidations sent to USAID for a value of Q 45,422 (US\$ 8,767).

Some liquidations were prepared for expenses which were not actually incurred by the company.

6. Interest earned with funds received from USAID not refunded to USAID.

The funds received from USAID were deposited in bank accounts which earned interest in the amount of Q 142,965 (US\$ 32,860) which was not refunded to USAID.

7. Lack of presentation of quarterly sales statistics and of a plan to gradually reduce USAID financing.

The quarterly sales statistics have not been presented to USAID. In addition, no plan was presented in December 1989 to gradually reduce USAID financing.

8. Lack of presentation of the detailed work plan and analysis of annual plan.

During the life of the project, IPROFASA did present a budget annually but did not present the detailed work plan and the analysis of the annual plan.

9. Lack of presentation of quarterly narrative report.

During the life of the project no quarterly narrative report was prepared describing the activities of the project, problems detected and recommendations proposed.

10. Inadequate formation of an executive committee.

The Executive Committee provided for in this clause was in fact formed, but it only operated for a short time.

11. Inadequate establishment of office systems and controls, accounting and financial administration.

IPROFASA has not implemented an adequate accounting system and has not contracted for a fidelity bond for employees who manage Company cash and assets which can be removed.

12. Project property not identified with USAID insignia and not inventoried.

The goods which IPROFASA has acquired with project funds are not identified as coming under a project financed by USAID, and the Company has no list or summary of the location of these assets acquired with project funds.

13. Inadequate filing of previous years' documentation.

IPROFASA does not have an adequate file with project documentation for previous years.

14. Required project audits were not made.

During the life of the project, no audit was made according to USAID guidelines.

Review of accounting treatment which IPROFASA
gave to assets received in grant

During the life of the project, IPROFASA received from USAID contraceptive products by way of donation, which IPROFASA later sold to pharmacies in the entire country. Our review of the accounting procedures which IPROFASA used for the accumulation of these grants revealed that IPROFASA did not use generally accepted accounting principles for recording cash and contraceptive products received from USAID, as is described below:

- IPROFASA did not value or record in its accounts contraceptive products received from USAID for the period January 1 to August 31, 1992 for the sum of US\$ 305,436 equivalent to approximately Q 1,573,000.
- IPROFASA's equity accounts as of August 31, 1992 do not reflect the accumulated effect of the entry of contraceptive products which IPROFASA received from USAID during the life of the project, which from 1987 to August 31, 1992 totalled US\$ 1,255,384, equivalent to approximately Q 5,155,000. From July 1985 (date of the first contraceptive entry) to December 31, 1986 it was not possible to quantify the value of contraceptive products received by IPROFASA because IPROFASA have subsidiary control records for such products which include import duties value only. In addition, USAID did not include in the confirmation which it sent to us any information on the products which it donated to IPROFASA during that time.
- IPROFASA's income statement for the period January 1 to August 31, 1992 does not include income in cash which IPROFASA received from USAID for the project, totalling Q 3,215,257. IPROFASA credited this income to an equity account called "contributions to be applied".
- Cash income received by IPROFASA from USAID for the project from August 27, 1982 to December 31, 1991, which according to IPROFASA's records totalled Q 13,366,655, were not recorded by IPROFASA as operational income for the years concerned. Instead, IPROFASA

credited this income to an equity account called "contributions to be applied".

Follow-up of previous years' audit recommendations

Except as commented on below, IPROFASA has adopted corrective measures to implement the findings and recommendations included in the reports of reviews and diagnosis performed by the firms Price Waterhouse on August 13, 1992 and September 14, 1992, and Lara & González on April 2, 1993.

1. Lack of implementation of some recommendations included in the report of Price Waterhouse dated August 13, 1992

Recommendation No. 1

Section d) IPROFASA has not sent to USAID the interest earned on funds provided by USAID, in violation of the standard provisions of the agreement.

Recommendation No. 4

"Management should establish the mechanisms and legal treatment to be given to future grants and request the opinion of a professional to prevent any contingency of a fiscal nature".

Observations on administrative and financial capacity

Recommendation No. 2

Recommendation: Management should determine whether it needs any technical assistance for the following:

- a) Training of administrative and financial personnel on USAID standards and regulations applicable to the project.
 - b) Design and implementation of the following manuals, taking into account USAID provisions. The accounting information and financial manual should also define the mechanics applicable to grants received from USAID.
2. Lack of implementation of some recommendations included in the report of Price Waterhouse dated September 14, 1992

Review of DIMECO

Recommendation No. 3

The shareholders of the company should propose to USAID the treatment which they will give to costs not covered by DIMECO and the mechanism to be used in future to handle this type of situation.

Review of COMPASA

Recommendation No. 3

The shareholders of the company, jointly with USAID/Guatemala, should define the treatment to be given to the costs not covered by COMPASA and the most adequate form of handling this type of transactions in future.

Recommendation No. 4

Quantification should be made of the total amount of the services for maintenance which COMPASA invoiced IPROFASA so that these costs can be refunded to IPROFASA, as they do not appear justified in view of the fact that these services were provided by personnel paid with project funds.

3. Lack of implementation of some recommendations included
in the report of Lara & González dated April 2, 1993

- IPROFASA management should instruct its Marketing Department to include the cost of pre-test and post-test studies in the advertising budget.
- IPROFASA should prepare an individual strategic plan for each advertising campaign.
- IPROFASA should require IPSA to formally organize its accounting department in order to guarantee efficient service in the future. This involves the preparation and preservation of documents related to transactions.
- IPROFASA should require IPSA to establish a formally documented system for the treatment of transactions related to purchases and payments to the media.

Compliance with agreement terms regarding deposit and
use of funds generated by sales of products for the
period August 27, 1982 to August 31, 1992

The following situations were determined as a result of this review. They are such that we cannot affirm that income and disbursements of funds generated by sales of agreement products were made in accordance with the terms of the agreement:

- Due to the inadequate filing of documentation for previous years, IPROFASA could not find the copies of invoices, cashier's receipts, bank deposits and salesmen's liquidations from 1985 to 1988.
- Due to the fact that from the start of the agreement IPROFASA commingled funds and did not keep separate accounting records for project operations, it is not possible to obtain a monthly and annual detail of the checks for expenses covered with funds from sales of products.

Review of the transfer of goods and operations
made by DIMECO, IPSA and COMPASA to IPROFASA

Derived from the review which we conducted, the following situations were determined:

- a) Goods transferred by DIMECO
- The opinion of an authorized appraiser was not taken into account for the assignment of a fair market value to the assets. This leads to the goods recorded as fixed assets being overvalued or undervalued.
 - There was transfer of goods which, given their purchase value, should have been considered expenses amounting Q 17,855, for which reason the fixed assets recorded are overvalued.
 - In the accounts, those goods were entered as a previous period adjustment, which was not proper. They should have been reduced for the DIMECO account receivable.
 - DIMECO did not make the transfer of property with invoice, which means that the goods recorded are not properly documented.

b) Transfer of COMPASA profits

- COMPASA transferred Q 6,330 in accumulated profits to IPROFASA.

The Price Waterhouse report of September 14, 1992 indicates that COMPASA's accumulated profits as of June 30, 1992 were Q 20,762. However, COMPASA's balance sheet at that date, according to the financial statements which it presented attached to its income tax return, reflected accumulated profits for Q 7,187. From these profits, the company paid labor benefits for Q 857, with a balance of Q 6,330 remaining which was paid to IPROFASA on April 2 and May 11, 1993.

c) Refund of Q 50,000 by IPSA

- IPSA refunded Q 50,000 to IPROFASA under the heading of payment of rents for previous years.

d) Review of entry into the warehouse of loan of contraceptives received from APROFAM, and difference in shipment of Pantera Condoms.

It was determined that IPROFASA did not record this loan of contraceptives in its accounts, and at this date these products have not yet been returned to APROFAM. The difference in the shipment of pantera condoms was entered into warehouse raw materials card index.

Quantification of interest generated by the bank accounts
in which cooperative agreement funds were handled

On the basis of this quantification, it was determined that IPROFASA did not refund to USAID the sum of Q 142,965 (US\$ 32,860) in interest earned by the bank accounts in which project funds were deposited.

V. MANAGEMENT COMMENTS

Below is included a brief summary of the comments of IPROFASA's General Manager, which are included in Annex V. Our response to IPROFASA's comments are included in Annex VI.

QUESTIONABLE COSTS

a) Without supporting documentation

IPROFASA accepts as questionable the sum of Q 7,407. It does not accept check No. 2925 for Q 3,400. IPROFASA is in agreement with interest earned by funds from Project No. 520-0288. **We consider that this finding has not yet been closed.**

b) Unallowable

IPROFASA accepts as questionable the sum of Q 12,946. It does not accept checks Nos. 2202 for Q 1,361 and 3258 for Q 1,312. **We consider that this finding has not yet been closed.**

c) Cancelled checks liquidated to USAID/G-CAP

IPROFASA accepts the costs identified in this finding but has not yet made total refund to USAID/G-CAP. **We consider that this finding was partially closed.**

d) Questionable costs for previous periods

IPROFASA say that they are not in agreement with this questionable cost. **We consider that this finding has not been closed.**

Exceptions to our report on the fund accountability statement

a) Lack of quantification of IPROFASA's counterpart contribution to the project.

IPROFASA is of the opinion that income from sales of grant products was the counterpart contribution, which was not authorized in writing by USAID/G-CAP. **We consider that this finding has not been closed.**

b) Lack of separate accounting records for Project and Company operations

IPROFASA say that they did not keep separate records for project operations because they are a corporation and their accounts are governed

by Guatemalan law and generally accepted accounting principles. **This finding has not yet been closed.**

- c) Uncleared difference for Q 1,429,328 between balance of advance according to fund accountability statement and USAID/G-CAP confirmation.

I PROFASA say that they have no obligation to clear up this difference because they do not have access to USAID/G-CAP records. **This finding has not yet been closed.**

FINDINGS ON INTERNAL CONTROL STRUCTURE

The following internal control findings were implemented by I PROFASA:

1. Lack of preparation of fund accountability statement.
2. Reports and documents related to accounting and financial information without evidence of review and authorization.
3. Differences in receipt of products (contraceptives).
4. In some purchases, no evidence exists concerning the procedure for selecting the supplier of medicines and of goods and services.
7. Bank reconciliations do not have any evidence of having been prepared on time.
9. Invoicing and shipping internal control procedures not complied with.
10. Income from sales not deposited in a timely manner.
12. Lack of a system to identify and track counterpart funding and project income.
13. Lack of signature on the minutes of the Board of Directors meetings.
14. Lack of definition of an accounting procedure for payment of severance to employees.

The following internal control findings have not been implemented by I PROFASA:

5. Liquidations of advances inadequately supported and expenses without supporting documentation.
6. Expense vouchers are not cancelled.
8. The policies established in the Credit and Collection Manual are not complied with.
11. Lack of defined procedures to monitor compliance with terms of agreement and with applicable laws and regulations.
15. Lack of a system to identify and record direct payments made by USAID.

FINDINGS ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS.

The following noncompliance finding was implemented by IPROFASA:

4. Amounts liquidated to USAID which do not agree with the support documentation.

The following noncompliance findings have been partially implemented by IPROFASA:

5. Cancelled checks included in the expense liquidations sent to USAID.
11. Inadequate establishment of office systems and controls, accounting and financial administration.
12. Project property not identified with USAID insignia and not inventoried.

The following noncompliance findings have not been implemented by IPROFASA:

1. Commingling of project funds with other company income.
2. Inadequate accounting records of IPROFASA and of the Project operations.
3. Unauthorized additions to the capital account.
6. Interest earned with funds received from USAID not refunded to USAID.
7. Lack of presentation of quarterly sales statistics and of a plan to gradually reduce USAID financing.
8. Lack of presentation of detailed work plan and an analysis of annual plan.
9. Lack of presentation of quarterly narrative report.
10. Inadequate formation of an Executive Committee.
13. Inadequate filing of previous years' documentation.
14. Required project audits were not made.

We did not obtain comments from Management on the exceptions included in our opinion on the financial statements at August 31, 1992.

Arthur Andersen & Co.

ARTHUR ANDERSEN

ARTHUR ANDERSEN & Co. S. C.

Edificio Centro Gerencial Las Margaritas
Diagonal 6, 10-65 zona 10 5o Nivel
PBX: 327030, FAXES: 316014, 316016
Guatemala, C. A.

EXPANSION OF FAMILY PLANNING SERVICES PROJECT

USAID/GUATEMALA PROJECT No. 520-0288

IMPLEMENTED BY

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM JANUARY 1 TO AUGUST 31, 1992

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying fund accountability statement of the EXPANSION OF FAMILY PLANNING SERVICES PROJECT, USAID/GUATEMALA PROJECT No. 520-0288 implemented by IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA (a company organized in the Republic of Guatemala), for the period from January 1 to August 31, 1992. This fund accountability statement is the responsibility of the Management of IPROFASA. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as described in paragraphs (2) and (3) below, we conducted our audit in accordance with generally accepted auditing standards and, except as described in paragraph (1), with "Government Auditing Standards" issued by the Comptroller General of the United States (1988 Revision). Both standards require that an audit be planned and performed 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 fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

- (1) Our organization does not have a specific external quality control review conducted by another accounting firm as required in paragraph 46, Chapter 3 of "Government Auditing Standards" issued by the United States Comptroller General (1988 Revisions), as such a quality control program is not required by professional standards in Guatemala. We consider that the effect of this departure from the requirement of "Government Auditing Standards" for financial audits is not material as we participate in the Arthur Andersen & Co. worldwide quality control program, which is required for the Arthur Andersen & Co. Guatemala Office every three years which is carried out by partners and managers from other Arthur Andersen & Co. Offices.
- (2) IPROFASA does not have a separate bank account in which to handle agreement funds, leading to a commingling of USAID funds with funds generated by the sale of products donated and with income from the revolving fund, and IPROFASA does not have detailed information on these. Due to the above, we could not develop auditing procedures to determine whether IPROFASA deposited and used funds generated by sales of products in accordance with the terms of the agreement and project implementation letters.
- (3) As explained in Note (10) to the fund accountability statement, the balance of the advance received as of August 31, 1992, according to the fund accountability statement, shows a difference of Q 1,429,328 less than the balance confirmed by USAID/Guatemala. This difference was not cleared up by IPROFASA because it does not follow the practice of preparing reconciliations with information from USAID. It was therefore not possible for us to determine the reasonableness of the balance of the advance at August 31, 1992.
- (4) As explained in Notes (6) and (9) to the fund accountability statement, in the disbursements for the period January 1 to August 31, 1992 there are questionable costs totalling Q 367,132 (US\$ 106,230) for the cooperative agreement.
- (5) As explained in Note (5) to the fund accountability statement, IPROFASA did not comply with the required counterpart contributions for the project, which according with the terms of the agreement should amount 10% of its total operational budget funds. During the period January 1 to August 31, 1992 counterpart contributions not contributed amounted Q 440,068 (US\$ 88,014).
- (6) As indicated in Note (3), the fund accountability statement has been prepared on the basis of cash income and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the effect of the matters described in paragraphs (2) to (5) above, the fund accountability statement referred to above presents fairly, in all material respects, the amounts of revenues and disbursements, as well as the cash balance, of the EXPANSION OF FAMILY PLANNING SERVICES PROJECT, USAID/GUATEMALA PROJECT No. 520-0288, implemented by IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA for the period January

1 to August 31, 1992, according to the cash basis of accounting described in Note (3) to the fund accountability statement.

This report is intended for the information and use of IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA and the United States Agency for International Development - USAID. However, this restriction is not intended to limit the distribution of this report which, upon acceptance by the parties, is a matter of public record.

Arthur Andersen & Co

Guatemala, C. A.

December 10, 1993, except for the matters discussed in Note 12 to the fund accountability statement, the date of which is June 29, 1995.

EXPANSION OF FAMILY PLANNING SERVICES PROJECTUSAID/GUATEMALA PROJECT No. 520-0288IMPLEMENTED BYIMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASAFUND ACCOUNTABILITY STATEMENTFOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

	<u>Budget</u>	<u>Actual</u>	<u>Questionable costs (Note 6)</u>		<u>Total questionable costs</u>	
	<u>(unaudited)</u>		<u>Unsupported</u>	<u>Questioned</u>	<u>Quetzals</u>	<u>U.S. Dollars</u>
	<u>Funds USAID</u>	<u>Funds USAID</u>				
Income:						
Funds received from USAID	Q 4,400,675	Q 3,215,257				
Funds available	4,400,675	3,215,257				
Disbursements liquidated to USAID:						
Salaries	1,076,781	1,170,061	Q -	Q -	-	-
Transportation and per diem	119,750	220,042	5,007	1,967	6,974	1,341
Equipment and vehicles	200,000	219,576	-	-	-	-
Promotion and advertising	2,026,034	1,887,366	1,000	1,352	2,352	454
Administrative costs	311,984	318,886	3,400	11,599	14,999	2,911
Special programs	666,126	498,015	1,400	741	2,141	413
Total disbursements (Note 6)	Q 4,400,675	4,313,946	10,807	15,659	26,466	5,119
Less - Expenses unauthorized by USAID (Note 8)		(373,439)				
Disbursements reported by IPROFASA		3,940,507				
Less - Disbursements liquidated to USAID pending payment (Note 7)		(602,538)				
Cancelled checks liquidated to USAID (Note 6)		(45,422)	-	45,422	45,422	8,767
Net disbursements for the period		3,292,547	10,807	61,081	71,888	13,886
Excess of disbursements over income		(77,290)				
Questionable costs of previous periods (Note 6)		-	-	152,279	152,279	59,484
Interests earned (Note 9)		-	142,965	-	142,965	32,860
Carried forward...		Q (77,290)	Q 153,772	Q 213,360	367,132	106,230

EXPANSION OF FAMILY PLANNING SERVICES PROJECTUSAID/GUATEMALA PROJECT No. 520-0288IMPLEMENTED BYIMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASAFUND ACCOUNTABILITY STATEMENTFOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992

		Excess (de- ficit) of in- come over disburse- ments
Brought forward...	Q	(77,290)
Plus - Disbursements liquidated to USAID as of August 31, 1992 which had not been disbursed but which corresponds to project obligations incurred at that date, which final paymet were made within the nine-month period following the close date of the project (See Note 7)		(602,538)
- Expenses not authorized by USAID as of August 31, 1992 which were reimbursed later by USAID. These expenses correspond to allowable costs of the project (See Note 8)		(348,155)
Sub-total		----- (1,027,983)
Less - Funds received from USAID after August 31,1992:		
- Income of September 8, 1992	Q 606,758 a/	
- Income of October 29, 1992	156,189 a/	
- Refund of expenses of January 2, 1993 (See note 8)	348,155	1,111,102
	-----	-----
Excess of income over disbursements	Q	83,119 =====

a/ Income corresponds to advances for disbursements of July and August, 1992

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

EXPANSION OF FAMILY PLANNING SERVICES PROJECT

USAID/GUATEMALA PROJECT No. 520-0288

IMPLEMENTED BY

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM JANUARY 1 TO AUGUST 31, 1992

(1) Description of the project

On August 27, 1982, The United States Agency for International Development in Guatemala (USAID/GUATEMALA) and Importadora de Productos Farmacéuticos, S. A. - IPROFASA, signed Cooperative Agreement No. 520-0288 to expand and improve the availability of modern contraceptives at popular prices through a program of social marketing of contraceptives.

The original agreement provided that the date of expiring of the Agreement was December 31, 1987. By Amendment No. 10 to the Agreement, the date of expiring was extended to August 31, 1992.

The USAID/GUATEMALA budget for the entire life of the project is US\$ 6,603,698, which is final sum after twelve amendments to the original cooperative agreement.

The principal categories of project disbursements were: (a) salaries, (b) technical assistance, (c) transportation and food, (d) products (contraceptives), (e) equipment and vehicles, (f) promotion and advertising, (g) administrative costs, and (h) special programs. In addition to grant funds provided by USAID for achievement of the goals of the agreement, IPROFASA should contribute 10% of the funds for its total operations budget. During the period January 1 to August 31, 1992, the amount of the counterpart contributions should have been Q 440,068 equivalent to US\$ 88,014 (see Note 5).

During the period audited, income (cash received from USAID) and disbursements were recorded as follows:

- From January to June 1992, IPROFASA recorded as income the advances of funds received from USAID/GUATEMALA. Advances were reduced through the submission of liquidation vouchers (project expenses reports to USAID). The disbursements were recorded by IPROFASA on the basis of the liquidations vouchers which it sent to USAID/GUATEMALA.
- From July 1992, disbursements were recorded by IPROFASA based on the liquidation vouchers sent to USAID. USAID reimbursed later

disbursements made by IPROFASA. IPROFASA recorded income on the date in which USAID issued the reimbursements vouchers.

During the life of the project, IPROFASA carried out transactions with the following related companies, whose shareholders are the same as those of IPROFASA.

- Distribuidora de Productos Médicos y de Consumo, S. A. (DIMECO)

Organized on December 15, 1986 and engaged in the distribution of over the counter pharmaceutical products to pharmacies and distributors in Guatemala City and the interior of the country. IPROFASA bought over the counter pharmaceutical products from others and sold them to DIMECO for DIMECO to resale.

- Computación, Asesoría y Servicios, S. A. (COMPASA)

Organized on June 29, 1990 and engaged in the sale of computer equipment and accessories, service and maintenance of computer equipment, and sale of office materials and supplies. COMPASA provided IPROFASA with computer services, maintenance, and office materials.

- Interpublicidad, S. A. (IPSA)

Organized in 1981 and engaged in the provision of advertising services in the media as well as development and contracting of third parties for the creation of advertising. Its relation with IPROFASA began in 1988 for the purpose of managing and controlling all advertising in any media.

(2) Brief history of the implementing entity

Importadora de Productos Farmacéuticos, S. A. - IPROFASA (the Company), is a corporation organized in the Republic of Guatemala on November 24, 1981 for an indefinite term. Its authorized, subscribed and initially paid-in capital was Q 5,000, divided into common shares of Q 100 each. Its principal objective is the purchase, sale, distribution, marketing and production of all kinds of pharmaceutical and similar products. At present, the Company engages in the distribution and sale of contraceptive products.

(3) Principal accounting policies

Presentation basis

The project fund accountability statement is prepared on the basis of income and expenditure, which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis of accounting differs from generally accepted accounting principles in that it does not record accruals, and the purchases of property and equipment are recorded as expenditure rather than capitalized.

The fund accountability statement was prepared on the basis of the subsidiary records (bank books and expense liquidations) and does not include direct purchases made by USAID on account of the project.

(4) Monetary unit

I PROFASA's accounting records for project purposes are kept in quetzals (Q), the official currency of the Republic of Guatemala. As of August 31, 1992, the quotation of the quetzal on the bank market in relation to the United States dollar was Q 5.24 to US\$ 1.00.

(5) Counterpart funds

Under amendment No. 7 to the original agreement, which modifies Section II B, Estimated Cost and Distribution of Funds, I PROFASA should have contributed from 1989 10% as minimum of its total budget funds.

During the period 1989 to 1992, I PROFASA did not comply with the contribution of shareholders' own funds as counterpart contributions because, in the opinion of the General Manager of I PROFASA, the funds generated by the sale of contraceptive products constitute the counterpart contributions.

I PROFASA should have contributed counterpart funds as follows:

<u>Year</u>	<u>Authorized operational budget</u>	<u>Counterpart contribution (10%)</u>	
		<u>Local currency</u>	<u>US\$</u>
1989	Q 1,303,981	Q 130,398	US\$ 48,296
1990	3,183,768	318,377	91,225
1991	3,961,765	396,176	76,927
1992	4,400,675	440,068	88,014
	-----	-----	-----
	Q 12,850,189	Q 1,285,019	US\$ 304,462
	=====	=====	=====

(6) Questionable costs

The expenses presented in the fund accountability statement for the period January 1 to August 31, 1992 include questionable costs which are detailed below.

For conversion to US\$ dollars, the exchange rate on the date of each disbursement was used.

(a) Without supporting documentation (see Finding No. 5, Internal Control Structure)

<u>Check number</u>	<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Value Q</u>	<u>US\$</u>
1980	Mar-17-92	BANEX	Payment freight	5,007	961
			Carried forward...	Q 5,007	Q 961

<u>Check number</u>	<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Value Q</u>	<u>US\$</u>
			Brought forward...	Q 5,007	Q 961
3068	Aug-18-92	Nery Ortiz	Installation signs	1,000	193
2925	Jul-29-92	Ronald Echeverría	Fees	3,400	656
2942	Aug-05-92	Ramiro López	Softening	1,400	270
				10,807	2,080
-	-	-	Interests earned not refunded to USAID (see Note 9)	142,965	32,860
			Total unsupported	153,772	34,940

(b) Not allowable (See finding No. 5, Internal Control Structure and finding No. 2, Compliance with Agreement Terms)

<u>Check number</u>	<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Valor Q</u>	<u>US\$</u>
2202	Apr-23-92	Agencia S.H. Liang	Travel no authorized by USAID	1,361	261
2202	Apr-23-92	Agencia S.H. Liang	Tax airline tickets	228	44
2637	Jun-19-92	Hotel Ramada	Tourist tax	378	75
				1,967	380
3258	Aug-31-92	Agencia S.H. Liang	Ticket for draw	1,352	261
1449	Jan-14-92	BANEX	Payment emergency bonds	11,333	2,204
2179	Apr-21-92	API, Seguros	Payment fiscal stamps	266	51
				11,599	2,255
3042	Aug-11-92	Ramiro López	Supermarket purchases	741	143
			Subtotal	15,659	3,039

(c) Cancelled checks liquidated to USAID (see Finding No. 5, Compliance with Agreement Terms and Applicable Laws and Regulations)

<u>Check No.</u>	<u>Date</u>	<u>Payee</u>	<u>Purpose</u>	<u>Value Q</u>	<u>US\$</u>
2826	Jul-15-92	Van Color	Reprinting of literature	3,686	712
2944	Aug-05-92	Volleyball Federation	Festival of sun	10,000	1,930 ^{a/}
3234	Aug-27-92	Aserta C. A.	Participation in seminar	10,637	2,054
3134	Aug-20-92	Publimpresiones	Complement mirrors	4,226	816 ^{a/}
3135	Aug-20-92	Publimpresiones	Complement printing	3,397	655
3278	Aug-31-92	Van color	Complement leaflets	1,556	300
1418	Jan-19-92	Texaco	Purchase fuel	1,000	194
2077	Mar-31-92	SIMSA	Mfg. rolls	1,415	271 ^{a/}
2751	Jul-06-92	CAO, S. A.	Mfg. T-shirts	2,682	518
2286	May-05-92	Van Color	Promotional articles	5,339	1,031 ^{a/}
2036	Mar-24-92	BANEX	Legal expenses	554	107 ^{a/}
2266	Apr-29-92	Disame Ltda.	Maintenance	332	64 ^{a/}
S/N	Payrolls		Check cancelled	598	115
				-----	-----
				45,422	8,767
				=====	=====

a/ We observed that these amounts were returned to USAID on September 11, 1993.

(d) Questionable costs of previous periods

In June 1988, IPROFASA purchased a plot of land, which was not included in the budget authorized for that year. In addition, it did not request USAID authorization for this purchase. (see finding No. 10, compliance with Agreement Terms). IPROFASA requested to USAID a retroactive authorization for this purchase.

	152,279	59,484
	-----	-----
Total unallowable costs	213,360	71,290
	-----	-----
Total questionable costs	367,132	106,230
	=====	=====

(7) Disbursements liquidated to USAID pending payment (see Finding No. 4, Compliance with Agreement Terms and Applicable Laws and Regulations)

The following disbursements were liquidated to USAID for the total amount of the acquired goods and services; nevertheless, as of August 31, 1992 a part of these goods and services had been paid and the rest were accrued as expense in the fund accountability statement and were cancelled later than the date of the project closing.

Check number	Date	Payee	Final check amount	Liquidated amount to USAID	Difference	
					Q	US\$
3079	Aug-20-92	Eticolor	Q 14,815	Q 29,630	14,815	2,860
3166	Aug-26-92	BANEX	29,274	146,374	117,100	22,609
3123	Aug-24-92	Radio Televisión Guatemala	8,406	58,703	50,297	9,711
3124	Aug-25-92	Televisiete	17,066	119,185	102,119	19,716
3128	Aug-24-92	Renta Alarmas	8,676	17,352	8,676	1,675
3133	Aug-24-92	Intergraf, S. A.	48,271	118,376	70,105	13,536
3140	Aug-25-92	DECORACIL	9,747	18,297	8,550	1,766
3361	Aug-29-92	Autoexprin	-	163,870	163,870	28,371
3127	Aug-24-92	Simens, S. A.	19,593	39,155	19,562	3,777
3130	Aug-24-92	Trans Comercial	16,400	35,096	18,696	3,609
3248	Aug-31-92	Asesores y Con- sultores	5,000	24,077	19,077	3,683
3268	Aug-31-92	DIVESA	11,026	20,697	9,671	1,867
			-----	-----	-----	-----
			Q 188,274	Q 790,812	602,538	113,180
			=====	=====	=====	=====

These are purchases of goods and services eligible under the agreement which were received before the close of the project. In addition, final payments were made by IPROFASA within the nine-month period provided in USAID Handbook 3, Appendix 6 A-3, and we therefore consider that they are is not a questionable costs.

(8) Expenses unauthorized by USAID

As of August 31, 1992, USAID/GUATEMALA had not authorized refund of some disbursements made by IPROFASA related to services for promotion and advertising which, according to USAID, had been paid through the IPSA advertising agency (related company) and expenses for computer services paid to COMPASA (related company).

Later, USAID also authorized the refund for advertising and promotion expenses based on the documentation which IPROFASA sent on November 17, 1992, according to voucher No. 067 which contains the detail of the expenses which USAID/G-CAP had not previously authorized. This detail includes a notification from IPROFASA mentioning that these expenses were incurred directly with the

advertising media without the intervention of IPSA, which we verified through tests, for which reason these costs are eligible for the project. The costs and expenses related to computer services were not authorized. The disbursements were as follows:

<u>Month of liquidation</u>	<u>Value</u>	<u>Purpose</u>
May 1992	Q 193,245	Promotion and advertising
June 1992	180,194	Promotion and advertising

Total not authorized preliminarily by USAID	373,439	
Later refund authorized by USAID	(348,155) <u>i/</u>	

Total not authorized	Q 25,284	
	=====	

i/ On January 2, 1993, USAID/GUATEMALA refunded this value to IPROFASA according to voucher No. 67 schedule No. 520.

- (9) Interest generated (see Annex III and Finding No. 6 in the section on compliance with agreement terms and applicable laws and regulations)

The interest generated by the agreement funds from beginning to August 31, 1992 totalled Q 142,965 (US\$ 32,860). At August 31, 1992 this interest had not been refunded to USAID as required in Annex I of the original grant agreement "General Provisions for Non-Governmental and Non-United States Recipients and Non-Governmental and Non-United States Subrecipients".

- (10) Reconciliation of balance of advance as of August 31, 1992 (See Finding No. 1, Internal Control Structure)

Excess of disbursements over income according to fund accountability statement:

- As of December 31, 1991	Q (111,789)
- As of August 31, 1992	(77,290)

Accumulated excess of disbursements over income	(189,079)
Balance of advance according to USAID	(1,618,407)

Uncleared difference	Q (1,429,328)
	=====

The difference is determined in the following manner; however, IPROFASA has not determined the causes:

	Balances according to <u>I PROFASA</u>	Balances according to <u>USAID</u>	<u>Difference</u>
Expense liquidations	Q (17,792,390)	Q (17,457,162)	Q 335,228 <u>b/</u>
Liquidations of expenses authorized by USAID not recorded by I PROFASA in US\$ <u>a/</u>	-	(30,448)	(30,448) <u>b/</u>
Liquidations of expenses authorized by USAID not recorded by I PROFASA in quetzals	-	(45,667)	(45,667) <u>b/</u>
Advances in quetzals	15,467,432	15,467,432	-
Advances in US dollars <u>a/</u>	-	210,838	210,838 <u>b/</u>
Refunds	236,600	236,600	-
Income not identified in USAID confirmation	877,880	-	(877,880) <u>b/</u>
Expenses not authorized by USAID (see Note 8 to the fund account- ability statement)	373,439	-	(373,439)
Disbursements liquidated to USAID pending payment (see Note 7 to fund accountability statement)	602,538	-	(602,538)
Cancelled checks liquidated to USAID (see Note 6 to the fund accountability statement)	45,422	-	(45,422)
	-----	-----	-----
	Q (189,079)	Q (1,618,407)	Q (1,429,328)
	=====	=====	=====

a/ Liquidations of expenses and advances of funds not recorded by I PROFASA are expressed in U.S. dollars at the rate of exchange of US\$ 1.00 per Q 1.00, because I PROFASA has not determined the rate of exchange to be recorded.

b/ The detail of these differences is shown in Annex IV.

Differences mentioned above could be an accumulation of accounting and reporting problems from prior years and which I PROFASA never reconciled with USAID.

(11) Reconciliation of the advance balance
as of January 1, 1992

Advance balance as of January 1, 1992
according to form No. W245 "Report
on Cash Advance Status" which
I PROFASA sent to USAID on February
7, 1991

Q 360,303

Carried forward...

Q 360,303

Brought forward...	Q 360,303
Excess of expenses over income according to accumulated fund accountability statement as of December 31, 1991	(111,789)

Difference not reconciled by IPROFASA	Q 248,514 <u>i/</u>
	=====

i/ As explained in Note 10 to the fund accountability statement, IPROFASA has not reconciled the differences between balances of income and disbursements it made with the amount confirmed by USAID. Due to that, it is not possible to determine the causes for which IPROFASA reported an advance balance of Q 360,303 to USAID as of January 1, 1992. According to IPROFASA's management, the form No. W245 "Report on Cash Advance Status" was prepared with erroneous information.

(12) Subsequent events

On May 24, 1995, USAID/G-CAP approved expansion of our audit work for Project No. 520-0288 with the addition of the following procedures:

- Review of the interest generated in the bank accounts in which IPROFASA deposited the funds from USAID/G-CAP advances and the sale of the products donated from beginning of the project to August 31, 1992 for the purpose of determining the amount of interest which IPROFASA obtained on the funds which it received from USAID/G-CAP and which it must refund to USAID (see Annex III).
- Quantification of total funds which IPROFASA received from USAID/G-CAP and liquidations vouchers which IPROFASA sent to USAID/G-CAP from beginning of the project to August 31, 1992, for the purpose of determining if at that date there is any balance pending liquidation by IPROFASA (see Note 10 to the fund accountability statement and Annex V).
- Review of the documentation which IPROFASA received from USAID/G-CAP in which some of the recommendations of previous audits are considered closed (see section on follow-up of recommendations of previous audits).
- On the basis of the results of the above, modify the audit report.

(13) Accumulated fund accountability statement as of August 31, 1992

Following is the fund accountability statement for the period from first disbursement made to August 31, 1992. This fund accountability statement has not been audited by us nor any other firm of auditors.

EXPANSION OF FAMILY PLANNING SERVICES PROJECT

USAID/GUATEMALA PROJECT No. 520-0288

IMPLEMENTED BY

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD AUGUST 27, 1982 TO AUGUST 31, 1992

	Budget (unaudited)	Accrued as of Dec-12-91 (unaudited)	Activity from Jan-01-92 to Aug-31-92	Total accrued as of Aug-31-92 (unaudited)
INCOME:				
Advances and reimbursements received from USAID/Guatemala	Q 20,360,694	Q 13,366,655	Q 3,215,257	Q 16,581,912
DISBURSEMENTS LIQUIDATED TO USAID:				
Salaries	5,255,139	3,264,182	1,170,061	4,434,243
Transportation/travel allowances	832,515	426,821	220,042	646,863
Equipment and vehicles	1,108,988	316,761	219,576	536,337
Promotion and advertising	9,410,277	7,142,424	1,887,366	9,029,790
Administrative costs	1,756,314	1,427,182	318,886	1,746,068
Special programs	1,997,461	901,074	498,015	1,399,089
	20,360,694	13,478,444	4,313,946	17,792,390
Less - Expenses not authorized by USAID	-	-	(373,439)	(373,439)
Total disbursements according to IPROFASA	-	13,478,444	3,940,507	17,418,951
Excess of disbursements over income	-	(111,789) a/	(725,250)	(837,039)
Disbursements liquidated to USAID pending payment	-	-	602,538	602,538
Cancelled checks liquidated to USAID	-	-	45,422	45,422
BALANCE PENDING REFUND BY USAID	Q -	Q (111,789)	Q (77,290)	Q (189,079)

a/ The balance as of December 31, 1991 according to form No. W245 ("Report on Cash Advance Status") which IPROFASA sent to USAID on February 7, 1992, shows a balance of the advance for Q 360,303 as of January 1, 1992; however, when IPROFASA prepared the final fund accountability statement for the project, it determined that such balance was erroneous. The correct balance according to IPROFASA's records is an excess of disbursements over income for Q 111,789. The difference between these two amounts has not been reconciled by IPROFASA.

ARTHUR ANDERSEN

ARTHUR ANDERSEN & Co. S. C.

Edificio Centro Gerencial Las Margaritas
Diagonal 6, 10-65 zona 10 5o Nivel
PBX: 327930, FAXES: 316914, 316916
Guatemala, C. A.

EXPANSION OF FAMILY PLANNING SERVICES PROJECT

USAID/GUATEMALA PROJECT No. 520-0288

IMPLEMENTED BY

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the EXPANSION OF FAMILY PLANNING SERVICES PROJECT, USAID/GUATEMALA PROJECT No. 520-0288 implemented by IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA (a company organized in the Republic of Guatemala), for the period January 1 to August 31, 1992, and have issued our report thereon dated December 10, 1993 in which we expressed a qualified opinion.

Except for not having a specific external quality control review conducted by another accounting firm, as fully described in our report on the fund accountability statement, and the reasons expressed in paragraphs (2) and (3) of the same report, we conducted our audit in accordance with generally accepted auditing standards and "Government Auditing Standards" issued by the Comptroller General of the United States (1988 Revision). Both standards require that we plan and perform 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 FAMILY PLANNING SERVICES EXPANSION PROJECT, USAID/GUATEMALA PROJECT No. 520-0288 implemented by IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA for the period January 1 to August 31, 1992, we considered its internal control structure 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 IMPORTADORA DE PRODUCTOS FARMACEUTICOS - IPROFASA 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 the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly to permit the preparation of the fund accountability statement in accordance with the basis of accounting described in Note (3) to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following economic cycles: 1) financial information: preparation of reports; 2) conversion: control of fixed assets and inventories; 3) expenditure-purchases: acquisition of goods and services; 4) expenditure-payrolls; 5) treasury: control and management of cash; and 6) controls on compliance with agreement terms and applicable laws and regulations, and local counterpart contributions.

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

We noted certain matters involving the internal control structure and its operations which 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 entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement. The reportable conditions are described in finding Nos. 1 to 15, in the following pages of this report.

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control 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 findings Nos. 1 to 15 described in the following pages are material weaknesses.

In addition, there are certain matters related to the internal control structure and its operations which we consider are not reportable conditions and which we have reported to the management of IPROFASA, in a letter dated December 10, 1993.

This report is intended for the information and use of IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA and the United States Agency for International Development - USAID. However, this restriction is not intended to limit the distribution of this report which, upon acceptance by the parties, is a matter of public record.

Arthur Andersen & Co

Guatemala, C. A.

December 10, 1993, except for the matters discussed in Note 12 to the fund accountability statement, the date of which is June 29, 1995.

EXPANSION OF FAMILY PLANNING SERVICES PROJECT

USAID/GUATEMALA PROJECT No. 520-0288

IMPLEMENTED BY

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

INTERNAL CONTROL STRUCTURE

FINDINGS

The following findings were detected during our audit of the project. They are presented so that they can be taken into account in the internal control structure of future projects which IPROFASA may develop with USAID.

1. Lack of preparation of a fund accountability statement

Condition

IPROFASA does not follow the practice of preparing an accumulated fund accountability statement for the project activities, which includes the reconciliation between the net of income and disbursements and cash on hand and in banks in order to investigate existing differences. In addition, it does not make periodic reconciliations with the balances reported by USAID.

Criteria

According to generally accepted accounting practices, IPROFASA should keep adequate records showing: (1) accuracy, updating and dissemination of each project activity; (2) source and application of project funds; and (3) the balance of the project funds which it should reconcile with cash on hand and in banks.

Cause

There is no accounting administrative procedures manual clearly defining the need to prepare an accrued and monthly fund accountability statement during the life of the project.

Effect

Management does not have timely information on activities executed during the life of the project. Moreover, responsibilities cannot be placed on specific individuals for cash shortages or overages, and project resources may have been used for other than project purposes.

In addition, as of August 31, 1992 there exists a difference in the balance of advances of Q 1,429,328 between IPROFASA's records and USAID/Guatemala's confirmation (see Note 10 to the fund accountability statement).

Recommendation

We recommend that for future projects, IPROFASA prepare a fund accountability statement showing: (1) income and disbursements for the month, for the year, and accumulated during the life of the project; and (2) the balance of funds (income less disbursements) which should match cash on hand and in banks, and if there is a difference this should be investigated. Prior to preparing the statement, income should be reconciled against contributions according to USAID and the counterpart funds, as the case may be, and disbursements against accounting records. This procedure should be more fully defined in an accounting administrative procedures manual.

2. Reports and documents related to accounting and financial information without evidence of review and authorization

Condition

Reports and documents exist which originate accounting records that lack evidence of review and approval by one of the company's officials. For example:

- Report on availability and execution of the budget
- Bank reconciliations
- Production orders Nos. 138, 139, 140, 141, 114, 115, 117 of August 1992
- Estimate of sales commissions
- Journal entry vouchers
- Payment of annual bonus for 1992
- Voucher checks
- Liquidation of the revolving fund as in the following:

<u>Check</u> <u>No.</u>	<u>Date</u>	<u>Salesman</u>	<u>Amount</u>
2818	Jul-14-92	Julio Arenales	Q 2,273.20
1534	Jan-21-92	César Rodas	2,951.65

Criteria

In order to have an adequate function segregation in the company's different departments and as a measure of internal control the reports and documents which give rise to accounting records should be reviewed and approved by an officer different than the one who prepares them, leaving written evidence of this procedure.

Cause

I PROFASA's internal control procedures do not define who is to develop the function of review and authorization of these reports and documents.

Effect

When documents are not reviewed and authorized, increase the following risks:

- Project funds could be used for different purposes, which could lead to project objectives not being reached.
- Appearance of old or abnormal items under bank reconciliation which were not detected and corrected in time.
- Issue of incomplete or deliberately altered production orders.
- Inadequate payment of commissions to salesmen.
- Accounting record of unauthorized transactions.
- Excess in the payment of annual bonuses.
- Payment of checks to persons and for sums not authorized.
- Incorrect liquidations of the revolving fund.

Recommendation

We recommend that the reports and documentation, which generate accounting records be revised and authorized by an official other than the one who prepares them, leaving written evidence of this procedure.

3. Differences in receipt of products (contraceptives)

Condition

It was determined that there are differences between the receipt of products (contraceptives) in bulk recorded by I PROFASA and the confirmation which we received from USAID. Examples are receipt of the following products for the period January to August 1992.

<u>Product</u>	<u>Units according USAID</u>	<u>Units according I PROFASA</u>	<u>Difference</u>
Non colored blue gold	1,295,880	1,296,000	120
Non colored panther	347,500	348,000	500
Noriday	317,900	318,000	100

Criteria

As a sound internal control measure, the Company's warehouse keeper should make selective counts of the boxes of products (contraceptives) received in bulk before entering them and sending the product for packing, and report the differences to management and to USAID.

Cause

I PROFASA does not follow the practice of verifying, through selective counts, the contents of the boxes containing products sent by USAID.

Effect

There are differences in stocks between the units recorded in the accounts and the physical stocks in inventories.

Recommendation

We recommend that as an adequate procedure for the control of inventories, a count of products sent by USAID should be made before entering them on the warehouse records, to detect possible differences in a timely manner, and report them to USAID so that necessary investigations can be made and the causes determined.

4. In some purchases, no evidence exists concerning
the procedure for selecting the supplier of
medicines and of goods and services

Condition

There is no evidence that I PROFASA makes an adequate selection of suppliers of medicines and of goods and services. For example, from January to August, 1992, all purchases of medicines were made from Farmacia La Mejor for a sum of approximately Q 52,200 (US\$ 10,080). In addition, for the following purchases there is no documentation supporting the selection of suppliers of goods and Services.

<u>Check No.</u>	<u>Date</u>	<u>Beneficiary</u>	<u>Value</u>
1794	Feb-25-92	Compasa	Q 1,112
1857	Feb-27-92	Litoformas, S. A.	2,322
2424	May-21-92	Compasa	3,282
2494	May-05-92	Dimeco	1,015
3144	Aug-25-92	Interfase	8,025
3145	Aug-25-92	Interfase	3,210
2854	Jul-20-92	Importadora Electro Abril	12,940

			Q 31,906
			=====
			US\$ 6,120
			=====

However, we verified that the prices paid by IPROFASA for these products were those obtaining on the market on those dates and were reasonable.

Criteria

As a sound internal control measure, several quotations should be called prior to defining the purchase of medicines and of goods and services. This should be done in order to select the supplier offering better products or services at reasonable prices and on adequate credit terms and leave the selection process adequately documented.

Cause

The Company does not follow the practice of calling for quotations in the purchase of medicines and goods and services.

Effect

It is not possible to verify that the supplier was selected impartially and that the terms have been the most beneficial for IPROFASA.

Recommendation

We recommend obtaining at least three quotations, which should be evaluated for quality, price and service prior to selecting the supplier. A file of selected suppliers should also be implemented, and it should be updated periodically. This procedure should be included in the accounting managerial procedural manual which the Company is currently preparing.

5. Liquidations of advances inadequately supported and expenses without supporting documentation (see Note 6(a) to the fund accountability statement)

Condition

Some liquidations of advances for travel are not adequately supported. For example, some liquidations of advances for travel show deficiencies such as the following, which makes them ineligible costs for the project:

<u>Check No.</u>	<u>Beneficiary</u>	<u>Date</u>	<u>Value</u>	<u>Deficiency</u>
1519	César Rodas	Jan-16-92	Q 1,200	No evidence of review and authorization
3042	Ramiro López	Aug-12-92	2,100	Includes invoice No. 160502 of 08-17-92 for Q 741 for purchases in a supermarket in Guatemala City
2942	Ramiro López	Aug-05-92	1,400	Liquidated with simple receipt

In addition, the following do not have support documentation:

<u>Check number</u>	<u>Payee</u>	<u>Date</u>	<u>Value</u>
2925	Ronald Echeverría	Jul-29-92	Q 3,400
3068	Nery Ortíz	Aug-18-92	1,000
1980	Banex	Mar-17-92	5,007

Projection of error:

	<u>Number of transactions</u>	<u>Total value</u>
Sample selected	500	Q 3,508,387
Cases selected which appear with deficiencies	6	11,548
Percentage of error	1.2%	0.33%
Total Universe	2,000	4,313,946
Value of the error projected to the universe	24	14,236

Criteria

Liquidations for advances for travel of IPROFASA personnel should be supported with proper documentation and it should be reviewed and approved by a responsible officer prior to authorization for its recording in the books of accounts.

Cause

Lack of review and authorization of liquidations of advances for travel into the interior of the country.

Effect

There is no evidence that all liquidations for travel expenses correspond to expenses actually incurred and that they correspond to IPROFASA's business, and in this case, questionable costs were incurred for Q 11,548 (US\$ 2,223) (see Note 6 to the Fund Accountability Statement).

Recommendation

We recommend that, in order for liquidations of advances for travel expenses to be properly supported, they should be reviewed and authorized in a timely manner by an officer of the Company and that written evidence be kept of this procedure. Those costs liquidated for Q 11,548 (US\$ 2,223) which do not have adequate documentation should be refunded to USAID.

6. Expense vouchers are not cancelled

Condition

Expense vouchers are not cancelled with a stamp indicating the date and the number of check with which paid.

Criteria

The cancellation of documents with a stamp is one of the most recognized and practiced internal control procedures.

Cause

There is no practice of cancelling these documents.

Effect

There is an increase in the risk of a document being paid more than once and that, as a result, it may be included in more than one of the expense liquidations presented to USAID.

Recommendation

We recommend that in the execution of future projects, IPROFASA cancel all expense vouchers attached to checks with a stamp indicating date and number of check with which paid.

7. Bank reconciliations do not have any evidence
of having been prepared on time

Condition

There is no evidence that bank reconciliations are prepared in a timely manner because they do not show preparation date, name and signature of the person who prepared them and of the person who reviewed and authorized them. Neither is there a control file for the reconciliations prepared.

Criteria

It is a sound internal control measure for bank reconciliations to be prepared in a timely manner, no later than 15 days following the end of the month. Such reconciliations should bear as evidence the name and signature of the person who prepared them and of the persons who reviewed and authorized.

Cause

IPROFASA's Accounting Department does not follow the practice of dating or signing the bank reconciliations which it prepared. In addition, there is no definition as to the person who should authorize such reconciliations.

Effect

There is an increase in the risk that old or abnormal items under reconciliation requiring analysis and adjustment will not be detected on time.

Recommendation

We recommend that in future projects the Company implement the procedure of preparing bank reconciliations not later than the first fortnight of the following month, and that they bear evidence of the date of preparation and the name and signature of the person who prepared them and of the officers who reviewed and authorized.

8. The policies established in the Credit and Collection Manual are not complied with

Condition

It was determined that there are receivable balances of clients with terms greater than 90 days.

Criteria

According to the Company's credit and collection manual, when a customer is more than 90 days in arrears the Company proceeds to take back the merchandise in order to recover part of the sale.

Cause

No proper collection follow-up is made. In addition, the credit and collection manual is not being complied with.

Effect

Accounts receivable from clients become old and their recovery is slow. The following are examples of aged balances:

<u>Invoice number</u>	<u>Date</u>	<u>Value</u>	<u>Date of collection</u>
21679	Feb-13-92	Q 2,736	Jul-23-92
21623	Feb-11-92	4,864	Aug-30-92
23474	Jul-17-92	2,472	Dec-10-92

Recommendation

We recommend summarizing the balance of accounts receivable and analyzing aged balances monthly in an attempt to take steps toward their recovery and in those cases in which payment is not obtained in time that the merchandise be taken back and thus comply with the credit and collection manual.

9. Invoicing and shipping internal control procedures not complied with

Condition

There are cases of noncompliance with the internal control procedures established for invoicing and shipping of merchandise.

The following are examples of established procedures not being complied with in most of the cases which we reviewed:

- There is no evidence that shipping orders to warehouse prepared by the Credits and Collection Department are reviewed by the Credit Officer.
- The daily invoicing report for August 1992 has no signature of the person who prepared and the person who reviewed.
- Weekly work plans are not signed by salesmen as responsible and they show no evidence of having been authorized and reviewed by the Marketing and Sales Manager.

Criteria

I PROFASA has established certain procedures for review and signature of documents in order to control invoicing and shipping of merchandise, which should be observed.

Cause

No specific officer has been assigned the responsibility to verify compliance with all internal control procedures existing in the area of credits, collections and sales.

Effect

Noncompliance with procedures established by I PROFASA, which leads to the risk that products can be shipped without authorization, that daily invoicing reports will be badly prepared, and that salesmen's work plans will not be carried out.

Recommendation

We recommend that the Credits and Collection Officer review the orders and daily invoicing report, leaving written evidence of this procedure. Salesmen should also sign the work plans, which should be reviewed and authorized in a timely manner by the Marketing and Sales Manager in order to verify that the plans are carried out. He should leave written evidence of the procedure.

10. Income from sales not deposited in a timely manner

Condition

Income or collections from sales of agreement products are not deposited in a timely manner in the Company's bank accounts. The following are examples of deposits made with several days' delay:

<u>Invoice No.</u>	<u>Client</u>	<u>Receipt number</u>	<u>Collection date</u>	<u>Date of deposit</u>	<u>Amount</u>
13641	DIMECO	15560	Jul-05-90	Jul-10-90	Q 5,465
13122	PRONE	12750	Feb-09-90	Feb-15-90	4,057
20147	Farmacia Mérida	21949	Oct-20-91	Oct-30-91	1,680
A-231	Farmacia Requena	24822	May-12-92	May-20-92	109
B-258	Farmacia Exclusiva	23585	May-14-92	May-20-92	138

Criteria

Income from collections and sales on cash should be deposited no later than the day following the transaction.

Cause

The Company is confident that cash from collection and cash sales is deposited in a timely manner, but no officer reviews deposits and collections made in order to ascertain that they are made in a timely manner.

Effect

There is the risk of misappropriation of funds and that the Company would not detect this in time.

Recommendation

We recommend that income from sales be deposited daily in the Company's bank accounts. In addition, the Cashier General should review the salesman's liquidations and compare the dates of the cashier's receipts with those on the deposit tickets. In any case excess of time should be investigated and cleared up by the salesman.

11. Lack of defined procedures to monitor compliance with terms of the agreement and with applicable laws and regulations

Condition

I PROFASA does not have an accounting administrative procedures manual defining the responsibilities for each job with regard to compliance with agreement terms and applicable laws and regulations.

Criteria

In the control environment, which is one of the elements of the internal control structure, employees play an important role in verifying whether the structure is operating properly. In this respect, responsibilities for compliance with agreement terms and with applicable laws and regulations should be assigned to different employees.

Cause

Responsibility for verifying that agreements terms and applicable laws and regulations are being complied with is not assigned to specific employees of IPROFASA.

Effect

Noncompliance with the terms of the agreements and with applicable laws and regulations which may not be detected in a timely manner.

Recommendation

We recommend that IPROFASA define, in an accounting administrative procedures manual, each employee's responsibility for compliance with the terms of the agreements and with applicable laws and regulations. In addition, IPROFASA management should verify that each employee fulfills this responsibility so that in future projects cases of noncompliance with these provisions will not arise.

12. Lack of a system to identify and track counterpart funding and project income (see Note 5 to the the Fund Accountability Statement)

Condition

The company does not have a system to identify and track counterpart funds and project income, and report them separately from USAID funding.

Criteria

Cooperative agreement indicates that: During its initial years of formation, while IPROFASA consolidates its market, it is not expected nor required that the grantee contribute matching funds. However, at the beginning of 1989 it is expected that IPROFASA should contribute 10% of the funds for its total operational budget.

Cause

The Company believed that counterpart funds (referred to as matching funds in the agreement) were the same as project income derived from sales. The Company has not requested that USAID clarify this matter. Also, the company does not have procedures to verify compliance with the agreement terms.

Effect

Noncompliance with agreement terms. IPROFASA did not contribute counterpart funds for the years 1989 to August 31, 1992 for the sum of Q 1,285,019 (US\$ 304,462).

Recommendation

We recommend that the Company request from USAID a clarification of the way in which the counterpart funds of the project should have been contributed and take it into account for future projects with USAID, and that the company furnish to the project the required amount of counterpart funding.

13. Lack of signature on the minutes of the Board of Directors meetings

Condition

The minutes of the Board of Directors meetings have not been signed by the members concerned from the meeting of March 11, 1992 to the meeting of December 10, 1993.

Criteria

All minutes of the Board of Director should be signed in a timely manner. It is through these minutes that important decisions of the Company are authorized.

Cause

They are not presented in a timely manner to members of the Board for signature.

Effect

Important decisions taken show no evidence of having been authorized.

Recommendation

We recommend transferring each set of minutes to be signed in the following meeting thus preventing a large number of minutes without signatures.

14. Lack of definition of an accounting procedure for payment of severance to employees

Condition

IPROFASA used project funds for Q 62,700 during the period January to August 1992 to create a reserve for the payment of severance wages to its employees at the closing of the Cooperative Agreement, which it reported to USAID in the monthly expense liquidations as severance paid. These funds were transferred to a current account in the Banco Industrial, S. A. and at the close

of the project they were used to pay part of severance to employees. The total labor liability was Q 122,286 (US\$ 23,610) and the difference of Q 59,586 was liquidated to USAID when payment was made to the employees. This procedure used by IPROFASA was inconsistent, as it reported part of the payment of severance when it created the fund for payment and the other part when it made payment to the employees..

Criteria

Federal Acquisition Regulations, Section 31.205-6 (g), 2 (ii), provide that the payment of severance is eligible if one of the following methods is used:

- Payments of severance are effectively made, or
- In case there is a provision for severance, this method will be acceptable if the amount of the accumulation is reasonable in relation to payments made for severance during a representative past period.

Cause

IPROFASA Management decided to report to USAID in the monthly liquidations vouchers one-twelfth of the total wages paid to create a fund in the Banco Industrial for payment of severance at the close of the project. The calculation was not based on the policies indicated in Federal Acquisition Regulations.

Effect

Noncompliance with Federal Acquisition Regulation 31.2. However, at the end of the agreement payments of severance were made on the basis of the provisions of the laws of Guatemala and the amount of severance actually paid to employees was liquidated to USAID, for which reason these costs are eligible.

Recommendation

We recommend that for future agreements IPROFASA used one of the methods described under criteria and observe compliance with Federal Acquisition Regulation 31.2.

15. Lack of a system to indentify and record
direct payments made by USAID

Condition

IPROFASA did not record in its accounts the payments made directly by USAID during the life of the project.

Criteria

Generally accepted accounting practices require the implementation of accounting procedures to identify and record in a timely manner all disbursements made directly by USAID as a charge on the project.

Cause

According to IPROFASA's management comments, USAID never notified them the amount of direct payments made; consequently, IPROFASA had not information to reconcile balances with USAID in a timely basis.

Effect

IPROFASA did not record in its accounts direct payments made by USAID during the life of the project for the sum of US\$ 1,802,906 and Q 21,896.

Recommendation

We recommend that in the execution of future projects, IPROFASA design the procedures necessary to guarantee the recording of direct payments made by USAID. We also recommend asking USAID in writing for clarification as to whether IPROFASA should or should not have recorded in its accounts all direct payments made by USAID for Project No. 520-0288.

ARTHUR ANDERSEN

ARTHUR ANDERSEN & Co. S. C.

Edificio Centro Gerencial Las Margaritas
Diagonal 6, 10-65 zona 10 5o Nivel
PBX: 327939, FAXES: 316914, 316916
Guatemala, C. A.

EXPANSION OF FAMILY PLANNING SERVICES PROJECT

USAID/GUATEMALA PROJECT No. 520-0288

IMPLEMENTED BY

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the EXPANSION OF FAMILY PLANNING SERVICES PROJECT, USAID/GUATEMALA PROJECT No. 520-0288 implemented by IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA (a company organized in the Republic of Guatemala) for the period January 1 to August 31, 1992, and have issued our report thereon dated December 10, 1993 in which we expressed a qualified opinion.

Except for not having a specific external quality control review conducted by another accounting firm, as fully described in our report on the fund accountability statement, and for the reasons expressed in paragraphs (2) and (3) of that report, we conducted our audit in accordance with generally accepted auditing standards and with "Government Auditing Standards" issued by the Comptroller General of the United States (1988 Revision). Both standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with agreement terms and with applicable laws and regulations is the responsibility of the management of IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of IPROFASA's compliance with the agreement terms and applicable laws and regulations. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures in follow requirements or violations of the terms of the agreement and applicable laws and regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures of violations, is material to the fund accountability statement. The results of our tests of compliance, disclosed certain material instances of noncompliance, which are described in findings Nos. 1 to 14, on the following pages of this report.

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement of the EXPANSION OF FAMILY PLANNING SERVICES PROJECT, USAID/GUATEMALA PROJECT No. 520-0288 implemented by IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA, for the period January 1 to August 31, 1992 is presented fairly, in all material respects, in conformity with the basis of accounting described in Note (3) to the fund accountability statement, and except for the matter mentioned in finding No. 2, this report does not affect our report dated December 10, 1993.

Except as described above, the results of our tests indicate that, with respect to the items tested, IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. (IPROFASA) complied, in all material respects, with the provisions indicated in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that IPROFASA had not complied, in all material respects, with those provisions.

This report is intended for the information and use of IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. (IPROFASA) and the United States Agency for International Development (USAID). However, this restriction is not intended to limit the distribution of this report which, upon acceptance by the parties, is a matter of public record.

Arthur Andersen & Co.

Guatemala, C. A.

December 10, 1993, except for the matters discussed in Note 12 to the fund accountability statement, the date of which is June 29, 1995.

EXPANSION OF FAMILY PLANNING SERVICES PROJECT

USAID/GUATEMALA PROJECT No. 520-0288

IMPLEMENTED BY

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

FINDINGS

The following findings were detected during our audit of the project. They are presented so that they will be taken into account in future projects developed by IPROFASA with USAID.

1. Commingling of project funds with
other company income

Condition

It is not possible to accurately determine all disbursements and expenses made with USAID funds because project funds and funds generated by the sale of products by IPROFASA were commingled in the same account. In addition, it is the general cashier who decides in which bank account the funds generated from the sales should be deposited.

Criteria

Section 12 subsection c) of Annex I to the cooperative agreement provides that "USAID funds shall not be mixed with other funds owned or controlled by the recipient. The recipient shall deposit all advances in cash received from USAID in a separate bank account and shall make all payments for goods and services from this account."

Cause

The Company lacks procedures to verify compliance with the terms and conditions of the agreement.

Effect

Noncompliance with the terms of the agreement. Moreover it is not possible to accurately follow USAID funds, and determine their use.

Recommendation

We recommend that for future projects with USAID, the officers of IPROFASA analyze the reference terms and develop a specific accounting system for the project, and which at the same time forms part of the Company's general

accounting system. This would make it possible to maintain proper separate records for each activity. In addition, we recommend that USAID funds be managed in one single bank account independent from other IPROFASA funds, and that written instructions be given to the person in charge of making the deposits regarding the specific account in which to make them.

2. Inadequate accounting records of IPROFASA and
of the project operations

Condition

- There is no separation in the accounting records of IPROFASA from the operations conducted with project funds.
- Specific records do not exist that show the counterpart contributions since 1989 to August 31, 1992.

Criteria

According to Handbook 13, Paragraph 16, Standards for Financial Administration System, IPROFASA should keep separate accounting records for the agreement to reflect in its financial statements agreement funds separate from the Company's normal operations.

According to Amendment No. 7 to the original Agreement, which amends Section II B Estimated Cost and Distribution of Funds, IPROFASA should have contributed since 1989 at least 10% of the funds for its total budget, the amount of which from January 1, 1989 to August 31, 1992 should have been Q 1,285,019 (US\$ 304,462). In addition, IPROFASA should have deposited income generated by funds from sales in a separate interest-earning bank account. These funds could be used to cover operational expenses such as payment of import taxes, Value Added Tax, stamp tax, compensation to the members of the Board, and special events.

Cause

The Company lacks procedures to verify compliance with terms of the agreement and USAID standards and procedures with respect of how to keep accounting records for the agreements which it finances.

Effect

The fund accountability statements which IPROFASA prepares do not reconcile with actual project activity because the accounting records reflect all Company operations jointly. IPROFASA did not comply with contributing 10% as a minimum to the operational budget from 1989 to 1992. The amount of the counterpart fund during this period should have been Q 1,285,019 (US\$ 304,462).

It also incurred questionable costs for the sum of Q 14,918 (US\$ 2,896) because it paid taxes and airline tickets with USAID funds (see Note 6b to the Fund Accountability Statement), which was not detected in a timely manner by IPROFASA. The projection of this error is:

	Number of transactions <u>tested</u>	<u>Total value</u>
Sample selected	500	Q 3,508,387
Cases selected which appear with deficiencies	7	14,918
Percentage of error	1.4%	0.43%
Total universe	2,000	4,313,946
Value of error projected to universe	28	18,550

Recommendation

We recommend that in future agreements which may be entered into with USAID, IPROFASA design an accounting system and financial procedures allowing it to operate and report project and Company transactions separately. IPROFASA should reimburse to USAID questioned costs for Q 14,918 (US\$ 2,896).

3. Unauthorized additions to the capital account

Condition

IPROFASA capitalized cooperative agreement contributions for Q 2,195,000, with which its authorized capital increased to Q 2,200,000. The amount capitalized represents part of income in cash contributed by USAID for the project and which IPROFASA entered into an equity account called "contributions to be applied". On April 24, 1987, USAID authorized the capitalization of Q 650,000. However, the remaining balance of Q 1,545,000 was not authorized, for which reason this latter sum represents a payment of dividends of shares not authorized by USAID.

Criteria

Section VI, Other Agreements and Dispositions, subsection a) to Amendment No. 7, provides that only those shares required by the law of Guatemala or provided in the deed of constitution may be issued. No share of IPROFASA may be negotiated without the consent of the parties. In addition, subsection f) of this section provides that the corporation shall not declare dividends without the approval of USAID.

The Guatemalan Code of Commerce regulates the issue of shares and at Article 90 provides that the minimum paid-in capital of a corporation shall be at least Q 5,000. Article 203 of the same Code also provides that corporate capital increases should be resolved by the organ concerned (special general meeting of shareholders), which resolution shall include the amount of increase in capital and form of payment.

Cause

I PROFASA management supported the decision which it took for capitalization of USAID/G-CAP contributions for the project based on the following:

- In a letter dated April 1, 1987 which the General Manager of I PROFASA sent to Ms. Jane Lyons in the Office of Human Resources of USAID/G-CAP, I PROFASA states that its external auditors had made them see the importance of recapitalizing the company for the 1985 and 1986 periods due to legal requirements, as the Code of Commerce, at Article 123, indicated that when a company has lost 60% of its capital, it should declare itself bankrupt and close its operations.
- In the same letter, I PROFASA mentions the need to make a new recapitalization to the value of Q 650,000, which was to be covered with donations received from USAID in cash and in kind. According to I PROFASA, this operation would save the payment which the law requires on donations, for a sum of approximately Q 160,000.

Our analysis of the cause indicated above leads us to the conclusion that I PROFASA did not follow adequate criteria, as:

- Article 123 of the Code of Commerce regulates the exchange of certificates. The Article which regulates causes for dissolution is Article 237, which indicated that one of the causes of dissolution is the loss of more than 60% of paid-in capital.
- The opinion that I PROFASA had a loss in 1985 and 1986 in excess of 60% of paid-in capital is not proper, as in those years I PROFASA did not record as part of its operational income those donations in cash and in kind which USAID/G-CAP contributed to the project. If I PROFASA had registered such income it would possibly note have reported operational losses, for which reason it would not have been necessary to capitalize.

Effect

Noncompliance with agreement terms. In addition, the objectives of the project may not have been reached as part of the funds contributed by USAID for the project were transferred to I PROFASA shareholders in the form of shares, which increases the risk that the shareholders, at the time the company is liquidated or sold, would not refund this sum to the project.

Recommendation

We recommend that I PROFASA ask USAID for written authorization for the capitalizations of project funds which it has made to date and adjust the capital accounts required by USAID. In case this authorization is not obtained, we recommend that I PROFASA reduce Q 1,545,000 in the accounts from the paid in capital, debiting a shares in treasury subaccount with credit to the contributions to be applied account, which is the account I PROFASA debited when it made the capitalizations described under Condition above. In relation to

this, IPROFASA should take into account that the Code of Commerce of the Republic of Guatemala, at Article 111, provides that companies may acquire their own shares with authorization of the Shareholders' General Meeting and, if in six months the company has not sold such shares, capital must be reduced in accordance with legal requirements.

Additionally, in order to reduce the balance of accumulated losses, which as of August 31, 1992 totalled Q 11,093,274, we also recommend that the Meeting of Shareholders of IPROFASA approve setting off these losses against the contributions to be applied account. The effect of this set-off would be to reflect in the financial statements that the company has not lost more than 60% of its corporate capital.

In order to make these transactions, IPROFASA should consult its legal advisor in order to comply with all applicable legal requirements.

4. Amounts liquidated to USAID which do not agree with the support documentation (see Note 7 to the Fund Accountability Statement)

Condition

There are differences between the value liquidated to USAID and the liquidation support documentation. The payments were for eligible goods and services received before the close of the project. In addition, final payments were made within the nine-month period provided in USAID Handbook 3, Appendix 6A-3.

Criteria

According to Annex I, Section 1, Subsection (a) to the Cooperative Agreement, IPROFASA should liquidate to USAID those expenses actually paid and for which support documentation is available.

Cause

IPROFASA liquidated to USAID the total cost of the products or services which it was to acquire even when only a portion of the total had been paid, with an unpaid balance remaining.

Effect

There is a difference of Q 602,538 between the value liquidated to USAID and the support documentation for the period January 1 to August 31, 1992, which leads to the fund accountability statement showing as disbursements amounts which had in fact not been paid as of August 31, 1992.

Recommendation

We recommend that IPROFASA implement the procedure of liquidating to USAID only those expenses actually paid and for which there is proper supporting documentation.

5. Cancelled checks included in the expense liquidations sent to USAID (see Note 6, literal (c) to the Fund Accountability Statement).

Condition

During the period from January to August 1992, the liquidations vouchers sent to USAID included several checks which were cancelled later.

Projection of error:

	<u>Number of transactions</u>	<u>Total value</u>
Sample selected	500	Q 3,508,387
Cases selected that appear with deficiencies	13	45,422
Percentage of error	2.6%	1.29%
Total universe	2,000	4,313,946
Value of error projected to universe	52	55,650

Criteria

Under Annex I, section 1 (e) of the cooperative agreement, IPROFASA should have liquidated to USAID only those expenses which it actually makes to develop the project.

Cause

The services or goods covered by these checks were not received by IPROFASA, for which reason it was necessary to cancel them.

Effect

The company incurred in questionable costs for Q 45,422 (US\$ 8,767) because expenses not actually incurred were included in the liquidations sent to USAID.

Recommendation

We recommend that the company review and analyze all expenses which are to be included in the liquidations to USAID in order to make certain that they are really paid and that the checks will not be cancelled later. In addition, a procedure should be implemented so that, in case the need arises to cancel a check already liquidated to USAID, this should be corrected in the following liquidation. Additionally, the company should reimburse this amount to USAID.

6. Interest earned with funds received from USAID
not refunded to USAID

Condition

The funds received from USAID were deposited in bank accounts which earned interest, which was not refunded to USAID.

Criteria

Annex I General Provisions, Section 4 Refunds, Subsection a) provides that if the use of funds provided by USAID results in the accumulation of interest in favor of the recipient, the recipient shall refund to USAID a sum equivalent to the amount of interest earned.

Cause

I PROFASA did not refund the total amount of interest earned by the accounts in which it deposited USAID funds from start of the project on August 27, 1982 to August 31, 1992 because it did not know this clause in the agreement.

Effect

I PROFASA earned Q 142,965 (US\$ 32,860) in interest from the bank accounts in which the funds provided by USAID were deposited, which funds it did not refund to USAID.

Recommendation

We recommended that I PROFASA and USAID jointly determine a term for return of such interest to USAID.

7. Lack of presentation of quarterly sales statistics and
of a plan to gradually reduce USAID financing

Condition

Quarterly sales statistics were not presented to USAID, neither was USAID presented in December 1989 with a plan to gradually reduce USAID financing.

Criteria

In accordance with the terms of the agreement, Section VI as amended by Amendment No. 7, I PROFASA should have presented to USAID sales statistics and the plan for reduction of USAID financing in a timely manner.

Cause

I PROFASA does not follow the practice of preparing statistics quarterly. It only does so monthly, which it considers to be sufficient information for USAID. Moreover, the report for reduction of financing was not prepared.

Effect

Noncompliance with the clause mentioned, which increases the risk that IPROFASA management, not having the information and reports required, may not be able to take timely action necessary for achievement of project objectives.

Recommendation

We recommend that for future projects with USAID, IPROFASA implement sufficient management reporting procedures to comply with the terms and clauses concerned.

8. Lack of presentation of detailed work plan and analysis of annual plan

Condition

During the life of the project, IPROFASA did present a budget annually but did not present the detailed work plan and the analysis of the annual plan.

Criteria

Section VI of the Agreement as amended by Amendment No. 7, Subsections j) and k), provides for the presentation of a budget and an annual work plan to USAID for the following year, on a date no later than October 1 of each year.

Cause

Because of the nonexistence of procedures to verify the compliance, the work plan and the analysis of the annual plan were not prepared.

Effect

Noncompliance with terms and clauses of the agreement. IPROFASA's management does not have available the necessary tools to verify that project goals are reached.

Recommendation

We recommend that for future projects, IPROFASA implement sufficient management reporting procedures to prepare and send all reports and plans required by USAID and thus comply with terms and clauses concerned.

9. Lack of presentation of quarterly narrative report

Condition

During the life of the project no quarterly narrative report was prepared describing the activities of the project and also including problems detected and recommendations proposed.

Criteria

According to Section I Authority, Purpose and Description of the Program, Section 1 Subsection c) (as amended by Amendment No. 3) of Phase III Launching of Product and Subsequent Actions, Section 2, IPROFASA, after launching the product, should have presented a quarterly narrative report describing the activities of the project and the achievement of objectives, including problems found and recommendations for the activities planned.

Cause

The provisions of this clause in the agreement were not taken into account.

Effect

Noncompliance with the clause of the agreement mentioned, and there is no written evidence that USAID was informed of the development of the project and the problems found and solutions proposed.

Recommendation

We recommend that for future projects, IPROFASA implement management reporting procedures to send to USAID all those reports required by the agreement, so as to comply with all clauses of the contract.

10. Inadequate formation of an Executive Committee

Condition

The Executive Committee provided for in this clause was in fact formed, but it only operated for a short time.

Criteria

Section VI Other Agreements and Provisions, Subsection i) (as amended by Amendment No. 7) provides that IPROFASA should form an Executive Committee to take decisions on such matters as the use of funds generated by sales not previously approved in the agreement, budgetary changes for amounts less than 15%, change of senior personnel, and international emergency travel.

Cause

The Committee was indeed formed, but for causes undetermined it ceased to operate.

Effect

Noncompliance with the clause of the agreement mentioned. The following decision which should have been made by the Committee, was not authorized and there is no evidence that it was ever analyzed and authorized by USAID: Purchase of land in June 1988 where the IPROFASA building was constructed for Q 152,279 (US\$ 59,484), which was not authorized by USAID and was not budgeted in that year (see Note 6(d) to the fund accountability statement).

Recommendation

We recommend that if the Committee procedure be continued in future agreements, IPROFASA and USAID form this Committee jointly so that all important decisions are taken by the Committee. We also suggest designing the necessary guidelines to guarantee the Committee's operations.

11. Inadequate establishment of office systems and controls,
accounting and financial administration

Condition

IPROFASA has not implemented an adequate accounting system and has not contracted for a fidelity bond for employees who manage Company cash and assets which can be removed.

Criteria

Under the provisions of Section I Authority, Purpose and Description of the Program, Section 1 Subsection c) (amended by Amendment No. 3) of Phase I Organization and Preparation, Section 3, IPROFASA should have established, from the start of the project, proper office systems and controls requiring a proper accounting system and fidelity bonds for the employees.

Cause

From the start of the project, IPROFASA management did not define the accounting controls and systems proper to its needs, for which reason during the life of the project it administered and recorded transactions according to the criteria of personnel who processed them. The company is at present in the phase of implementation of the accounting system.

Effect

Noncompliance with the clause of the agreement mentioned. There is no proper accounting system to make it possible to record separately funds from the project and from the Company. In addition, Company assets and funds are not duly safeguarded, and management does not have the information necessary to adequately manage the project.

Recommendation

We recommend that IPROFASA speed up the design of the accounting system, which should meet the needs of the project and of the Company, and follow USAID guidelines and regulations. A fidelity bond should also be contracted for all employees who manage project assets and funds.

12. Project property not identified with USAID insignia
and not inventoried

Condition

Property which IPROFASA has acquired with project funds does not bear identification as coming under a project financed by USAID, and the Company has no detail of the location of the property acquired with project funds.

Criteria

According to Handbook 11, Chapter (3), Section 2.13.5 goods acquired with Federal funds are required to bear a label identifying them and indicating that the project is financed by the United States Government. Handbook 13 Paragraph IT-7 Standards for the Management of Non-Expendable Property requires that a schedule be drawn up of the property with a description, value, location and other requirements.

Cause

Personnel involved in the development and management of the project were not aware of USAID regulations.

Effect

There is no proper control of the physical existence and location of project assets, which increases the risk of potential loss or misuse of these assets and which are not detected in time by IPROFASA.

Recommendation

We recommended that IPROFASA place the required identification or emblem on each asset acquired with USAID funds, and proceed to draw up the schedule of the location of the property acquired with project funds, following the provisions of Handbook 13 Paragraph IT-7 and Handbook 11.

Comment

On October 31, 1994, USAID, in a notification signed by Patricia O'Connor, Health and Population Officer, exempted IPROFASA from the requirement to place the USAID insignia on goods, supplies and advertising and promotional material financed by this project.

13. Inadequate filing of previous years' documentation

Condition

IPROFASA has no adequate filing arrangements for documentation and information on the project for previous years. On the date of our review documentation for previous years was filed in cardboard boxes placed on the floor of an office. This situation made it impossible to locate the following documentation:

- Salesmen's liquidations, cashier's receipts and bank deposits for 1985, 1986, October, November, and December 1989.
- Detail of invoices for November 1987.
- Copy of the contract for the construction of the third to fifth floors of the IPROFASA building.
- Control cards for stock by shelves.
- Reports of delivery of merchandise.

Criteria

Handbook 13, Paragraph 1L "Requirements for the Retention and Custody of Records" requires that IPROFASA should keep an orderly and duly identified file of all the documentation supporting project accounting records for at least the three previous years.

Cause

The responsibility for filing documentation for previous years was not assigned to a specific officer.

Effect

Documentation and information for previous years may be destroyed or lost, leading to certain transactions made by IPROFASA in previous years not having support documentation to prove their correctness.

Recommendation

We recommend that IPROFASA implement a proper filing system for project documentation and that files be arranged in an orderly manner in a specific place.

14. Required project audits were not made

Condition

During the life of the project, no audit was made according to USAID guidelines.

Criteria

Project Implementation Letter No. CRS-5 of December 15, 1993, Annex A, "USAID Audit Requirements - Audits Carried Out by Independent Public Accountants", Section II, paragraph 2, provides that the format of the audit report to be presented to USAID shall include:

- The auditors shall prepare a special report on the financial situation of the cooperative agreement to include USAID and counterpart contributions,

the status of the budget (income, expense, amounts budgeted and spent, and balance to be disbursed) and should also include their opinion in relation to compliance by the recipient with the clauses and provisions contained in the cooperative agreement.

Cause

I PROFASA personnel did not consider the provisions of PIL No. CRS-5.

Effect

This situation increases the risk of the objectives of the project not being met, as I PROFASA management did not obtain, at the proper time, the opinion of external auditors as to the adequacy of internal controls and recording, control and reporting of project transactions.

Recommendation

We recommend that for future agreements between I PROFASA and USAID, I PROFASA make certain that USAID regulations are complied with.

ARTHUR ANDERSEN

ARTHUR ANDERSEN & Co. S. C.

Edificio Centro Gerencial Las Margaritas
Diagonal 6, 10-65 zona 10 5o. Nivel
PBX: 327939, FAXES: 316014, 316016
Guatemala, C. A.

EXPANSION OF FAMILY PLANNING SERVICES PROJECT

USAID/GUATEMALA PROJECT No. 520-0288

IMPLEMENTED BY

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

FOLLOW-UP OF PREVIOUS YEARS' AUDIT RECOMMENDATIONS

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the EXPANSION OF FAMILY PLANNING SERVICES PROJECT, USAID/GUATEMALA PROJECT No. 520-0288, implemented by IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA (a company organized in the Republic of Guatemala), for the period January 1 to August 31, 1992, and have issued our report thereon dated December 10, 1993, in which we expressed a qualified opinion.

Except for not having a specific external quality control review conducted by another accounting firm, as fully described in our report on the fund accountability statement, and for the reasons expressed in paragraphs (2) and (3) of that report, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). Both standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

As part of our audit procedure, we performed a follow-up to the findings and recommendations included in the reports on financial reviews and diagnosis of IPROFASA conducted by the firms Price Waterhouse, dated August 13, 1992 and September 14, 1992, and Lara & González, affiliate of the international firm Touche Ross & Co., dated April 2, 1993.

Such follow-up was made on finding and recommendations which can have a material effect on our audit, to determine whether IPROFASA's management has taken adequate corrective action.

Except for the matters indicated in finding Nos. 1 to 3 included in the following pages Nos. 62 to 65 of this report, the results of our follow-up evaluation indicated that the management of IPROFASA has adopted adequate corrective measures regarding the matters included in the reports described in the third paragraph of this report.

This report is intended for the information and use of IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA and the United States Agency for International Development - USAID. However, this restriction is not intended to limit the distribution of this report which, upon acceptance by the parties, is a matter of public record.

Arthur Andersen & Co.

Guatemala, C. A.

December 10, 1993, except for the matters discussed in Note 12 to the fund accountability statement, the date of which is June 29, 1995.

EXPANSION OF FAMILY PLANNING SERVICES PROJECT

USAID/GUATEMALA PROJECT No. 520-0288

IMPLEMENTED BY

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

FOLLOW-UP OF PREVIOUS YEARS' AUDIT RECOMMENDATIONS

FINDINGS

1. Lack of implementation of some recommendations included in the report of Price Waterhouse dated August 13, 1992

Condition

IPROFASA has not implemented the following recommendations contained in the financial review conducted by the firm Price Waterhouse, whose report was issued dated August 13, 1993. Most of these recommendations were identified in the course of our normal audit procedures.

Recommendation No. 1

"Section d) IPROFASA has not sent to USAID the interest earned on funds provided by USAID, in violation of the standard provisions of the Agreement".

IPROFASA has not remitted the interest generated in the accounts in which it deposited agreement funds from date of beginning (August 1982) to end on August 31, 1992, which totalled Q 142,965 (US\$ 32,860) during this period (see Annex III).

Recommendation No. 4

"Management should establish the mechanisms and legal treatment to be given to future grants and request the opinion of a professional to prevent any contingency of a fiscal nature".

IPROFASA Management decided that donations in cash were to be recorded as income for the period and invoiced to USAID/G-CAP as project administration.

However, grants in contraceptive products are not registered in the accounts as income but rather as an account payable. This procedure is not in accordance with generally accepted accounting principles, which require that this type of donations in product should be recorded as income for the period in which received.

According to a decision by USAID/G-CAP, responsibility for complying with the country's fiscal regulations falls entirely on the implementing agency. On the basis of this decision, USAID/G-CAP considered it closed.

However, we are not in agreement with this because the correct procedure for recording grants in kind has not yet been defined.

Observations on administrative and financial capacity

Recommendation No. 2 (see Annex V)

Recommendation: "Management should determine whether it needs any technical assistance for the following:

- a) Training of administrative and financial personnel on USAID standards and regulations applicable to the project.
- b) Design and implementation of the following manuals, taking into account USAID provisions. The accounting information and financial manual should also define the mechanics applicable to grants received from USAID".

I PROFASA has not implemented this recommendations as it continues to record its operations without taking USAID standards and procedures into account. Additionally, its personnel are not familiar with USAID regulations.

2. Lack of implementation of some recommendations included in the report of Price Waterhouse dated September 14, 1992.

Condition

I PROFASA has not implemented the following recommendations derived from the financial review of COMPASA, DIMECO and IPSA performed by the firm Price Waterhouse, whose report was issued dated September 14, 1992.

According to information of I PROFASA's General Manager, from the date in which USAID required I PROFASA to cancel transactions with DIMECO, COMPASA and IPSA, these companies close its activities. Consequently, he consider that recommendations related to those companies are not applicable.

Review of DIMECO

Recommendation No. 3

"The shareholders of the company should propose to USAID the treatment which they will give the costs not covered by DIMECO and the mechanisms to be used in future to handle this type of situation".

According to information from I PROFASA's Financial Manager, the amount of costs not covered by DIMECO has not been quantified. In addition, because the company only used one office in the building, it was decided not to charge it rent.

Review of COMPASA

Recommendation No. 3

"The shareholders of the company, jointly with USAID/Guatemala, should define the treatment to be given to the cost not covered by COMPASA and the most adequate form of handling this type of transaction in future".

I PROFASA did not quantify the amount of the costs not covered by COMPASA. In addition, it was not charged rent because COMPASA transferred the total of its capital and accumulated profits to I PROFASA for a total of Q 6,330.

Recommendation No. 4

"Quantification should be made of the total amount of the services for maintenance which COMPASA invoiced I PROFASA so that these costs can be refunded to I PROFASA, as they do not appear justified in view of the fact that these services were provided by personnel paid with project funds".

I PROFASA has not quantified the amount of the services invoiced by COMPASA, for which reason it has not received any refund. In addition, we believe that this is no longer feasible as COMPASA has ceased to operate.

3. Lack of implementation of some recommendations included in the report of Lara & González dated April 2, 1993
-

Review of IPSA

As a result of the observations of the review of IPSA included in this report, I PROFASA, jointly with USAID, contracted the services of the firm Lara & González to perform a review of the transactions made by I PROFASA with IPSA. This review led to recommendations, the following of which are pending implementation.

Condition

I PROFASA has not implemented the following recommendations arising out of the review of business between IPSA and I PROFASA, performed by the firm Lara & González, whose report was issued dated April 2, 1993.

- "I PROFASA management should instruct its Marketing Department to include the cost of pre-test and post-test studies in the advertising budget".

At present, I PROFASA is in the process of contracting an advertising agency which can do these studies. However, there is no written evidence.

- "I PROFASA should prepare an individual strategic plan for each advertising campaign".

I PROFASA has not prepared this individual strategic plan.

- "IPROFASA should require IPSA to formally organize its accounting department in order to guarantee obtainment of an efficient service in future. This involves the preparation and preservation of documents related to transactions".

IPSA's accounting department has not been organized. However, according to comments by the Financial Manager of IPROFASA, this department would have no reason to be because IPSA is at present under liquidation.

- "IPROFASA should require IPSA to establish a formally documented system for the treatment of transactions related to purchases and payments to the media".

This system was not established because IPSA ceased to operate and is at present under liquidation.

Recommendation

In order to improve efficiency in the execution of future projects, IPROFASA should take corrective measures on the recommendations contained in the reports of the firms Price Waterhouse and Lara & González which had not yet been implemented on December 10, 1993.

RECOMMENDATIONS IMPLEMENTED

In a letter sent to IPROFASA on March 7, 1994, USAID/G-CAP considered the following recommendations closed:

1. Recommendations included in the report of Price Waterhouse dated August 13, 1992

Recommendation No. 1a.

"Some cases of noncompliance with conditions and implementation letters (PILs) of the agreement and other provisions thereof were noted".

- Mr. John McAvoy, Regional Contracts Officer, retroactively approved the specific expenses incurred by IPROFASA.

Recommendation No. 1b

"Under PIL No. 43 of June 18, 1989, IPROFASA was authorized to open a revolving fund for Q 200,000 to cover only acquisitions of non-contraceptives medicines. PIL No. 43 was not complied with".

- "IPROFASA bought the products and sold them to DIMECO, S. A. (a business which belongs to the directors of the company)".
- "The transfers to DIMECO, S. A. up to April 30, 1992 total Q 233,849, with an excess of Q 33,849 over the original amount assigned".

- Mr. John McAvoy, Contracts Officer, retroactively approved IPROFASA's exceeding the amount of Q 200,000 which had been approved in PIL No. 43. At the same time he gave approval for this sum not be refunded to IPROFASA and be recorded in its financial statements as a loss.

Recommendation No. 1c

"Some liquidations presented to USAID include taxes paid".

- As proposed by IPROFASA, USAID will discount from refund applications the monthly sum of Q 8,437.11 for a period of six months starting in January 1994.

Recommendation No. 2

"Management should make certain than any non-federal audit is contracted so that the auditors perform their work in accordance with Government Audit Standards issued by the United States Comptroller General".

USAID and IPROFASA have agreed that USAID will contract directly the audits of Project No. 520-0357 "Family Health Services".

Recommendation No. 3

"Management should carry out a conscientious analysis of the company's accounting system and the requirements of the new project".

- IPROFASA determined the need to contract technical assistance to correct the differences found, and USAID is in agreement with the contracting of this technical assistance. In 1994, IPROFASA contracted an independent consultant who will develop this analysis.

Recommendation No. 4

"Management should establish the mechanisms and legal treatment to be given to future grants and request the opinion of a professional to prevent any contingency of a fiscal nature".

- According to USAID, the responsibility for complying with the country's fiscal regulations falls entirely on the implementing unit. As of November 30, 1993, IPROFASA Management agreed with USAID that grants from Project No. 520-0357 will be recorded as income for the period and will be invoiced to USAID as administration of the project.

Recommendation No. 5

"Some transactions were made with related interests which could lead to a conflict of interest".

- In Grant Agreement No. 520-0357, a clause was included prohibiting IPROFASA from carrying out transactions with associated companies.

Recommendation No. 6

"Management should issue specific instructions to correct the foregoing situations, in order that:

- a) Purchasing policies and procedures in effect are strictly observed in all cases.
 - b) Fixed assets are controlled properly to fully satisfy the needs of the project.
 - c) Controls are established in the EDP system to guarantee reliability and integrity both of the information processed and the results obtained".
- USAID has approved IPROFASA's contracting a firm to provide technical assistance in the implementation of this recommendation. IPROFASA has contracted an independent consultant who will develop procedures manuals to meet the requirements indicated above.

Recommendation No. 7

"Management should make efforts to update, design and implement policies and procedures for invoicing, credits, administration of cash, purchases, fixed assets and inventories, travel policies, etc., including rules and provisions established by USAID for the administration and control of project resources".

- USAID has approved IPROFASA's contracting a firm to provide technical assistance for the implementation of this recommendation. In 1994, IPROFASA contracted an independent consultant who will develop procedures manuals to meet the requirements indicated above.

Recommendation No. 8

"Management should determine whether it needs technical assistance for the following:

- a) Training of administrative and financial personnel in USAID rules and regulations applicable to the project.
- b) Design and implementation of the following manuals, taking into account the stipulations previously mentioned:
 - Purchases and contracting of services
 - Accounting and financial information
 - Administration of cash
 - Control of fixed assets and inventories".

USAID has approved IPROFASA's contracting a firm to provide technical assistance in the implementation of this recommendation.

In 1994 IPROFASA contracted an independent consultant who will develop procedures manuals to meet the requirements indicated above.

2. Recommendations included in the report of Price
Waterhouse dated September 14, 1992

Review of DIMECO

Recommendation No. 1

"IPROFASA should define with the shareholders of DIMECO how and on what terms the debt to IPROFASA will be paid".

Mr. John McAvoy, Contracts Officer, approved retroactively IPROFASA's exceeding the sum of Q 200,000 and at the same time approved that this sum should not be refunded to IPROFASA and be registered in its financial statements as a loss.

Recommendation No. 2a

"IPROFASA shareholders should define jointly with USAID/Guatemala the fair (or market) value of the fixed assets which IPROFASA should absorb in view of the needs of the project and this company".

- On March 22, 1993, John McAvoy, Regional Contracts Officer, approved the assets being incorporated into IPROFASA's fixed assets.

ARTHUR ANDERSEN

ARTHUR ANDERSEN & Co. S. C.

Edificio Centro Gerencial Las Margaritas
Diagonal 6, 10-65 zona 10 5o. Nivel
PBX: 327930, FAXES: 316014, 316016
Guatemala, C. A.

EXPANSION OF FAMILY PLANNING SERVICES PROJECT

USAID/GUATEMALA PROJECT No. 520-0288

IMPLEMENTED BY

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

COMPLIANCE WITH AGREEMENT TERMS REGARDING DEPOSIT AND

USE OF FUNDS GENERATED BY SALES OF PRODUCTS

FOR DE PERIOD AUGUST 27, 1982 TO AUGUST 31, 1992

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the EXPANSION OF FAMILY PLANNING SERVICES PROJECT, USAID/GUATEMALA PROJECT No. 520-0288, implemented by IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA (a company organized in the Republic of Guatemala), for the period January 1 to August 31, 1992, and have issued our report thereon dated December 10, 1993, in which we expressed a qualified opinion.

We were also engaged to audit IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA's compliance with the requirements of the agreement regarding deposit and use of funds generated by sales of products (contraceptives) for the period August 27, 1982 to August 31, 1992. The management of IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA is responsible for compliance with those requirements.

- (a) Due to inadequate filing of accounting documentation, IPROFASA could not locate copies of invoices, cashier's receipts, bank deposits and salesmen's liquidations for the years from 1985 to 1988. For this reason, it was not possible for us to develop auditing procedures to verify adequate record and deposit of funds generated by sales made by IPROFASA in such years.

(b) Since the start of the project, IPROFASA mixed funds from the USAID agreement with funds generated by sales, as there are no properly separated subsidiary records for the specific control of project transactions. Nevertheless, the company provided us with a detail of disbursements made from July 3, 1982 to August 31, 1992, which was not adequately prepared due to:

- Total expenses liquidated to USAID were deducted from total disbursements for each month, according to journal disbursements vouchers. The resulting balance was included as disbursements from the sales fund.
- The monthly disbursements voucher does not agree with total expenditure according to accounting records because expenses include provisions that were paid after, for which reason the monthly balances shown in the detail cannot be verified against accounting records.

For the above reasons, we requested from IPROFASA monthly and yearly detail of the checks covering expenses with funds from the sales of products. The company's management considers that preparing a monthly detail of expenses covered with funds from the sales would be to reconstruct the accounts of ten years, which would take considerable time which they cannot estimate.

(c) The details of income generated by sales of donated products and expenses paid with funds generated by sales of products have been prepared on the basis of cash income and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Because of the matters described in the preceding paragraphs (a) and (b), the scope of our audit work was not sufficient to enable us to express, and we do not express an opinion on IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA's compliance with the requirements of the agreement related to deposit and use of funds generated by sales of products for the period August 27, 1982 to August 31, 1992.

This report is intended for the information and use of IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA and the United States Agency for International Development - USAID. However, this restriction is not intended to limit the distribution of this report, which upon acceptance by the parties, is a matter of public record.

Arthur Andersen & Co.

Guatemala, C. A.

December 10, 1993

Month

January
February
March
April
May
June
July
August
September
October
November
December

Total

Month

January
February
March
April
May
June
July
August
September
October
November
December

Total

AUDIT OF THE
EXPANSION OF FAMILY PLANNING SERVICES PROJECT
USAID/GUATEMALA PROJECT No. 520-0288

FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992
AND COMPLIANCE REVIEW OF ALL PROGRAM INCOME FUNDS
FOR THE PERIOD AUGUST 17, 1982 TO AUGUST 31, 1992

IMPLEMENTED BY
IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

SUMMARY LIST OF RECOMMENDATIONS OF THE REPORT

INTERNAL CONTROL STRUCTURE

1. Lack of preparation of a fund accountability statement

We recommend that for future projects, IPROFASA prepare a fund accountability statement showing: (1) income and disbursements for the month, for the year, and accumulated during the life of the project; and (2) the balance of funds (income less disbursements) which should match cash on hand and in banks, and if there is a difference this should be investigated. Prior to preparing the statement, income should be reconciled against contributions according to USAID and the counterpart funds, as the case may be, and disbursements against accounting records. This procedure should be more fully defined in an accounting administrative procedures manual.

2. Reports and documents related to accounting and financial information without evidence of review and authorization

We recommend that the reports and documentation, which generate accounting records be reviewed and authorized by an official other than the one who prepares them, leaving written evidence of this procedure.

3. Differences in receipt of products (contraceptives)

We recommend that as an adequate procedure for the control of inventories, a count of products sent by USAID should be made before entering them on the warehouse records, to detect possible differences in a timely manner, and report them to USAID so that necessary investigations can be made and the causes determined.

4. In some purchases, no evidence exists concerning the procedure for selecting the supplier of medicines and of goods and services

We recommend obtaining at least three quotations, which should be evaluated for quality, price and service prior to selecting the supplier. A file of selected suppliers should also be implemented, and it should be updated periodically. This procedure should be included in the accounting managerial procedural manual which the Company is currently preparing.

5. Liquidations of advances inadequately supported and expenses without supporting documentation

We recommend that, in order for liquidations of advances for travel expenses to be properly supported, they should be reviewed and authorized in a timely manner by an officer of the Company and that written evidence be kept of this procedure. Those costs liquidated for Q 11,548 (US\$ 2,223) which do not have adequate documentation, should be refunded to USAID.

6. Expense vouchers are not cancelled

We recommend that in the execution of future projects, IPROFASA cancel all expense vouchers attached to checks with a stamp indicating date and number of check with which paid.

7. Bank reconciliations do not have any evidence of having been prepared on time

We recommend that in future projects the Company implement the procedure of preparing bank reconciliations not later than the first fortnight of the following month, and that they bear evidence of the date of preparation and the name and signature of the person who prepared them and of the officers who reviewed and authorized.

8. The policies established in the Credit and Collection Manual are not complied with

We recommend summarizing the balance of accounts receivable and analyzing aged balances monthly in an attempt to take steps toward their recovery and in those cases in which payment is not obtained in time that the merchandise be taken back and thus comply with the credit and collection manual.

9. Invoicing and shipping internal control procedures not complied with

We recommend that the Credits and Collection Officer review the orders and daily invoicing report, leaving written evidence of this procedure. Salesmen should also sign the work plans, which should be reviewed and authorized in a timely manner by the Marketing and Sales Manager in order to verify that the plans are carried out. He should leave written evidence of the procedure.

10. Income from sales not deposited in a timely manner

We recommend that income from sales be deposited daily in the Company's bank accounts. In addition, the Cashier General should review the salesmen's liquidations and compare the dates of the cashier's receipts with those on the deposit tickets. In any case excess of time should be investigated and cleared up by the salesman.

11. Lack of defined procedures to monitor compliance with terms of the agreement and with applicable laws and regulations

We recommend that IPROFASA define, in an accounting administrative procedures manual, each employee's responsibility for compliance with the terms of the agreements and with applicable laws and regulations. In addition, IPROFASA management should verify that each employee fulfills this responsibility so that in future projects cases of noncompliance with these provisions will not arise.

12. Lack of a system to identify and track counterpart funding and project income

We recommend that the Company request from USAID a clarification of the way in which the counterpart funds of the project should have been contributed and take it into account for future projects with USAID, and that the company furnish to the project the required amount of counterpart funding.

13. Lack of signature on the minutes of the Board of Directors meetings

We recommend transferring each set of minutes to be signed in the following meeting thus preventing a large number of minutes without signatures.

14. Lack of definition of an accounting procedure for payment of severance to employees

We recommend that for future agreements IPROFASA used one of the methods described under criteria and observe compliance with Federal Acquisition Regulation 31.2.

15. Lack of a system to identify and record direct payments made by USAID

We recommend that in the execution of future projects, IPROFASA design the procedures necessary to guarantee the recording of direct payments made by USAID. We also recommend asking USAID in writing for clarification as to whether IPROFASA should or should not have recorded in its accounts all direct payments made by USAID for Project No. 520-0288.

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE
LAWS AND REGULATIONS

1. Commingling of project funds with
other company income

We recommend that for future projects with USAID, the officers of IPROFASA analyze the reference terms and develop a specific accounting system for the project, and which at the same time forms part of the Company's general accounting system. This would make it possible to maintain proper separate records for each activity. In addition, we recommend that USAID funds be managed in one single bank account independent from other IPROFASA funds, and that written instructions be given to the person in charge of making the deposits regarding the specific account in which to make them.

2. Inadequate accounting records of IPROFASA
and of the project operations

We recommend that in future agreements which may be entered into with USAID, IPROFASA design an accounting system and financial procedures allowing it to operate and report project and Company transactions separately. IPROFASA should reimburse to USAID questioned costs for Q 14,918 (US\$ 2,896).

3. Unauthorized additions to the capital account

We recommend that IPROFASA ask USAID in written authorization for the capitalizations of project funds which it has made to date and adjust the capital accounts required by USAID. In case this authorization is not obtained, we recommend that IPROFASA reduce Q 1,545,000 in the accounts from the paid in capital, debiting a shares in treasury subaccount with credit to the contributions to be applied account, which is the account IPROFASA debited when it made the capitalizations described under Condition above. In relation to this, IPROFASA should take into account that the Code of Commerce of the Republic of Guatemala, at Article 111, provides that companies may acquire their own shares with authorization of the Shareholders' General Meeting and, if in six months the company has not sold such shares, capital must be reduced in accordance with legal requirements.

Additionally, in order to reduce the balance of accumulated losses, which as of August 31, 1992 totalled Q 11,093,274, we also recommend that the Meeting of Shareholders of IPROFASA approve setting of these losses against the contributions to be applied account. The effect of this set-off would be to reflect in the financial statements that the company has not lost more than 60% of its corporate capital.

In order to make these transactions, IPROFASA should consult its legal advisor in order to comply with all applicable legal requirements.

4. Amounts liquidated to USAID which do not agree with the support documentation

We recommend that IPROFASA implement the procedure of liquidating to USAID only those expenses actually incurred and for which there is proper supporting documentation.

5. Cancelled checks included in the expense liquidations sent to USAID

We recommend that the company review and analyze all expenses which are to be included in the liquidations to USAID in order to make certain that they are really paid and that the checks will not be cancelled later. In addition, a procedure should be implemented so that, in case the need arises to cancel a check already liquidated to USAID, this should be corrected in the following liquidation. Additionally, the company should reimburse this amount to USAID.

6. Interest earned with funds received from USAID not refunded to USAID

We recommended that IPROFASA and USAID jointly determine a term for return of such interest to USAID.

7. Lack of presentation of quarterly sales statistics and of a plan to gradually reduce USAID financing

We recommend that for future projects with USAID, IPROFASA implement sufficient management reporting procedures to comply with the terms and clauses concerned.

8. Lack of presentation of detailed work plan and analysis of annual plan

We recommend that for future projects, IPROFASA implement sufficient management reporting procedures to prepare and send all reports and plans required by USAID and thus comply with terms and clauses concerned.

9. Lack of presentation of quarterly narrative report

We recommend that for future projects, IPROFASA implement management reporting procedures to send to USAID all those reports required by the agreement, so as to comply with all clauses of the contract.

10. Inadequate formation of Executive Committee

We recommend that if the Committee procedure be continued in future agreements, IPROFASA and USAID form this Committee jointly so that all important decisions are taken by the Committee. We also suggest designing the necessary guidelines to guarantee the Committee's operations.

11. Inadequate establishment of office systems and controls,
accounting and financial administration

We recommend that IPROFASA speed up the design of the accounting system, which should meet the needs of the project and of the Company, and follow USAID guidelines and regulations. A fidelity bond should also be contracted for all employees who manage project assets and funds.

12. Project property not identified with USAID insignia
and not inventoried

We recommended that IPROFASA place the required identification or emblem on each asset acquired with USAID funds, and proceed to draw up the schedule of the location of the property acquired with project funds, following the provisions of Handbook 13 Paragraph IT-7 and Handbook 11.

Comment

On October 31, 1994, USAID, in a notification signed by Patricia O'Connor, Health and Population Officer, exempted IPROFASA from the requirement to place the USAID insignia goods, supplies and advertising and promotional material financed by this project.

13. Inadequate filing of previous years' documentation

We recommend that IPROFASA implement a proper filing system for project documentation and that files be arranged in an orderly manner in a specific place.

14. Required project audits were not made

We recommend that for future agreements between IPROFASA and USAID, IPROFASA make certain that all USAID regulations are complied with.

FOLLOW-UP OF PREVIOUS YEAR'S AUDIT RECOMMENDATIONS

1. In order to improve efficiency in the execution of future projects, IPROFASA should take corrective measures on the recommendations contained in the reports of the firms Price Waterhouse and Lara & González which had not yet been implemented as of December 10, 1993.

I PROFASA FINANCIAL STATEMENTSAS OF AUGUST 31, 1992 (UNAUDITED)

Following are the Company's financial statement together with their notes. These financial statements reflect the following deficiencies:

- Because the Company does not keep specific accounting records for the project, it is not possible to show separately agreement funds for the period August 27, 1982 to August 31, 1992. These financial statements only include a reclassification under the heading of contributions to be applied - USAID Project 520-0288, which separates project funds which I PROFASA received in cash.
- The interim results for the period January 1 to August 31, 1992 do not reflect the effect of income from products (contraceptives) which the Company received from USAID, which total US\$ 305,436 equivalent to approximately Q 1,573,000. This situation is due to the fact that the Company does not follow the practice of valuing and recording these products in its accounts, which is not in accordance with generally accepted accounting principles, which require that this type of income in kind be valued and recorded in its accounts at fair value (which could be market value) when received.
- The interim results for the period January 1 to August 31, 1992 do not include income in cash from the agreement, which totalled Q 3,215,257.
- Equity as of August 31, 1992 does not reflect the accumulated effect of income from products (contraceptives) received during the life of the agreement, which from 1987 to August 31, 1992 totalled US\$ 1,255,384 equivalent to Q 5,154,772. From July 1985 (date of the first contraceptive entry) to December 31, 1986 it was not possible to quantify the value of the products received by I PROFASA because I PROFASA have subsidiary control records for such products which include import duties value only. In addition USAID did not include information for those dates in the confirmation we received.
- The Company did not prepare the summary totals for the accounts which make up the balance sheet as of August 31, 1992.

Arthur Andersen & Co.

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

BALANCE SHEET AS OF AUGUST 31, 1992

EXPRESSED IN QUETZALES
(UNAUDITED)

ASSETS

LIABILITIES, EQUITY AND AGREEMENT FUNDS

CURRENT:

Cash and banks (Note 5)	Q	218,114
Accounts receivable - Net (Note 6)		1,501,794
Inventories (Note 7)		671,873

Total current assets		2,391,781

PROPERTY AND EQUIPMENT (Nota 8)		3,928,649
Less - Accumulated depreciation		(435,325)

		3,493,324

OTHER ASSETS		70,180

TOTAL ASSETS	Q	5,955,285
		=====

CURRENT:

Accounts payable (Note 9)	Q	498,049
Accumulated expenses payable		57,311
VAT payable		19,830

Total current liabilities		575,190

Work benefits provision		(143,556)
Other liabilities		11,335

Total liabilities		442,969

EQUITY:

Capital authorized and paid		2,200,000
Contributions to be applied - USAID		
Project 520-0288 (Note 4)		14,405,563
Accumulated losses		(11,093,247)

		5,512,316

TOTAL LIABILITIES, EQUITY AND AGREEMENT FUNDS	Q	5,955,285
		=====

The notes to the financial statements should be read jointly with this financial statement.

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A.

STATEMENT OF INCOME AND EQUITY MOVEMENT

FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992
(UNAUDITED)

SALES	Q 1,686,560
Less - Sales discounts and returns	(40,612)
Net Sales	1,645,948
COST OF SALES	389,668
Gross profit	1,256,280
OPERATIONAL EXPENSES:	
Project personnel	948,573
Contract personnel	106,004
Travel and transportation	244,421
Advertising and promotion	1,425,617
Administration	616,798
Other administration expenses	390,791
Expense - Consumption of products	3,542
Previous periods adjustment	15,485
Operational loss	(2,494,951)
OTHER INCOME	84,881
Net loss	(2,410,070)
STARTING BALANCE OF EQUITY	7,922,386
ENDING BALANCE OF EQUITY	Q 5,512,316

The notes to the financial statements should be read jointly with this statement.

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IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA

NOTES TO THE FINANCIAL STATEMENTS

AS OF AUGUST 31, 1992

(UNAUDITED)

(1) Brief history of the Company

Importadora de Productos Farmacéuticos, S. A. - IPROFASA is a corporation organized in the Republic of Guatemala on November 24, 1981 for an indefinite term. Its authorized, subscribed and paid in capital was Q 5,000, divided into common shares of Q 100 each. Its principal objective is the purchase, sale, distribution, marketing and production of all types of pharmaceutical and similar products. At present the company engages in the distribution and sale of contraceptives.

(2) Principal accounting policies

(a) Inventories

Inventories, except raw material, are valued at cost, which does not exceed market value, through application of the average cost method. Raw material inventories are valued considering only the value paid for import taxes.

(b) Property and equipment

Property and equipment are valued at cost of acquisition, and depreciation is calculated by the straight line method, using the percentages allowed by law.

(c) Shareholders' equity

c.1 Agreement contributions

Contributions in cash which IPROFASA receives from USAID under the cooperative agreement are credited to the shareholders' equity account, subaccount contributions to be applied. The balance of this account represents retained earnings generated by the project, which may not be distributed in the form of dividends unless approved in writing by USAID. Contributions which IPROFASA receives in the form of contraceptive products from USAID are recorded as inventories and are valued at cost of tax and other expenses which the company incurs when bringing them into the country.

c.2 Authorized and paid-in capital

Represents the value of capital shares in the hands of shareholders. Initial capital contributed by shareholders was Q 5,000. Later IPROFASA capitalized part of the balance of the account contributions to be applied, for the sum of Q 2,195,000. USAID authorized the capitalization of Q 650,000. IPROFASA has no authorization from USAID for the difference.

The project cooperative agreement provides that IPROFASA shall only issue the shares required by the laws of the country. The Code of Commerce provides that the minimum paid-in capital of a corporation should be Q 5,000, and does not provide for a maximum limit of capital which can be paid in.

c.3 Accumulated losses

Refers to the accumulation of operational losses which IPROFASA has reported to the tax authorities. These losses arose principally because IPROFASA does not record as operational income the value of donations in cash which it receives from USAID, and it has not valued at fair price the contraceptive products which USAID has donated (see paragraph c.1 above).

(3) Monetary unit

IPROFASA'S accounting records are kept in quetzals (Q), the official currency of the Republic of Guatemala. As of August 31, 1992, the quetzal was quoted (on the bank market) at Q 5.24 to US\$ 1.00.

(4) USAID Project 520-0288

On August 27, 1992, the United States Agency for International Development in Guatemala (USAID/GUATEMALA) and Importadora de Productos Farmacéuticos, S. A. (IPROFASA) signed Cooperative Agreement No. 520-0288 for the purpose of expanding and improving the availability of modern contraceptives at popular prices through a social marketing program for contraceptives.

USAID/GUATEMALA's budget for the entire life of the project is US\$ 6,603,698, the final sum after twelve amendments to the original cooperative agreement.

The principal disbursement categories of the project were: (a) salaries, (b) technical assistance, (c) transportation and food, (d) products (contraceptives), (e) equipment and vehicles, (f) promotion and advertising, (g) administrative cost, and (h) special programs. In addition to the grant funds provided by USAID to meet the goals of the agreement, IPROFASA should contribute 10% of the funds for its total operations budget.

(5) Cash and banks

The balance of cash on hand and in banks as of August 31, 1992 was as follows:

Cash and funds	Q	12,070
Petty cash		3,110
Banco del Quetzal, S. A.		7,690
BANDESA		3,173
Banco del Café, S. A.		271,240
Banco Industrial, S. A.		29,469
Banco del Exportación, S. A.		(248,374)
Banco del Quetzal, S. A. (coded)		70,736
Certificate of custody (Banco Industrial)		65,000
Bank transfers		4,000

	Q	218,114
		=====

(6) Accounts receivable

As of August 31, 1992, the accounts receivable balance was made up as follows:

Clients	Q	730,768
Value added tax receivable		545,478
Employees		6,364
Severance pay		12,966
Other accounts receivable		207,282

		1,502,858
Less - Provision uncollectable accounts		(1,064)

	Q	1,501,794
		=====

(7) Inventories

The inventories as of August 31, 1992 were made up of the following items:

Raw material <u>i/</u>	Q	105,233
Repacking material <u>ii/</u>		182,451
Finished and packed product <u>iii/</u>		142,926
Promotional articles <u>iv/</u>		151,959
Inventory in transit <u>v/</u>		76,081
PH5 Eucerin		13,223

	Q	671,873
		=====

i/ Raw material

<u>Product</u>	<u>Units</u>	<u>Unit cost</u>	<u>Total</u>
Scudo	751,971	0.0234	Q 17,570
Pantera	921,076	0.0234	21,520
Nominest	3,547	0.1902	675
Lirio	507,376	0.0167	8,483
Iproday	156,258	0.1384	21,634
Perla	397,086	0.0890	35,351

			Q 105,233
			=====

ii/ Repacking material

<u>Product</u>	<u>Units</u>	<u>Unit cost</u>	<u>Total</u>
Scudo	142,330	0.0715	Q 10,180
Pantera	40,157	0.0591	2,374
Lirio	90,614	0.0569	5,157
Iproday	155,689	0.0326	5,082
Perla	30,946	0.0649	2,009
Iprogel	100,000	0.0525	5,247
Boxes			
Scudo	89,171	0.1422	12,676
Pantera	18,455	0.6912	12,756
Lirio	92,934	0.1113	10,345
Iproday	155,295	0.0912	14,160
Perla	74,664	0.0883	6,596
Iprogel	25,000	0.2950	7,375
Dispenser			
Scudo	5,973	1.6924	10,108
Pantera	21,060	1.0874	22,901
Lirio	2,123	1.1839	2,513
Iproday	13,374	0.9021	12,064
Perla	3,676	0.9033	3,320
Stickers			
Scudo	916,791	0.0287	26,329
Lirio	456,064	0.0199	9,068
Iprodey	21,899	0.0282	617
Difference not cleared			1,574

Total			Q 182,451
			=====

iii/ Finished and packed product

<u>Product</u>	<u>Units</u>	<u>Unit cost</u>	<u>Total</u>
Scudo	1,769	7.0029	Q 12,388
Lirio	597	8.6683	5,175
Perla	1,248	8.1356	10,153
Pantera	1,424	6.7715	9,643
Iproday	485	8.9487	4,340
Scudo	300	3.1667	950
Perla	6,038	0.3295	1,989
Pantera	3,299	0.3099	1,022
Iproday	2,582	0.8311	2,146
New projects			95,120 a/

			Q 142,926
			=====

a/ For this balance the company does not have a detailed integration.

iv/ Promotional articles

<u>Product</u>	<u>Units</u>	<u>Unit cost</u>	<u>Total</u>
Key rings	9,910	3.5009	Q 34,693
Mirrors	200	40.5000	8,100
Key ring carriers	38	3.5300	134
I PROFASA pens	88	0.7500	66
Advertising poster	50	342.7500	17,138
Advertising poster	150	145.2983	21,795
Pocket diaries	1,500	17.0000	25,500
Scudo shovels	5,000	1.2700	6,350
Iproge capsules	900	19.0000	17,100
Wallets	1,000	10.5829	10,583
Billboards	-	-	10,500

			Q 151,959
			=====

v/ Inventory in transit

<u>Product</u>	<u>Units</u>	<u>Unit cost</u>	<u>Total</u>
Perla Cycles	318,000	0.1811	Q 57,581
Panther Condoms	348,000	0.0532	18,500

			Q 76,081
			=====

(8) Property and equipment

As of August 31, 1992, this balance was made up of the following assets:

Buildings	Q 1,625,510
Works under construction	865,006
Lands	170,424
Furniture and equipment	718,546
Vehicles	340,751
Library	208,412

	Q 3,928,649
	=====

(9) Accounts payable

The accounts payable balance as of August 31, 1992 was made up of:

Local suppliers	Q 381,568
Suppliers abroad	116,481

	Q 498,049
	=====

REVIEW OF TRANSFER OF GOODS AND OPERATIONS MADE BY
DIMECO, IPSA AND COMPASA TO IPROFASA

The objective of this review was to verify that the transfer of assets to IPROFASA, derived from the liquidations of DIMECO, COMPASA and IPSA, were made in accordance with adequate rules and principles of accounting.

a) Transfer of goods from DIMECO, S. A. to IPROFASA for the sum of Q 17,855

We performed a review of the transfer of these assets to IPROFASA and determined the following:

- The opinion of an authorized appraiser was not taken into account for the assignment of a fair market value to the assets. This leads to the goods recorded as fixed assets being overvalued or undervalued.
- There was transfer of goods which, given their purchase value, should have been considered expenses amounting Q 17,855; for which reason the fixed assets recorded are overvalued.

In the accounts, those goods were entered as a previous period adjustment, which was not proper. They should have been reduced for the DIMECO account receivable.

- DIMECO did not make the transfer of property with invoice or deed, which means that the goods recorded are not properly documented.

b) Review of accumulated profits by COMPASA for a total of Q 6,330 to IPROFASA (see follow-up to recommendations of previous audits).

We observed the accounting records of COMPASA as of June 30, 1992 and verified that the sum of the accumulated profits matched the entry of Q 6,330 to IPROFASA's bank accounts.

The Price Waterhouse report of September 14, 1992 indicates that COMPASA's accumulated profits as of June 30, 1992 were Q 20,762. However, COMPASA's balance sheet at that date, according to the financial statements which it presented attached to its income tax return, reflected accumulated profits for Q 7,187. From these profits, the company paid labor benefits for Q 857, with a balance of Q 6,330 remaining which was paid to IPROFASA on April 2 and May 11, 1993.

01

REVIEW OF TRANSFER OF GOODS AND OPERATIONS MADE BY
DIMECO, IPSA AND COMPASA TO IPROFASA

- c) **Review of refund of Q 50,000 under the heading of rents which IPSA shareholders made to IPROFASA.**

As a result of talks with USAID and IPROFASA, the shareholders of IPSA decided to refund Q 50,000 to IPROFASA in payment of rent not made when IPSA was operating in the IPROFASA facilities.

We observed IPROFASA's accounting records and verified the operation of this income. We saw the invoice issued by IPROFASA for this amount and the bank deposit concerned.

- d) **Review of entry into the warehouse of loan of contraceptives received from APROFAM and difference in shipment of pantera condoms.**

We performed a review of the entry of 288,000 Conceptrol vaginal tablets which came in as a loan from APROFAM and the entry of 251,600 Pantera condoms, with the following result:

- Existing documentation showed that these products actually entered the IPROFASA warehouse.
- We observed the accounting records and verified that the entry of these products into the inventory was not recorded and the loan from APROFAM was not recorded.
- We were informed by the warehouse keeper that at this date the products sent in loan have not been returned to APROFAM.
- The difference in the shipment of pantera condoms was entered into the warehouse raw materials card index.

Arthur Andersen & Co.

Banco del Quetzal, S. A. (savings deposit):

<u>Month</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>Total</u>
January	Q -	Q -	Q 1,628	Q -	Q 778	Q 2,406
February	-	-	1,626	-	-	1,626
March	1,228	-	719	-	-	1,947
April	-	-	-	1,781	-	1,781
May	1,729	-	-	-	-	1,729
June	1,259	206	-	8,222	1,063	10,750
July	1,093	379	-	-	-	1,472
August	703	275	-	-	-	978
September	-	-	3,317	-	-	3,317
October	1,656	-	-	-	1,959	3,615
November	1,985	475	-	-	-	2,460
December	982	229	-	-	-	1,211
Total	Q 10,635	Q 1,564	Q 7,290	Q 10,003	Q 3,800	33,292

Plus-

Interest of March and December, 1986

7,582

Interest of June, 1992

781

Total Interests earned

Q 36,618

According to Annex I "General Provisions for Non-Governmental Non-United States Recipients and Non-Governmental Non-United States Subrecipients", Section 4 Subsection (a), which says verbatim: "If the use of USAID funds provided under this Agreement results in the accumulation of interest in the favor of the recipient or any other person to whom the recipient may have delivered such funds in relation to the objects of the Agreement, the recipient shall refund to USAID a sum equivalent to the amount of interest earned". IPROFASA should have refunded to USAID the total amount of interest earned in the accounts in which AID funds were deposited. This interest was not refunded.

According to the review of the statements of account from the banks in which agreement funds were handled, IPROFASA earned interests for Q 365,605. In these bank accounts IPROFASA commingled funds received from USAID and funds generated by sales or products and no controls were established to identify interests generated by USAID funds. Due to this, we developed an interest earned allocation in order to determine the amount of interests generated by funds which USAID provided to IPROFASA. Through this procedure we determined that IPROFASA should refund USAID the sum of Q 142,965 (US\$ 32,860) (see Finding No. 6, compliance with agreement terms and applicable laws and regulations).

ANNEX III

3 of 3

In addition to the review of the statements of account, we sent confirmations to the banks asking them for the amount of interest earned by these accounts from date of opening to August 31, 1992. We received no reply from them.

Arthur Andersen & Co.

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA
EXPANSION OF FAMILY PLANNING SERVICES PROJECT
USAID/GUATEMALA PROJECT No. 520-0288

DIFFERENCES BETWEEN BALANCES REFLECTED IN IPROFASA RECORDS
AND USAID CONFIRMATION
AS OF AUGUST 31, 1992

- (a) The expense liquidations presented to USAID according to IPROFASA's records show the following differences in relation to the liquidations of expenses authorized by USAID according to confirmation of balances which they sent us:

<u>Year of liquidation</u>	<u>Month of liquidation</u>	<u>Amount of liquidation according to IPROFASA</u>	<u>Amount of liquidation according to USAID</u>	<u>Difference</u>
1984	February	Q 21,468.61	Q 21,473.88	Q (5.27)
1984	April	7,450.24	7,490.74	(40.50) <u>i/</u>
1984	June	6,572.67	6,682.52	(109.85) <u>i/</u>
1984	August	5,148.77	4,701.28	447.49 <u>i/</u>
1984	December	10,986.81	9,804.21	1,182.60
1985	January	6,760.33	6,567.86	192.47
1985	February	8,291.74	8,285.74	6.00
1985	March	15,045.12	14,945.12	100.00
1985	August	30,601.13	28,918.89	1,682.24
1985	September	30,264.59	23,747.31	6,517.28
1985	October	33,566.30	28,867.83	4,698.47
1985	November	22,058.32	19,294.25	2,764.07
1985	December	39,259.08	34,419.25	4,839.83
1986	January	20,890.75	20,775.75	115.00
1986	February	30,672.97	26,101.89	4,571.08
1986	April	50,444.17	50,429.32	14.85
1986	June	59,886.35	59,841.55	44.80
1986	August	52,883.36	52,828.46	54.90
1987	August	119,016.82	115,492.88	3,523.94
1987	September	169,932.00	167,309.50	2,622.50
1987	October	152,685.68	150,605.68	2,080.00 <u>i/</u>
1987	November	73,400.17	70,860.17	2,540.00 <u>i/</u>
1987	December	137,018.74	134,791.82	2,226.92 <u>i/</u>
1988	November	83,551.78	78,259.98	5,291.80 <u>i/</u>
1988	December	95,204.39	56,945.63	38,258.76 <u>i/</u>
1989	October	155,042.78	101,147.71	53,895.07 <u>i/</u>
1989	November	217,973.81	157,228.98	60,744.83 <u>i/</u>
1989	December	202,436.88	105,262.15	97,174.73 <u>i/</u>
1991	August	424,620.10	410,108.64	14,511.46 <u>i/</u>
1992	May and June	842,502.19	817,218.99	25,283.20 <u>i/</u>
		-----	-----	-----
		Q 3,125,636.65	Q 2,790,407.98	Q 335,228.67
		=====	=====	=====

i/ These amounts were not reimbursed by USAID; however, IPROFASA did not adjust its accounting records.

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA
EXPANSION OF FAMILY PLANNING SERVICES PROJECT
USAID/GUATEMALA PROJECT No. 520-0288

DIFFERENCES BETWEEN BALANCES REFLECTED IN IPROFASA RECORDS
AND USAID CONFIRMATION
AS OF AUGUST 31, 1992

- (b) The following are liquidations of expenses authorized according to USAID/G-CAP confirmation, which do not appear in IPROFASA's records.

<u>Year and month</u>	<u>Voucher No.</u>	<u>Description</u>	<u>Value</u>
Aug - 1984	84-1544	July Rent.	US\$ 445.00
Feb - 1985	520-00787	-	501.83
Mar - 1985	520-00879	-	57.62
Jan - 1986	520-00874	-	469.00
Feb - 1986	520-1277	-	1,430.00
Apr - 1986	520-1716	-	589.58
Oct - 1987	520-80035	-	2,040.14
Feb - 1988	520-81690	-	1,975.64
Apr - 1989	520-92938	-	22,500.00
Jul - 1989	520-93930	-	439.00

			US\$ 30,447.81
			=====
Dec - 1984	520-00428	Ortega Salvador TV	Q 295.30
Mar - 1985	520-00878	PD Guatemala/Los Angeles	613.69
Apr - 1986	520-01716	TV/LA 11-23/12-1-86	309.51
Sep - 1986	520-03650	PD Ortega, PD Herrera	4,533.32
Sep - 1988	520-84203	1-6/88 Expendit	7,605.21
Oct - 1988	520-90178	7/88 Expendit	20,480.70
Dec - 1989	520-01042	479 Trip LA. J.M. Ortega	2,448.51
Jul - 1990	520-04070	Travel Exp. IPROFASA	9,381.03

			Q 45,667.27
			=====

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA
EXPANSION OF FAMILY PLANNING SERVICES PROJECT
USAID/GUATEMALA PROJECT No. 520-0288

DIFFERENCES BETWEEN BALANCES REFLECTED IN IPROFASA RECORDS
AND USAID CONFIRMATION
AS OF AUGUST 31, 1992

(c) The following advances in U.S. dollars appear in the confirmation of USAID/G-CAP and do not appear as income from advances or reimbursements of funds in IPROFASA.

<u>Month</u>	<u>Voucher No.</u>	<u>Description</u>	<u>Value</u>
1983:			
September	356	Iprofasa Expenses	US\$ 7,375.99
1984:			
June	84-1352	Contract Personnel	6,175.00
August	84-1634	Ortega Tvl Salv	362.50
October	520-00055	Ortega Pd San Francisco	540.00
1985:			
January	520-00578	Feb Adv Local Adm	10,900.85
December	520-00623	TA Los Angeles	580.00
December	520-00676	Jan Advance	6,529.83
1986:			
January	520-00980	TA Herrera Bogotá Inv	1,120.00
February	520-01286	March Advance	6,924.14
March	520-01483	April Advance	31,393.00
April	520-01831	May Advance	15,321.89
May	520-02057	June Advance	18,824.19
September	520-03703	October Advance	29,947.70
November	520-028-7	November Advance	15,969.52
November	520-00508	Vehicle Advance	18,697.36
November	520-00509	Repack	9,095.20
1987:			
March	520-01461	Advance Vehicle Purch	11,029.40
		Carried forward...	----- US\$ 190,786.57

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA
EXPANSION OF FAMILY PLANNING SERVICES PROJECT
USAID/GUATEMALA PROJECT No. 520-0288

DIFFERENCES BETWEEN BALANCES REFLECTED IN IPROFASA RECORDS
AND USAID CONFIRMATION
AS OF AUGUST 31, 1992

<u>Month</u>	<u>Voucher No.</u>	<u>Description</u>	<u>Value</u>
		Brought forward....	US\$ 190,786.57
1988:			
September	520-84363	Trans. Advance From Pad-88-710	47.92
September	520-84213	Trans. Advance From Pad-88-711	12,800.00
1989:			
June	520-93526	1916 TA. Ortega Calí	600.00
October	520-00354	Advance Jun-Dec	6,603.24

			US\$ 210,837.73
			=====

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. - IPROFASA
PROYECTO EXPANSION DE SERVICIOS DE PLANIFICACION FAMILIAR
USAID/G-CAP PROYECTO No. 520-0288

DIFERENCIAS ENTRE LOS SALDOS REFLEJADOS EN LOS REGISTROS
DE IPROFASA Y LA CONFIRMACION DE USAID
AL 31 DE AGOSTO DE 1992

(d) Los siguientes ingresos de efectivo fueron registrados por IPROFASA; sin embargo, no figuran en la confirmación de USAID.

<u>Año y mes</u>	<u>No. cheque</u>	<u>Fecha de recepción</u>	<u>Banco</u>	<u>No. cuenta</u>	<u>Fecha de depósito</u>	<u>Valor</u>	<u>Total por año</u>
1988:							
Mayo	51488	12-May-88	Quetzal	AHORRO		Q 3,625.87	
	51489	12-May-88	Quetzal	AHORRO		96,705.53	
	51490	12-May-88	Quetzal	AHORRO		103,005.25	
Noviembre	55902	27-Oct-88	Quetzal	201-01045-2	02-Nov-88	67,996.60	
Diciembre	56929	07-Dic-88	Quetzal	201-01045-2	14-Dic-88	128,734.73	Q 400,067.98
1986:							
Enero			Quetzal			111,369.08	
Mayo			Quetzal			98,822.26	
Octubre			Quetzal			131,463.42	
Noviembre			Quetzal			73,650.29	415,305.05
1985:							
Enero	Voucher AID 85-578		Café			15,915.23	15,915.23
1984:							
Febrero	Voucher AID 84-506 84-875	03-Ene-84	BAM		03-Ene-84	2,415.52	
		02-Feb-84	BAM		03-Feb-84	2,334.09	
Marzo	Voucher AID		Café		29-Feb-84	3,038.12	
Mayo	84-1157	09-Abr-84	Café			3,199.43	
Junio	84-1307	09-May-84	Café			7,490.74	
	84-1338	09-May-84	Café			5,618.51	24,096.41
1983:							
Abril	Voucher AID 83-356	02-Dic-82	Café			16,185.00	
Octubre	2-83	25-Oct-83	Café			4,410.16	
	3-83	28-Oct-83	Café			1,900.00	22,495.16
							Q 877,879.83

**iprofasa**

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S A

Guatemala, Marzo 21 de 1996

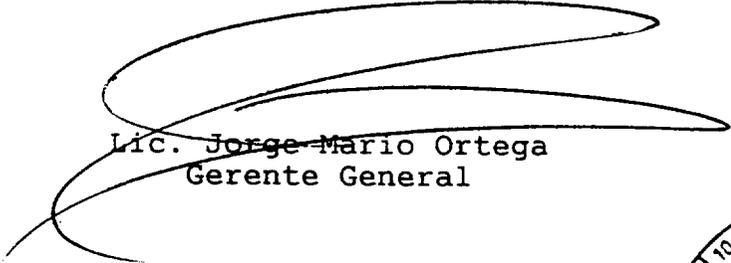
Licenciado
Carlos Chivichón
Gerente De Auditoría
AREVALO PEREZ, ARANKY
Y ASOCIADO, S.C.

Estimado Lic. Chivichón:

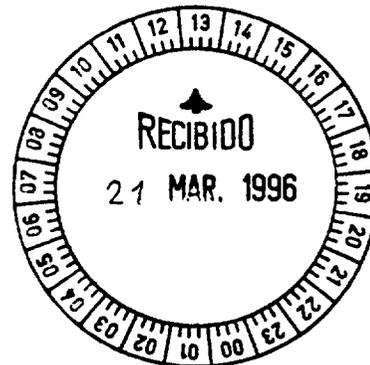
Adjunto a la presente estoy remitiéndole la Respuesta al Informe de Auditoría Externa por el Período Comprendido del 1o. de Enero al 31 de Agosto de 1992, versión en Inglés. Esperamos que con éste informe demos por cumplido con lo requerido por Usted, en lo que respecta a esa parte.

Agradeciéndole la atención a la presente, le saluda

Muy atentamente,



Lic. Jorge Mario Ortega
Gerente General



Adj.: Informe
JMO/ed
c.c. archivo
c.c. Srita. Mary McInerney / USAID-G/CAP MISSION

RESPONSE TO THE EXTERNAL AUDITING PERFORMED FOR THE JANUARY 1st. TO
AUGUST 31st.PERIOD.

The objective of this report is to render a reasonable explanation and present proofs held by IPROFASA to clarify some of the "Questionable Findings and Costs", presented by the auditing firm Arevalo Perez, Aranky and Asociates S.C. Arthur Andersen in their auditing report of project No. 520-0288 for the January 1st. to August 31 st. period. To simplify this report, we have followed the order of the auditign report, with the pertinent answers.

IV. AUDITING OUTCOMES

CURRENT STATUS OF THE ACCOUNT RENDERING

Concerning this issue, the following must be clarified:

1. QUESTIONABLE COSTS

For each of the cases presented by the auditing firm, we will clarify each of the disputed operations and values, (a) NO SUPPORT DOCUMENTS, (b) NOT PERMISSIBLE, (c) CHECKS LIQUIDATED TO USAID/G-CAP and (d) QUESTIONABLE COSTS FROM OTHER PERIODS. We also provide an explanation for each case, establishing which checks will IPROFASA refund to USAID/G-CAP, for a total of Q.42,473.00 (See Support No. 1).

(a) NO SUPPORT DOCUMENTS

As shown in Support No. 1, the checks to be refunded to USAID are numbers 1980, 3068 and 1400, which total Q.7,407.00. No value added tax has been deducted, since these checks are not subjetc to such tax.

We do not accept the questioning about check No. 2925, extended to Mr. Ronald Echeverria as payment for his professional services, since we hold the receipt from Mr. Echeverria, which is correctly certified by an accountant as a justification of the expense, and this is accepted by the law.

The company agrees that the sum for the accrued interests over the advanced payments for project No. 520-0288 is Q.142,965.00, which has already been discounted in January and February's, 1995 liquidations, so USAID must refund to IPROFASA the difference between this sum and the Q.366,550.00 reported in the PRELIMINARY DRAFT FOR DISCUSSION.

(b) NON PERMISSIBLE

Checks No.: 2202, 2637, 1449, 2179 and 3042 which total Q.12,946.00 will be refunded to USAID. These checks are not subject to the value added tax , so it has not been deducted.

Check No.2202 was issued to pay a ticket to Mexico when the Marketing Manager assisted

to the Seminar held by SOMARC. This expense is contemplated in the issue International Traveling, in the budget approved by USAID for 1993. Mrs. Yane Lyons from USAID was consulted on the telephone and approved this expense.

Check No. 3258 corresponds to a bonus given in a public raffle by IPROFASA during the XX Congress of Gynecology and Obstetrics. The winner was Dr. Blanca de Zamora. USAID approved the issues International Trips, Promotional Items and Congresses and Simposiums, for the operational budget of the corresponding year.

(c) VOIDED CHECKS, LIQUIDATED TO USAID

The checks number: 2036, 2077, 2266, 2286, 2944 and 3134 were reimbursed to USAID with a check from Banco del Cafe, No. 114, for Q.20,321.00. This matter needs no further discussion.

Checks No. 2826, 3278, 3135, 3234, 2751 and 1418 S/N (payroll), which total Q.23,556.00 minus Q.1435.00 on account of the value added tax, which was not liquidated to USAID. The remaining net total of Q.22,121.00 will be reintegrated to USAID.

(d) QUESTIONABLE COSTS FROM PREVIOUS PERIODS

We do not consider the sum of Q.152,279.00, corresponding to the purchase of the lot where the company is located a questionable cost, since it was paid for with funds obtained from sales and was never liquidated to USAID. On 11/06/87, USAID received a letter, Ref. G-206-87 reporting such purchase.

NO QUANTIZATION FOR THE BALANCING ENTRY FROM IPROFASA TO THE PROJECT

IPROFASA has contributed and rendered 10% as minimum of its overall budget. This balancing entry results from the incomes generated from sales. It was never agreed with USAID that during the 1989 to 1992 period, the company's stockholders should render their own money as a balancing entry, as can be read in the auditing report, subtitle (5), Balancing Entry Funds, Page 20. We have delivered proofs and documents that support this decision, so it is not an opinion from General Management, as is written in the report. (See Support No. 2).

3. NO SEPARATE ACCOUNTING RECORDS FOR THE PROJECT AND THE COMPANY'S OPERATIONS

It must be kept in mind that IPROFASA is a corporation, and its accounting is ruled by the laws of Guatemala and the Accounting Principles Generally Accepted. This is why all operations must be recorded in terms of what has been billed. If separate records from the project were kept, we would have to register only what has been received at the present time. However, we do have a separate control of what has been liquidated to USAID. As you may observe in the company's records, we have written all outlays that constitute immediate expenses. If there is a way in which

we can keep the project's records without violating the laws of Guatemala, we would appreciate it if you would send us the outlines, for their immediate application.

4. DISCREPANCY BETWEEN THE REMNANT OF THE ADVANCE PAYMENT FROM THE RENDERING OF ACCOUNTS AND THE CONFIRMATION RECEIVED BY USAID GUATEMALA, WHICH NEEDS TO BE CLARIFIED

Initially, the report mentioned a difference of Q.2,970,622.00, in favor of IPROFASA, between the remnant of the advance payment, according to the rendering of accounts and the confirmation delivered by USAID. The new version shows Q.1,429,328.00. This sum was reduced in accordance with the information received from USAID. We consider that IPROFASA does not need to clarify this discrepancy, since they are USAID's accounting operations to which IPROFASA has no access, as written in item (10) Agreement about the remnant for the advance payment up to August 31 st. 1992, page No. 25.

INTERNAL CONTROL STRUCTURE

1. REASONS FOR NOT HAVING PREPARED A RENDERING OF ACCOUNTS

IPROFASA does not have an obligation to present an annual rendering of accounts, since it is not mentioned in the Agreement 520-0288, and it was not requested by USAID or the external auditing company.

At the present time, we are delivering a monthly rendering of accounts, which is conciliated with USAID every 3 months.

We do not accept the responsibility for any shortages and overages from the project's cash and resources that could have been used for other purposes than those of the project, as mentioned in page 32 of the report, since this is a hypothesis. The auditing firm had before them all our accounting books and were not able to prove the existence of any of the mentioned inventories. (See Support 3)

2. REPORTS AND DOCUMENTS RELATED TO FINANCIAL AND COUNTABLE INFORMATION WITH NO EVIDENCE OF AUDITING AND AUTHORIZATION

This finding in the Internal Control Structure has been corrected, as it may be read in page 70 of the PRELIMINARY DRAFT FOR DISCUSSION, presented by the Auditing Firm for the January 1st. to December 31st., 1994 period.

3. DISCREPANCY IN THE RECEIVING OF PRODUCTS (CONTRACEPTIVES)

This finding in the Internal Control Structure has been corrected, as it may be read in page 68 of the PRELIMINARY DRAFT FOR DISCUSSION, presented by the Auditing Firm for the January 1st. to December 31st., 1993 period.

4. LACK OF EVIDENCE CONCERNING THE PROCEDURES TO SELECT A DRUGS, GOODS AND SERVICE SUPPLIER IN SOME PURCHASES.

This finding in the Internal Control Structure has been corrected, as it may be read in page 68 of the PRELIMINARY DRAFT FOR DISCUSSION, presented by the Auditing Firm for the January 1st. to December 31st., 1993 period.

5. CLEARING OF ADVANCE PAYMENTS WITH INADEQUATE SUPPORT AND EXPENSES WITH NO SUPPORT DOCUMENTS

You may find the answer to this matter in Questionable Costs, where we have presented proof to this issue. We do not accept the description of this issue on page 37 of the report, as well as the sum of Q.11,548.00 reported as traveling expenses, since the sum is Q.2,713.00 for two tickets (see item 6, Questionable Costs, section b, page 21). Furthermore, we have NEVER used the project's money for traveling expenses when it does not concern the company's interests (See Support No. 1)

6. EXPENSE VOUCHERS ARE NOT INVALIDATED

It is necessary to mention that some expense vouchers were not invalidated. It can be proven that we have never duplicated a payment. This procedure has been established in the accountant manual in order to maintain a strict control of these documents.

7. NO EVIDENCE WAS FOUND THAT THE BANKING CONCILIATION IS DONE CONVENIENTLY

This finding in the Internal Control Structure has been corrected, as can be read in page 70 of the PRELIMINARY DRAFT FOR DISCUSSION, presented by the auditing firm for the January 1st. to December 31st., 1994 period.

8. THE POLICIES ESTABLISHED IN THE MANUAL OF CREDITS AND COLLECTION WERE NOT OBSERVED.

I PROFASA possesses a solid items collectable account with a recovery average of 80% at 45 days, 15% is recovered over a period of 60 to 90 days and the remaining 5% at a longer term. This issue has already been contemplated in the income manual. Although we believe this will continue to happen; we have taken corrective measures to diminish it. Withing the pharmaceutical commerce in Guatemala, this recovery rate is a very good one.

Since the income manual cannot contemplate if our clients will fail to deliver their payments, it is impossible to render a completely agreeable result with the regulations established in the manual. (See Support No. 6).

9. THE INTERNAL CONTROL PROCEDURES FOR BILLINGS AND DISPATCHES WERE NOT ACCOMPLISHED

The recommendation for this finding in the Internal Control Structure has been implemented, as can be read in page 70 in the PRELIMINARY DRAFT FOR DISCUSSION, presented by the auditing firm for the January 1st. to December 31st., 1994 period.

10. SALES INCOMES NOT DEPOSITED IN DUE TIME

This finding in the Internal Control Structures has been corrected, as can be read in page 68 of the PRELIMINARY DRAFT FOR DISCUSSION presented by the auditing firm for the January 1st. to December 31st. 1993 period.

11. LACK OF WELL DEFINED PROCEDURES TO FOLLOW UP THE FULLFILMENT OF REFERENCE TERMS OF THE AGREEMENTS, LAWS AND APPLICABLE REGULATIONS.

We had a briefing with USAID officials, who informed us about the agreement, laws and applicable regulations to our project, and was determined that General Management, Financial Management, Asistant Financial Management and General Accountant from IPROFASA will be responsible for this issue.

12. THERE IS NO SYSTEM TO FOLLOW UP THE THE BALANCING ENTRY'S INCOMES AND THE PROJECT'S INCOMES

The recommendation for this finding in the Internal Control Structures has been implemented, as may be read in page 68 of the PRELIMINARY DRAFT FOR DISCUSSION, presented by the auditing firm for the January 1st. to December 31st., 1993 period.

13. ABSENCE OF SIGNATURES IN THE MINUTES FROM THE ADMINISTRATION COUNCIL'S MEETINGS

This situation has been corrected, as can be read in page 70 of the PRELIMINARY DRAFT FOR DISCUSSION, presented by the auditing firm for the January 1st. to December 31st., 1994 period.

14. THERE IS NO DEFINED POLICY ABOUT THE INDEMNITY FOR EMPLOYEES

IPROFASA's policy has been to pay universal indemnity whenever an employee is laid off or leaves voluntarily. The human resources manual contains the procedure to establish this policy.

15. NO GUIDELINES AND PROCEDURES FOR THE COUNTABLE RECORDING OF USAID'S DIRECT PAYMENTS.

During the project's life, USAID has delivered direct payments from which IPROFASA has had no knowledge, nor has been informed of the values paid directly. Besides, since IPROFASA is a private enterprise, dedicated to commerce, and regulated by the laws of Guatemala, it cannot register in its accounting expenses with no support documentation and if it cannot justify the

disbursements. So we do not agree with the report's paragraph in page 44 that reads:

"IPROFASA DID NOT REGISTER IN ITS ACCOUNTING THE PAYMENT DELIVERED DIRECTLY FROM USAID, DURING THE PROJECT'S OPERATION, FOR A TOTAL OF US\$.1,802,906.00 AND Q.21,896" , since USAID is the lone responsible for these operations.

OBSERVANCE OF THE AGREEMENT TERMS, THE LAWS AND APPLICABLE REGULATIONS

1. MIXING OF PROJECT'S FUNDS WITH OTHER COMPANY'S INCOMES

Though it is true that there was mixing of funds, we provided all the necessary documentation, including the rendering of accounts and the settlement of expenses where the disbursements covered with USAID funds could be identified. This mixing was due to the delays in the receiving of USAID advance payment, for which IPROFASA had to cover its costs with funds generated from sales, so these advance payments became redemptions. The provision of funds to the project never gained interests.

This procedure has been corrected. We now liquidate over expenses incurred by IPROFASA.

2. INADEQUATE ACCOUNTING RECORDS FOR IPROFASA'S AND THE PROJECT'S OPERATIONS

About the questionable costs reported in this item, we have explained all the solutions to the costs; however, the reported sum of Q.14.918 is not meaningful for the sum handled during the period (See Support No. 1). For more details, see sections 1, 2 and 3 of the rendering of accounts.

At the time, we delivered a list of the checks liquidated to USAID, where the handling of the project's funds may be audited. We presented a written document containing the disbursements done with sales funds, which are balancing entry's funds. We also delivered documents showing the incomes from sales and the incomes from the project's funds.

The auditors received auxiliary information from IPROFASA's general accounting, so they could verify the information requested by USAID.

It must be reminded that IPROFASA is a profitable entity, inscribed in the Mercantile Register as a corporation, and there is no way we can work with separate accounting registers.

3. CAPITAL EXPANSION WITHOUT AUTHORIZATION FROM USAID.

USAID had knowledge of this operation through our letter sent on May 28, 1986, Ref. G-079-86, in which we clearly described the procedure. On a later date, we sent written information about the several recapitalizations done, which appear in the company's annual finance balances;

duly audited by our external auditing firm.

The decisions taken for this recapitalization were based on articles No. 237 and 238 from the code of commerce. The second and fifth paragraphs of the code literally read:

"As soon as the administrators know of the existence of any cause of dissolution, they will write it down in a minute signed by all and will call a meeting or general assembly, which will be held at the briefest time possible and at the most, within the following month of the minute's dates."

"If in spite of existing a cause for dissolution, no resolution is taken that allows the associates to continue, any interested party may litigate before a civil lower court judge, in a preliminary proceeding, so he may declare the dissolution, order the inscription in the Mercantile Register and name a liquidator in fault of the associates."

It must be understood that these recapitalizations were never done for the benefit of the associates. They were invested in the project.

It seems odd that after the auditing firm had verified the allocation of all the donated resources, it will now say that the funds provided by USAID for the project were transferred to IPROFASA's stockholders as stocks; and that the stockholders will be requested to refund this sum to the project, since these recapitalizations were only entered as countable entries.

This problem has been solved since September 1992, because of the way the refunds of the expenses covered by USAID have been registered. (See Support No. 7)

4. SUMS LIQUIDATED TO USAID THAT DO NOT AGREE WITH THE SUPPORT DOCUMENTS

In this section, a report was made about checks that were still in circulation. On August the 31st., the auditors were satisfied with our explanation ; so we believe that the value of Q.602,538.00 should not be part of this report. The non fulfillment with the terms of the Agreement, Laws and Applicable Regulations has already been corrected as mentioned in page 31, in the PRELIMINARY DRAFT FOR DISCUSSION, presented by the auditing firm for the January 1st. to December 31st. 1994 period.

5. ANNULLED CHECKS, INCLUDED IN THE EXPENSE LIQUIDATIONS SENT TO USAID

As for the liquidated, annulled checks, a part has already been refunded to USAID. The rest is explained in the questionable costs document. The sums will be reintegrated to USAID in the expense liquidation for February 1996. (See Supprot no. 1).

6. THE INTERESTS ACCRUED GAINED BY FUNDS RECEIVED FROM USAID WERE NOT REIMBURSED TO USAID

We consider that this point has been resolved because in the PRELIMINARY DRAFT FOR DISCUSSION, section 6, Questionable Costs, (a) Documentation with no support, pages 21, 54, 63, and 78, the amount Q.142.965.00 is reported. This amount has been discounted by USAID from the expenditures liquidation presented for the reimbursement corresponding to January and February, 1995. Q.166,000.00 was discounted in January, and Q.200,556.00 in February, making a total of Q.366.559.00. USAID must reintegrate the difference of Q.223,594.00 to the sales funds. (See Support No. 1).

7. FAILURE TO PRESENT TRIMESTRAL SALES STATISTICS AND A PLAN TO SLOWLY REDUCE USAID'S FINANCING

During the project's life, we have presented monthly statistical reports, as well as a briefing of the activities for that month. A trimestral report would only be a repetition of our monthly reports

The preparation of the self-sufficiency plan began in June 1995 with the technical assistance from SOMARC, hired by USAID to develop this issue as part of the work scope of such firm. Two drafts have been presented and SOMARC has offered to present the definitive plan. Some recommendations contained in the drafts have already been implemented. There has been a follow up and positive results have been achieved.

8. FAILURE TO PRESENT AN ANNUAL BUDGET, A DETAILED WORK PLAN AND AN ANALYSIS OF THIS PLAN

I PROFASA always delivered and could prove the presentation and approval of the annual budgets for the company's expenses, both for USAID funds, and for funds generated from sales, which have USAID's authorization.

As for the work plans, these were substituted with the marketing plans. At the end of the year, we delivered a report of achievements. We already have work plans for 1994 and 1995, as requested by USAID.

There is a contradiction in page 7, section 8. In the first part, it reads that no annual budget was presented, and in the second paragraph it reads that I PROFASA presented its budget annually.

9. FAILURE TO PRESENT THE TRIMESTRAL BRIEFING REPORT

The responsible for the development of this briefing always was the resident consultant from the firm Juarez & Associates, whom delivered to USAID.

10. INADEQUATE CREATION OF THE EXECUTIVE COMMITTEE

This committee did not function regularly in the past, not because of I PROFASA, but for the lack of interest and assistance from USAID's representatives.

Since October 1993, members of the Board of Directors, representatives from USAID and

the General Management meet once a month to discuss the achievements of the month, to analyze the activities for next month and discuss any issue related with the project and the organization; the issues and decisions made in each meeting are written down in the pertaining minutes, as may be observed in the company's minute book.

11. INADEQUATE ESTABLISHMENT OF OFFICE SYSTEMS AND CONTROLS, COUNTABLE AND FINANCIAL ADMINISTRATION

This issue has been solved since the operational manual for the company has been completed and is now at the implementation phase. We also have the fidelity bond for the executives and employees that handle cash.

12. PROJECT'S PROPERTIES NOT IDENTIFIED WITH USAID'S SYMBOL AND LACK OF DETAILED INVENTORY FOR SUCH PROPERTIES.

Since IPROFASA is a private enterprise, dedicated to the commercialization of contraceptives, it never wished to involve USAID's image. For such reason, it requested USAID's authorization so it would not have to identify its assets with USAID's symbol. This situation, concerning the terms of agreement, laws and applicable regulations must be concluded, as recorded in page 59 of the PRELIMINARY DRAFT FOR DISCUSSION.

Concerning the capital assets, USAID holds a letter which contains a detailed description of the asset, its location and the responsible person's signature. (See Support No. 10)

13 INADEQUATE FILING OF PREVIOUS YEAR'S DOCUMENTATIONS

This situation has been totally corrected, since we now have a filing section in charge of this task.

This failure to comply with the terms in the Agreement, Laws and Regulations has been solved, as it may be read in page 69 of the PRELIMINARY DRAFT FOR DISCUSSION, presented by the auditing firm for the January 1st. to December 31st., 1994 period.

14. THE AUDITINGS REQUESTED FOR THE PROJECT WERE NOT EXECUTED

This is not IPROFASA's responsibility, since the auditings done each year during the project's life were performed by a qualified firm, named by USAID. We were never instructed to conduct special auditing, in spite of having resident advisors and evaluations of the project. These consultants never advised us about this matter.

This failure to comply with the terms in the Agreement, Laws, and Regulations has been corrected, as it may be read in page 69 of the PRELIMINARY DRAFT FOR DISCUSSION, presented by the auditing firm for the January 1st. to December 31st. 1993 period.

Lastly, IPROFASA wishes to place on record that at no time has it failed to comply with the terms of the Agreement, Laws and Regulations. If there have been mistakes or omissions, they

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were never done with malicious intent nor with the intention of hiding any of its performances and operations. IPROFASA has always expressed and confirmed good will to present all kinds of reports, clarifications, support documents, and its best wishes to fulfill the recommendations from USAID and the auditing firms that have audited the project during its twelve years of existence.

(ANEX No. 1)
EXPLANATION ABOUT QUESTIONABLE COSTS
REPORTED BY EXTERNAL AUDITING

(c) ANULED CHECKS, LIQUIDATED TO AID.

Anuled checks already refunded to AID, corrected in preliminary draft.

Support Document	Check No.	Beneficiary	Value	Explanation
1	2036	Banex	554	Cash was reintegrated to AID, receipt No. A 1625788 paid with check No. 114, from Banco del Café
2	2077	Simsa	1415	Cash was reintegrated to AID, receipt No. A 1625788 paid with check No. 114, from Banco del Café
3	2266	Disame Ltda.	332	Cash was reintegrated to AID, receipt No. A 1625788 paid with check No. 114, from Banco del Café
4	2286	Van Color	5339	Cash was reintegrated to AID, receipt No. A 1625788 paid with check No. 114, from Banco del Café
5	2944	Volleybal Federation	10000	Cash was reintegrated to AID, receipt No. A 1625788 paid with check No. 114, from Banco del Café
6	3134	Publimpresiones	4226	Cash was reintegrated to AID, receipt No. A 1625788 paid with check No. 114, from Banco del Café
	Subtotal		<u>21866</u>	
	(-) Value added tax liquidated to AID		<u>-1545</u>	
7	Reintegrated sum to AID		<u><u>20321</u></u>	

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S.A.
 IPROFASA

(ANEX No. 1)
**EXPLANATION ABOUT QUESTIONABLE COSTS
 REPORTED BY EXTERNAL AUDITING**

(b) NON PERMISSIBLE

Support Document	Check No.	Beneficiary	Value	Explanation
1	2202	Agencia S.H. Liang	1361	Not accepted. The Marketing and Sales Manager assisted to Somarc's seminary in Mexico City.
1	2202	Agencia S.H. Liang	228	Accepted and reintegrated. It corresponds to the payment of taxes, and were liquidated.
2	2637	Hotel Ramada	378	Accepted and reintegrated. It corresponds to the payment of tourism taxes and was liquidated.
3	3258	Agencia S.H. Liang	1352	Not accepted. No company's executive traveled. It was used as promotional means.
4	1449	Banex	11333	Accepted and will be reintegrated. Corresponds to payment of emergency bonus, 1991.
5	2179	API, Seguros	266	Accepted and will be reintegrated. Corresponds to payment of liquidated revenue stamps.
6	3042	Ramiro Lopez	741	Accepted and will be reintegrated. The items were used for softening bells. The invoices are included.
TOTAL OF NON PERMISSIBLE EXPENSES			<u>15659</u>	
(-) Values not accepted as non permissible			<u>2713</u>	
TOTAL TO REINTEGRATE TO USAID/G-CAP			<u>12946</u>	

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S.A.
I PROFASA

(ANEX No. 1)
EXPLANATION ABOUT QUESTIONABLE COSTS
REPORTED BY EXTERNAL AUDITING

(a) NO SUPPORT DOCUMENTATION

Support Document	Check No.	Beneficiary	Value	Explanation
1	1980	Banex	5007	Accepted and will be reintegrated. We hold the receipt provided by Banex. We hold Banex's receipt for the purchase of foreign currency, used to pay white van's freight inward. We do not have the forward's original invoice, issued to I PROFASA
2	3068	Nery Ortiz	1000	Accepted, and will be reintegrated. We enclose the reports from the pharmacies where the signs were installed. We do not include an invoice.
3	2925	Ronald Echeverria	3400	Not accepted. Fee payment with certified receipt from his accountant as expense support so it will not be reintegrated.
4	2942	Ramiro I Lopez	1400	Accepted and will be reintegrated. Check with receipt, duly tax stamped as expense support
5	—	Interests	142965	Accepted. USAID/G-CAP has discounted this amount from the January and February 1995 liquidations. The total discounted amount was Q.366,556.00, so the Q.223,591.00 difference is in I PROFASA'S favor, since it belongs to the sales funds.
TOTAL EXPENSES WITH NO SUPPORT DOCUMENTS			153772	
(-) Values not accepted check No. 2925			3400	
(-) Interests			142965	
TOTAL TO REINTEGRATE TO USAID/G-CAP			7407	

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S.A.
IPROFASA

(ANEX No. 1)
EXPLANATION ABOUT QUESTIONABLE COSTS
REPORTED BY EXTERNAL AUDITING

(d) QUESTIONABLE COSTS OF PREVIOUS PERIODS

20	S/N	Lot purchase	152279	Not accepted. We do not consider this a questionable cost, since the sum paid for it was never liquidated to USAID, but was paid with sales funds. Furthermore, on 11/06/87, a letter was sent to USAID, reporting such purchase, Ref. G-206-87.
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IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S.A.
I PROFASA

**(ANEX No. 1)
EXPLANATION ABOUT QUESTIONABLE COSTS
REPORTED BY EXTERNAL AUDITING**

Anuled liquidated checks to be reintegrated to AID

Support Document	Check No.	Beneficiary	Value	Explanation
8	2826	Van Color	3686	Accepted. This check was anuled because the dealer did not comply with the required specification so the promotional article was purchased from another company.
9	3278	Van Color	1556	Accepted. This check was anuled because the dealer did not comply with the required specification so the promotional article was purchased from another company.
10	3135	Publimpresiones	3397	Accepted. This check was anuled because the dealer did not comply with the required specification so the promotional article was purchased from another company.
11	3234	Aserta C.A.	10637	Accepted. This check was anuled, because we did not asist to the seminary.
12	2751	Cao, S.A.	2682	Accepted. This check was anuled because the dealer did not comply with the required specification so the promotional article was purchased from another company.
13	1418	Servicio Texaco El Tesoro	1000	Accepted. This check was anuled. A new one was issued, and this one was also liquidated.
	S/N	Payrolls	598	Accepted. The total for the payroll was liquidated to AID for the month, but this sum was not payed to any employee.
Subtotal			23556	
(-) Value added tax of checks 2826,3278, 3135, 3234, 2751, 1418			1435	
TOTAL TO REINTEGRATE TO USAID/G-CAP			22121	

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S.A.
IPROFASA

(ANEX No. 1)
**EXPLANATION ABOUT QUESTIONABLE COSTS
REPORTED BY EXTERNAL AUDITING**

QUESTIONABLE COSTS REVIEW

(a) No support documentation	153772
(b) Non permissible	15659
(c) Anuled checks	45522
(d) Questionable costs for previous periods	152279
TOTAL QUESTIONABLE COSTS	<u><u>367132</u></u>

REVIEW OF COSTS THAT IPROFASA WILL REINTEGRATE TO USAID/G-CAP

Support document	Check No.	Beneficiary	Value	Explanation
1	1980	BANEX	5007	Freight payment
2	3066	Nery Ortiz	1000	Instalation of signs
3	2942	Ramiro Lopez	1400	Softening
1	2202	S. H. Liang	228	Air fare ticket tax
2	2637	Hotel Ramada	378	Tourism tax
4	1149	BANEX	11333	Emergency bounus' payment
5	2179	API Seguros	266	Revenue stamps' payment
6	3042	Ramiro Lopez	741	Groceries
8	2826	Van Color	3686	Pamphlets reprinting
9	3278	Van Color	1556	Pamphlet complement
10	3135	Publimpresiones	3397	Printing complement
11	3234	Aserta	10637	Seminary attendance
12	2752	CAO, S. A.	2682	T-shirts' confection
13	1418	Servicio Texaco	1000	Fuel purchase
	S/N	Payrolls	598	Anuled check
SUBTOTAL TO REINTEGRATE TOJ USAID/G-CAP			<u>43909</u>	
		(-) Value Added Tax check 2826	241	
		(-) Value Added Tax check 3278	101	
		(-) Value Added Tax check 3135	222	
		(-) Value Added Tax check 3234	696	
		(-) Value Added Tax check 2751	175	
TOTAL TO REINTEGRATE TO USAID/G-CAP			<u><u>42474</u></u>	

IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S.A.
 IPROFASA

(ANEX No. 1)
**EXPLANATION ABOUT QUESTIONABLE COSTS
 REPORTED BY EXTERNAL AUDITING**

TOTAL QUESTIONABLE COSTS	367132
(-) Interests already discounted	142965
(-) Check No. 2425	3400
(-) Checks No. 2202 and 3258	2713
(-) Anuled checks liquidated to USAID	21866
(-) Value added tax of checks	1435
(-) Lot purchase	<u>152279</u>
	42474

**USAID'S DISCOUNTS TO IPROFASA FOR THE DECEMBER 1994 AND
 JANUARY AND FEBRUARY 1995 LIQUIDATIONS**

Support
 Document

21	Discount on December 1994 voucher (Total liquidation)	321453
22	Discount on January 1995 voucher	193235
23	Discount on February 1995 voucher	<u>240497</u>
	Total Discounted to IPROFASA	<u>755185</u>
	(-) Amount of interests reported by the Auditing Firm Arthur Andersen	<u>142965</u>
	TOTAL USAID/G-CAP WILL REINTEGRATE TO IPROFASA	<u>612220</u>

AUDIT OF THE
EXPANSION OF FAMILY PLANNING SERVICES PROJECT
USAID/GUATEMALA PROJECT No. 520-0288

FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992
AND COMPLIANCE REVIEW OF ALL PROGRAM INCOME FUNDS
FOR THE PERIOD AUGUST 17, 1982 TO AUGUST 31, 1992

IMPLEMENTED BY
IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. (IPROFASA)

RESPONSE OF INDEPENDENT AUDITORS TO MANAGEMENT COMMENTS

FUND ACCOUNTABILITY STATEMENT

QUESTIONABLE COSTS

- a) Without supporting documentation

In their comments, IPROFASA accept as questionable the sum of Q 7,407, which will be refunded to USAID/G-CAP. They do not accept questioning of check No. 2925 for Q 3,400 paid in professional fees to Mr. Ronald Echeverría.

In respect of the amount of interest earned by funds from Project No. 520-0288 for a total of Q 142,965, IPROFASA are in agreement.

Our comments

We verified that on March 22, 1996, IPROFASA notified USAID/G-CAP of the questionable costs without supporting documentation which it accepted to be discounted in the payment of the next liquidation voucher which IPROFASA will present to USAID/G-CAP.

With respect to the questionable cost not accepted by IPROFASA, we consider that the documentation which IPROFASA has (a simple receipt) is not legal documentation to support the professional fees paid, which should be documented with an invoice.

We also verified that USAID/G-CAP discounted from IPROFASA in the liquidation vouchers for January and February, 1995 the sum of Q 366,556 for interest. At this date, USAID/G-CAP has not defined whether it will accept the calculation of interest for Q 142,965 which we reported in our audit report.

In conclusion, we consider that this finding has not yet been closed.

AUDIT OF THE
EXPANSION OF FAMILY PLANNING SERVICES PROJECT
USAID/GUATEMALA PROJECT No. 520-0288

FOR THE PERIOD JANUARY 1 TO AUGUST 31, 1992
AND COMPLIANCE REVIEW OF ALL PROGRAM INCOME FUNDS
FOR THE PERIOD AUGUST 17, 1982 TO AUGUST 31, 1992

IMPLEMENTED BY
IMPORTADORA DE PRODUCTOS FARMACEUTICOS, S. A. (IPROFASA)

RESPONSE OF INDEPENDENT AUDITORS TO MANAGEMENT COMMENTS

FUND ACCOUNTABILITY STATEMENT

b) Unallowable

In their comments, IPROFASA accept as questionable the sum of Q 12,946, which will be refunded to USAID/G-CAP. They do not accept checks No. 2202 for Q 1,361 and No. 3258 for Q 1,312 for the payment of airline tickets.

Our comments

On march 22, 1996, IPROFASA advised USAID/G-CAP of the unallowable questioned costs which it accepted to be discounted in the payment of the next liquidation which IPROFASA will present to USAID/G-CAP.

With respect to the questionable costs for travel not accepted by IPROFASA, we consider that these should have been authorized in writing by USAID/G-CAP.

In conclusion, we consider that this finding has not yet been closed.

c) Cancelled checks liquidated to USAID/G-CAP

In their comments, IPROFASA accept the costs identified in this finding.

Our comments

We verified that on November 8, 1993, USAID/G-CAP received a refund for Q 20,321 from IPROFASA. On March 22, 1996, IPROFASA advised USAID/G-CAP that the balance of unallowable questioned costs which it accepted for Q 22,121 should be discounted in the payment of the next liquidation voucher which IPROFASA will present to USAID/G-CAP. The amount of the cancelled checks mentioned in our report included the value of the Value Added Tax (VAT). We verified that this tax was not liquidated to USAID/G-CAP, for which reason we agree that IPROFASA should not refund it.

In conclusion, we consider that this finding was partially closed.

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FOR THE PERIOD AUGUST 17, 1982 TO AUGUST 31, 1992

IMPLEMENTED BY
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RESPONSE OF INDEPENDENT AUDITORS TO MANAGEMENT COMMENTS

FUND ACCOUNTABILITY STATEMENT

d) Questionable costs for previous periods

I PROFASA said that they were not in agreement with this questionable costs because it was not liquidated to USAID/G-CAP.

Our comments

We are of the opinion that the purchase of this land should have been authorized in writing by USAID/G-CAP. In addition, I PROFASA did not provide us with a copy of the sales fund budget in which the purchase of the land was included.

In conclusion, we consider that this finding has not been closed.

Exceptions to our report on the fund accountability statement

a) Lack of quantification of I PROFASA's counterpart contribution to the project.

I PROFASA are of the opinion that during the life of the project the income from sales of grant products was the counterpart contribution.

Our comments

We do not agree with I PROFASA's comments because, under Amendment No. 7 to the Original Agreement, I PROFASA should have contributed as a minimum 10% of the funds of its total budget.

We therefore consider that this finding has not been closed.

b) Lack of separate accounting records for the Project and for the Company.

I PROFASA say that they are a corporation and that their accounts are governed by the laws of Guatemala and generally accepted accounting principles, for which reason they did not keep separate records for Project operations.

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FUND ACCOUNTABILITY STATEMENT

Our comments

We do not agree with IPROFASA's comments. As provided in Manual 13, paragraph 16, IPROFASA should have kept separate accounting records for the Project and reflect project funds in their financial statement separately from the company's normal operations. In addition, generally accepted accounting principles require classifying transactions according to their nature (disclosures necessary for a fair presentation).

This finding has therefore not yet been closed.

- c) Uncleared difference of Q 1,429,328 between the balance of the advance according to the fund accountability statement and USAID/G-CAP confirmation.

IPROFASA say in their comments that they are not obliged to clear this difference as they do not have access to USAID/G-CAP records.

Our comments

We consider that this difference should be analyzed and cleared up jointly by USAID/G-CAP and IPROFASA.

This finding has therefore not yet been closed.

Findings on the internal control structure

1. Lack of preparation of a fund accountability statement.

In their comments, IPROFASA say that they do not have to prepare a fund accountability statement because the project agreement does not require it. In addition, USAID/G-CAP and IPROFASA's external auditors did not require it at the time.

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FUND ACCOUNTABILITY STATEMENT

Our comments

In our audit of Project No. 520-0357 as of December 31, 1995, I PROFASA implemented the practice of preparing the fund accountability statement. **Our recommendation was therefore implemented.**

2. Reports and documents related to accounting and financial information without evidence of review and authorization.

Our comments

In our audit of Project No. 520-0357 as of December 31, 1994, I PROFASA implemented the practice of reviewing accounting and financial reports and documents, for which reason **we consider that our recommendation was implemented.**

3. Differences in receipt of products (contraceptive)

Our comments

In our audit of Project No. 520-0357 as of December 31, 1993, I PROFASA implemented the procedure of selectively counting the product entering its warehouses in order to avoid shortages. **We consider that our recommendation was implemented.**

4. In some purchases, no evidence exist concerning the procedure for selecting the supplier of medicines and of goods and services.

Our comments

In our audit of the Project No. 520-0357 as of December 31, 1993, I PROFASA implemented the procedure of obtaining quotations for its purchases, for which reason **we consider that our recommendation was implemented.**

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FUND ACCOUNTABILITY STATEMENT

5. Liquidations of advances inadequately supported and expenses without supporting documentation.

I PROFASA say in their comments that they are not in agreement with the sum of Q 11,548 indicated in the projection of error.

Our comments

We consider that this recommendation has not yet been implemented because, in our audits of Project No. 520-0357 as of December 31, 1993, 1994, and 1995, we detected questionable costs which have not been refunded to USAID/G-CAP.

The amount of Q 11,548 indicated in the projection of error is made up of expenses without support documentation and travel expenses not authorized by USAID/G-CAP (see comments on questionable costs at points a) and b) on the first page of this annex).

6. Expense vouchers are not cancelled

In their comments, I PROFASA say that this procedure was established in the accounting manual.

Our comments

In our audits of Project No. 520-0357, as of December 31, 1993, 1994 and 1995 we determined that they are still not being cancelled, **for which reason our recommendation has not been implemented.**

7. Bank reconciliations do not have any evidence of having been prepared on time

Our comments

During our audit of Project No. 520-0357 as of December 31, 1994 I PROFASA implemented the procedure of preparing bank reconciliations in due time, **for which reason we consider that our recommendation was implemented.**

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FUND ACCOUNTABILITY STATEMENT

8. The policies established in the Credit and Collection Manual are not complied with

I PROFASA mentioned in their comments that, in trade experience in the pharmaceutical business in Guatemala, the percentage of recovery of the portfolio can be described as very good and that it is impossible in an income manual to foresee noncompliance by clients, for which reason I PROFASA cannot offer a result perfectly in agreement with the provisions of the manual.

Our comments

In the development of audits of Project No. 520-0357 as of December 31, 1993, 1994 and 1995, we noted that there are still cases of noncompliance with this manual. In any case, I PROFASA should review and update its policies and procedures in this area and adapt it to its needs. **We consider that our recommendation has not been implemented.**

9. Invoicing and shipping internal control procedures not complied with

Our comments

During our audit of Project No. 520-0357 as of December 31, 1994, we verified that I PROFASA implemented the procedure of reviewing and authorizing salesmen's weekly work plans, daily invoicing reports and warehouse shipping orders. **We therefore consider that our recommendation was implemented.**

10. Income from sales not deposited in a timely manner

Our comments

We verified that, during our audit of Project No. 520-0357 as of December 31, 1993, I PROFASA implemented the procedure of timely deposit of income from sales. **We therefore consider that our recommendation was implemented.**

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FUND ACCOUNTABILITY STATEMENT

11. Lack of defined procedures to monitor compliance with terms of the agreement and with applicable laws and regulations.

According to IPROFASA, a meeting was held with USAID/G-CAP officers at which they were informed of compliance with agreement terms and applicable laws and regulations, and it was decided who in IPROFASA was responsible for such compliance.

Our comments

The resolution of responsibility for compliance with agreement terms and applicable laws and regulations is not in writing. Moreover, during the development of our audits as of December 31, 1993, 1994 and 1995, we identified cases of noncompliance with agreement terms and applicable laws and regulations. **We consider that this recommendation has not been implemented.**

12. Lack of a system to identify and track counterpart funding and project income

Our comments

Grant Agreement No. 520-0357 defined the form in which IPROFASA is to contribute counterpart funds. This finding corresponded to Project No. 520-0288, for which reason it is not applicable for later audits **and is considered closed.**

13. Lack of signatures on the minutes of the Board of Directors meetings

In our audits of Project No. 520-0357 as of December 31, 1993, 1994 and 1995, we verified that the minutes of the Board of Directors are signed and entered in the proper book, **for which reason we consider that our recommendation was implemented.**

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FUND ACCOUNTABILITY STATEMENT

14. Lack of definition of an accounting procedures for payment of severance to employees

Our comments

We verified that as of 1994 I PROFASA has liquidated to USAID/G-CAP only payments made for severance, **for which reason we consider that our recommendation was implemented.**

15. Lack of a system to identify and record direct payments made by USAID

I PROFASA argue that they have had no knowledge of the sums paid directly by USAID/-CAP and that they are not in agreement with our findings.

Our comments

At this date I PROFASA has not defined with USAID/G-CAP the accounting treatment to be given to direct payments made by USAID/G-CAP, **for which reason our recommendation has not yet been implemented.**

Findings on compliance with agreement terms and applicable laws and regulations

1. Commingling of project funds with other company income

In their comments I PROFASA accept that there was a commingling of funds.

Our comments

During the early months of the life of Project No. 520-0357, I PROFASA continued to mix funds, which led to a difference in the starting balance of Project No. 520-0357 and the ending balance of Project No. 520-0288 for Q 274,128, which has not yet been cleared up at this date.

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FUND ACCOUNTABILITY STATEMENT

In respect of our recommendations derived from this finding, IPROFASA designed an accounting system for the new project No. 520-0357. However, it does not include separate book accounts for the segregation of property and equipment, product inventories and equity accounts of Project No. 520-0357. Moreover, donations of contraceptive products received from USAID/G-CAP are recorded as an account payable instead of operational income as required by generally accepted accounting principles.

At present, funds from agreement No. 520-0357 are handled in a separate account in the Banco Industrial.

In view of the above, we consider that this finding has not been cleared up.

2. Inadequate accounting records of IPROFASA and of the Project operations

IPROFASA considers insignificant the amount of Q 14,918 in questionable costs identified in this finding, and they say that they presented lists of checks and schedules of income and expenditure made with sales funds which were reviewed by us.

Our comments

IPROFASA's accounting records do not reflect the property and equipment, product inventory and equity accounts of the USAID/G-CAP project. Moreover, donations in contraceptive products received from USAID/G-CAP are recorded as an account payable instead of operational income, as required by generally accepted accounting principles.

In addition, at this date IPROFASA has not defined with USAID/G-CAP where project counterpart funds are to come from.

As regards the refund of questionable costs to USAID/G-CAP, see comments at points a) and b) on the first page of this annex.

In view of the above, we consider that our recommendations have not been implemented.

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FUND ACCOUNTABILITY STATEMENT

3. Unauthorized additions to the capital account

According to I PROFASA, USAID/G-CAP was aware of these capitalizations as well as of the fact such capitalizations were at no time for the benefit of the partners and that were made on the basis of Article 237 and 238 of the Code of Commerce.

According to I PROFASA Management, this problem was resolved in September, 1992 due to the form in which refunds of expenses covered by USAID are being recorded.

Our comments

- a) I PROFASA's basis for making the capitalizations are Articles 237 and 238 of the Guatemalan Code of Commerce, which identify the causes for which companies can be dissolved. We also consider that if in those years I PROFASA had registered grants in cash and in products received from USAID/G-CAP as operational income it would not have incurred accumulated losses.
- b) Our noncompliance refers to the fact that capitalizations were made (for an amount of Q 1,545,000), for which no written authorization was received from USAID/G-CAP, and under Amendment No. 7 to the Original Agreement, only shares stipulated in Guatemalan law or in the deed of constitution may be issued. Moreover, the amendment provides that I PROFASA will not declare dividends without the authorization of USAID.
- c) With respect to the statement that this situation was resolved as of September, 1992, we do not agree because the contraceptive products received from the Grant Agreement are being recorded as an unreal account payable instead of being recorded as operational income in the period in which received, which is not in agreement with generally accepted accounting principles.

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FUND ACCOUNTABILITY STATEMENT

In conclusion, we consider that our recommendation has not been implemented.

4. Amounts liquidated to USAID which do not agree with the support documentation

Our comments

We agree with I PROFASA's comments to the effect that during the audit of Project No. 520-0357, we did not detect similar situations, **for which reason our recommendation was implemented.**

5. Cancelled checks included in expense liquidations sent to USAID

In their comments, I PROFASA accept the costs identified in this finding.

Our comments

We verified that on November 8, 1993, USAID/G-CAP received as refund of these questionable costs the sum of Q 20,321, and in respect of the balance, on March 22, 1996, I PROFASA advised USAID/G-CAP of the unallowable questioned costs which it accepted should be discounted in the next liquidation voucher which I PROFASA will present to USAID. **We consider that this finding has been partially closed.**

6. Interest earned with funds received from USAID not refunded to USAID

I PROFASA agree with the amount of interest earned by funds from Project No. 520-0288 for a total of Q 142,965.

Our comments

USAID/G-CAP discounted from I PROFASA in January and February, 1995 a total of Q 366,556 for interest. At this date, USAID/G-CAP has not accepted inwriting the value of interest which we calculated, **for which reason at this date this finding has not yet been closed.**

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FUND ACCOUNTABILITY STATEMENT

7. Lack of presentation of quarterly sales statistics and of a plan to gradually reduce USAID financing.

I PROFASA say that during the entire life of the project they have presented monthly statistical reports and to prepare a quarterly report is to repeat what has already been said in the monthly reports.

The self-sufficiency plan began to be prepared in June, 1995 with the assistance of SOMARC, whose definitive report is pending delivery at this date.

Our comments

At this date, I PROFASA has not obtained from USAID/G-CAP written authorization not to present the reports mentioned. **Our recommendation has therefore not been implemented.**

8. Lack of presentation of a detailed work plan and analysis of annual plan

According to I PROFASA Management, the work plans were replaced by marketing plans, and a report of achievements was presented at the end of the year.

Our comments

There is no written amendment to the Agreement to record this change and we were not advised by I PROFASA that the detailed work plans were replaced, for which reason we did not review the marketing plans. For this finding to be implemented, authorization in writing should be obtained from USAID/G-CAP for the replacement and a statement to the effect that the marketing plans were delivered. In addition, during the audit of Project No. 520-0357, there has been noncompliance with agreement terms and applicable laws and regulations, **due to which our recommendation in respect of this finding has not been implemented.**

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FUND ACCOUNTABILITY STATEMENT

9. Lack of presentation of quarterly narrative report

The preparation of this report was always the responsibility of the Juárez & Asociados resident adviser, and they were delivered quarterly to USAID/G-CAP.

Our comments

We were not provided with any written evidence to the effect that the resident adviser delivered this report to USAID/G-CAP, **for which reason we consider that this finding has still not been resolved.**

10. Inadequate formation of an Executive Committee

According to I PROFASA management, this committee operated irregularly through no fault of I PROFASA but due to lack of attendance and interest in meeting by USAID/G-CAP personnel.

Our comments

We consider that our recommendation was not implemented.

11. Inadequate establishment of office system and control, accounting and financial administration

According to I PROFASA Management, this point has been settled with the conclusion and implementation phase of the company's operational manuals. There is also a fidelity bond for executives and employees who handle cash.

Our comments

The manuals are in the phase of implementation. For this reason we could not verify whether they included procedures adequate to the needs of the project and I PROFASA, complying with USAID guidelines. In addition, the manuals have not yet been authorized by USAID/G-CAP.

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FUND ACCOUNTABILITY STATEMENT

The company contracted a fidelity bond for employees who handle project cash and goods.

In view of the above, our recommendation is partially implemented.

12. Project property not identified with USAID insignia and not inventoried

IPROFASA Management obtained written authorization from USAID not to identify the assets with the emblem. In respect of fixed assets, USAID/G-CAP has in its possession a letter describing in detail the property, its location, and the signature of the person responsible for it.

Our comments

We verified that IPROFASA obtained authorization from USAID/G-CAP not to attach the USAID emblem to its fixed assets. In respect of the detail of the location and signature of the person responsible for fixed assets, we carried out a review and found that it does not include all the goods and that it is not valued. **We consider that our recommendation was partially implemented.**

13. Inadequate filing of previous years documentation

According to IPROFASA Management, this situation has been corrected and there is now a filing section.

Our comments

The documentation for the new Project No. 520-0357 is adequately filed. However, with regard to the documentation (invoices, salesmen's liquidations, cashier's receipts, bank deposits and others) for Project No. 520-0288 for previous years, this was not located nor filed by IPROFASA. **For this reason, the recommendation has not been implemented for Project No. 520-0288.**

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FUND ACCOUNTABILITY STATEMENT

14. Required project audits were not made

I PROFASA Management says that during the life of the project the external audits were made by a firm qualified by USAID and that at no time were instructions received to carry out special audits.

Our comments

I PROFASA's financial statements were audited by a local firm. However, these audits were not performed in accordance with USAID guidelines and no audit was made of the fund accountability statement. Moreover, I PROFASA has not defined with USAID/G-CAP the measures to be taken to settle this deficiency. **This finding is therefore still open for Project No. 520-0288.**

Arthur Andersen & Co.