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AWARD SURVEY OF THE
NON-CREDIT COMPONENT OF
THE EARTHQUAKE RECONSTRUCTION PROJECT
WITH THE GENERAL DIRECTORATE OF ROADS
OF THE MINISTRY OF PUBLIC WORKS
USAID/EL SALVADOR PROJECT NO. 519-0333

AUDIT REPORT NO. 1-519-89-46-N
August 31, 1989

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AGENCY FOR INTERNATIONAL DEVELOPMENT

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August 31, 1989

MEMORANDUM

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

FROM: RIG/A/T, *Ernest N. Gothard*
Ernest N. Gothard, Jr.

SUBJECT: Audit Report No. 1-519-89-46-N, "Award Survey of the Non-Credit Component of the Earthquake Reconstruction Project with the General Directorate of Roads of the Ministry of Public Works"

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 General Directorate of Roads of the Ministry of Public Works. 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\$2.2 million has been assigned to the Ministry of Public Works as the implementing institution for the reconstruction of the highway that connects the city of San Salvador with the International Airport of El Salvador.

The purpose of the award survey was to determine whether the General Directorate of Roads: (1) has the management capability and control necessary to administer the project, (2) is financially capable of executing the project, and (3) has internal accounting and administrative control systems which accurately capture and record the accounting data required for administering the project and are adequate for USAID/El Salvador's purposes.

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In the opinion of Peat Marwick, the General Directorate of Roads did not have the management capability to sufficiently administer the activities assigned to it, did not have the financial capability to administer the activities assigned to it unless it receives cash advances from A.I.D., and did not have an internal control system adequate for USAID/El Salvador's purposes.

The Peat Marwick report contains 12 recommendations concerning the General Directorate of Road's management and financial capability and internal controls. However, its recommendations are addressed to conditions noted during the early stages of the project, many of which have since been corrected. USAID/El Salvador personnel responsible for managing the project presented information and evidence to show that reported weaknesses in the General Directorate of Roads' management capability have been compensated for within the multi-organization structure of the project. Regarding the finding that the budget had been overestimated for this subcomponent, the project personnel stated that the project budget was considered a rough estimate and that any excess funds would be applied to needed changes or reprogrammed at the end of the subcomponent's activities to other subcomponents. The project personnel pointed out that the reported internal control weaknesses were largely addressed as project implementation activities progressed. Additionally, the continuing project implementation activities of the institution are currently being monitored as part of a concurrent audit of the project by the accounting firm Price Waterhouse in El Salvador.

Considering the actions already taken by the Mission to address the Peat Marwick recommendations and the on-going concurrent audit, we are not making any recommendations.

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WITH THE GENERAL DIRECTORATE OF ROADS OF
THE MINISTRY OF PUBLIC WORKS
USAID/EL SALVADOR PROJECT No. 519-0333

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AWARD SURVEY OF THE
NON-CREDIT COMPONENT OF THE
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WITH THE GENERAL DIRECTORATE OF ROADS OF
THE MINISTRY OF PUBLIC WORKS
USAID/EL SALVADOR PROJECT No. 519-0333

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Handwritten mark

KPMG Peat Marwick

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August 17, 1989

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

Dear Mr. Gothard:

This report presents the results of our award Survey of the General Directorate of Roads of the Ministry of Public Works (Dirección General de Caminos del Ministerio de Obras Públicas) in relation to the non-credit component of the Earthquake Reconstruction Project, USAID/El Salvador project No. 519-0333.

BACKGROUND

On September 24, 1987, the Government of El Salvador and the Agency for International Development in El Salvador (USAID/El Salvador) signed the grant 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 Government of El Salvador 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 on 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 obtain 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, 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\$2.2 million has been assigned to the Ministry of Public Works as the implementing institution for the reconstruction of the highway that connects the city of San Salvador with the International Airport of El Salvador. The General Directorate of Roads of the Ministry of Public Works, specifically the Coordinating Office of the Regional Highway Program, has been assigned this project. The organizational structure that will manage the project will consist of a project director, a project coordinator, a technical assistant, and a financial and accounting manager.

AUDIT OBJECTIVES AND SCOPE

The objectives of our evaluation were to determine whether the General Directorate of Roads (The Directorate):

- 1) has the management capacity and control to administer the project.
- 2) is financially capable of executing the project.
- 3) has internal accounting and administrative control systems which accurately capture and record the accounting data required for administering the project and which are adequate for USAID/El Salvador purposes.

Our audit was performed in accordance with generally accepted auditing standards and with the U.S. 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 the General Directorate of Roads by 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 Directorate's previous performances in technical and administrative control of similar projects,

- reviewing the Directorate's financial capacity to manage and control 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 plan of action for this project,
- reviewing and evaluating the accounting system that will be adopted to control the operations related to the project, and
- evaluating payment procedures, including requests, approvals and liquidations.

RESULTS OF AUDIT

Management Capability

The General Directorate of Roads does not appear to have the management capability to administer the project due to lack of a documented up-to-date organization chart and lack of supervision over accounting personnel that do not have sufficient technical competence. Also, there was lack of segregation of duties since the project manager was also in charge of the project's revolving fund.

Financial Capability

The General Directorate of Roads does not possess the financial capability to administer the project unless it receives cash advances from A.I.D. Also, the project budget was overestimated.

Internal Control System

In our opinion, the internal control system of the General Directorate of Roads is inadequate for USAID/El Salvador purposes because of the following deficiencies:

- There was no accounting manual for the project
- There were no accounting records for the project
- Journal entries were unsupported
- There was no control to ensure that checks were issued in sequential order
- Supporting documentation for payments was not cancelled with a stamp
- There was no written evidence of review and authorization of accounting transactions
- There was a lack of segregation of duties in the payment process
- Bank reconciliations were not prepared on a timely basis

MANAGEMENT COMMENTS

On July 20, 1989, a draft copy of this audit report was submitted to the General Directorate of Roads of the Ministry of Public Works 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
NON-CREDIT COMPONENT OF THE
EARTHQUAKE RECONSTRUCTION PROJECT
WITH THE GENERAL DIRECTORATE OF ROADS OF
THE MINISTRY OF PUBLIC WORKS
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON MANAGEMENT CAPABILITY

AUDITOR'S OPINION

We have performed an award survey of the management capability of the General Directorate of Roads of the Ministry of Public Works to administer the activities assigned to it 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 General Directorate of Roads of the Ministry of Public Works does not have the management capability to sufficiently administer the activities assigned to it under the non-credit component of the Earthquake Reconstruction Project. Our opinion is based on the audit findings No. 1 to 3 described in the following pages.

This report is intended solely for the use of the General Directorate of Roads of the Ministry of Public Works 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

July 30, 1988



AWARD SURVEY OF THE
NON-CREDIT COMPONENT OF THE
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WITH THE GENERAL DIRECTORATE OF ROADS OF
THE MINISTRY OF PUBLIC WORKS
USAID/EL SALVADOR PROJECT No. 519-0333
REPORT ON MANAGEMENT CAPABILITY

FINDINGS

- 1) Organization Chart of the Unit that will Perform the Work Was not Documented and Up-to-Date

Condition:

The organization chart of the Coordinating Office of the Regional Highway Program, the unit of the General Directorate of Roads which will directly execute the project, is not up-to-date and the activities and responsibilities assigned are not properly documented.

Criteria:

All institutions should have an updated organizational structure which is properly documented to ensure that all assigned activities and responsibilities are understood and are performed satisfactorily. This would facilitate the achievement of established objectives.

Cause:

At present, the Coordinating Office of the Regional Highway Program is restructuring its organization.

Effect:

The lack of an updated and documented organization structure could cause the project's assigned personnel to execute functions and assume responsibilities that are not theirs and prevent the achievement of the project objectives.

Recommendation:

The General Directorate of Roads should update the organization chart of the Coordinating Office of the Regional Highway Program. Furthermore, the corresponding functions and responsibilities related to the structure must be properly documented.

2) Accounting Personnel Appeared to Lack Technical Capacity and were not Supervised Properly

Condition:

During our evaluation of the organization structure, we determined that the level of supervision carried on by the financial and accounting manager over the accounting personnel is insufficient to guarantee adequate recording of all transactions related to the project. Also, the accounting personnel appear to lack technical capacity. The nature of certain transactions of the Economic Support Fund project (ESF/87) was unknown by the personnel.

Criteria:

To minimize the possibility of a staff member circumventing the established internal controls of an institution, it is important to have adequate supervision and technically qualified personnel.

Cause:

The lack of supervision of the accounting personnel is mainly due to the fact that the functions performed by the financial and accounting manager are oriented towards administrative matters and advising the project coordinator. Regarding the technical quality of accounting personnel, we noted that the General Directorate of Roads did not have adequate personnel selection policies to ensure the selection of qualified applicants nor training programs to raise the technical expertise of these personnel.

Effect:

The lack of adequate supervision over accounting personnel with inadequate technical capacity could result in misapplication of the internal control system established by the institution, and the information generated would not be reliable.

Recommendation:

The General Directorate of Roads of the Ministry of Public Works must exercise adequate and systematic supervision of all activities carried out by its accounting personnel, adopt policies for the selection of qualified applicants, and provide training programs to increase the technical competency of the existing accounting staff.

3) The Proposed Manager for the Project Revolving Fund Could not Devote Sufficient Time to its Management and His Appointment Would Weaken Internal Controls

Condition

The project supervisor (Jefe de Proyectos), a manager within the Coordinating Office of the Regional Highway Program in charge of the design and supervision of all the projects managed by the Regional Highway Program, except for the present one, will be placed in charge of the project's revolving fund.

Criteria

The level of effort assigned to the project must be in accordance with project needs in order to provide effective administration and control of the project.

Cause

The projects supervisor was assigned to manage the revolving fund for this project without considering the heavy workload of his other duties or the effects on the internal control structure.

Effect

The level of effort by the project supervisor in managing the revolving fund of this project would be insufficient. Also, the appointment of the project supervisor to this position does not appear prudent because his interests are mainly in non A.I.D. projects and, in the position of revolving fund manager, he would have access to A.I.D. funds.

Recommendation

The General Directorate of Roads of the Ministry of Public Works should assign the management of the revolving fund to a person other than the Regional Highway Program's projects supervisor.

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THE MINISTRY OF PUBLIC WORKS
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON FINANCIAL CAPABILITY.

AUDITOR'S OPINION

We have performed an award survey of the financial capability of the General Directorate of Roads of the Ministry of Public Works (the Directorate) to manage the activities assigned to it 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 Directorate's experience in the management of the budgets of similar projects, its assets on hand and line of credit until A.I.D. makes periodic reimbursements, the basis used to prepare the financial plans, and the procedures that would be adopted in order to have an adequate budget control of the project.

Based on our study and understanding of the criteria mentioned in the paragraph above, we consider that the General Directorate of Roads of the Ministry of Public Works does not have the financial capability necessary to administer the activities assigned to it under the project, unless it receives cash advances from A.I.D. Also as described in finding No. 1, we found that the project budget was overestimated.

This report is intended solely for the use of the General Directorate of Roads of the Ministry of Public Works 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

July 30, 1988



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USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON FINANCIAL CAPABILITY

FINDING

1. The Budget for the Project was Overestimated

Condition:

According to comments made by the project coordinator, the financial programming approved in the plan of action for phase I of this project has been overestimated.

Criteria:

In order to have adequate control over the project's costs and execution, the information included in the plans of action must be established on a realistic basis, with sufficient details of the goods and services used and their origin.

Cause:

According to comments made by the USAID/El Salvador's project manager and the project coordinator of the Coordinating Office of the Regional Highway Program, the reason why the financial programming of the project is overestimated is basically to obtain an excess budget so as to be able to cover any possible eventuality that could affect the normal execution of the project. They also stated that any money left over would be reprogrammed to other projects.

Effect:

Overestimated financial programming weakens budget control and could lead to the authorization of payments to the contracting and consulting companies that would exceed appropriate and necessary costs.

Recommendation:

USAID/El Salvador should require the General Directorate of Roads of the Ministry of Public Works to prepare a budget for project execution on a realistic basis limiting the amounts requested to what is necessary for the normal execution of the project.

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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 system of the General Directorate of Roads of the Ministry of Public Works in connection with the activities assigned to it 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 system to record transactions required under the project. Our evaluation was performed in accordance with the generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions " (1981 Revision).

The management of the General Directorate of Roads of the Ministry of Public Works is responsible for establishing and maintaining an adequate internal control system for the activities assigned to it under 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 system of the General Directorate of Roads of the Ministry of Public Works is not adequate for USAID/El Salvador's purposes. Our opinion is based on the conditions described in the accompanying findings No. 1 to 8 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

July 30, 1988

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REPORT ON INTERNAL CONTROL SYSTEM

FINDINGS

1) There Was No Accounting Manual for the Project

Condition:

At the time of our evaluation, the General Directorate of Roads of the Ministry of Public Works lacked an accounting manual to record transactions for the project. The institution planned to use the accounting manual for another project, ESF/87. However, that accounting manual had many deficiencies.

Criteria:

All accounting systems must have an accounting manual to fully explain all transactions to be recorded.

Cause:

The responsible officials have not emphasized the preparation of this document.

Effect:

The lack of an accounting manual could result in the operations of the project not being recorded on a consistent basis and, as a consequence, reliable accounting information might not be available.

Recommendation:

The General Directorate of Roads of the Ministry of Public Works should prepare an accounting manual that would be used to record all operations corresponding to the project.

2) There Were No Accounting Records for the Project

Condition:

The General Directorate of Roads of the Ministry of Public Works does not have a general ledger and subsidiary records to record the operations corresponding to the project.

Criteria:

For the purpose of guaranteeing an adequate record of all project operations, it is necessary that the executing units have the accounting records required by the Technical Secretariat of External Financing and any other registers necessary to generate the information required by USAID/El Salvador, prior to the receipt and use of the funds.

Cause:

Management did not require the preparation of accounting records for the project.

Effect:

The lack of accounting records authorized by the Technical Secretariat of External Financing, prior to the receipt and use of funds, could imply that the use of some funds assigned to the project might not have been recorded, or that these funds could have been used to finance other projects.

Recommendation:

USAID/El Salvador should require the General Directorate of Roads of the Ministry of Public Works to implement accounting records authorized by the Technical Secretariat of External Financing that would record all operations concerning the project.

3) Journal Entries Were Unsupported

Condition:

During our review, we determined that journal entries are not supported with original documentation, and that photocopies of the original documentation are filed separately.

Criteria:

The accounting information that supports project transactions should be supported by original documentation.

Cause:

The institution is required to send the original documentation to the Government Controller (Corte de Cuentas de la Republica) for review, and it is not returned by that organization. Therefore, the institution only keeps photocopies.

Effect:

The lack of original documentation prevents assurance that all disbursements were made for project purposes only. Also, unsupported expenses and duplicate payments could go undetected.

Recommendation:

USAID/El Salvador should require the General Directorate of Roads of the Ministry of Public Works to support all payments made under the project with original documentation.

4) There Was No Control to Ensure that Checks Were Issued in Sequential Order

Condition:

During our review and evaluation of the controls related to payments, we detected that no procedures were in place to ensure that the checks are issued by sequential numbers.

Criteria:

To ensure that all operations carried out by the institution are correctly accounted for, it is necessary to be able to verify and control the checks. Issuing checks in sequential number order is an important internal control procedure to ensure that all disbursements by check are accounted for.

Cause:

The institution does not consider this procedure to be necessary since the quantity of checks issued is minimal.

Effect:

The lack of control over issued checks could cause omissions from the records, or the project's funds could be used for activities other than those specified in the plan of action without being detected.

Recommendation:

The General Directorate of Roads of the Ministry of Public Works should require its accounting department to ensure that checks are issued in sequential number order.

5) Supporting Documentation for Payments Was not Cancelled with a Stamp

Condition:

The procedure of cancelling all supporting documentation for payments with a stamp, which identifies the check number and date of payment, had not been adopted by the institution.

Criteria:

Procedures should be in place to ensure that all cancelled documentation cannot be reused to support later payments.

Cause:

Management did not require this procedure.

Effect:

This situation could lead to undetected duplication of payments being made by the institution.

Recommendation:

The General Directorate of Roads of the Ministry of Public Works should ensure that all documents that support payments made by the institution should be cancelled with a stamp indicating the bill has been paid, the check number, and the date of payment. The supporting documentation should be cancelled before the check is signed.

6) There Was no Written Evidence of Review and Authorization of Accounting Transactions

Condition:

In reviewing the accounting documents such as checks and other journal entries that support the operations corresponding to the ESF/88 Program - Construction of the San Miguel - Santiago de Maria Highway - we observed that there was no written evidence that those transactions has been reviewed and authorized by the responsible officials.

Criteria:

Sound management practices require that all accounting transactions be reviewed, authorized, and initialed.

Cause:

The institution had not considered this procedure to be necessary.

Effect:

The lack of review and authorization of accounting transactions could result in errors or irregularities such as unauthorized transactions being recorded and not being detected timely.

Recommendation:

The General Directorate of Roads of the Ministry of Public Works should ensure that all the accounting transactions for the project are reviewed and authorized by responsible personnel, and that evidence of the review and authorization be in writing.

7) There Was a Lack of Segregation of Duties in the Payment Process

Condition:

Our study and evaluation of the internal controls adopted by the institution to manage payments in previous projects detected that there was inadequate segregation of activities. The general accountant of the Coordinating Office of the Regional Highway Program, controlled, issued, delivered and recorded the checks.

Criteria:

All functions relating to accounting operations must be segregated from those related to disbursements.

Cause:

The institution is not aware of the importance of this basic control .

Effect:

The lack of segregation of activities could result in errors and/or irregularities which could go undetected.

Recommendation:

The General Directorate of Roads of the Ministry of Public Works should implement procedures that ensure the segregation of incompatible activities that could result in collusion. The control and recording of payments should be made by different persons.

8) Bank Reconciliations Were not Prepared on a Timely Basis

Condition:

As of July 31, 1988, the latest bank reconciliation prepared for the ESF/87 Program was for the month of March, 1988.

Criteria:

For effective control and management of funds, bank reconciliations should be prepared on a monthly basis.

Cause:

The delay in making the bank reconciliations is due to the fact that all bank account statements are delivered by the Central Bank directly to the Technical Secretariat for External Financing and that the institution makes no special effort to obtain this documentation.

Effect:

This situation does not allow timely detection of possible errors or irregularities which might exist in the management of project funds.

Recommendation:

The General Directorate of Roads of the Ministry of Public Works should obtain, on a monthly basis, the latest bank account statements to ensure that bank reconciliations are prepared and reviewed on a timely basis.

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List of Report Recommendations

Management Capability

Recommendation No. 1

The General Directorate of Roads should update the organization chart of the Coordinating Office of the Regional Highway Program. Furthermore, the corresponding functions and responsibilities related to the structure must be properly documented.

Recommendation No. 2

The General Directorate of Roads of the Ministry of Public Works must exercise adequate and systematic supervision of all activities carried out by its accounting personnel, adopt policies for the selection of qualified applicants, and provide training programs to increase the technical competency of the existing accounting staff.

Recommendation No. 3

The General Directorate of Roads of the Ministry of Public Works should assign the management of the revolving fund to a person other than the Regional Highway Program's projects supervisor.

Financial Capability

Recommendation No. 1

USAID/El Salvador should require the General Directorate of Roads of the Ministry of Public Works to prepare a budget for project execution on a realistic basis limiting the amounts requested to what is necessary for the normal execution of the project.

Internal Control System

Recommendation No. 1

The General Directorate of Roads of the Ministry of Public Works should prepare an accounting manual that would be used to record all operations corresponding to the project.

Recommendation No. 2

USAID/El Salvador should require the General Directorate of Roads of the Ministry of Public Works to implement accounting records authorized by the Technical Secretariat of External Financing that would record all operations concerning the project.

Recommendation No. 3

USAID/El Salvador should require the General Directorate of Roads of the Ministry of Public Works to support all payments made under the project with original documentation.

Recommendation No. 4

The General Directorate of Roads of the Ministry of Public Works should require its accounting department to ensure that checks are issued in sequential number order.

Recommendation No. 5

The General Directorate of Roads of the Ministry of Public Works should ensure that all documents that support payments made by the institution should be cancelled with a stamp indicating the bill has been paid, the check number, and the date of payment. The supporting documentation should be cancelled before the check is signed.

Recommendation No. 6

The General Directorate of Roads of the Ministry of Public Works should ensure that all the accounting transactions for the project are reviewed and authorized by responsible personnel, and that evidence of the review and authorization be in writing.

Recommendation No. 7

The General Directorate of Roads of the Ministry of Public Works should implement procedures that ensure the segregation of incompatible activities that could result in collusion. The control and recording of payments should be made by different persons.

Recommendation No. 8

The General Directorate of Roads of the Ministry of Public Works should obtain, on a monthly basis, the latest bank account statements to ensure that bank reconciliations are prepared and reviewed on a timely basis.

APPENDIX 1

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