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**AUDIT OF  
SELECTED LOCAL CURRENCY-FINANCED  
ACTIVITIES OF THE EL SALVADOR  
MINISTRY OF PUBLIC HEALTH  
AND SOCIAL ASSISTANCE**

**Audit Report No. 1-519-89-12  
March 17, 1989**

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**AGENCY FOR INTERNATIONAL DEVELOPMENT**

OFFICE OF THE REGIONAL INSPECTOR GENERAL  
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March 17, 1989

MEMORANDUM

TO: Director, USAID/El Salvador, Henry Bassford  
FROM: RIG/A/T, *Coningson, Bethard*  
Coinage N. Gothard, Jr.  
SUBJECT: Audit of Selected Local Currency-Financed Activities of the El Salvador Ministry of Public Health and Social Assistance

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of the Local Currency-Financed Activities of the El Salvador Ministry of Public Health and Social Assistance. Five copies of the audit report are enclosed for action.

The draft audit report was submitted to you for comment and your comments are attached to this report as appendix 1. The report contains four recommendations. The four recommendations are resolved but open pending Mission action. Please advise me within 30 days of any actions taken to implement these recommendations.

I appreciate the cooperation and courtesy extended to my staff during the audit.

## EXECUTIVE SUMMARY

The health condition in El Salvador began to deteriorate in 1978, as economic decline, budget cuts, violence, and a growing displaced persons population severely strained the already limited support systems of the Ministry of Public Health and Social Assistance. A.I.D. responded by creating in the early 1980's a dollar funded Health Systems Vitalization Project. Based on the experience of this project, A.I.D. approved a continuation project - Health Systems Support Project in 1986. The Government of El Salvador, as part of its counterpart contributions to the health projects, approved six Ministry action plans for 1985, 1986, and 1987 covering \$7.4 million in local currencies for four activities. A.I.D. created these projects to (1) maintain existing levels of primary health care and emergency medical services; (2) assist the Ministry in improving its logistical support system for pharmaceutical and medical supplies; and (3) provide commodity support to partially meet the Ministry's needs for drugs and medical supplies.

The Regional Inspector General for Audit in Tegucigalpa performed a limited scope program results and compliance audit of selected activities of the Ministry for 1985, 1986, and 1987. The specific audit objectives were to determine whether the Ministry (1) adequately accounted for the receipt, distribution, and storage of medicines purchased under the project and (2) complied with selected Government of El Salvador laws, regulations, action plan requirements, and sound management principles.

In 1985 and 1986 the Ministry did not retain inventory records to account for the receipt and distribution of medicines bought in those years for the Health Systems Vitalization and Health Systems Support Projects. In 1987 the Ministry retained documentation accounting for receipt and distribution of drugs, however, it had not applied existing inventory control systems. This caused some deficiencies in the receipt, distribution, and storage of drugs purchased under the project. Further, the Ministry did not always comply with applicable Government of El Salvador regulations and good principles of management regarding accountability.

From 1985 to 1988, the Ministry bought and delivered about \$3.5 million in drugs and medical supplies under the project to 359 hospitals and health units for use in treating patients. In addition, it implemented an educational campaign for dengue fever control. According to the head of the malaria unit, the incidence of dengue fever decreased as a result of the campaign.

This report contains four findings. The Ministry warehouses should implement better inventory control systems. The malaria implementing unit did not have adequate internal controls and records. The Ministry made a major real estate purchase without considering other properties. The technical unit could not account for equipment and furniture purchased with project funds.

The Ministry has inventory control policies for warehouses and storage centers. Because the Ministry had not provided written guidance and training, warehousing personnel had not implemented all of these policies and procedures. Consequently, the central warehouse did not have inventory records for 1985 and 1986, not all health units had adequate stocks of inventories, some health units had expired medicines which they were still distributing, and some health units had drugs which were deteriorating faster than they should deteriorate. As a result, these conditions undermined the quality of health care provided under the project and potentially endangered lives. This report recommends that evidence be obtained that the Ministry has provided guidance and training on inventory control systems to personnel at all warehousing levels. USAID/El Salvador concurred with the recommendation.

Government of El Salvador Instructive 1.204, which regulates the use of local currencies under the extraordinary budget, requires implementing agencies to maintain adequate accounting books and records and to account for the use of project funds in a timely manner. The implementing unit of the Health Systems Support malaria project lacked adequate segregation of duties and appropriate accounting books and records to properly account for and manage project funds. In addition, it had not prepared bank reconciliations for almost one year. Internal controls and records were inadequate purportedly because of limited personnel and the lack of monitoring by the Technical Secretariat. This lack of adequate accounting controls and segregation of duties could result in the mismanagement or misuse of project funds. This report recommends that evidence be obtained that the Malaria Unit has established a better segregation of duties, has established an adequate accounting system, and has submitted an accurate reconciliation of deposits and expenditures from the 1987 Public Law 480 program. With some reservations, USAID/El Salvador concurred with this recommendation.

Good real estate procurement practices require that several properties be identified and evaluated prior to making a purchase. However, because the Government of El Salvador in its Instructive 1.204 had not established regulations governing the purchase of real estate, the Ministry purchased land and buildings in 1987 for \$400,000 without considering other purchase options. As a result, there is no assurance that the Ministry purchased the most suitable property at the lowest possible price. This report recommends Instructive 1.204 be modified to require the identification and evaluation of several options before purchasing real estate in order to obtain the most suitable property at the lowest price. USAID/El Salvador concurred with the recommendation.

Good internal controls require that all equipment bought with project funds be properly recorded, controlled, and accounted for. The medicines and medical supply technical unit for the Health Systems Support Project did not keep adequate inventory control records for furniture and equipment purchased with project funds. This happened partly because Government of El Salvador's Instructive 1.204 did not contain any guidance on the maintenance of property records. Because of the lack of records, the technical unit could not identify the equipment and furniture purchased with project funds and this could result in the loss

of such property. This report recommends that Instructive 1.204 be amended to require implementing agencies to maintain separate property management records for equipment and furniture purchased with extraordinary budget funds. USAID/EI Salvador concurred with the recommendation.

*Office of the Inspector General*

AUDIT OF  
SELECTED LOCAL CURRENCY-FINANCED  
ACTIVITIES OF THE EL SALVADOR  
MINISTRY OF PUBLIC HEALTH  
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AUDIT OF  
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PART I - INTRODUCTION

A. Background

The health condition in El Salvador began to deteriorate in 1978, as economic decline, budget cuts, violence, and a growing displaced persons population severely strained the already limited support systems of the Ministry of Public Health and Social Assistance (the Ministry). A.I.D. responded in the early 1980's by creating the dollar funded Health Systems Vitalization Project (VISISA). Based on the experience of this project, A.I.D. approved a continuation project - Health Systems Support Project (APSISA) in 1986.

Public Law 480 Title I program local currencies are part of the Government of El Salvador (GOES) extraordinary budget 1/, and the GOES and USAID/El Salvador jointly program their use. The Ministry of Planning manages the extraordinary budget through its Technical Secretariat for External Financing (the Secretariat). USAID/El Salvador's Office of Development Planning and Programming is responsible for the Mission's overall management of the local currency program. The USAID's Health, Population, and Nutrition Office is responsible for monitoring the VISISA/APSISA projects.

GOES agencies receiving extraordinary budget support are required to prepare action plans to show how funds are to be used. The Secretariat is responsible for approving and monitoring the implementation of these action plans. In 1985, 1986, and 1987, the Secretariat approved six action plans for the Ministry covering \$7.4 million in local currencies for four activities. These action plans were to provide GOES counterpart for the VISISA and APSISA projects as follows:

Strengthening the Health Services Project - The Secretariat approved this project under action plans for 1985, 1986, and 1987. It consisted of the procurement of pharmaceuticals and medical equipment, the improvement of the logistics and administration of drugs and medical supplies, and a remodeling/construction component. The action plans budgeted the equivalent of \$5.9 million for these activities of which, and according to the last voucher reviewed, the Ministry had disbursed \$1.7 million as of August 26, 1988.

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1/ Extraordinary budget resources include local currencies generated as a result of foreign agreements. This report only covers the administration and use of extraordinary budget resources associated with agreements between the United States and the GOES.

Malaria Project - The 1987 action plan identified the need to create an emergency plan to control a Dengue epidemic in El Salvador and to create an infrastructure for the prevention of malaria. The action plan budgeted the equivalent of \$600,000 for these activities. Of this amount the Ministry had disbursed approximately \$260,000 as of the last advance liquidation voucher presented on July 21, 1988.

Relocation of the Eastern Region Health Facilities Project - The Secretariat approved this action plan in 1987. The action plan involved the buying of land and buildings to set up a regional maintenance facility for the Ministry. The Secretariat budgeted the equivalent of \$400,000 to purchase land and buildings and \$200,000 to remodel the buildings. As of May 19, 1988, the Ministry had disbursed only the \$400,000 for the purchase of the land.

Administration of Medicines and Medical Supplies Project - The Secretariat allocated the equivalent of \$280,000 under the 1987 action plan to provide budget support to an implementation unit for the management of medicines and medical supplies. According to the last voucher presented on February 29, 1988, the Ministry had disbursed the equivalent of approximately \$60,000.

#### B. Audit Objectives and Scope

The Regional Inspector General for Audit in Tegucigalpa (RIG/A/T) performed a limited scope program results and compliance audit of selected activities of the Ministry of Public Health and Social Assistance (the Ministry) for 1985, 1986, and 1987. The specific audit objectives were to determine whether the Ministry (1) adequately accounted for the receipt, distribution, and storage of medicines purchased under the project and (2) complied with selected Government of El Salvador laws, regulations, action plan requirements, and sound management principles.

The audit covered \$5.4 million in Public Law 480 Title I local currency that the Ministry had expended under the extraordinary budget to finance selected activities. The audit tested \$3.2 million of these funds (see exhibit 1). RIG/A/T selected the Ministry of Public Health and Social Assistance for audit because of USAID/El Salvador concerns that the Ministry was not adequately managing commodities purchased under the project. USAID/El Salvador financed and contracted the local auditing firm of Price Waterhouse to assist in this audit. Price Waterhouse auditors worked under the supervision of the RIG/A/T auditors.

To accomplish audit objectives, RIG/A/T and Price Waterhouse personnel interviewed officials and reviewed records at the following organizations: USAID/El Salvador, the Ministry, the Secretariat, and the Court of Accounts. Price Waterhouse personnel visited forty-one Ministry warehouses to inspect the receipt, warehousing, and distribution of pharmaceuticals procured under the project. The audit field work took place from May 2 to October 26, 1988. We limited the review of internal controls and compliance to the activities discussed in this report and performed the audit in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

In 1985 and 1986 the Ministry of Public Health and Social Assistance (the Ministry) did not retain inventory records to account for the receipt and distribution of medicines bought for the Health System Vitalization and Health System Support projects. In 1987 the Ministry retained documentation accounting for receipt and distribution of drugs; however, it had not applied existing inventory control systems. This caused some deficiencies in the receipt, distribution, and storage of drugs purchased under the project. Further, the Ministry did not always comply with applicable Government of El Salvador regulations and sound management principles regarding accountability.

From 1985 to 1988, the Ministry bought and delivered about \$3.5 million in drugs and medical supplies under the project to 359 hospitals and health units for use in treating patients. In addition, it implemented an educational campaign for dengue fever control. According to the head of the Malaria Unit, the incidence of dengue fever decreased as a result of this campaign.

This report contains four findings. The Ministry warehouses should implement better inventory control systems (see finding No. 1). The malaria implementing unit did not have adequate internal controls and records (see finding No. 2). The Ministry made a major real estate purchase without considering other properties (see finding No. 3). The technical unit could not account for equipment and furniture purchased with project funds (see finding No. 4).

The report recommends that: guidance and training be provided on inventory control systems to personnel at all warehousing levels, adequate internal controls and accounting records be established for the malaria implementing unit, Instructive 1.204 be modified to require the identification and evaluation of several options before purchasing real estate, and finally, Instructive 1.204 be modified to require implementing agencies to maintain property management records.

## A. Findings and Recommendations

### 1. The Ministry Warehouses Should Implement Better Inventory Control Systems

The Ministry of Public Health and Social Assistance (the Ministry) has inventory control policies for warehouses and storage centers. Because the Ministry had not provided written guidance and training, warehousing personnel had not implemented all of these policies and procedures. Consequently, the central warehouse did not have inventory records for 1985 and 1986, not all health units had adequate stocks of inventories, and some health units had expired medicines which they were still distributing, some health units had drugs which were deteriorating faster than they should deteriorate. As a result, these conditions undermined the quality of health care provided under the project and potentially endangered lives.

#### Recommendation No. 1

We recommend that USAID/El Salvador obtain evidence from the Technical Secretariat for External Financing that the Ministry of Public Health and Social Assistance has provided written guidance and training on inventory control systems to personnel at all warehousing levels.

#### Discussion

As counterpart to two A.I.D. dollar funded health projects, the Health Systems Vitalization Project (VISISA) and the Health Systems Support Project (APSISA), the Technical Secretariat for External Financing (the Secretariat) assigned \$5.9 million in Public Law 480 Title I local currencies to these two projects in 1985, 1986 and 1987. The purposes of these projects were to: (1) transfer resources to maintain existing levels of primary health care and emergency medical services, (2) assist the Ministry improve its logistical support system for medicines and medical supplies, and (3) provide commodity support to partially meet the Ministry's needs for drugs and medical supplies.

The Ministry's procedures manual for approval, receipt, requisition, and distribution of medicines and medical supplies established procedures for the receipt and distribution of medicines for all warehousing levels. Specifically, based on requests for medicines received from the hospitals and health units, the technical unit in San Salvador would prepare a purchase schedule so that the procurement unit could buy the drugs. Once it awarded the contract, the procurement unit would send a copy of the purchase order to the central warehouse which would receive and test the goods to see that they meet the contracted quality standards. Central warehouse personnel would record all goods received and store them in warehouse for distribution to regional warehouses and hospitals. The regional warehouses would in turn distribute drugs to health units and posts for final distribution to patients. The Ministry had budgeted a total of \$3.8 million for the local procurement of medicines.

To determine that the Ministry had adequately accounted for the drugs purchased under the project in accordance with the Ministry's procedures manual and the Court of Accounts instructive for warehouses and storage centers, the auditors visited the central warehouse, 41 other warehouses in hospitals, and health units and posts throughout El Salvador. These visits revealed a series of deficiencies. Following the name of the site visited is a short explanation of the deficiencies observed.

Central Warehouse - The central warehouse is responsible for the receipt and distribution of all medicines bought under the project. The objective was to verify that the Ministry had received the drugs purchased in 1985, 1986, and 1987 and delivered them to their destinations. However, the review could not verify whether the Ministry had accounted for \$1.9 million in drugs purchased in 1985 and 1986 because the central warehouse sent the original records to the Court of Accounts and had discarded duplicate file copies.

There were some inventory management problems for the \$1.1 million in medicines purchased under the 1987 action plan. For example, the central warehouse did not always receive copies of the purchase orders related to the contracts and could not determine if the quality and quantity of the drugs contracted for was the same as the quality and quantity of the goods received. The central warehouse, however, did have documentation to account for the distribution of medicines. Inventory shortages were not significant nor were expired medicines which represented only one percent of total value of the purchases made. The review verified that starting in May 1988 purchase orders were being reconciled to receiving reports.

Hospital and Regional Warehouses - In general, controls at this level were adequate except for the lack of warehousing space and the maintenance of perpetual inventory records. Perpetual inventory records showed delays in posting of up to six months.

Health Units and Posts - Inventory control problems at the health units and posts were more significant. A list of significant problems follows:

- in some cases the security at the warehouse was not adequate,
- storage space for the drugs often did not meet appropriate standards because the spaces were too humid, hot, small, or dark,
- personnel did not timely post the receipt and issuance of medicines to the perpetual inventory control cards,
- personnel did not maintain a record of drugs issued,
- personnel did not take a physical inventory as of June 30, 1988, to verify the accuracy of the perpetual inventory records, and
- personnel did not record all drugs on the perpetual inventory records.

Site visits disclosed the Ministry had not distributed its written policies regarding inventory controls to all warehousing levels and, in the case of health units and posts, it had not properly instructed personnel in charge of warehouses regarding the adequate safekeeping of medication.

It is not clear why the central warehouse did not retain records for 1985 and 1986, but as a result, we could not determine whether all medicines bought under the project in 1985 and 1986 had reached their intended destination. In addition, many of the warehouses had expired medicines. In the case of health units and posts, the review showed that patients were still receiving expired drugs and some surpluses and shortages of medicines existed. The Ministry did not have an adequate inventory control system because not all recommended policies and procedures had been implemented. Some health units lacked adequate warehousing facilities to properly store all medicines causing the faster deterioration of some drugs. These conditions undermined the quality of health care provided under the project and potentially endangered lives.

#### Management Comments

The Mission agrees with the recommendation.

#### Office of Inspector General Comments

The recommendation is resolved based on management comments, and it can be closed when we receive documentation demonstrating that written guidance and training on inventory control systems has been provided to personnel at all warehousing levels.

## 2. The Malaria Implementing Unit Did Not Have Adequate Internal Controls and Records

Government of El Salvador Instructive 1.204, which regulates the use of local currencies under the extraordinary budget, requires implementing agencies to maintain adequate accounting books and records and to account for the use of project funds in a timely manner. The implementing unit of the Health Systems Support malaria project lacked adequate segregation of duties and appropriate accounting books and records to properly account for and manage project funds. In addition, it had not prepared bank reconciliations for almost one year. Internal controls and records were inadequate purportedly because of limited personnel and the lack of monitoring by the Technical Secretariat for External Financing. This lack of adequate accounting controls and segregation of duties could result in the mismanagement or misuse of project funds.

### Recommendation No. 2

We recommend that USAID/El Salvador obtain evidence from the Technical Secretariat for External Financing that the Ministry of Public Health and Social Assistance's malaria unit has established a better segregation of duties, has established an adequate accounting system, and has submitted an accurate reconciliation of deposits and expenditures from the 1987 Public Law 480 program.

### Discussion

The Government of El Salvador declared malaria control as one of its seven health priorities because of mosquito transmitted diseases problems in the country. The Technical Secretariat for External Financing (the Secretariat) approved a malaria action plan for 1987 under the Health System Support Project (APSISA) to be financed with Public Law 480 Title I local currencies. The action plan responded to a declared emergency for dengue fever control in El Salvador. Due to the emergency nature of the project, the Secretariat agreed that disbursements to the project could be effected under the emergency procurement regulations which diminished some of the competitive restrictions for the procurement of goods and services.

Instructive 1.204, which regulates the use of local currency under extraordinary budget, requires implementing agencies to maintain adequate accounting books and records and to account for project funds. In addition, good internal controls require the segregation of duties when at all possible.

The malaria unit of the Ministry of Public Health and Social Assistance (the Ministry), the implementing unit for the malaria action plan under the APSISA project, lacked both adequate segregation of duties and appropriate books and records to properly account for project funds. The review of the unit showed that the person in charge of managing the projects (writing checks against the bank account) was also responsible for keeping the accounting records. In addition, the unit's records consisted of ad hoc miscellaneous forms and fragmented worksheets that inadequately summarized financial information from various sources. It

did not maintain a conventional ledger, or double entry accounting system, to tie financial data together as a whole. Instead, the project office operated on a cash basis. Furthermore, advance liquidations presented to the Secretariat did not agree with balances shown in the worksheets kept by the unit. Finally, the unit had not prepared bank reconciliations for almost one year. According to the person in charge of managing these funds, this was not necessary since the bank balance was always the same as the book balance. However, the review found that the bank balance did not always agree with the book balance. A reconciliation is necessary in order to periodically determine the actual balance of the fund and to detect discrepancies in project records.

Because of limited personnel available under the project (the fund manager and his secretary), there was no segregation of duties and fund management and accounting control responsibilities fell under the same person. In view of this limitation, the Secretariat should have required that the unit keep appropriate accounting books and records. However, since the Secretariat had not made any official visits to the project, these deficiencies had gone undetected.

Taking into account the emergency nature of the project, inadequate records, and the lack of internal controls, project financial data provided by the malaria unit was not reliable. To avoid possible misuse and mismanagement of project funds, the Secretariat should verify that all implementing agencies managing extraordinary budget funds have adequate accounting systems in place before releasing funds. They should also assist the malaria unit to (1) improve its accounting system, (2) submit an accurate reconciliation of all prior deposits and expenditures, and (3) establish a better segregation of duties.

#### Management Comments

The Mission concurs with the recommendation but requests clarification as to the extent of changes recommended in the accounting system and in the segregation of duties. The Mission stated that the clarification should compare the costs and complexity of the proposed changes to the benefits to be derived by a unit as small as the malaria unit (two administrative personnel). Also the Mission requests that the last clause of the recommendation be changed to "and has submitted an accurate reconciliation of all PL 480/87 [1987 Public Law 480 program] deposits and expenditures." This change clarifies which year(s) need to be reconciled.

#### Office of Inspector General Comments

We believe that the finding adequately describes deficiencies in the accounting system and segregation of duties. Changes should be decided by USAID/El Salvador but need not be overly complex. However, the system should properly account for project funds. The recommendation has been modified as suggested by USAID/El Salvador.

The recommendation is resolved based on management comments, and it can be closed when USAID/El Salvador provides evidence of corrective action taken.

### 3. The Ministry Made a Major Real Estate Purchase Without Considering Other Properties

Good real estate procurement practices require that several properties be identified and evaluated prior to making a purchase. However, because the Government of El Salvador in its Instructive 1.204 had not established regulations governing the purchase of real estate, the Ministry of Public Health and Social Assistance (the Ministry) purchased land and buildings in 1987 for \$400,000 without considering other purchase options. As a result, there is no assurance that the Ministry purchased the most suitable property at the lowest possible price.

#### Recommendation No. 3

We recommend that USAID/El Salvador obtain evidence that the Government of El Salvador has modified Instructive 1.204 to require the identification and evaluation of several options before purchasing real estate in order to obtain the most suitable property at the lowest possible price.

#### Discussion

On June 5, 1987, the Technical Secretariat for External Financing (the Secretariat) approved the Ministry's Relocation of the Eastern Region Health Facilities Action Plan under the Health Systems Support Project. This plan identified a property located in the city of San Miguel in eastern El Salvador. The Ministry was to use this property for the relocation of its Mechanical and Biomedical shops for the eastern region. The Ministry had budgeted a total of \$600,000 for this property: \$400,000 to purchase the property and \$200,000 to remodel buildings and purchase of machinery and equipment.

Good real estate procurement practices require buyers to identify and evaluate several properties prior to making a purchase in order to obtain the most suitable property at the lowest price. However, because Instructive 1.204, which regulates the use of local currency under the extraordinary budget, did not provide guidance regarding the procurement of real estate, the Ministry purchased land and buildings in 1987 for \$400,000 without considering other purchase options.

According to a technical advisor, the Ministry had identified this property as a possible site for new facilities in late 1985. In May 1986 at the request of the Vice Minister of Health, the Engineering Department of the Ministry performed a feasibility study of the site. However, no other alternatives were considered. On November 20, 1986, the Ministry requested the Ministry of Finance to appraise the property, and on January 6, 1987, it formally appraised the property at a value of approximately \$600,000. The Ministry purchased the property for \$400,000 on May 19, 1987, one month before the Secretariat approved the action plan. The Ministry had financed this purchase with working capital advances obtained from the Secretariat (\$100,000 on May 7, 1987 and \$300,000 on June 28, 1987).

According to the property registry in San Miguel, the recent transaction history of this property was as follows:

<u>Date of Sale</u>	<u>Sales Price</u>
December 8, 1976	\$ 56,000
January 1, 1986	\$ 100,000
December 30, 1986	\$ 100,000
May 19, 1987	\$ 400,000

We have several questions about the Ministry of Finance appraisal of the property. First, the property registry showed that an interested party had bought the property eleven months before the appraisal for \$100,000 and then resold it for the same amount to a corporation two months after the Ministry requested the appraisal. Second, the appraisal erroneously identified the 1976 purchaser of the property as the owner even though the property was transferred to a different owner in January 1986 before the Ministry of Finance made the appraisal of the property. Finally, the transfers of ownership in January 1986 and December 1986 did not take place until after the Ministry showed interest in buying the property in late 1985.

Recent purchasers of the property may have obtained information regarding the interest that the Ministry had in buying the property. This property had not been sold since 1976. However, after the Ministry indicated an interest in the property in late 1985, the property was sold twice. In addition, the Ministry purchased this property at a cost four times higher than the previous owner had reportedly paid for the property less than five months earlier according to the land registry records. However, these records may understate the actual sale price of the property so the parties to the transaction can reduce transfer and property taxes.

In order to determine whether the Ministry had obtained the property at a reasonable price, we paid for an independent appraisal of the property. This appraisal estimated that the property was worth \$480,000 which was \$80,000 more than what the Ministry actually paid for the property. Even though the purchase price paid by the Ministry appears to be reasonable, sound management practices would require that prior to the acquisition of real estate interested buyers consider different options in order to determine if the chosen option is the most appropriate for the needs of the project (i.e., best cost, best location, etc.). Since the Ministry did not consider other properties, there is no assurance that the Ministry purchased the most suitable property at the lowest price.

All of the above including the failure to consider alternative properties certainly does not preclude the possibility that public officials had the opportunity to use information about the pending purchase for private personal gain.

#### Management Comments

The Mission concurs with the recommendation.

Office of Inspector General Comments

The recommendation is resolved based on management comments, and it can be closed when we receive documentation showing that Instructive 1.204 has been modified to include the identification and evaluation of several options before government agencies can purchase real estate.

#### 4. The Technical Unit Could Not Account for Equipment and Furniture Purchased With Project Funds

Good managerial controls require that all equipment bought with project funds be properly recorded, controlled, and accounted for. The medicines and medical supply technical unit for the Health System Support Project did not keep adequate inventory control records for furniture and equipment purchased with project funds. This happened partly because Government of El Salvador's Instructive 1.204 did not contain any guidance on the maintenance of property records. Because of the lack of records, the technical unit could not identify the equipment and furniture purchased with project funds and this could result in the loss of such property.

#### Recommendation No. 4

We recommend that USAID/El Salvador obtain evidence that the Government of El Salvador has amended Instructive 1.204 to require implementing agencies to maintain separate property management records for equipment and furniture purchased with extraordinary budget funds.

#### Discussion

The Administration of Medicines and Medical Supplies Action Plan for 1987 allocated \$280,000 in Public Law 480 Title I local currency for budgetary support to the Health System Support Project medicines and medical supplies technical unit. This unit had technical responsibility for the selection, supervision of the use of medicines, and prioritization of pharmaceuticals needed by the Ministry of Public Health and Social Assistance (the Ministry). Project funds were to be used to cover the unit's needs including \$25,000 for the procurement of office furniture and equipment.

Sound internal control practices require that implementing units properly record, control and account for all equipment bought with project funds. The records should show the source of financing and the location of the property. The Ministry purchased \$6,706 of office furniture and equipment but the technical unit did not keep any separate inventory records. Instructive 1.204, which regulates the use of local currency under the extraordinary budget, provides inadequate guidance for the management of furniture and equipment purchased with project funds. The instructive does not provide guidance regarding the proper safekeeping, inventorying, accounting, and final disposition of the furniture and equipment. Because of this lack of guidance and the poor management at the technical unit, the unit could not identify furniture and equipment purchased with project funds which could result in the loss of such property.

#### Management Comments

The Mission concurs with the recommendation.

Office of Inspector General Comments

The recommendation is resolved, and it can be closed upon receipt of documentation demonstrating that Instructive 1.204 has been amended to require agencies to maintain separate property management records.

## B. Compliance and Internal Control

### 1. Compliance

We limited examination of compliance to the findings presented in this report. Examination for compliance revealed one instance where the Ministry of Public Health and Social Assistance (the Ministry) was not in compliance with applicable Government of El Salvador laws and regulations. The implementing unit for the malaria project lacked appropriate accounting books and records to properly account for and manage project funds. This could result in the mismanagement or misuse of project funds (see finding No. 2).

### 2. Internal Controls

We limited review of internal controls to the findings presented in this report. The review revealed the following internal control deficiencies:

First, inadequate inventory management in 1987 caused some internal control deficiencies in the receipt, distribution and storage of drugs (see finding No. 1).

Second, the implementing unit for the malaria project lacked adequate segregation of duties which could result in the mismanagement or misuse of project funds (see finding No. 2).

Third, the Ministry purchased land and building in 1987 without considering other purchase options and before the Technical Secretariat for External Financing approved the action plan. As a result, there is no assurance that the Ministry purchased the most suitable property at the lowest possible price (see finding No. 3).

Fourth, the technical unit for the Health Systems Support Project did not keep adequate inventory control records for furniture and equipment purchased with project funds. This could result in the loss of such property (see finding No. 4).

### C. Other Pertinent Matter

From 1983 to 1986, USAID/El Salvador financed and implemented the Health Systems Vitalization Project (VISISA - 519-0291). The total project funding was \$35.6 million (\$23.4 in loan funds and \$12.2 in grant funds). USAID/El Salvador budgeted three million dollars in grant funds under this project to provide technical assistance for the improvement of the Ministry of Public Health and Social Assistance (the Ministry) logistical support systems for pharmaceutical and medical supplies. As a result of this assistance, a technical consultant group prepared and delivered a series of manuals and procedures to the Ministry from November 1986 to July 1987. However, a review of the status of these manuals and procedures as of July 1988 showed that the Ministry had not implemented or used the majority of the manuals and procedures. This could have caused some of the problems identified by our audit.

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PART III - EXHIBITS AND APPENDICES

MINISTRY OF PUBLIC HEALTH  
AND SOCIAL ASSISTANCE ACTION PLAN  
EXPENDITURES REVIEWED AND NOT REVIEWED 1/

A. Strengthening the Health Services Project  
To August 26, 1988

Action Plans	Budgeted	EXPENDITURES		
		Total	Reviewed	Not Reviewed
<u>1985</u>				
OTHER PERSONAL SERVICES	\$ 7,603	\$ 7,603	\$ -	\$ 7,603
NON-PERSONAL SERVICES	6,000	2,788	-	2,788
MATERIALS AND SUPPLIES				
- Medicines and drugs	1,194,840	1,120,410	1,120,410	-
- Medical and surgical supplies	80,000	106,416	-	106,416
- Other purchases	42,910	88,613	-	88,613
MACHINERY AND EQUIPMENT				
- Furniture and office equipment	129,730	52,354	-	52,354
- Medical instruments and equipment	124,500	100,078	-	100,078
- Other purchases	186,457	144,618	-	144,618
CONSTRUCTION AND IMPROVEMENTS	62,800	88,709	-	88,709
Total 1985	<u>\$1,834,840</u>	<u>\$ 1,711,589</u>	<u>\$ 1,120,410</u>	<u>\$ 591,179</u>
<u>1986</u>				
OTHER PERSONAL SERVICES	\$ 4,629	\$ 4,629	\$ -	\$ 4,629
NON-PERSONAL SERVICES	16,730	16,730	-	16,730
MATERIALS AND SUPPLIES				
- Medicines and drugs	600,000	763,869	763,869	-
- Medical and surgical supplies	380,000	288,768	-	288,768
- Other purchases	140,385	58,316	-	58,316
MACHINERY AND EQUIPMENT				
- Laboratory equipment	118,000	88,276	-	88,276
- Hospital equipment	126,000	151,207	-	151,207
- Other purchases	207,316	206,783	-	206,783
CONSTRUCTION AND IMPROVEMENTS	86,940	73,095	-	73,095
Total 1986	<u>\$ 1,680,000</u>	<u>\$ 1,651,673</u>	<u>\$ 763,869</u>	<u>\$ 887,804</u>
<u>1987</u>				
MEDICINES AND DRUGS	\$ 2,000,000	\$ 1,132,996	\$ 625,688	\$ 507,308
MEDICAL SUPPLIES	200,000	56,730	-	56,730
EQUIPMENT MAINTENANCE	200,000	138,882	27,267	111,615
Total 1987	<u>\$ 2,400,000</u>	<u>\$ 1,328,608</u>	<u>\$ 652,955</u>	<u>\$ 675,653</u>
Total Medicines	<u>\$ 5,914,840</u>	<u>\$ 4,691,870</u>	<u>\$ 2,537,234</u>	<u>\$2,154,636</u>

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B. Administration of Medicines and Medical Supplies Project  
To February 29, 1988

Action Plans	Budgeted	EXPENDITURES		
		Total	Reviewed	Not Reviewed
1987				
OTHER PERSONAL SERVICES				
- Salaries	\$ 57,750	\$ 40,425	\$ 36,391	\$ 4,034
- Wages	3,600	2,520	2,407	113
- Social Benefits and per diem	6,461	5,048	1,882	3,166
NON PERSONAL SERVICES	17,000	837	-	837
MATERIALS AND SUPPLIES				
- Chemicals	\$ 58,000	\$ -	\$ -	\$ -
- Glass products	25,149	-	-	-
- Others	18,240	4,263	2,239	2,024
MACHINERY AND EQUIPMENT				
- Laboratory Equipment	\$ 63,000	\$ -	\$ -	\$ -
- Office furniture and equipment	25,000	6,706	6,706	-
- Others	5,800	566	479	87
Total Administration	\$ 280,000	\$ 60,365	\$ 50,104	\$ 10,261

C. Malaria Project  
To July 21, 1988

1987				
NON-PERSONAL SERVICES				
- Publicity and propaganda	\$ 141,900	\$ 87,973	\$ 60,677	\$ 27,296
- Technical assistance	140,000	-	-	-
MATERIALS AND SUPPLIES				
- Fuel and lubricants	\$ 18,567	\$ 16,554	\$ 16,554	\$ -
- Insecticides	25,035	20,000	20,000	-
- Others	7,438	2,879	-	2,879
MACHINERY AND EQUIPMENT				
- Agricultural equipment	\$ 30,600	\$ 29,700	29,700	\$ -
- Production equipment	7,195	6,000	6,000	-
- Others	19,265	1,546	-	1,546
INFRASTRUCTURE				
- Drainage in Ticuiziapa	\$ 200,000	\$ 90,937	\$ 86,389	4,548
- Others	10,000	-	-	-
Total Malaria	\$ 600,000	\$ 255,589	\$ 219,320	\$ 36,269

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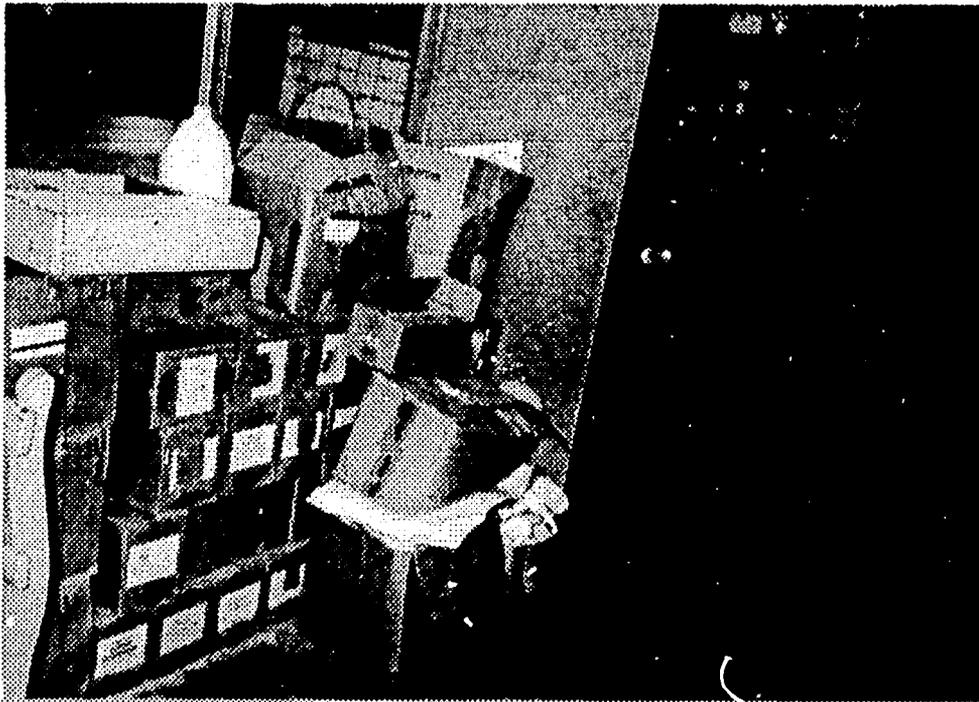
D. Relocation of the Eastern Region Health Facilities Project  
To May 19, 1988

<u>Action Plans</u>	<u>Budgeted</u>	<u>EXPENDITURES</u>		
		<u>Total</u>	<u>Reviewed</u>	<u>Not Reviewed</u>
<u>1987</u>				
LAND ACQUISITION	\$ 400,000	\$ 400,000	\$ 400,000	\$ -
CONSTRUCTION AND IMPROVEMENTS	120,000	-	-	-
MACHINERY AND EQUIPMENT	80,000	-	-	-
Total Eastern Region	\$ 600,000	\$ 400,000	\$ 400,000	\$ -
Grand Total (A, B, C and D)	\$ 7,394,840	\$ 5,407,824	\$ 3,206,658	\$ 2,201,166
	=====	=====	=====	=====

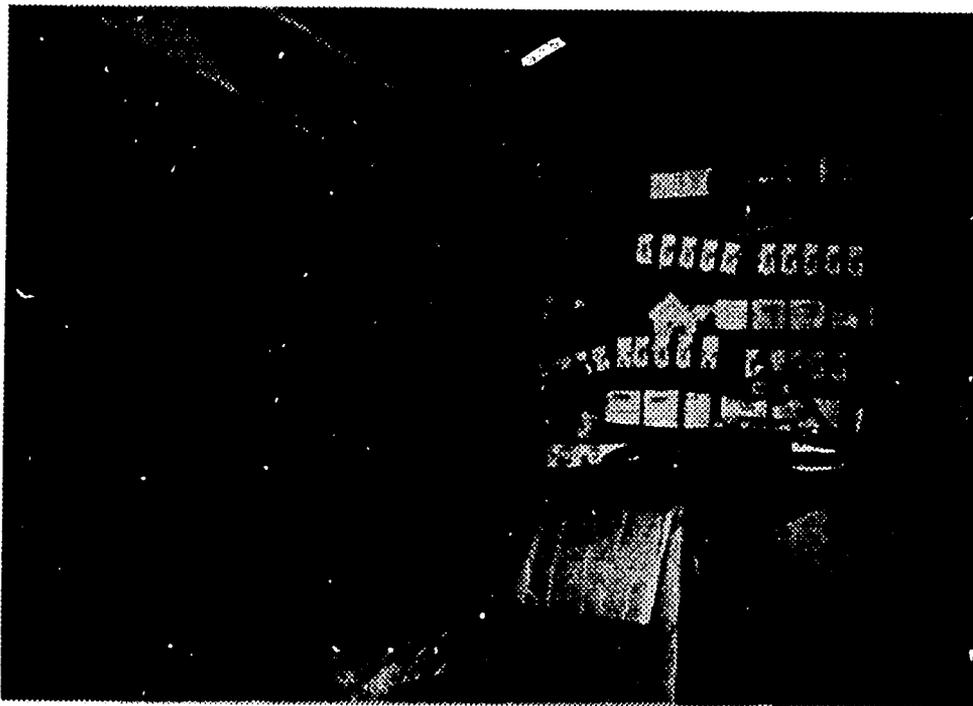
1/ Exchange rates used were US\$1.00 to 2.50 colones for 1985 and US\$1.00 to 5.00 colones for 1986 and 1987.

WAREHOUSING CONDITIONS AT MINISTRY OF PUBLIC HEALTH  
AND SOCIAL ASSISTANCE FACILITIES

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San Jacinto Health Unit - Inadequate security. Medication improperly stored outside warehousing facilities.

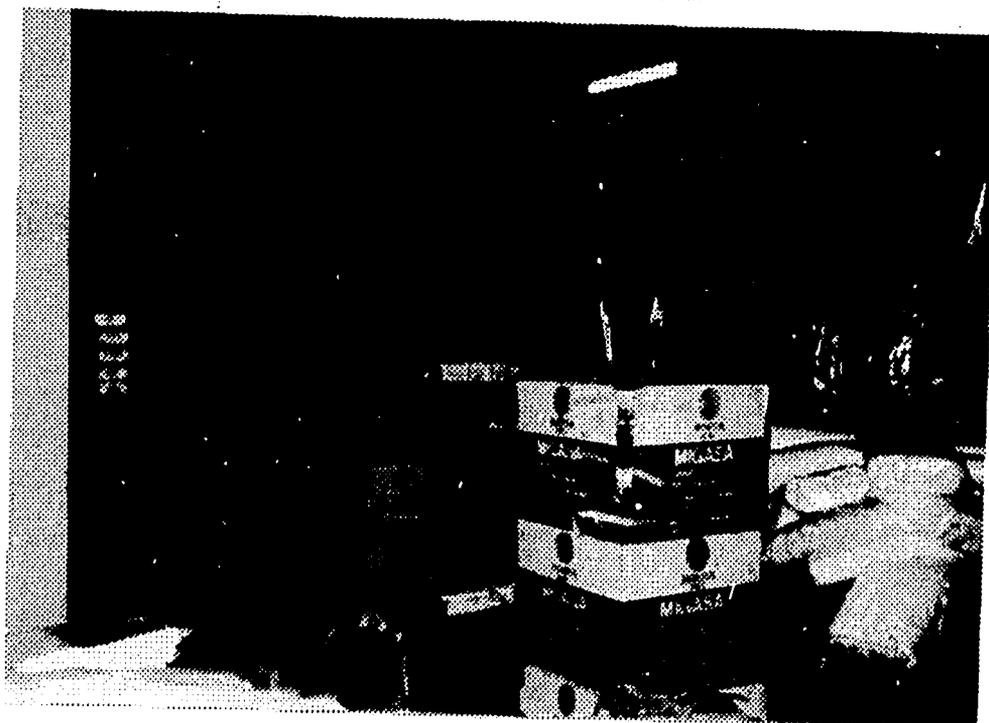


Maternity Hospital - Expired medication stored inside hospital warehouse taking up space.



Maternity Hospital

These poor warehousing conditions were a cause for drugs deteriorating faster than they should have.



## memorandum

DATE: March 3, 1989

REPLY TO  
ATTN OF: Henry H. Bassford, DIR, USAID/ES *Bassford*

SUBJECT: Mission Response to the Draft Audit Report on Selected  
Activities of APSISA

TO: Mr. Coinage Gothard, RIG/A/T

APPENDIX 1  
Page 1 of 3

The subject draft audit report presents four recommendations. The Mission's detailed response to the recommendations is presented below.

Finding No. 1:

The Ministry of Public Health and Social Assistance warehouses needed to implement better inventory control systems.

Recommendation No. 1:

"We recommend that USAID/El Salvador obtain evidence from the Technical Secretariat for External Financing that the Ministry of Public Health and Social Assistance has provided written guidance and training on inventory control systems to personnel at all warehousing levels".

The Mission concurs with the recommendation.

Finding No. 2:

The Malaria Implementation Unit did not have adequate internal controls and records.

Recommendation No. 2:

"We recommend that USAID/El Salvador obtain evidence from the Technical Secretariat for External Financing that the Ministry of Public Health and Social Assistance's malaria unit has established a better segregation of duties, has established an adequate accounting system, and has submitted an accurate reconciliation of all prior deposits and expenditures".

The Mission concurs with the recommendation but requests clarification as to the extent of changes recommended in the accounting system and in the segregation of duties. This clarification should compare the costs and complexity of the proposed changes to the benefits to be derived by a unit as small as the malaria unit (two administrative personnel). Finally, the last clause of the recommendation should be changed to "and has submitted an accurate reconciliation of all PL480/87 deposits and expenditures". This change clarifies which year(s) need to be reconciled.

Finding No. 3:

The Ministry of Public Health and Social Assistance made a major real estate purchase without considering other properties.

Recommendation No. 3:

"We recommend that USAID/El Salvador obtain evidence that the Technical Secretariat for External Financing has modified Instructive 1.204 to require the identification and evaluation of several options before purchasing real estate in order to obtain the most suitable property at the lowest possible price".

The Mission concurs with the recommendation.

Finding No. 4:

The Medicines and Medical Supply Unit could not account for equipment and furniture purchased with project funds.

Recommendation No. 4:

We recommend that USAID/El Salvador obtain evidence that the Technical Secretariat for External Financing has amended Instructive 1.204 to require implementing agencies to maintain separate property management records for equipment and furniture purchased with extraordinary budget funds.

The Mission concurs with the recommendation.

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Other Comments:

1. On page 2 of the draft report (5th line from the bottom of the page) San Salvador should be changed to El Salvador because the epidemic was not confined to San Salvador alone.
2. The Mission appreciates the responsiveness of the RIG to Mission concerns and comments as reflected in this draft report.

RO:of

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List of Report Recommendations

	<u>Page</u>
<u>Recommendation No. 1</u>	4
We recommend that USAID/El Salvador obtain evidence from the Technical Secretariat for External Financing that the Ministry of Public Health and Social Assistance has provided written guidance and training on inventory control systems to personnel at all warehousing levels.	
<u>Recommendation No. 2</u>	7
We recommend that USAID/El Salvador obtain evidence from the Technical Secretariat for External Financing that the Ministry of Public Health and Social Assistance's malaria unit has established a better segregation of duties, has established an adequate accounting system, and has submitted an accurate reconciliation deposits and expenditures from the 1987 Public Law 480 program.	
<u>Recommendation No. 3</u>	9
We recommend that USAID/El Salvador obtain evidence that the Government of El Salvador has modified Instructive 1.204 to require the identification and evaluation of several options before purchasing real estate in order to obtain the most suitable property at the lowest possible price.	
<u>Recommendation No. 4</u>	12
We recommend that USAID/El Salvador obtain evidence that the Government of El Salvador has amended Instructive 1.204 to require implementing agencies to maintain separate property management records for equipment and furniture purchased with extraordinary budget funds.	

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