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AWARD SURVEY OF THE  
NON-CREDIT COMPONENT OF  
THE EARTHQUAKE RECONSTRUCTION PROJECT  
WITH THE VICE-MINISTRY OF HOUSING  
AND URBAN DEVELOPMENT  
USAID/EL SALVADOR PROJECT NO. 519-0333

AUDIT REPORT NO. 1-519-89-44-N  
August 31, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT

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August 31, 1989

MEMORANDUM

TO: USAID/El Salvador Director, Henry H. Bassford

FROM: RIG/A/T, *Erin D. Sittler*  
Coinage N. Gothard, Jr.

SUBJECT: Audit Report No. 1-519-89-44-N, "Award Survey of the Non-Credit Component of the Earthquake Reconstruction Project with the Vice-Ministry of Housing and Urban Development"

This report presents the results of a non-Federal award survey requested by your Mission of the Non-Credit Component of the Earthquake Reconstruction Project, USAID/El Salvador Project No. 519-0333, with the Vice-Ministry of Housing and Urban Development (VMVDU). The accounting firm of Peat Marwick, Mitchell and Co. in El Salvador prepared the report which is dated August 17, 1989.

The Earthquake Reconstruction Project provides US\$75 million in funds over a 36-month period through September 30, 1990 to assist the Government and private sector of El Salvador in restoring the standard of living for individuals affected by the earthquake of October 10, 1986. US\$23.6 million is to be provided under the non-credit component of the project to repair and reconstruct public schools, health facilities, municipal markets and highways, to develop relocation sites for families, and to provide housing assistance to low income families that have not been able to repair or replace their homes. Out of the funding allocated for the non-credit component, US\$5.0 million has been assigned to VMVDU as the implementing institution for the housing relocation and resettlement facilities reconstruction subcomponent of the project.

The purpose of this award survey was to determine whether three VMVDU subordinate implementing organizations, the National Program of Popular Housing (PRONAVIPO), the Urban Housing Institute (IVU) and the General Directorate of Urbanism and Architecture (DUA): (1) have the management capability for performing the project, (2) are financially capable of executing the project, and (3) have the internal accounting and administrative control systems to accurately capture and record the accounting data required for administering the project and are adequate for reporting purposes to USAID/El Salvador.

*u*

In the opinion of Peat Marwick, the institutions did not have the management capability to perform the project, did not have the financial capability to execute the project without receiving cash advances from A.I.D., and did not have internal accounting and administrative control systems adequate for USAID/El Salvador's purposes.

The Peat Marwick report contains 12 recommendations concerning the institutions' management and financial capability and internal controls. However, the Peat Marwick recommendations are addressed to conditions noted during the early stages of the project. USAID/El Salvador personnel responsible for the management of the project presented information and evidence to show that reported weaknesses in the management capabilities of the individual institutions have been compensated for within the multi-organization project structure and that the internal control weaknesses noted have been addressed. Concerning the finding that the implementing institutions had not budgeted counterpart funds for the project's operating costs, the project personnel stated that it was their policy not to fund such costs from project funds. They indicated that the implementing institutions would have to find the money to fund these costs if they wanted to continue participating in the project. Only two of the three subordinate organizations have continuing project implementation activities in the project and they are currently being monitored as part of a concurrent audit of the project by the accounting firm Price Waterhouse in El Salvador.

Since the conditions reported by Peat Marwick have been appropriately addressed and VMWDU's activities are currently being monitored as part of the concurrent audit, we are not making any recommendations.

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DEVELOPMENT  
USAID/EL SALVADOR PROJECT No. 519-0333

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**DEVELOPMENT**  
**USAID/EL SALVADOR PROJECT No. 519-0333**

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August 17, 1989

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

Dear Mr. Gothard:

This report presents the results of our award survey of the non-credit component of the Earthquake Reconstruction Project, USAID/El Salvador Project No. 519-0333, implemented by the National Program of Popular Housing (Programa Nacional de Vivienda Popular-PRONAVIPO), the Urban Housing Institute (Instituto de la Vivienda Urbana-IVU) and the General Directorate of Urbanism and Architecture (Dirección General de Urbanismo y Arquitectura-DUA).

## BACKGROUND

On September 24, 1987, the Government of El Salvador (GOES) and, the United States Agency for International Development in El Salvador (USAID/El Salvador) signed the agreement for the Earthquake Reconstruction Project, USAID/El Salvador Project No. 519-0333. The project provides US\$75 million in funds over a 36-month period through September 30, 1990 to assist El Salvador in restoring the standard of living for individuals affected by the earthquake of October 10, 1986. The project will immediately follow the US\$50 million Earthquake Recovery Program, USAID/El Salvador Project No. 519-0331, and will strive to provide a long-term solution to the destruction caused by the earthquake. The initial project provided immediate and intermediate solutions over an approximate one-year period.

The project purpose is to assist the GOES and the private sector to repair and reconstruct homes, businesses, basic services, and infrastructure in the metropolitan zones most seriously affected by the earthquake. The project includes two components: credit activities and non - credit activities.

The credit activities component provides housing loans for repair and reconstruction of individual houses, reconstruction and rehabilitation of housing for rental, and construction of new, low cost, condominium type apartments. The credit component also provides business credit for private health services, private schools, and small business establishments.



The non-credit activities component is to provide direct financing for construction of public schools, repair of municipal markets, highway reconstruction, repair of the National Water and Wastewater Authority water system, repair and reconstruction of health facilities, and development of relocation sites for families. Also, Private Voluntary Organization activities will be directly funded by USAID/El Salvador to provide housing assistance to low income families who have not been able to marshal the resources necessary to repair or replace their homes.

USAID/El Salvador will provide US\$23.6 million in funding for the non-credit activities component of the project. The funds will be provided to the Technical Secretariat for External Financing (SETEFE), which will distribute the funds to the implementing institutions. General supervision and coordination responsibilities over all the reconstruction activities have been assigned to the General Directorate for Reconstruction of the Ministry of Planning and Coordination for Economic and Social Development.

US\$5.0 million has been assigned to the Vice-Ministry of Housing and Urban Development (VMVDU) as the implementing institution for the housing relocation and resettlement facilities reconstruction subcomponent of the project.

The Vice-Ministry of Housing and Urban Development (VMVDU) will be responsible for the overall supervision of the subcomponent's activities performed by the National Program of Popular Housing (PRONAVIPO) and the Urban Housing Institute (IVU), both branch offices of the VMVDU, and the General Directorate of Urbanism and Architecture (DUA), a branch of the Ministry of Public Works. PRONAVIPO will receive the funds disbursed by A.I.D. for the subcomponent and it will approve work progress payments and other expenditures and transactions. To accomplish its responsibilities, PRONAVIPO will assign a project director, a revolving fund manager, and a general accountant.

At present, the activities to be executed under the housing relocation and resettlement facilities reconstruction subcomponent are as follows:

- a) Construction of 885 basic Progressive Housing Units - "San Bartolo Project". This subproject activity seeks to provide housing for approximately 4,868 persons that were affected by the earthquake of October 10, 1986. The IVU is in charge of the San Bartolo Project. The IVU will assign four engineering personnel to supervise the work performed by the consulting and construction companies contracted for the subproject's execution. The estimated costs for this activity are  $\text{¢}17,881,832$  including the cost of land contributed by GOES.
- b) Construction of Protective Structures and Infrastructure Works - "October 10 Urbanization Project". The objective of this subproject activity is to construct protective retaining walls and infrastructure work such as sewage water systems and drinking water wells. These activities were initiated under the Earthquake Recovery Program, USAID/El Salvador Project No. 519-0331 in order to settle families affected by the earthquake of October 10, 1986 into temporary housing. However due to a lack of resources, protective retaining walls were not constructed and infrastructure works were not completed. This activity will be developed in two phases, and at present only the action plan for phase I has been approved. DUA will be responsible for managing the project which has a budget of  $\text{¢}1,811,340$ .

## **AUDIT OBJECTIVES AND SCOPE**

The objectives of our evaluation were to determine whether the National Program of Popular Housing (PRONAVIPO), the Urban Housing Institute (IVU) and the General Directorate of Urbanism and Architecture (DUA):

- a) have the management capability for performing the project.
- b) are financially capable of executing the project, and
- c) have the internal accounting and administrative control systems to accurately capture and record the accounting data required for administering the project and adequate for reporting purposes to USAID/El Salvador.

Our audit was performed in accordance with generally accepted auditing standards and with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

The scope of our evaluation consisted of:

- reviewing the organizational structure of PRONAVIPO, IVU, and DUA (the Institutions) taking into consideration the current and projected workload, the experience level of the assigned personnel, the level of effort required for the project, and the Institutions' previous performance in technical and administrative control of similar projects,
- reviewing the Institutions' financial and administrative capacity to manage and control the budgets of similar projects,
- reviewing the basis used to prepare financial plans to determine their feasibility,
- evaluating procedures that will be adopted to control the execution of the financial activities approved in the action plan for this project,
- reviewing and evaluating the accounting system that will be adopted to control the operations related to the project, and
- evaluating the payments procedures, including requests, approvals, and liquidations.

## **RESULTS OF AUDIT**

### **Management Capability**

The National Program of Popular Housing (PRONAVIPO), the Urban Housing Institute (IVU) and the General Directorate of Urbanism and Architecture (DUA) do not appear to have the management capability to administer the project subcomponent because sufficient administrative and technical personnel have not been assigned and there is a lack of written procedures on the functions and responsibilities for some project sub-activities.

### Financial Capability

The National Program of Popular Housing (PRONAVIPO), the Urban Housing Institute (IVU) and the General Directorate of Urbanism and Architecture (DUA) do not possess the financial capability to administer the project subcomponent, unless they receive cash advances from USAID/El Salvador. Furthermore, the funds required to cover the subcomponent's operational costs were not considered.

### Internal Control System

In our opinion, the internal accounting and administrative control systems of the National Program of Popular Housing (PRONAVIPO), the Urban Housing Institute (IVU) and the General Directorate of Urbanism and Architecture (DUA) are not adequate for USAID/El Salvador's purposes because of the following deficiencies:

- There was a lack of procedures to control the construction materials inventories,
- A disbursement manual has not been prepared,
- Subsidiary records did not collect information for comparison with the budget,
- Voucher forms were not used and the filing system was inadequate, and
- The General Directorate of Urbanism and Architecture did not receive an audit report relating to a project it managed.

### MANAGEMENT COMMENTS

On July 20, 1989, a draft copy of this audit report was submitted to the Vice - Ministry of Housing and Urban Development for its review and analysis with a request that it provide written comments to us within 10 days. In our transmittal letter to it we stated that if comments were not provided to us within the period mentioned, we would consider that it was in agreement with the report. As of August 15, 1989, we had not received replies from this implementing unit. Therefore, we have issued this final audit report without written comments.

*Peat Marwick Mitchell & Co*

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AWARD SURVEY OF THE  
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DEVELOPMENT  
USAID/EL SALVADOR PROJECT NO. 519-0333

REPORT ON MANAGEMENT CAPABILITY

AUDITOR'S OPINION

We have performed an award survey of the management capabilities of the National Program of Popular Housing (PRONAVIPO), the Urban Housing Institute (IVU) and the General Directorate of Urbanism and Architecture (DUA) to administer the activities assigned to them under the non-credit component of the Earthquake Reconstruction Project, USAID/El Salvador Project No. 519-0333. Our evaluation included those areas that we considered relevant to the criteria established in the statement of work for the award survey. Our evaluation was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" ( 1981 Revision).

Based on our study and understanding of the criteria included in the terms of reference mentioned in the paragraph above, we consider that at the present time the above institutions do not have the management capability to sufficiently administer the non-credit component activities assigned to them under the Earthquake Reconstruction Project. Our opinion is based on the audit finding Nos. 1 to 6 described in the following pages.

This report is intended solely for the use of the Vice Ministry of Housing and Urban Development, the National Program of Popular Housing, the Urban Housing Institute, the General Directorate of Urbanism and Architecture and A.I.D. 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.

*Peat Marwick Mitchell & Co*

October 30, 1988



**AWARD SURVEY OF THE  
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WITH THE VICE-MINISTRY OF HOUSING AND URBAN  
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REPORT ON MANAGEMENT CAPABILITY  
FINDINGS**

- 1) Personnel to be Assigned to the Project from the General Directorate of Urbanism and Architecture Were not Specified

Condition

When evaluating the action plan for the "October 10" Urbanization Subproject which will be executed by the General Directorate of Urbanism and Architecture (DUA) ;we detected that the organizational structure section of the plan does not specify the personnel that the institution should assign for the administration and control of the subproject activities.

Criteria

The action plans must include all the aspects required to fulfill the project's objectives, goals and activities.

Cause

This information was not considered important for the action plan.

Effect

Failure to state in the action plan the required personnel for the project to be assigned by the implementing institution implies that the work would not be controlled and completed as established in the action plan.

Recommendation

USAID/El Salvador should require the General Directorate of Urbanism and Architecture (DUA) to identify in writing the personnel that this institution will assign to the subproject.

2) The National Program of Popular Housing had not Assigned Accounting Personnel for the Project

Condition

When evaluating the organizational structure that the National Program of Popular Housing (PRONAVIPO) will assign to the project, we determined that an accountant had not been assigned to record the transactions generated by the various organizations that would be implementing the San Bartolo and "October 10" Urbanization Subprojects. In addition, PRONAVIPO's accounting personnel did not have prior experience with projects of a similar nature.

Criteria

The action plans must include all personnel required to exercise adequate control over the subprojects.

Cause

PRONAVIPO apparently has enough staff in its accounting department to record project transactions, but they do not have experience in similar projects and no specific person has been assigned to the project.

Effect

Project transactions might not be recorded on a timely basis, and the financial information might not be reliable.

Recommendation

USAID/El Salvador should require the National Program of Popular Housing (PRONAVIPO) to assign an accountant for the project and to exercise close supervision over him/her to compensate for the person's lack of experience with similar projects.

3) There Was a Lack of Written Procedures for the Flow of Transactions Among the Implementing Institutions.

Condition

According to the action plans for the San Bartolo and "October 10" Urbanization Subprojects, the responsibilities and functions required to conduct these subprojects, have been distributed among the following entities:

- Vice Ministry of Housing and Urban Development (VMVDU)
- Urban Housing Institute (IVU)
- General Directorate of Urbanism and Architecture (DUA)
- National Program of Popular Housing (PRONAVIPO)

However there is lack of written procedures regarding review, authorization and payment of transactions among these institutions, and the time required for each implementing institution to perform these activities.

#### Criteria

Considering that several institutions will be involved in project execution, written procedures should establish an adequate system for the flow of transactions, with an indication of the length of time required for each implementing institution to perform such transactions.

#### Cause

These administrative control aspects were not considered when preparing the action plan.

#### Effect

The lack of written procedures that establish how and when the project information will be processed, could obstruct the normal progress of the subproject activities.

#### Recommendation

The Vice-Ministry of Housing and Urban Development (VMVDU) should establish written procedures to define the channels and responsible officials for the flow of transactions. Also, these procedures should state the length of time required for each implementing institution to fulfill its functions.

#### 4) The Engineering Personnel Assigned from the Urban Housing Institute Would not Devote Full Time to the Project.

#### Condition

During our evaluation we detected that the supervising engineer (the project director), the resident engineer and their two assistants for the San Bartolo Subproject are in key positions in the Urban Housing Institute (IVU), the subproject implementing institution. This could diminish the real level of effort that will be dedicated to the project from these officials.

#### Criteria

The level of effort assigned to a project must be sufficient to adequately manage assigned project activities.

Cause

These persons will be assigned to the project because they have a high level of experience acquired in the execution of similar projects. However, there was no indication that planning fully considered the time that would be required to accomplish their regular jobs plus subproject activities.

Effect

Not having a sufficient level of effort from the officials that will manage and control the technical aspects of the project could weaken the supervision and control to be exercised over the consulting and construction companies.

Recommendation

The Vice-Ministry of Housing and Urban Development should ensure that the Urban Housing Institute (IVU) assigns the project's key officials on full-time basis, in order to guarantee that they will provide the necessary level of effort to oportunely control and supervise the work executed by the consulting and construction companies.

5) Responsibility for Technical and Administrative Controls Over One of the Subprojects Was Not Defined

Condition

According to the plan of action of the "October 10" Urbanization Subproject, implemented by the General Directorate of Urbanism and Architecture (DUA), a contract will be given to a construction firm to drill a well during the first phase of this subproject. However the action plan does not define whether DUA will have to control the technical and administrative aspects of the work.

Criteria

The action plan should clearly define who will be responsible for each one of the subprojects therein included.

Cause

The definition of the responsibilities and functions that DUA must assume during the drilling of the well was not considered important enough to be included in the action plan.

Effect

The lack of definition on what DUA's responsibilities should be in regard to the drilling of the well could result in inadequate supervision over the consulting and construction companies contracted for this work. Therefore, the work might not meet technical specifications.

Recommendation

The Vice-Ministry of Housing and Urban Development should assign to the General Directorate of Urbanism and Architecture (DUA) in writing the responsibilities for the technical and administrative control over the drilling of the well included in the action plan for the "October 10" Urbanization Subproject.

- 6) Functions and Responsibilities of Officials Assigned to the San Bartolo Subproject Were Not Defined.

Condition

During our evaluation, we detected that the functions and responsibilities of the officials assigned to manage and control the technical aspects of the San Bartolo Subproject were not defined in writing.

Criteria

A formal document with a description of functions and responsibilities of each position should be available to the project's officials in order to clearly define the procedures to be followed by each member of the staff in order to meet the established objectives.

Cause

Only the person that will be the resident engineer participated in the subproject's design, and the definition of staff functions and responsibilities was not considered.

Effect

The absence of written procedures on the subproject's staff functions and responsibilities could result in misunderstandings amongst the subproject's staff about who should do what, with the result that project objectives might not be met.

Recommendation

The Urban Housing Institute (IVU) should define and document in writing the functions and responsibilities assigned to the officials that will manage and control the technical aspects of the "October 10" Urbanization Subproject.

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DEVELOPMENT  
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON FINANCIAL CAPABILITY

AUDITOR'S OPINION

We have performed an award survey of the financial capabilities of the National Program of Popular Housing (PRONAVIPO), the Urban Housing Institute (IVU), and the General Directorate of Urbanism and Architecture (DUA) to manage the activities assigned to them under the non-credit component of the Earthquake Reconstruction Project, USAID/El Salvador Project No. 519-0333. Our evaluation was performed pursuant to the statement of work for the award survey and in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision). Our study included, to the extent that we considered necessary, an evaluation of the institutions' experience in the management of the budgets of similar projects, their assets on hand and line of credit until A.I.D. makes periodic reimbursements, the basis used to prepare financial plans, and the procedures that would be adopted in order to have an adequate budget control of the project.

Based on our review, we consider that the National Program of Popular Housing (PRONAVIPO), the Urban Housing Institute (IVU), and the General Directorate of Urbanism and Architecture (DUA) lack the financial capability necessary to administer the activities assigned to them under the project, unless they receive cash advances from A.I.D. Also as described in finding No. 1, the operational costs needed to support project activities were not included in the budget to be funded by A.I.D. nor had the Government of El Salvador (GOES) implementing units agreed to fund these costs as part of the GOES counterpart contribution.

This report is intended solely for the use of the Vice-Ministry of Housing and Urban Development, the National Program of Popular Housing, the Urban Housing Institute, the General Directorate of Urbanism and Architecture and A.I.D. 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.

*Peat Marwick Mitchell & Co*

October 30, 1988



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**REPORT ON FINANCIAL CAPABILITY**

**FINDING**

1) **There Was Lack of Funding Committed for Operational Costs**

**Condition**

The budget of the action plan which would be funded by USAID/El Salvador for this subcomponent did not include operational costs such as: transportation, office equipment, and stationery. Nor, according to comments from the officials assigned to manage and control the project, have counterpart funds been committed from the Government of El Salvador (GOES) to cover these expenses.

**Criteria**

When designing a project, all the direct and indirect costs should be estimated in order to ensure a normal development of the project. The funding sources must also be clearly established.

**Cause**

When preparing the action plan it was assumed that the GOES implementing agencies would provide the funding for operational costs. However, this commitment was not put into writing.

**Effect**

Operational costs might not be funded. In such case the implementing institutions might not be able to adequately supervise project activities.

**Recommendation**

USAID/El Salvador should require the implementing institutions for this subcomponent of the project to define and estimate subcomponent operational costs and commit in writing to fund these costs.

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REPORT ON INTERNAL CONTROL SYSTEM  
AUDITOR'S OPINION**

We have performed an award survey of the internal accounting and administrative control systems of the National Program of Popular Housing (PRONAVIPO), the Urban Housing Institute (IVU) and the General Directorate of Urbanism and Architecture (DUA) in connection with the activities assigned to them under the non-credit component of the Earthquake Reconstruction Project, USAID/El Salvador Project No. 519-0333. The purpose of our evaluation was to determine the adequacy of the internal accounting and administrative control systems to record transactions under the agreement. Our evaluation was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions " (1981 Revision).

The managements of the National Program of Popular Housing (PRONAVIPO), the Urban Housing Institute (IVU) and the General Directorate of Urbanism and Architecture (DUA), are responsible for establishing and maintaining adequate internal control systems for the project. In fulfillment of that responsibility, estimates and judgments by management are required to assess the expected benefits and related cost of control procedures. The objectives of an internal control system are to provide management with a reasonable but not absolute assurance that resources are safeguarded against waste, loss, and misuse; resources are properly used in compliance with established policies and procedures, and applicable laws, regulations and agreement terms; and reliable information is obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any internal accounting and administrative control system, some errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that the procedures may become inadequate because of changes in prevailing conditions or that the degree of compliance with the procedures may deteriorate.



Based on our study and the criteria mentioned in the first paragraph of this report, we believe that the internal control systems of the above institutions are not adequate for USAID/El Salvador's purposes. Our opinion is based on the conditions described in findings No. 1 to 5 on the following pages, which we believe result in more than a relatively low risk that errors or irregularities may occur and not be detected within a timely period.

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*Peat Marwick Mitchell & Co*

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REPORT ON INTERNAL CONTROL SYSTEM  
FINDINGS**

1) **There was a Lack of Procedures to Control the Construction Materials Inventories**

**Condition**

When evaluating the action plan for the General Directorate of Urbanism and Architecture (DUA) which will manage the "October 10" Urbanization Subproject, we found out that there were no written procedures for the receipt, custody and issue of construction materials to be used in the subproject, nor were prenumbered forms used.

**Criteria**

An adequate internal control system requires formal written procedures to control the receipt, custody and issue of construction materials for the project and should include the use of prenumbered forms.

**Cause**

Management did not attach the necessary degree of importance to inventory control procedures.

**Effect**

The lack of procedures to control the construction materials inventory could result in a situation where materials could be lost or used for nonproject purposes without being detected.

**Recommendation**

The General Directorate of Urbanism and Architecture (DUA) should establish in writing the procedures necessary for the receipt, custody and issue of the construction materials for the subproject. These procedures should be evaluated and approved by the institutions involved in the subproject. In addition, the use of prenumbered forms should be established.

2) A Disbursement Manual Has Not Been Prepared

Condition

As of the date of our evaluation, the National Program of Popular Housing (PRONAVIPO) did not have a Disbursement Manual.

Criteria

According to the action plan for the San Bartolo Subproject approved in July 1988, the Vice-Ministry of Housing and Urban Development (VMVDU) should provide PRONAVIPO a Disbursement Manual for the project.

Cause

VMVDU had not taken action to prepare such a manual.

Effect

The lack of a Disbursement Manual weakens the control to be exerted over procurements and related payments to the suppliers and consulting and construction firms.

Recommendation

The Vice-Ministry of Housing and Urban Development (VMVDU) should prepare the Disbursement Manual required in the action plan for the San Bartolo Subproject.

3) Subsidiary Records Did Not Collect Information for Comparison With the Budget

Condition

According to action plans for the San Bartolo and "October 10" Urbanization Subprojects, the subprojects were to be performed in phases and each phase was to have its budget. However, we noted that the National Program of Popular Housing (PRONAVIPO) had not considered the use of subsidiary records by project phase and budget category.

Criteria

Due to the fact that approved expenses in the action plans are being classified by stages and specific accounts, it is important that the accounting system register the information by stages and specific accounts, in order to maintain an adequate budgetary control.

Cause

The generation of accounting information as a control tool has not been considered important.

Effect

The lack of information by project phase and budget category does not permit an adequate control over project disbursements. In addition, payments in excess of those approved in the budget could occur without being detected.

Recommendation

The National Program of Popular Housing (PRONAVIPO) should implement the use of subsidiary records that account for project expenses by project phase and budget category.

4) Voucher Forms Were Not Used and the Filing System Was Inadequate

Condition

During our evaluation we determined that the National Program of Popular Housing (PRONAVIPO) has not considered the use of voucher forms to register financial transactions of the project. In addition, it lacks a filing system that facilitates the examination of the documentation that supports accounting operations.

Criteria

Accounting operations should be documented with adequate voucher forms that show accounting distribution, and evidence of review, authorization, and approval of accounting transactions. In addition, the documentation supporting accounting transactions should be easy to retrieve in order to facilitate reviews.

Cause

The institution has not used voucher forms for similar projects, and the accounting personnel are not aware of the importance of an adequate filing system.

Effect

The lack of forms to support the accounting transactions makes it extremely difficult to verify that the transactions have been adequately recorded and were reviewed and approved by responsible officials. Furthermore, a deficient filing system also makes it extremely difficult to review the operations of the project. The current system leaves open the possibility that transactions might not be recorded or that funds might be disbursed without having been previously authorized, reviewed and approved and these conditions could happen without being detected.

### Recommendation

The National Program of Popular Housing (PRONAVIPO) should implement the use of prenumbered voucher forms for checks and journal and general ledger entries to support accounting transactions. In addition, the documentation generated by the project should be filed in numbered and chronological order to facilitate systematic retrieval.

#### 5) The General Directorate of Urbanism and Architecture Did Not Receive an Audit Report Relating to a Project it Managed

### Condition

According to comments by the director of the General Directorate of Urbanism and Architecture (DUA), DUA had not received an audit report relating to La Selva Project, which was financed with funds from the Earthquake Recovery Program, USAID/El Salvador Project No. 519-0331.

### Criteria

The implementing institutions should be informed on a timely basis of the results of audits performed on their projects, so that the corrective actions can be taken.

### Cause

This report was not distributed by the Technical Secretariat for External Financing, the institution responsible for distributing audit reports within the Government of El Salvador.

### Effect

The fact that the DUA had not received audit reports implies that the weaknesses detected in the audit reports have not been corrected. Further, the problem may be greater if other implementing institutions also have not received audit reports covering their operations.

### Recommendation

USAID/El Salvador should ensure that the Technical Secretariat for External Financing (SETEFE) provides to all implementing institutions a copy of the audit reports on the A.I.D. projects managed by them and require them to implement the recommendations, if any.

**AWARD SURVEY OF THE  
NON-CREDIT COMPONENT OF THE  
EARTHQUAKE RECONSTRUCTION PROJECT  
WITH THE VICE-MINISTRY OF HOUSING AND URBAN  
DEVELOPMENT  
USAID/EL SALVADOR PROJECT No. 519-0333**

**List of Report Recommendations**

**Management Capability**

Recommendation No. 1

USAID/El Salvador should require the General Directorate of Urbanism and Architecture (DUA) to identify in writing the personnel that this institution will assign to the subproject.

Recommendation No. 2

USAID/El Salvador should require the National Program of Popular Housing (PRONAVIPO) to assign an accountant for the project and to exercise close supervision over him/her to compensate for the person's lack of experience with similar projects.

Recommendation No. 3

The Vice-Ministry of Housing and Urban Development (VMVDU) should establish written procedures to define the channels and responsible officials for the flow of transactions. Also, these procedures should state the length of time required for each implementing institution to fulfill its functions.

Recommendation No. 4

The Vice-Ministry of Housing and Urban Development should ensure that the Urban Housing Institute (IVU) assigns the project's key officials on full-time basis, in order to guarantee that they will provide the necessary level of effort to oportunely control and supervise the work executed by the consulting and construction companies.

Recommendation No. 5

The Vice-Ministry of Housing and Urban Development should assign to the General Directorate of Urbanism and Architecture (DUA) in writing the responsibilities for the technical and administrative control over the drilling of the well included in the action plan for the "October 10" Urbanization Subproject.

#### Recommendation No. 6

The Urban Housing Institute (IVU) should define and document in writing the functions and responsibilities assigned to the officials that will manage and control the technical aspects of the "October 10" Urbanization Subproject.

#### Financial Capability

##### Recommendation No. 1

USAID/El Salvador should require the implementing institutions for this subcomponent of the project to define and estimate subcomponent operational costs and commit in writing to fund these costs.

#### Internal Control System

##### Recommendation No. 1

The General Directorate of Urbanism and Architecture (DUA) should establish in writing the procedures necessary for the receipt, custody and issue of the construction materials for the subproject. These procedures should be evaluated and approved by the institutions involved in the subproject. In addition, the use of prenumbered forms should be established.

##### Recommendation No. 2

The Vice-Ministry of Housing and Urban Development (VMVDU) should prepare the Disbursement Manual required in the action plan for the San Bartolo Subproject.

##### Recommendation No. 3

The National Program of Popular Housing (PRONAVIPO) should implement the use of subsidiary records that account for project expenses by project phase and budget category.

##### Recommendation No. 4

The National Program of Popular Housing (PRONAVIPO) should implement the use of prenumbered voucher forms for checks and journal and general ledger entries to support accounting transactions. In addition, the documentation generated by the project should be filed in numbered and chronological order to facilitate systematic retrieval.

##### Recommendation No. 5

USAID/El Salvador should ensure that the Technical Secretariat for External Financing (SETEFE) provides to all implementing institutions a copy of the audit reports on the A.I.D. projects managed by them and require them to implement the recommendations, if any.

APPENDIX 1

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