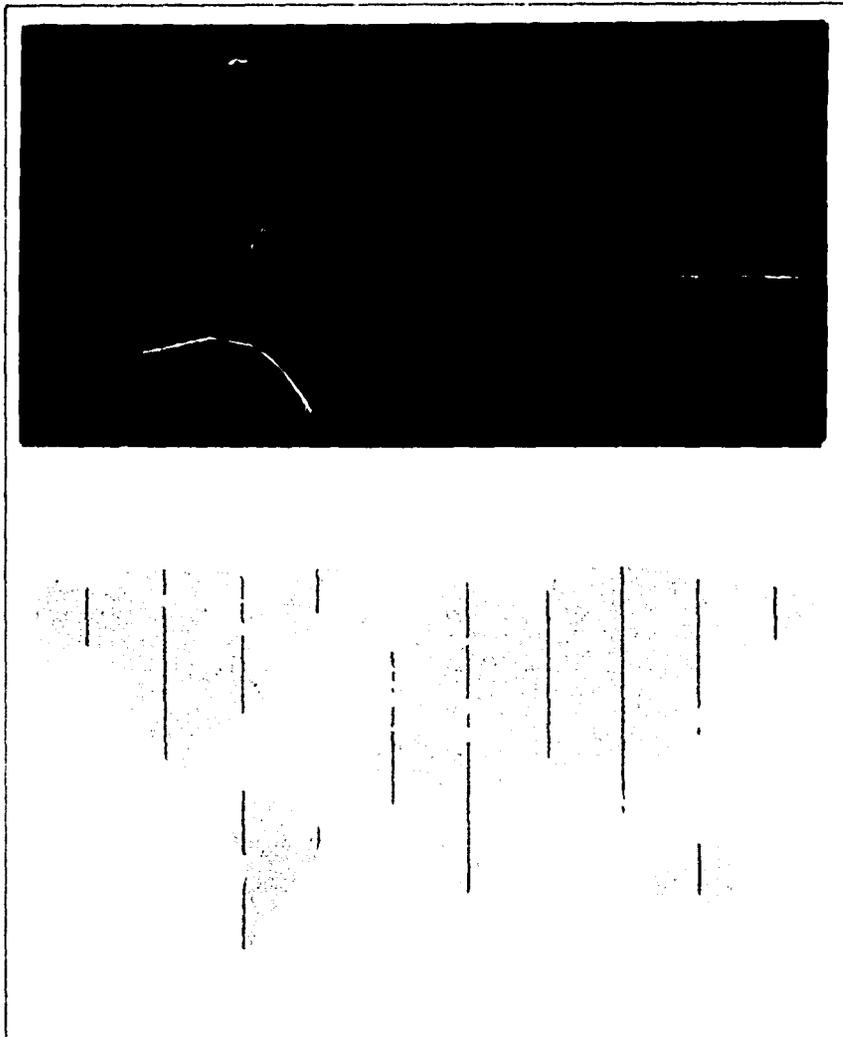


PD-AAI-332

519-0266

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
LATIN AMERICA
(Washington, D.C.)

MEMORANDUM ON AUDIT OF
TRANSPORTATION RESTORATION PROJECT
GRANT NO. 519-0266
USAID/EL SALVADOR
AUDIT REPORT No. 1-519-82-2
OCTOBER 30, 1981

Under the Transportation Restoration Project, the Government of El Salvador was importing about 80 used, but repowered and refurbished buses at an estimated cost of \$2.0 million. These buses will replace transportation equipment damaged or destroyed by the violence and will benefit about 38,000 families.

With the delivery of 66 buses, progress was being made in achieving the objectives of the project. Monitoring was being effectively done. The GOES had issued a decree to establish a special account and the Mission made plans to monitor the account closely.

However, the implementation of this project was behind schedule. All 80 buses were to have been delivered by June 30, 1981; this date was not met and only 66 buses had been delivered at the issuance of this report. Since the buses were not delivered as scheduled, the contract needs to be amended to extend the terminal completion date. We make one recommendation in this respect.

MEMORANDUM

DATE : October 30, 1981

FROM : R. Dean Hinderliter
RIG/A/LA

SUBJECT: Memorandum Audit Report No. 1-519-82-2
Transportation Restoration Project
Grant No. 519-0266, USAID/E1 Salvador

TO : Mr. Peter W. Askin
Mission Director
USAID/E1 Salvador

Introduction and Scope of Audit: On September 30, 1980, a \$1.5 million Grant Agreement was signed between the Agency for International Development (AID) and the Government of El Salvador (GOES) to fund Transportation Restoration Project No. 519-0266. The objective was to restore and maintain an economic, viable public transportation system by providing 80 used buses to the GOES. The 80 buses were purchased from the Southeastern Bus Sales Co. under Contract No. LAC-0266-C-00-1002-00 dated December 5, 1980. In turn, the GOES would transfer the buses to individual owners or transportation cooperatives to replace those destroyed or severely damaged by acts of terrorism.

The estimated cost of the project totalled \$2 million, including a GOES contribution of \$500,000 to cover compensation of bus owners and salaries of GOES employees who would be managing the project. Bus owners and their employees will benefit directly, and approximately 38,000 families will be provided with transportation to jobs and improved access to social services.

The GOES agency responsible for project management and implementation is the Fondo de Financiamiento y Garantia para la Pequena Empresa (FIGAPE) or Small Business Financing and Guarantee Fund.

This audit covered the period from September 30, 1980, to May 31, 1981. Certain information related to delivery of buses was updated to October 15, 1981. Our objective was to evaluate the effectiveness of project implementation and to apprise the Mission of any significant problems.

We examined USAID/E1 Salvador project files and records to determine the extent of reporting and monitoring, and interviewed Mission and GOES personnel concerning project operations. Contract personnel were interviewed to determine if contract terms were complied with.

Our audit findings and recommendations were provided in draft to USAID/E1 Salvador for review and comments. The Mission's response was considered and incorporated in this report, as appropriate.

Special Fund Account: On May 15, 1981, USAID/E1 Salvador approved a proposed GOES decree and draft plan to distribute the buses. The decree (No. 647) provided that, prior to delivery of the buses, prospective owners had to make a 10,000 colones (\$4,000 @ 2.50 to \$1.00) payment to FIGAPE. Of this payment, 8,000 is deposited in the "Special Fund to Finance Passenger Transportation." The funds will be used to make credit available to the public transportation sector for working capital needs (payroll, supplies, spare parts), and machinery and equipment needs (major spare parts such as motors, and procurement of buses). The 2,000 balance is for FIGAPE's use in covering their costs to manage this project, such as transferring buses from the port to San Salvador, repairing damage incurred during shipment, storing buses in San Salvador, and administering the program.

Decree 647 has obligated the GOES to deposit 640,000 (80 x 8,000) in the Special Fund. In response to our draft report, the Mission advised us that it will request FIGAPE to provide bimonthly reports on the status of these local currency generations. In the meantime, FIGAPE has provided: (1) a status report on the distribution of buses; (2) a description of the accounting and control system used to ensure proper transfer of the buses; and (3) an evaluation of the implementation of the project.

We reviewed the events and circumstances pertaining to the GOES's Special Fund account. Our conclusion is that Mission plans to closely monitor this account are satisfactory to ensure adequate accounting and reporting by the GOES on the use of the funds.

Project Implementation: Some problems have been encountered in obtaining and modifying the used buses. This caused a two-month slippage in the contract delivery schedule and, as a result, the contract has been amended twice and still needs to be amended.

On December 5, 1980, a \$1,480,504 contract (No. LAC-0266-C-00-1002-00) was signed with Southeastern Bus Sales, Inc., to provide 80 used buses. The specifications called for the buses to be repowered with new diesel engines, installed with a rear door and stepwell, and lubricated before delivery.

The delivery schedule called for shipment in lots of not less than five units. The first lot was to be shipped not later than January 7, 1981, with each additional lot shipped not later than the end of each calendar week thereafter, until all units had been shipped. If this schedule had been followed, the 80 buses would have been shipped by the end of April 1981. However, the contractor had difficulty in obtaining sufficient used buses.

On February 15, 1981, the contract with Southeastern Bus Sales was amended to revise the delivery schedule and reduce the unit price of the first 15 units in consideration of delayed deliveries. The revised delivery schedule provided that shipment of the first lot was to occur not later than February 2, 1981, and the final shipment was to be made not later than April 25, 1981.

As of June 5, 1981, only 17 of 80 buses had been received by the GOES. Another 17 buses were at a Guatemalan port waiting to be driven to San Salvador. The remaining 46 buses were reportedly being processed for shipment from Miami to Guatemala or improved as required by contract specifications.

Because the contractor was unable to meet the revised delivery schedule, Mission officials amended the contract to extend the delivery schedule to June 30, 1981. Initially, AID/Washington officials indicated that there would be no problem in the contractor meeting this deadline. However, further checks made by us showed that as of October 15, 1981, the contractor had delivered only 66 buses, not the 80 buses that should have been delivered. We were told that the contractor had encountered many difficulties, but that the remaining 14 buses would be delivered during November 1981. Although the June 30, 1981 date had expired, the contract had not yet been extended. We believe this extension should be done immediately.

Recommendation No. 1

USAID/EI Salvador should initiate the required action to extend the delivery schedule of Southeastern Bus Sales from June 30, 1981 to a realistic deadline date.

At the time of our review, none of the 17 buses received by the GOES had been distributed to individual owners or organizations. However, all 80 buses were adjudicated during a public ceremony held on May 27, 1981. The physical transfer was to follow completion of the documentation and contracting process, and payment of the required C10,000 (\$4,000) per recipient.

The delay in starting distribution was due to GOES bureaucratic procedures that prevented transferring ownership of the buses. On March 17, 1981, FIGAPE sent a letter to the Ministry of Economy requesting a GOES decree naming FIGAPE as the agency in charge of project implementation, and establishing a plan for distribution of the buses. USAID/EI Salvador monitored this request for several weeks. Despite the Mission's active support in contacting the Ministries involved, and in working closely with FIGAPE to develop an acceptable distribution plan, Decree 647 was not published until late May 1981. As soon as the decree was published, the bus distribution procedures were implemented.

Project Monitoring: We found that, generally, minor mechanical defects that were reported by Mission officials had been corrected. Mission and GOES officers reported some minor defects in the first 17 buses: four buses had at least one smooth tire, three batteries needed replacement, some radiators were too close to the fan blades, and two rear doors were inoperable.

The AID/Washington Office of Commodity Management, Commodity and Procurement Support Division (SER/COM/CPS) followed-up with Southeastern Bus Sales and concluded that the buses were being reconditioned to specifications. AID/Washington officials commented that the used buses could not be completely restored to resemble a new vehicle off the assembly line, and that the batteries had weakened because the buses were at the port for more than five weeks. Tires were not a valid issue since the contract did not call for new tires. The tires had met Florida state inspection requirements and the buses had been inspected by an independent contractor.

Our inspection of the 17 buses in San Salvador showed that the minor mechanical problems were repaired and weakened batteries were recharged or replaced.

LIST OF REPORT RECIPIENTS

	<u>Copies</u>
IDCA, AID/W	1
IDCA's Legislative and Public Affairs Office, AID/W	1
Deputy Administrator, AID/W	1
Assistant Administrator - Bureau for Latin America and the Caribbean (LAC), AID/W	5
Mission Director, USAID/EI Salvador	5
Assistant Administrator - Bureau for Development Support	1
Bureau for Program and Management Services, Office of Contract Management (SER/CM)	1
Assistant Administrator, Office of Legislative Affairs (LEG), AID/W	1
Office of Financial Management (OFM), AID/W	1
General Counsel, AID/LAC/CEN, AID/W	1
Country Officer, AID/LAC/CEN, AID/W	1
Audit Liaison Officer, LAC/DP, AID/W	3
Director, OPA, AID/W	1
DS/DIU/DI, AID/W	4
PPC/E, AID/W	4
Inspector General, AID/W	1
RIG/A/W, AID/W	1
RIG/A/WAFR	1
RIG/A/Cairo	1
RIG/A/Manila	1
RIG/A/Karachi	1

	<u>Copies</u>
RIG/A/Nairobi	1
IG/PPP, AID/W	1
IG/EMS/C&R, AID/W	12
AIG/II, AID/W	1
RIG/II/Panama	1
RIG/A/La Paz Residency	1
RIG/A/NE, New Delhi Residency	1
General Accounting Office, Latin America Branch, Panama	1