

PD-AREA-091

NR-63845

AUDIT OF
THE NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR
AREA RESTORATION FOR THE PERIOD
MARCH 1, 1988 TO SEPTEMBER 30, 1988

Audit Report No. 1-519-90-04-N
October 23, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT

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October 23, 1989

MEMORANDUM

TO : D/USAID/El Salvador, Henry H. Bassford
FROM : RIG/A/T, *Coinage N. Gothard*
Coinage N. Gothard, Jr.
SUBJECT: Audit Report No. 1-519-90-04-N, "Audit of El Salvador's National Plan for Area Restoration Managed by the National Commission for Area Restoration for the Period March 1, 1988 to September 30, 1988"

The report contained herein, prepared pursuant to a request from your Mission, contains the results of a non-Federal financial audit of El Salvador's National Plan for Area Restoration, USAID/El Salvador Project No. 519-0177, managed by the National Commission for Area Restoration (CONARA). The accounting firm of Price Waterhouse prepared the report, which is dated October 13, 1989.

The purpose of the project is to strengthen the Salvadoran democratic process by developing and implementing restoration and rehabilitation projects in areas of national priority and by carrying out combined civic action activities. The Government of El Salvador (GOES) created CONARA in March 1983 to coordinate and monitor the project. The audit period was from October 1, 1987 to September 30, 1988. However, this report covers only the 7-month period from March 1, 1988 to September 30, 1988 because CONARA's present management disclaimed responsibility for project transactions and activities prior to March 1, 1988 when they assumed management control of CONARA. The audit included coverage of the equivalent of \$5,583,831 in local currency generated by PL 480 Title I and Economic Support Funds (ESF) provided to CONARA during the 7-month period.

The purpose of this audit was to report on (1) the fairness of the fund accountability statement; (2) the internal control structure; and (3) compliance by CONARA with agreement terms and applicable laws and regulations.

Price Waterhouse qualified its opinion on the fund accountability statement due to both the presence of prior

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period expenditures in the amount of 299,956 Salvadoran colones (\$59,991) paid during the audit period for which present management disclaimed responsibility, and due to the identification of certain questionable costs in the amount of 113,380 Salvadoran colones (\$22,676). The study and evaluation of CONARA's internal control structure disclosed several significant material weaknesses. Specific weaknesses observed were (1) books of record in arrears, (2) absence of control registers for project costs and expenditures, (3) absence of a budget control system, (4) lack of documentation supporting expenditures and evidencing receipt of goods, (5) absence of subsidiary records to control furniture and fixtures, (6) payrolls signed in facsimile by management and not reviewed by the Salvadoran Comptroller General's Office, (7) expense vouchers not account coded, (8) absence of controls over fuel purchases and consumption, (9) physical inspections not made of all subprojects, (10) lack of evidence that field payrolls were reviewed, and (11) bank reconciliations not prepared on a timely basis. Price Waterhouse determined that there was material non-compliance with certain agreement terms and applicable laws and regulations requiring (1) approval by the Salvadoran Government's Foreign Financing Technical Secretariat (SETEFE) of transfers of funds between CONARA's different programs, (2) proper accountability for funds transferred between CONARA's programs, (3) timely remittance by CONARA of all fund balances remaining from completed programs to the Central Bank, (4) strict adherence by CONARA to fiscal stamp tax requirements with respect to payments to suppliers, and (5) prior approval by SETEFE of disbursements that exceed approved budgetary amounts. Nothing came to their attention that caused them to believe that for items not tested CONARA was not in compliance with agreement terms and applicable laws and regulations.

The draft report was discussed with CONARA and USAID/El Salvador and appropriate modifications were incorporated into the final report. CONARA's management stated that most of the deficiencies found by the audit had either already been corrected or were in the process of being corrected. Subsequent to the receipt of CONARA's written management comments, Price Waterhouse conducted a survey to determine the extent of measures already taken by CONARA, if any, to correct the deficiencies found by the audit. The results of this survey were considered in making our recommendations.

The Price Waterhouse report contains eleven recommendations on internal controls and five recommendations on compliance. We have summarized the most significant findings and recommendations which we consider still applicable for inclusion in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/El Salvador in coordination with the Foreign Financing Technical Secretariat (SETEFE):

- a) negotiate a settlement with the National Commission for Area Restoration (CONARA) for the \$22,676 in costs considered questionable by the Price Waterhouse report dated October 13, 1989; and
- b) negotiate a settlement with CONARA for the \$59,991 in costs applicable to a prior period for which CONARA's present management has disclaimed responsibility. These costs should either be supported with adequate documentation/evidence to substantiate allowability as appropriate project expenditures or refunded.

Recommendation No. 2

We recommend that USAID/El Salvador in coordination with the Foreign Financing Technical Secretariat (SETEFE) ensure that the National Commission for Area Restoration (CONARA) improves its internal controls and compliance by:

- a. maintaining books of record up-to-date;
- b. establishing a formal system of subsidiary control records to identify project costs and expenses by subproject and general expense category;
- c. establishing a proper budgetary control system;
- d. obtaining and maintaining adequate documentation supporting expenditures and evidencing receipt of goods and services prior to payment;
- e. implementing a system of subsidiary records to control furniture and fixtures;
- f. using vehicle mileage logs as a control over fuel consumption;
- g. preparing monthly bank reconciliations on a timely basis;
- h. obtaining prior approval by SETEFE for all transfers of funds from one program component to another;
- i. properly recording and accounting for all transfers of funds between program components; and

j. obtaining prior approval by SETEFE for all disbursements in excess of approved budgeted amounts.

Please advise this office within 30 days of actions planned or taken to clear these recommendations.

AUDIT OF EL SALVADOR'S NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE
NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177
MARCH 1 TO SEPTEMBER 30, 1988

**AUDIT OF EL SALVADOR'S NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE
NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177
MARCH 1 TO SEPTEMBER 30, 1988**

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Price Waterhouse

October 13, 1989

Mr. Coinage N. Gothard, Jr.
Regional Inspector General for Audit
U.S. Agency for International Development
Tegucigalpa, Honduras, C. A.

Dear Mr. Gothard:

This report presents the results of our financial audit of El Salvador's National Plan for Area Restoration, USAID/El Salvador Project N° 519-0177, managed by the National Commission for Area Restoration (Comisión Nacional de Restauración de Areas, CONARA), for the seven months ended September 30, 1988.

BACKGROUND

The Government of El Salvador (GOES) has established the National Plan for Area Restoration for strengthening the Salvadoran democratic process by developing and implementing restoration and rehabilitation projects in areas of national priority and by carrying out combined civic action activities.

To coordinate and monitor this program, in March 1983 the GOES created the National Commission for Area Restoration (Comisión Nacional de Restauración de Areas, CONARA) through Law Decree N° 54. CONARA is a branch of the Ministry of Planning and Coordination of Economic and Social Development (Ministerio de Planificación y Coordinación del Desarrollo Económico y Social, MIPLAN).

CONARA has developed procedures to identify the geographic areas, and economic, social and political matters which, as a result of guerilla violence, natural disasters and other causes, have been considerably damaged. In this respect, CODERAS, COMURAS and COCARAS which respectively stand for Departmental, Municipal and Cantonal Commissions for Area Restoration, were considered necessary for implementation of the program. The purpose of these units was to identify the needs of the Salvadoran communities and to coordinate on-site development and execution

of sub-programs. However, the units were never fully and formally implemented and their responsibilities were transferred to ministries, municipalities and other GOES institutions as implementing units.

The funds for the program are jointly programmed by the U.S. Agency for International Development in El Salvador (USAID/El Salvador) and the GOES from the local currency generated by PL 480 Title I and Economic Support Fund (ESF) agreements signed with the GOES. The funds are channelled through the Foreign Financing Technical Secretariat (Secretaria Técnica del Financiamiento Externo, SETEFE), an institution of the GOES. The PL 480 Title I agreements provide preferential loans to finance the purchase of agricultural commodities from the United States. These commodities are then sold by the GOES to raise funds in local currency. The Economic Support Funds (ESF) are dollar grants which are converted to local currency by the GOES to support the economic stabilization of the country.

AUDIT OBJECTIVES AND SCOPE

We were engaged to conduct a financial audit of CONARA for the period from March 1 to September 30, 1988 related to the local currency program, as described above. Our audit was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision) and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The specific objectives of our audit were to determine whether:

- A. The fund accountability statement for the period March 1 through September 30, 1988 presents fairly the financial activities of the program during this period, and costs reported as incurred and reimbursed by USAID/El Salvador during the seven months ending September 30, 1988 were allowable, allocable and reasonable in accordance with regulations and the terms of the agreements, memoranda of understanding (MOUs), and program implementation letters (PILs).
- B. The internal control structure and accounting practices of CONARA were adequate to manage the program's operations.
- C. CONARA complied with the applicable regulations, agreement terms, memoranda of understanding, and program implementation letters which may affect the program's goals and incurred costs.

The scope of our work consisted of:

- A. Familiarizing ourselves with the program by reviewing the following documents:
1. the agreement between USAID/El Salvador and the GOES regarding PL 480 Title I and ESF for 1987 and 1988, including the MOUs and PILs between USAID/El Salvador and SETEFE;
 2. the action plans submitted by CONARA to SETEFE and USAID/El Salvador;
 3. contracts and subcontracts between CONARA and other participating institutions;
 4. the budgets and written procedures approved by USAID/El Salvador to manage the program; and
 5. all financial and program reports; charts of accounts; organizational charts; accounting system descriptions; procurement policies and procedures; and receipt, warehousing and distribution procedures of materials as necessary to successfully complete the required work.
- B. Reviewing the program's fund accountability statement for the seven-month period ended on September 30, 1988. Our work included a review of CONARA's source documents supporting expenditures; budgeted amounts by category and major item; the accumulated costs reported by CONARA as of February 29, 1988 regarding which we disclaimed an opinion in our report dated May 31, 1989 (Note 6 to the fund accountability statement); the costs reported by CONARA as incurred during the seven months ending September 30, 1988; and the costs reimbursed by USAID/El Salvador during the seven months ending September 30, 1988.
- C. Conducting a review and evaluation of CONARA's internal control structure including procedures for controlling funds provided to implementing units. This review was made to (a) determine the extent to which established procedures and controls were functioning as intended, and (b) determine the nature, timing and extent of audit procedures necessary to express an opinion on the program's fund accountability statement.
- D. Determining whether CONARA was complying with the terms of the agreements and with applicable laws and regulations.

During our work, we were alert to situations or transactions that could be indicative of fraud, abuse, and illegal expenditures and acts.

RESULTS OF AUDIT

Noteworthy accomplishments

As described elsewhere in our report new management took over responsibility on March 1, 1988. Within the scope of our audit necessary to accomplish the audit objectives, in comparison with prior periods reported, we observed significant management accomplishments in the general control environment and accounting records, thus allowing us to express a qualified opinion on the fund accountability statement. However, as mentioned below, certain deficiencies and deviations persisted during the audit period (see management comments below).

Fund Accountability Statement

The fund accountability statement covers the period March 1 through September 30, 1988. In our opinion, except that (a) certain costs amounting to 299,956 (\$59,991) which pertain to a prior period were allocated to the activities of the period under review, as explained in Note 4, and (b) certain costs of 113,380 (\$22,676) are deemed to be questionable as explained in Note 5, the accompanying fund accountability statement fairly presents in all material respects the financial activities of the program for the period.

Internal Control Structure

The internal control structure contains many reportable deficiencies, including material weaknesses in its design and operation. These deficiencies were so significant that we relied on substantive testing for the purpose of expressing our opinion on the fund accountability statement.

Compliance With Agreement Terms and Applicable Laws and Regulations

Generally, CONARA has complied with agreement terms and applicable laws and regulations, although we found some material instances of noncompliance which may affect the program's goals and incurred costs. Deviations with respect to the overall compliance environment are more fully explained in the pertinent section of this report.

MANAGEMENT COMMENTS

CONARA's management comments are included in Annexes I and II, of this report, in which they generally represent that most of the recommendations have already been implemented or are in process of being implemented.

AUDITOR'S RESPONSE

CONARA's management comments were taken into consideration and changes were incorporated in the pertinent sections of the final report as we considered appropriate. Audit procedures will be applied during the concurrent audit in process for the year ended September 30, 1989 for the purpose of fully validating assertions made by management that certain recommendations included in this report have been implemented or are in the process of being implemented. Subsequent to the receipt of CONARA's management comments, we performed a preliminary survey to determine the extent of the measures taken by management, if any, to correct the deficiencies found by this audit. Our response to each of CONARA's management comments on each audit finding is included in Annex I.

Eric Waterhouse

Price Waterhouse

**NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177**

**FUND ACCOUNTABILITY STATEMENT
MARCH 1 THROUGH SEPTEMBER 30, 1988**

INDEPENDENT AUDITOR'S REPORT

We have performed a financial audit of the accompanying fund accountability statement of the National Plan for Area Restoration managed by the National Commission for Area Restoration (Comisión Nacional de Restauración de Areas, CONARA) for the period March 1 to September 30, 1988. This statement is the responsibility of CONARA's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 revision). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. The audit also included 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.

As described in Note 6 to the fund accountability statement, CONARA's present management took over responsibility for the entity's affairs as of March 1, 1988 and disclaimed any responsibility for any transactions occurring on or accumulated as of February 29, 1988. We disclaimed opinions on the fund accountability statements in both of our previous reports dated February 18, 1988 and May 31, 1989 for the period January 1, 1985 to September 30, 1987 and the five month period ending February 29, 1988, respectively.

As more fully explained in Note 4 to the accompanying fund accountability statement, certain costs amounting to ¢299,956 (\$59,991) were paid for during the period and allocated thereto, although they pertained to prior period expenditures for which present management has disclaimed responsibility. Also we identified certain costs amounting to ¢113,380 (\$22,676) described in Note 5, that in our opinion are questionable costs.

In our opinion, except for the matters discussed in the preceding paragraph, the fund accountability statement presents fairly, in all material respects, the financial activities of the program conducted by CONARA for the period March 1 to September 30, 1988 in conformity with the basis of accounting described in Note 1.

This report is intended solely for the use of CONARA, SETEFE and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Steve H. H. H.

May 31, 1989

NATIONAL PLAN FOR AREA RESTORATION
 MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
 USAID/EL SALVADOR PROJECT N° 519-0177

FUND ACCOUNTABILITY STATEMENT
 MARCH 1 THROUGH SEPTEMBER 30, 1988
 (expressed in Salvadoran Colones - Note 2)

	<u>Budget</u> (EXHIBIT I)	<u>Actual</u> (EXHIBIT II) (EXHIBIT III)	Questionable Costs (NOTE 5)	
			<u>Questioned</u>	<u>Suspended</u>
Receipts:				
Restoration		Q22,961,053		
Combined Civic Ac- tions		433,379		
Administration		3,012,576		
Emergency		<u>1,410,361</u>		
		<u>27,817,369</u>		
Disbursements:				
Restoration	Q57,817,631	326,769		Q 79,856
Chalatenango-Res- toration	2,625,000	-		-
Combined Civic Actions	3,179,459	696,415		
Administration	2,450,000	2,560,236	Q9,800	23,724
Advances pending liquidation (Exhibit IV)		<u>19,461,594</u>		
	<u>Q66,072,090</u>	<u>23,045,014</u>	<u>Q9,800</u>	<u>Q103,580</u>
Excess receipts over disbursements		<u>4,772,355</u>		
Add-Working capital advance from SETEFE		740,733		
Payables		<u>6,993</u>		
		<u>747,726</u>		
Fund balance, end of period-Cash in banks and on hand (Exhibit V)		<u>Q 5,520,081</u>		

NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
MARCH 1 THROUGH SEPTEMBER 30, 1988

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES:

The significant accounting policies adopted by CONARA are summarized below and do not necessarily reflect the application of accounting principles generally accepted in the United States of America.

Basis of accounting -

The modified accrual basis, whereby actual is recorded throughout the year and accruals are registered at the end of the year, is followed for recognizing costs and expenses. Receipts are recorded when collected.

Inventories -

Inventories consist of expendable supplies held for consumption, and their cost value is recorded as an expenditure at the time individual inventory items are purchased.

Fixed assets -

Fixed asset acquisitions are charged directly at cost to the projects undertaken, and no depreciation is provided thereon.

NOTE 2 - EXCHANGE RATE:

CONARA maintains its accounting records in Salvadoran colones, at the exchange rate of ¢5.00 per US\$1.00.

NOTE 3 - HISTORY AND OPERATIONS OF CONARA:

The National Commission for Area Restoration (CONARA) was created in March 1983, as an agency of the Ministry of Planning and Coordination for the Economic and Social Development (MIPLAN) of the Government of El Salvador (GOES), for the purpose of restoring those areas ravaged by violence and other reasons. It receives its funding through the National Plan for Area Restoration, USAID/El Salvador Project N°519-0177, which uses local currency funds generated under PL 480 Title I and Economic Support Fund (ESF) agreements signed between the GOES and USAID/El Salvador. CONARA manages the program's components which are described on the following page:

- Restoration - To address the immediate restoration of areas identified as damaged by violence or natural causes.
- Administration - For managing and administering the Restoration, Combined Civic Actions and Emergency components.
- Combined Civic Actions - Efforts to provide humanitarian help to the areas, jointly with the Army and A.I.D.
- Emergency - To cover situations demanding immediate action, further supported by the above components.

Program funds are channelled through the Foreign Financing Technical Secretariat, an agency of the Government of El Salvador falling under the Ministry of Planning.

NOTE 4 - PRIOR PERIOD COSTS ALLOCATED TO
THE CURRENT PERIOD:

The accompanying fund accountability statement includes certain costs incurred in prior periods, that, although present management disclaimed responsibility thereon, were paid for and recorded as expenses in the period March 1 to September 30, 1988. Following is a summary of such payments:

<u>Component</u>	<u>Type of Expense</u>	<u>Amount</u>
Restoration	Materials and supplies	Q101,786
Administration	Salaries and wages	157,671
Combined Civic Actions	Salaries and wages	<u>40,499</u>
		<u>Q299,956</u>

NOTE 5 - QUESTIONABLE COSTS:

Following is a summary of costs deemed to be questionable for the period, together with the pertinent criteria:

<u>Program</u>	<u>Project</u>	<u>Questionable Amount</u>	
		<u>Questioned</u>	<u>Suspended</u>
Restoration	Street repairs, Hacienda Nueva Usulután; supporting documentation of the cost liquidation of this project was not made available for audit		<u>¢ 79,856</u>
Administration	Taxes paid in the purchase of vehicles (¢9,800) not allowable per grant agreement and extras paid in excess (¢8,500) of standard specifications in variance with PIL N° 50 stipulations	¢9,800	8,500
	Removable installations disbursed in excess of budgeted amount approved in Plan of action		<u>15,224</u>
		<u>9,800</u>	<u>23,724</u>
	Total questionable costs	<u>¢9,800</u>	<u>¢103,580</u>

NOTE 6 - ACCUMULATED COSTS AT SEPTEMBER 30, 1988

AND TRANSACTIONS FOR THE PERIOD MARCH 1, TO

SEPTEMBER 30, 1988:

CONARA's present management took over responsibility for the entity's affairs as from March 1, 1988 and disclaimed any responsibility for any transactions occurring on or accumulated up to February 29, 1988. The auditor's reports dated February 18, 1988 and May 31, 1989 on the fund accountability statements for both September 30, 1987 and February 29, 1988 respectively, disclaimed opinions thereon for the reasons stated in the reports, and it was not possible to substantiate the transactions or accumulated balances as of such dates. Following are the accumulated costs as of February 29, 1988 and September 30, 1988 based on previous amounts for which the auditors disclaimed opinions.

	Ending balances February 29, 1988	Net transactions to September 30, 1988	Accumulated at September 30, 1988
Receipts			
Restoration	¢47,974,383	¢22,961,053	¢70,935,436
Administration	2,585,000	3,012,576	5,597,576
Combined Civic Actions	4,000,000	433,379	4,433,379
Emergency	<u>2,000,000</u>	<u>1,410,361</u>	<u>3,410,361</u>
Carried forward . . .	<u>¢56,559,383</u>	<u>¢27,817,369</u>	<u>¢84,376,752</u>

	Ending balances February 29, 1988	Net transactions to September 30, 1988	Accumulated at September 30, 1988
Brought over . . .	<u>¢56,559,383</u>	<u>¢27,817,369</u>	<u>¢84,376,752</u>
Disbursements			
Restoration	30,397,393	326,769	30,724,162
Administration	6,017,195	2,560,236	8,577,431
Combined Civic Actions	5,328,561	696,415	6,024,976
Emergency	399,072	-	399,072
Advances pending liquidation	<u>17,495,970</u>	<u>19,461,594</u>	<u>36,957,564</u>
	<u>59,638,191</u>	<u>23,045,014</u>	<u>82,683,205</u>
Excess disbursements over receipts	<u>(3,078,808)</u>	<u>4,772,355</u>	<u>1,693,547</u>
Add - Working capital advance from SETEFE	5,600,000	740,733	6,340,733
- Payables	212,505	6,993	219,498
- Net transfers between programs	<u>(191,160)</u>	<u> </u>	<u>(191,160)</u>
	<u>5,621,345</u>	<u>747,726</u>	<u>6,369,071</u>
Fund balance end of period - Cash in banks and on hand	<u>2,542,537</u>	<u>5,520,081</u>	<u>8,062,618</u>
Adjustments -			
Checks voided in March 1988	27,141		27,141
Subsequent cash reimbur- sement to SETEFE	(1,435,008)		(1,435,008)
Cash balance transferred for which responsibili- ty is ascribed to pres- ent management	<u>(1,134,670)</u>		<u>(1,134,670)</u>
	<u>(2,542,537)</u>		<u>(2,542,537)</u>
Adjusted balance as of February 29, 1988	<u><u> </u></u>		
Fund balance end of peri- od - Cash in banks and on hand for which re- sponsibility is ascrib- ed to present manage- ment (Exhibit V)		<u>¢ 5,520,081</u>	<u>¢ 5,520,081</u>

During December 1988 and March 1989 cash amounting to ¢1,435,008, (US\$287,002) for which responsibility is ascribed to former management, was reimbursed to SETEFE. A cash balance as of February 29, 1988 amounting to ¢1,134,670 was transferred to funds under the responsibility of present management and is shown above in the receipts column for net transactions to September 30, 1988.

EXHIBIT I

NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177

FUND ACCOUNTABILITY STATEMENT
MARCH 1 THROUGH SEPTEMBER 30, 1988
(expressed in Salvadoran Colones - Note 2)

FUNDS ASSIGNED TO THE PROJECT PER BUDGET
(Funding source: Economic Support Funds)

<u>Component</u>	<u>1987</u>	<u>1988</u>	<u>Total</u>
Restoration Chalatenango -	¢12,434,298	¢45,383,333	¢57,817,631
Restoration		2,625,000	2,625,000
Combined Civic Actions	262,792	2,916,667	3,179,459
Administration		<u>2,450,000</u>	<u>2,450,000</u>
	<u>¢12,697,090</u>	<u>¢53,375,000</u>	<u>¢66,072,090</u>

EXHIBIT II

NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177

FUND ACCOUNTABILITY STATEMENT
MARCH 1 THROUGH SEPTEMBER 30, 1988
(expressed in Salvadoran Colones - Note 2)

ACTUAL FUNDS SUPPLIED TO CONARA BY SETEFE (1)
(Funding source: Economic Support Funds)

<u>Component</u>	<u>1987</u>	<u>1988</u> (2)	<u>Total</u> (3)
Restoration	¢22,961,053		¢22,961,053
Combined Civic Actions	433,379		433,379
Administration		¢3,012,576	3,012,576
Emergency	<u>1,410,361</u>	<u> </u>	<u>1,410,361</u>
	<u>¢24,804,793</u>	<u>¢3,012,576</u>	<u>¢27,817,369</u>

- (1) The Foreign Financing Technical Secretariat (Secretaria Técnica del Financiamiento Externo - SETEFE)
- (2) Does not include an advance of ¢740,733 for working capital given on July 25, 1988.
- (3) Include funds transfer of ¢1,134,670 which responsibility was ascribed to former management.

EXHIBIT III

NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177

FUND ACCOUNTABILITY STATEMENT
MARCH 1 THROUGH SEPTEMBER 30, 1988
(expressed in Salvadoran Colones - Note 2)

DISBURSEMENTS PER CATEGORY (BY COMPONENT)

	<u>Resto- ration</u>	<u>Adminis- tration</u>	<u>Combined Civic Actions</u>	<u>Total</u>
<u>Category:</u>				
Personal services	¢222,163	¢1,475,622	¢419,370	¢2,117,155
Non-personal services	4,606	652,246	148,779	805,631
Materials and supplies		373,423	128,266	501,689
Machinery and equipment	<u>100,000</u>	<u>58,945</u>		<u>158,945</u>
	<u>¢326,769</u>	<u>¢2,560,236</u>	<u>¢696,415</u>	<u>¢3,583,420</u>

EXHIBIT IV

NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177

FUND ACCOUNTABILITY STATEMENT
MARCH 1 THROUGH SEPTEMBER 30, 1988
(expressed in Salvadoran Colones - Note 2)

ADVANCES PENDING LIQUIDATION

Restoration

UPR (1)	¢13,582,858
Non-UPR (2)	<u>4,820,036</u>
	18,402,894
Emergency	<u>1,058,700</u>
	<u>¢19,461,594</u>

- (1) United for Reconstruction (Unidos para Reconstruir)
(2) Outside of UPR working zones

EXHIBIT V

NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177

FUND ACCOUNTABILITY STATEMENT
MARCH 1 THROUGH SEPTEMBER 30, 1988
(expressed in Salvadoran Colones - Note 2)

FUND BALANCE, AT END OF PERIOD - CASH IN BANKS AND ON HAND

Banco Central de Reserva
(Central bank):

Restoration:

UPR	¢4,196,136	
Non-UPR	<u>36,567</u>	¢4,232,703
Combined Civic Actions		
1987 funds	26,548	
1988 funds	<u>572,496</u>	599,044
Emergency		351,661
Administration		<u>333,673</u>
Total cash in banks		5,517,081
Petty cash fund		<u>3,000</u>
		<u>¢5,520,081</u>

Price Waterhouse

**NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177**

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the National Plan for Area Restoration managed by the National Commission for Area Restoration (Comisión Nacional de Reconstrucción de Areas, CONARA) for the period March 1 to September 30, 1988, and have issued our report thereon dated May 31, 1989.

We conducted our audit in accordance with generally accepted auditing standards and Government auditing standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement of the National Plan for Area Restoration, USAID/El Salvador project No. 519-0177, managed by CONARA for the period from March 1 through September 30, 1988, 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. As described in the following pages, the internal control structure contains so many weaknesses that we elected to rely on substantive testing for a more efficient audit. Consequently, our evaluation was limited to a preliminary review of the internal control structure to obtain an understanding of the control environment and the flow of transactions through the accounting system in the following areas: 1) bank accounts and reconciliations; 2) controls over subproject progress; 3) control over program's equipment; and 4) payrolls.

Our evaluation of CONARA's internal control structure disclosed certain matters involving the program's execution that we consider reportable conditions in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). The reportable conditions are described in findings numbers 1 to 11 in the following pages of this report, and 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 CONARA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. In this connection, findings 1, 2, 3, 4, 5, 6 and 8 are all deemed to be material weaknesses.

Our consideration of the internal control structure would not necessarily disclose all matters 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.

This report is intended solely for the use of CONARA, SETEFE and the Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Spice Waterhouse

May 31, 1989

NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177

REPORT ON INTERNAL CONTROL STRUCTURE

AUDIT FINDINGS

1. Books of Record Were in Arrears

Condition:

As of March 7, 1989, the general ledger had not been recorded since September 1988, while the transactions for "Restoration ESF 87" had been recorded only through July 31, 1988. At July 31, 1989 transactions had been recorded up to April 30, 1989.

Criteria:

All books of record should be kept on a current basis, for a prompt generation of financial information.

Cause:

Insufficient accounting staff had been assigned to this task.

Effect:

Not maintaining the general ledger in an up-to-date status may pose some risks regarding the completeness or reliability of the related financial data. This would be especially so if an attempt is made to prepare management reports from informal records.

Recommendation:

USAID/El Salvador should suggest that SETEFE assure that CONARA assigns additional accounting department employees to maintain the books of record in an up-to-date status.

2. There Was a Lack of Control Registers for Project Costs and Expenditures

Condition:

No subsidiary records were kept to control project costs and expenditures financed with specific sub-program funds. Also, disbursements were not detailed by general expense category.

Criteria:

The subsidiary records are required to closely control, record and identify costs and expenses for the project.

Cause:

The above data is kept in informal files. For this reason management has not considered it necessary to maintain proper subsidiary records.

Effect:

Management is relying on informal information of uncertain reliability to track expenditures by general expense category and project costs financed with specific sub-program funds.

Recommendation:

USAID/El Salvador should obtain evidence from SETEFE that it has required CONARA to keep adequate subsidiary records to control, record and identify project costs and expenses by sub-program and general expense category, as the present informal files are of uncertain reliability.

3. There Was no Budget Control System

Condition:

No budget control system existed for a comparison of budgeted amounts with actual expenditures made by general and specific category.

Criteria:

A budget control system is necessary for tracking variances between budgeted and actual expenditures so that management attention can be directed to operations not being conducted in accordance with plans.

Cause:

Due to lack of enough personnel this control system was not implemented.

Effect:

Deviations from budget, if any, cannot be promptly detected.

Recommendation:

USAID/El Salvador should suggest that SETEFE requires CONARA to implement a budget control system, which provides for comparisons between budgeted and assigned funds and actual expenditures, by general and specific category; additionally, any deviations noted from the applicable budget should be corrected on a timely basis.

4. There Was a Lack of Documentation Supporting Expenditures and Evidencing Receipt of Goods

Condition:

In general advertising services (radio and TV) were not independently monitored and in the following instances, the expenditures were not fully documented and/or there was no documentation to show that goods or services had been received.

- Advance for purchase of campers	¢ 10,850
- Car repairs	7,000
- Advertising	18,333
- Office rent in Santa Ana	2,000

After discussion of our finding, except for office rent in Santa Ana, proper documentation was obtained including vendors invoices.

Criteria:

All disbursements should be adequately documented and evidence of goods or services received should be obtained prior to their payment. Proper files should be kept for at least a 3 year period.

Cause:

CONARA sends all original documentation pertaining to project transactions to the Controller General's Office (Corte de Cuentas), without keeping copies in its files. To control advertising services CONARA relies on the advertising agencies monitoring activities.

Effect:

Some files and accounting records are incomplete which does not always allow the testing of reasonableness and eligibility criteria for transactions effected.

Recommendation:

USAID/El Salvador should obtain evidence that SETEFE requires CONARA to support all expenditures with the pertinent documentation prior to their payment. As for determining whether contracted radio and TV advertising has been delivered, CONARA should contract an independent monitoring agency to attest that such services are provided by the media.

5. No Subsidiary Records to Control Furniture and Fixtures Existed

Condition:

Our review disclosed that furniture and fixture items were not individually controlled with subsidiary records, and that such items were not code tagged for control purposes.

Criteria:

Furniture and fixtures are an important asset of CONARA and proper controls thereon should be established.

Cause:

Notwithstanding the fact that a physical inventory of furniture and fixtures was taken by the Salvadoran Controller General's Office (Corte de Cuentas), lack of personnel designated with this control responsibility has prevented implementation of the above mentioned procedure.

Effect:

The possible loss, location and physical condition of furniture and fixture items was unknown.

Recommendation:

USAID/El Salvador should obtain evidence that SETEFE requires CONARA to implement a card and tagging system to individually control each furniture and fixture item, and employee responsibility cards to account for custody of said items should be used.

6. Payrolls Were Signed in Facsimile by Management and there was no Evidence of Review by the Salvadorean Controller General's Office (Corte de Cuentas)

Condition:

The payrolls for April, May and August 1988 were not signed by the responsible official. Instead a stamped facsimile copy of his signature was affixed. Additionally, there was no evidence of review of the payrolls by the Corte de Cuentas.

Criteria:

The signature of the responsible official should not be printed in facsimile on payrolls as evidence of their approval, as such signature can be affixed without his consent. Also, the Corte de Cuentas should evidence its review of CONARA's financial transactions including its payrolls.

Cause:

According to management, the facsimile signature is affixed to copies only. However, the original payrolls remitted to both SETEFE and Corte de Cuentas are signed in the same manner.

Effect:

Actual approval of the original payrolls, which are the basis for salary payments, could be missing and therefore questioned.

Recommendation:

USAID/El Salvador should obtain evidence that SETEFE requires CONARA to discontinue the practice of stamping facsimile copies of approving signatures on payrolls so that responsibility thereon is not delegated. Also the Corte de Cuentas should be requested to review all of CONARA's payrolls evidencing such reviews in writing.

7. Expense Vouchers Were Not Account Coded

Condition:

Our review disclosed that not all vouchers were account coded. Coding is made directly in the accounting records.

Criteria:

There should be an adequate correlation of all vouchers with the accounting records.

Cause:

The treasury department does not send the expense vouchers when issued together with their corresponding check copies to the accounting department; instead these are not sent until the checks are actually delivered to the payees. This usually occurs two or three months late and so by coding the vouchers directly into the records in a global manner and not by expense category, the accounting department attempted to skip one step in the process. The cause for the condition can also be ascribed to the lack of a formally defined chart of accounts, which was subsequently approved and implemented in late September 1988.

Effect:

Such a procedure allows for possible alteration of accounting data and distortion of the related financial information.

Recommendation:

USAID/El Salvador should suggest that SETEFE requires all vouchers with their corresponding check copies to be delivered by CONARA's treasury department to its accounting department immediately after being issued. Subsequent amendments, if any, should be reported for pertinent credits in the books of record.

8. Absence of Controls Over Fuel Purchases and Consumption

Condition:

Our review disclosed that stocks and consumption of fuel were not adequately controlled.

Criteria:

Fuel stocks should be controlled by periodic physical inventory and consumption should be controlled by means of vehicle usage logs.

Cause:

Management had not considered the use of the above controls.

Effect:

Fuel could possibly be diverted for unauthorized uses.

Recommendation:

USAID/El Salvador should obtain evidence that SETEFE requires CONARA to implement a fuel control system to ensure that:

- a) Purchases are necessary and for needed quantities only;
- b) Quantities ordered are based on properly authorized requisitions;
- c) Purchases are correctly recorded in the stock records, and
- d) Consumption is commensurate with the kilometers traveled, and vehicle logs are kept to facilitate analyses in this regard.

9. Physical Inspections of all Subprojects in Progress were Not Made

Condition:

During our work we did not find any evidence that CONARA's follow-up and control department had visited the following projects for control purposes:

<u>Subproject</u>	<u>Location</u>
- Electricity 5 mts. vault	Ozatlán, Usulután
- Town hall construction	Ozatlán, Usulután
- Electric system introduction	Las Delicias, San Miguel
- School improvement and expansion	San Salvador
- Reconstruction of 35 housing units	La Libertad

Criteria:

Physical inspection of subprojects is required by the procedures manual presently in force.

Cause:

The department performs its duties on a selective basis.

Effect:

Subproject progress is not being monitored properly as required by the procedures manual; therefore, the proper use of funds is not assured.

Recommendation:

USAID/El Salvador should suggest that SETEFE assures that CONARA's follow-up and control department inspects all subprojects, and that written reports are issued after each visit to report subproject progress compared to related plans of action.

10. There Was No Evidence that the Organization Had Reviewed the Payrolls of Local Projects

Conditions:

Although field payrolls were prepared and signed by the mayor and the town hall secretary, there was no evidence of their review and authorization by CONARA's employees, nor of their review by CONARA's regional office.

Criteria:

The procedures manual provides that all field payrolls should be prepared and signed by the mayor and the town hall secretary, but it also provides for their review by the regional offices to verify the data supplied by the mayors.

Cause:

There was carelessness by the regional offices in not leaving written evidence of the above review, which makes it doubtful that the review was actually made.

Effect:

There is a risk that in the absence of third-party review, the payrolls may include strawmen or that the time reported does not reconcile with actual time worked.

Recommendation:

USAID/El Salvador should obtain evidence from SETEFE to assure that CONARA's project payrolls are actually reviewed by its regional offices or by Controller General Office (Corte de Cuentas) representatives to verify the information submitted by the mayors, and that the mayors supply the names of the persons preparing and reviewing such payrolls at the town hall for accountability purposes.

11. Bank Reconciliations Were Not Prepared on a Timely Basis

Condition:

Our review disclosed that bank reconciliations were prepared with a three-month delay.

Criteria:

All bank reconciliations should be prepared promptly at the end of each month so that any errors or irregularities will be detected and corrected on a timely basis.

A bank reconciliation, if effectively carried out, constitutes a partial audit of cash receipts and disbursements for the period of the reconciliation, and consequently should be prepared with promptness.

Cause:

Bank statements are sent out by the banks directly to the Foreign Financing Technical Secretariat (SETEFE), which later delivers them to CONARA (after 45 days, in some instances).

Effect:

Untimely preparation of bank reconciliations may lead to late investigations of possible errors or omissions and old reconciling items concerning cash in bank accounts.

Recommendation:

USAID/El Salvador should request SETEFE to promptly send to CONARA related bank statements for the timely preparation of its bank reconciliations.

Price Waterhouse

**NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177**

**COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS**

INDEPENDENT AUDITOR'S REPORT

We have audited the fund accountability statement of the National Plan for Area Restoration, USAID/El Salvador Project N° 519-0177, managed by the National Commission for Area Restoration (Comisión Nacional de Restauración de Areas, CONARA) for the period from March 1 through September 30, 1988 and have issued our report thereon dated May 31, 1989.

We conducted our audit in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Government Auditing Standards" (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

The management of CONARA is responsible for compliance with terms of the agreement for the above mentioned program and with applicable laws and regulations. For purposes of this report we selected and tested transactions and records to determine CONARA's compliance with agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow agreement terms and applicable laws and regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed findings N° 1 to 5 described in the following pages as material instances of noncompliance, the effects of which have been disclosed in the fund accountability statement.

We considered these material instances of noncompliance in forming our opinion on whether the National Plan for Area Restoration's fund accountability statement mentioned above is presented fairly, in all material respects, in conformity with the accounting basis, mentioned in Note 1 to the fund accountability statement, and this report does not affect our report dated May 31, 1989 on the fund accountability statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the National Commission for Area Restoration complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the National Commission for Area Restoration had not complied, in all material respects, with those provisions.

This report is intended solely for the use of CONARA, SETEFE and the Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Trice Whitehouse

May 31, 1989

NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177

REPORT ON COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS

AUDIT FINDINGS

1. Funds Were Transferred from One Program Component to Another Without Approval

Condition:

Our review disclosed several instances where expenditures of one program component were paid for with funds assigned to another program.

Criteria:

Circular ("Instructivo") 1204, issued jointly by both the Ministry of Finance and the Ministry of Planning and Coordination of Economic and Social Development to regulate the handling of Government funds and activities, requires the authorization of the Foreign Financing Technical Secretariat (SETEFE) to transfer funds between programs.

Cause:

Authorization, if any, was usually requested when transfers had already been made.

Effect:

Unauthorized use of funds by one program component of the funds meant for another may lead to lack of control over such funds, thus allowing misuse, intentional or otherwise.

Recommendation:

USAID/El Salvador should suggest that SETEFE requests CONARA to obtain SETEFE's prior approval for all fund transfers between program/components. The related proceeds of such transfers should be deposited in a bank account of the receiving component.

2. Transfers of Funds Between Programs Were Not Properly Accounted For

Condition:

During our review we noted that the following disbursements made by one component or activity to another were not recorded on the date of the transactions in the accounts of the receiving activity.

- Payments made by United for Reconstruction (UPR) on behalf of non-UPR activities within the Restoration program component ¢143,732
- Payments made by the Administration component on account of Combined Civic Actions (ACC) component 45,760

These transactions were accounted for by the receiving component or activity in June, 1989 and November 1988, respectively.

Criteria:

Circular 1204 requires that the implementing units should keep accounting records in accordance with sound accounting practices. Proper accounting requires that both parts of each accounting transaction be recorded to keep the books in balance.

Cause:

The above transactions were approved by management without subsequent notification to the accounting department.

Effect:

Failure of the activity receiving a cash transfer to record it creates an error in the accounting records and also can lead to loss of accounting control of operations.

Recommendation:

USAID/El Salvador should obtain evidence that SETEFE requires cash transfers between CONARA's components to be properly recorded by both the lending and receiving accounts (pertaining to component or activity) to prevent the above mentioned situations. Also, all cash transfers should require the approval of the Foreign Financing Technical Secretariat (SETEFE). If CONARA wishes to establish procedures that allow for temporary and emergency cash transfers between components, then the approval of SETEFE needs to be obtained.

3. The Fund Balances from Completed Programs Were Not Timely Remitted to SETEFE's Central Bank of Reserve Account

Condition:

During our review we noted that revolving fund balances, pertaining to ESF 86/87 programs, which have already been completed, were remitted with much delay to the Central Bank of Reserve, as shown below:

<u>Subcomponent</u>	<u>Completion date</u>	<u>Balance remaining</u>	<u>Remittance date</u>
Restoration, 1986	December, 1986	¢ 861,588	November, 1988
IBM, 1986	December, 1986	426,698	January, 1989
Administration, 1987	December, 1987	100,337	Pending
Administration, 1986	December, 1986	<u>84,254</u>	November, 1988
		¢1,472,877	
Minor items	December, 1986	<u>14,695</u>	November, 1988
		<u>¢1,487,572</u>	

Criteria:

The remittance of remaining program balances to SETEFE's Central Bank of Reserve account should be made as soon as practical after program completion so that the funds can be reprogrammed for other uses.

Cause:

The above delays were ascribed by CONARA to its need to examine the bank balances left by the entity's predecessor management.

Effect:

Delays in remitting program fund overages could lead to their unauthorized use in programs or activities that have not been approved by the Foreign Financing Technical Secretariat (SETEFE). Also, since SETEFE must approve the reprogramming of these funds, the delays in remitting fund overages in turn delay using the funds on worthwhile activities.

Recommendation:

USAID/El Salvador should obtain evidence that SETEFE requests that all fund balances remaining upon completion of the related CONARA programs should be remitted to its Central Bank of Reserve account within thirty days after being determined.

4. No Fiscal Stamp Tax Was Withheld From Payments to Suppliers.

Condition:

Our review disclosed that most payments to suppliers for goods or services were made for the gross amounts billed, with no deduction of the corresponding fiscal stamp tax.

Criteria:

Section 41 of the Fiscal Stamp Tax Law, and Section 21 of its regulations, require all government entities to deduct fiscal stamp taxes from payments to suppliers

Cause:

According to CONARA's management, the above requirement was not complied with as a result of instructions received from the Comptroller General's Office (Corte de Cuentas).

Effect:

Non-compliance with withholdings required by the fiscal stamp tax rulings could lead to excess payments to the suppliers, which for tested transactions amounted to approximately Q9,800.

Recommendation:

USAID/El Salvador should obtain evidence from SETEFE to require CONARA to strictly adhere to the fiscal stamp tax requirements in relation to withholdings from payments to suppliers.

5. Disbursements Exceeded the Amounts Budgeted and Approved in the Plan of Action

Condition:

During our review, we noted that total disbursements exceeded the amounts budgeted and approved according to the Plan of Action for the following items:

a) Training activities:

Approved in plan of action	Q 15,000
Disbursed through September 30, 1988	<u>59,352</u>
Excess disbursements	<u>Q 44,352</u>

b) Removable installations:

Approved in plan of action	Q 4,000
Disbursed through September 30, 1988	<u>19,224</u>
Excess disbursements	<u>Q 15,224</u>

c) Electric system - Uluzuapa, San Miguel:

Approved in plan of action	¢ 36,150
Disbursed through September 30, 1988	<u>126,150</u>
Excess disbursements	<u>¢ 90,000</u>

Except for item b) above increases in budget and plan of action were approved afterwards.

Criteria:

Approved budgets should be adhered to until such time as approval is received to incur additional expenses.

Cause:

The budgets for these activities were underestimated and there were no controls in place to prevent the expenditures for amounts in excess of the budget.

Effect:

Items that have not been approved in their entirety may cause delays in completing activities. The excesses might not be approved for legal purposes and could be considered questionable costs.

Recommendation:

USAID/El Salvador should suggest that SETEFE requires CONARA to maintain strict budgetary control over disbursements and require that CONARA obtain the Foreign Financing Technical Secretariat's (SETEFE) approval prior to making disbursements that exceed the approved budget amounts.

NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177

MARCH 1 TO SEPTEMBER 30, 1988

LIST OF REPORT RECOMMENDATIONS

1. INTERNAL CONTROL STRUCTURE

Recommendation 1:

USAID/El Salvador should suggest that SETEFE assure that CONARA assigns additional accounting department employees to maintain the books of record in an up-to-date status.

Recommendation 2:

USAID/El Salvador should obtain evidence from SETEFE that it has required CONARA to keep adequate subsidiary records to control, record and identify project costs and expenses by sub-program and general expense category, as the present informal files are of uncertain reliability.

Recommendation 3:

USAID/El Salvador should suggest that SETEFE requires CONARA to implement a budget control system, which provides for comparisons between budgeted and assigned funds and actual expenditures, by general and specific category; additionally, any deviations noted from the applicable budget should be corrected on a timely basis.

Recommendation 4:

USAID/El Salvador should obtain evidence that SETEFE requires CONARA to support all expenditures with the pertinent documentation prior to their payment. As for determining whether contracted radio and TV advertising has been delivered, CONARA should contract an independent monitoring agency to attest that such services are provided by the media.

Recommendation 5:

USAID/El Salvador should obtain evidence that SETEFE requires CONARA to implement a card and tagging system to individually control each furniture and fixture item, and employee responsibility cards to account for custody of said items should be used.

Recommendation 6:

USAID/El Salvador should obtain evidence that SETEFE requires CONARA to discontinue the practice of stamping facsimile copies of approving signatures on payrolls so that responsibility thereon is not delegated. Also the Corte de Cuentas should be requested to review all of CONARA's payrolls evidencing such reviews in writing.

Recommendation 7:

USAID/El Salvador should suggest that SETEFE requires all vouchers with their corresponding check copies to be delivered by CONARA's treasury department to its accounting department immediately after being issued. Subsequent amendments, if any, should be reported for pertinent credits in the books of record.

Recommendation 8:

USAID/El Salvador should obtain evidence that SETEFE requires CONARA to implement a fuel control system to ensure that:

- a) Purchases are necessary and for needed quantities only;
- b) Quantities ordered are based on properly authorized requisitions;
- c) Purchases are correctly recorded in the stock records, and
- d) Consumption is commensurate with the kilometers traveled, and vehicle logs are kept to facilitate analyses in this regard.

Recommendation 9:

USAID/El Salvador should suggest that SETEFE assures that CONARA's follow-up and control department inspects all subprojects, and that written reports are issued after each visit to report subproject progress compared to related plans of action.

Recommendation 10:

USAID/El Salvador should obtain evidence from SETEFE to assure that CONARA's project payrolls are actually reviewed by its regional offices or by Controller General Office (Corte de Cuentas) representatives to verify the information submitted by the mayors, and that the mayors supply the names of the persons preparing and reviewing such payrolls at the town hall for accountability purposes.

Recommendation 11:

USAID/El Salvador should request SETEFE to promptly send to CONARA related bank statements for the timely preparation of its bank reconciliations.

2. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Recommendation 1:

USAID/El Salvador should suggest that SETEFE requests CONARA to obtain SETEFE's prior approval for all fund transfers between program/components. The related proceeds of such transfers should be deposited in a bank account of the receiving component.

Recommendation 2:

USAID/El Salvador should obtain evidence that SETEFE requires cash transfers between CONARA's components to be properly recorded by both the lending and receiving accounts (pertaining to component or activity) to prevent the above mentioned situations. . Also, all cash transfers should require the approval of the Foreign Financing Technical Secretariat (SETEFE). If CONARA wishes to establish procedures that allow for temporary and emergency cash transfers between components, then the approval of SETEFE needs to be obtained.

Recommendation 3:

USAID/El Salvador should obtain evidence that SETEFE requests that all fund balances remaining upon completion of the related CONARA programs should be remitted to its Central Bank of Reserve account within thirty days after being determined.

Recommendation 4:

USAID/El Salvador should obtain evidence from SETEFE to require CONARA to strictly adhere to the fiscal stamp tax requirements in relation to withholdings from payments to suppliers.

Recommendation 5:

USAID/El Salvador should suggest that SETEFE requires CONARA to maintain strict budgetary control over disbursements and require that CONARA obtain the Foreign Financing Technical Secretariat's (SETEFE) approval prior to making disbursements that exceed the approved budget amounts.

NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE
NATIONAL COMMISSION FOR AREA RESTORATION
USAID/EL SALVADOR PROJECT N° 519-0177
MARCH 1 TO SEPTEMBER 30, 1988

MANAGEMENT COMMENTS (Free Translation)
TOGETHER WITH INSSERTION OF AUDITOR'S RESPONSE

September 14, 1989

López Salgado y Cia.
(Price Waterhouse representative)

This commission has finalized the reports review dated as follow:

- 1 up to February, 1988
- 2 from March to September, 1988

Regarding report 1, since prior year this commission contracted a firm to analyze, arrange and liquidate all transactions/movements effected during 1986.

At present, such firm continues working and will deliver results in October, 1989.

Similar to former management, we decline any responsibility on actions for such period.

Regarding period 2 (above), we enclose evidence to clarify that observations (made by auditors) have been overcome.

Truly yours,

Mrs. Norma R. de Dowe
Coordinator General
CONARA

FUND ACCOUNTABILITY STATEMENT

MANAGEMENT COMMENTS

QUESTIONABLE COST

Restoration

1. Street repairs, Hacienda Nueva, Usulután ¢79,856.

During change of former management, documentation was lost/misplaced, presently this information is being recovered and its certification (for authenticity) is looked for.

Administration

2. Taxes paid in the purchase of vehicle (¢9,800) and extras paid in excess (¢8,500) of standard specifications stipulated by PIL No. 50.

Vehicle YN 6301 76272, inventory item No. 42145, was purchased locally as allowed by Instructive 1204. The vendor company paid import taxes to the Government, CONARA will in turn request reimbursement to custom office directorate.

3. Removable installations ¢15,224.

At present CONARA is in process of reprogramming the respective plan of action.

AUDITOR'S RESPONSE

Based on above management assertions, questionable costs reported are sustained.

INTERNAL CONTROL STRUCTURE

MANAGEMENT COMMENTS (Free Translation)

AND AUDITOR'S RESPONSE INSERTIONS

1. Books of record in arrears

When new management took office, 5 months were taken to catch up and up date books of records, this was not possible to complete for lack of documentation which responsibility is ascribed to former management. Beginning March 1 new books of records were opened and approved by SETEFE, establishing a cut-off of operation with former management, new books of records were opened retroactive to June, 1988. Presently, the books of record are posted up to July, 1989. In addition following the (auditors) recommendation, an accounting clerk was hired to reinforce accounting function.

AUDITOR'S RESPONSE

We estimate recommendation will be fully implemented by October, 1989.

2. Lack of Control Registers for Project's Cost and expenditures

To date a binder filing system is operating to control specific and general type of expenses for subprograms as required by action plans.

AUDITOR'S RESPONSE

At the date of this audit report, adequacy and reliability of the above system has not been tested by auditors.

3. Lack of budget Control System

Certainly, due to the lack of enough personnel and work load, an adequate budget control system was not implemented however, in certain aspects such information was known.

CONARA suggested to the consulting firm IFC, who prepared administrative manuals, to include functions related to budgetary controls, because it was urgent to implement opportune recording of costs and expenses by general and specific class of expenditures. Presently, a procedure has been established and it will be implemented beginning September, 1989.

AUDITOR'S RESPONSE

Recommendation is sustained.

4. Lack of documentation supporting expenditures and evidencing receipt of goods.

4.1 Infurca advance for €10,850.

Process of payment was suspended and goods were returned until required quality was met. Final payment only for goods received at satisfaction was made on July 8, 1989.

- 4.2 With respect to the radio and T.V. advertising services, monitoring activities were contracted by Publicidad Rumbo with other firm.

In addition, collaboration was requested to the Ministry of Culture and Communication for monitoring the advertising services, for which we did not receive response. CONARA has contracted Administrative Advisory services with Peat Marwick, which in turn has contracted other firm to effect monitoring activities. Eventually CONARA will contract this service.

- 4.3 Vehicle repair and office rent in Santa Ana.

For the above 3 observations copy of liquidations certified by the Controller's General Office (Corte de Cuentas) is available, this is correctly documented.

AUDITOR'S RESPONSE

Except for office rent in Santa Ana, documentation was obtained afterward (during the last days of discussion of our draft audit report). Recommendation is sustained, based on the fact that in all cases pertinent documentation should be obtained prior to their payment.

5. No subsidiary records to control furniture and fixtures existed.

At present this observation was overcome by implementing a kardex by type of items.

AUDITOR'S RESPONSE

A physical inventory of fixed assets was taken during May, 1989. Recommendation is expected to be fully implemented during October, 1989.

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6. Payrolls were signed in Facsimile by management and no evidence was left of review by the Salvadoran Controller's General Office (Corte de Cuentas).

Payrolls are presently signed personally by responsible officials. On the other hand, during the audit period the Corte de Cuentas did not acted as intervener, which function began until April 25, 1988.

AUDITOR'S RESPONSE

At July 31, 1989 payrolls were still approved by stamping the Coordinator General's facsimile. However, the recommendation has since been implemented.

7. Expense vouchers are not account coded.

At the time new management took office, an adequate chart of account did not exist. Thus, a chart of account responsive to accounting needs was worked out and implemented in September 1988.

AUDITOR'S RESPONSE

At July, 1989 recommendation was already implemented.

8. Lack of controls over fuel purchases and consumption.

Subsidiary records have been established, inventory control and purchases programed based on needs.

AUDITOR'S RESPONSE

Subsequently inventory controls and fuel quotas by vehicle were established. However, mileage and operating cost controls are still lacking.

9. Physical inspections of all subprojects in progress were not made.

Projects supervisory and monitoring activities are performed by CONARA's regional offices. The CONARA's follow-up and control department function is to selectively focus on those project with identified technical or financial problems. To resolve these problems assistance is required to the Controller General's Office or the follow-up and control department.

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AUDITOR'S RESPONSE

Approved procedures manual requires full physical inspections of projects by the follow-up and control department. This requirement should be revised if not in accord with present CONARA requirements and operating objectives.

10. There was no evidence that the organization had reviewed the payrolls for local projects.

CONARA cannot interfere in the municipalities autonomy and its objective could be circumvented by reviewing transactions that may jeopardize mayors credibility in the projects execution of transaction. This position was confirmed by Project Implementation Letter (Pil) No. 97 dated May 4, 1989.

AUDITOR'S RESPONSE

We understand that this control procedure, required by CONARA's procedures manual, will be modified accordingly in the near future and CONARA represents that these reviews will be the Controller General Office's (Corte de Cuentas) responsibility and not theirs.

11. Bank reconciliations were not prepared on a timely basis.

CONARA has requested the Central Bank of Reserve and SETEFE to send opportunely the related statement of accounts to prepare such bank reconciliations. To date bank reconciliations are prepared and authorized up to June 1989.

AUDITOR'S RESPONSE

Recommendation has been partially implemented.

* * *

44'

COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS
MANAGEMENT COMMENTS (Free Translation)
AND AUDITOR'S RESPONSE INSERTIONS

1. Funds transferred from one program component to another without approval.

Agree, recommendation accepted.

2. Transfer of funds between programs were not properly accumulated for.

This situation occurred due to lack of consultation and agreement with finance and accounting departments, hence, situation was detected when documentation was processed and disbursements already made.

AUDITOR'S RESPONSE

Recommendation sustained.

3. The fund balances from completed programs were not timely remitted to the SETEFE's Central Bank of Reserve Account.

This recommendation will be considered, but it cannot be implemented in full because at termination of projects bank accounts have to be kept open for a prudent time principally for municipality projects, due to the fact that mayors take some time to liquidate the projects and still have cash balances to be refunded. If bank account are closed funds can not be remitted for deposit.

SETEFE was consulted and agreed. The bank accounts should be kept until assurance that all unused balances from projects are deposited. Note of approval by SETEFE was received and request for closing 7 bank accounts was sent.

AUDITOR'S RESPONSE

Instructive 1204 and plan of actions require immediate refund of unused funds, however, SETEFE approved CONARA to keep these unused fund balances.

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4. Fiscal Stamp Tax not withheld from payments to suppliers:

CONARA complies with the tax regulation based on stamp tax on invoices, or accumulation of the stamp tax. Instructions were given by the Controller's General Office (Corte de Cuentas) for not to withhold fiscal stamps.

AUDITOR'S RESPONSE

CONARA should consult the Ministry of Finance's taxation office (Dirección General de Contribuciones Indirectas) which has the authority to determine specific application of the stamp tax law and not the Controller General's Office.

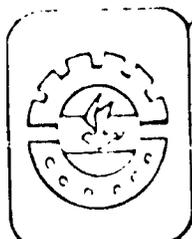
5. Disbursements exceed the amounts budgeted and approved in the plan of action.

Administration - 1988 component is in process of reprogramming.

Restoration - 1987 reprogramming is already approved, thus, the recommendation is overcome.

AUDITOR'S RESPONSE

Approvals for the training activities and the Electric System were obtained retroactively.



COMISION

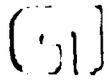
SAN SALVADOR



NACIONAL

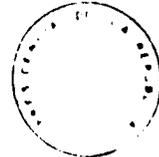
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EL SALVADOR



RESTAURACION

CENTRO AMERICA



San Salvador, 14 de septiembre de 1989.

Señores
López Salgado y Compañía
PRESENTE

Esta Comisión ha finalizado la revisión de los reportes comprendidos entre las siguientes fechas:

- 1.- Hasta Febrero de 1988.
- 2.- Marzo a Septiembre de 1988.

Sobre el reporte número 1 esta Comisión contrató desde el año recién pasado, una Compañía que hiciera el trabajo de análisis, ordenamiento y liquidación de todos los Movimientos efectuados durante 1986.

Actualmente, la compañía continúa trabajando y entregará resultados - hasta en Octubre del corriente año.

Al igual que la Administración anterior dedicamos toda responsabilidad sobre lo actuado durante ese período.

Con relación al segundo período, en documento anexo hacemos las acla raciones que evidencian que las observaciones han sido superadas.

Sin otro particular, me despido de usted con toda consideración y - estima.



DIOS, UNION Y LIBERTAD

EIC. NORMA R. DE DOWE
COORDINADORA GENERAL

6/27/89

COORDINADOR

I - ESTADO DE RENDICION DE CUENTAS

COSTOS CUESTIONABLES

RESTAURACION

- 1.- Reparación de Calle, Hacienda Nueva, Usulután Q 79,856.00.

En el cambio de la administración anterior, hubo mucha fuga de documentos por lo que actualmente aún se recupera la misma información y se busca su Certificación.

- 2.- Administración - Impuestos pagados e incluidos en la compra de 1 vehículo, extras pagadas en exceso hasta por ₡8,500.00 de las estipulaciones estándares estipuladas de la carta de Implementación No. 50.

El vehículo YA 6301 76272, con número de inventario 42145, fue comprado - en plaza tal y como lo permite el Instructivo 1204. La compañía Distribuidora de Automóviles canceló los impuestos correspondientes a la importación. al

Gobierno, CONARA a su vez hará la solicitud del reintegro a la Dirección de Aduanas.

- 3- Instalaciones no permanentes ₡ 15,224.00 actualmente CONARA se encuentra en proceso de reprogramación del Plan de Acción correspondiente.

II - ESTRUCTURA DE CONTROL INTERNO

1.- *Registros Contables Atardados.*

Al asumir el cargo la nueva administración transcurrieron 5 meses para iniciar de nuevo al día la Contabilidad; eso no fue posible por la falta de documentos de la administración anterior. Se iniciaron registros en libros autorizados por el SEPS a partir del 1° de marzo, cortando así, con la anterior administración. Los nuevos libros se iniciaron con efectos retroactivos a partir de abril/86. Actualmente, los registros están completamente al día hasta julio/89.

Por otra parte atendiendo la recomendación se contrató un Auxiliar Contable para reanudar al área Contable.

2.- *Falta de Registro de Control sobre los Costos y Gastos de los Proyectos (Sub-programas) a la fecha se cuenta con libros Binder para llevar este Control por objeto empalillado y clase general del gasto para los -- Sub-programas que según el Plan de Acción así lo requieren.*

3.- *Falta de un sistema de Control Presupuestario.*

Efectivamente, en esa oportunidad debido al escaso personal y a la acumulación de trabajo no fue posible llevar un Control Presupuestario adecuado, aunque sí se alguna manera se conocía tal información.

La participación de CO.A.A. fue sugerida a la Compañía IFC que elaboró los estadísticos administrativos, que se incluyeron funciones referentes al Con-

El Presupuesto, es decir que era urgente llevar registros oportunos sobre costos y gastos por clase general y objeto específico de gasto.

Actualmente, se ha establecido un Procedimiento. (Ver flujograma).

Lo que se reiniciará a partir del 1° de Septiembre de 1989.

Falta de Documentación que respalde los gastos y que evidencie que los bienes y servicios hubieran sido recibidos.

- 4.1. En el caso de adelanto por \$ 10,850.00 a INPURCA, el trámite se suspendió y se devolvieron los productos recibidos, mientras tanto no se mejorara la calidad requerida. Se pagó hasta el 30 de julio/89, en que se hizo el pago final solamente por el producto recibido a satisfacción (ver evidencia de recibido en la parte de costos cuestionables)
- 4.2. Para el caso de los servicios de radio y televisión, se contaba con Monitoreo de una Compañía contratada por Publicidad Runbo.
Adicionalmente, se solicitó al Ministerio de Cultura y Comunicaciones su colaboración en dicho monitoreo. (Ver nota anexa), sin haber obtenido respuesta. CONAFA cuenta con la Asesoría Administrativa de Peat Marwlok, que ha contratado los servicios de una Compañía que ejecuta dicho monitoreo. Eventualmente CONAFA contratará los servicios en este aspecto.
- 4.3. Reparaciones de Vehículos.

4.4. Publicidad.

4.5. Alquiler de Oficinas en Santa Ana.

Para estas 3 observaciones se cuenta ibricamente con la copia de la --
liquidación realizada por SETSE y Corte de Cuentas, es decir que se --
documentó correctamente.

No existen tarjetas auxiliares para el control de mobiliario y enseres.

Observación superada a la fecha (Ver detalle de Inventario Anexo). --
Se cuenta con kardex por tipo de bien.

6.- Las nóminas son firmadas en facsímil por la administración y no son re-
visadas por la Corte de Cuentas.

En cuanto al facsímil esta observación ha sido superada. Es decir que
son firmadas todas en original por los responsables.

Por otra parte, la Corte de Cuentas en ese período no fungió como inter-
vencor, ya que éste comenzó a operar hasta el 26 de Abril de 1988.
(Ver nota anexa).

7.- Los comprobantes de gasto no están codificados por cuenta.

Al asumir la nueva administración, no se cuenta implementado un Catálogo
de Cuentas fidedigno y adecuado a CONARA, por tanto se trabajó en conso-

hacer un catálogo que respondiera a las necesidades contables. Este fue puesto en marcha hasta en el mes de septiembre/88.

Falta de controles sobre la compra y consumo de combustible.

Se han creado los registros auxiliares: Control de Existencia y Compras Programadas de acuerdo a necesidades. (Ver anexos)

9.- No se hicieron inspecciones físicas de los subproyectos en proceso.

La labor de supervisión y monitoreo de proyectos se realiza por las oficinas departamentales de la institución. La función del Departamento de Seguimiento y Control es de carácter selectivo unido a dichos proyectos en los cuales se han identificado problemas, ya sean técnicos o financieros. Para resolverlos, se solicita el apoyo de Corte de Cuentas o el Departamento de Seguimiento y Control.

10.- No había evidencia de la revisión de las planillas de los proyectos locales por parte de CONARA.

CONARA no puede ni debe interferir en la autonomía municipal por un lado, y por otro es que se desvía de sus objetivos al tratar de hacer cualquier revisión que disminuya o de credibilidad a las transacciones así como en la ejecución de los proyectos. Esta posición fue confirmada según carta de implementación No. 37 de fecha 4 de Mayo de 1988.

11.- Las conciliaciones bancarias no se presentan oportunamente.

Respecto a la recomendación, CONARA, ha realizado gestiones ante BCR y SETEFE, con el fin de lograr que los estados bancarios de cuenta - corriente sean enviados directamente a la Comisión lo más oportunamente. (Ver notas anexas).

A la fecha, las Conciliaciones bancarias están preparadas y autorizadas hasta junio/89.

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III - Informe sobre el cumplimiento de las condiciones de los
convencios y de las leyes y reglamentos aplicables.

OBSERVACIONES

1.- Fondos transferidos sin aprobación de un componente del programa a otro.

Observación aceptada.

2.- Transferencias de fondos entre componentes no fueron debidamente contabilizadas. Esto obedece a que las transferencias no eran previamente en consulta con el sistema de finanzas, y contabilidad por ende se perpetraba de él voluntariamente al recibir los documentos ya procesados y hechos los pagos.

3.- Los saldos restantes de programas ya terminados no fueron remitidos oportunamente al Banco Central.

La recomendación será tomada en cuenta, pero no puede ser cumplida totalmente por que una vez concluidos los programas se deben mantener las cuentas abiertas por un período prudencial, sobre todo cuando se trata de proyectos municipales, ya que los Alcaldes cuando finalizan sus obras tienen remanentes y al cerrar las cuentas no se tendría donde re-
mevarlas.

Se habló con SBIFFE y se convino en dejar las cuentas abiertas con sal-

dos mínimos hasta tener la certeza de que todos los reintegros ya están recogidos. Ver nota SATEFE de autorización respectiva y gestiones de cierre de 7 cuentas.

- 4.- No se retuvo el impuesto del timbre sobre pago a proveedores.

Se cumple con la imposición, porque las facturas se timbran, o tienen el sello de timbre acumulado. Existen disposiciones de la Corte de Cuentas de suspender la retención de tal impuesto. (Ver nota aneja).

- 5.- Desembolsos exceden en los montos presupuestarios y aprobados en los Planes de Acción.

En trámite de elaboración la Reprogramación de Administración/88.

La Reprogramación de Restauración/87, está ya aprobada y por tanto superada la observación en éste.

APPENDIX IIIREPORT DISTRIBUTION

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