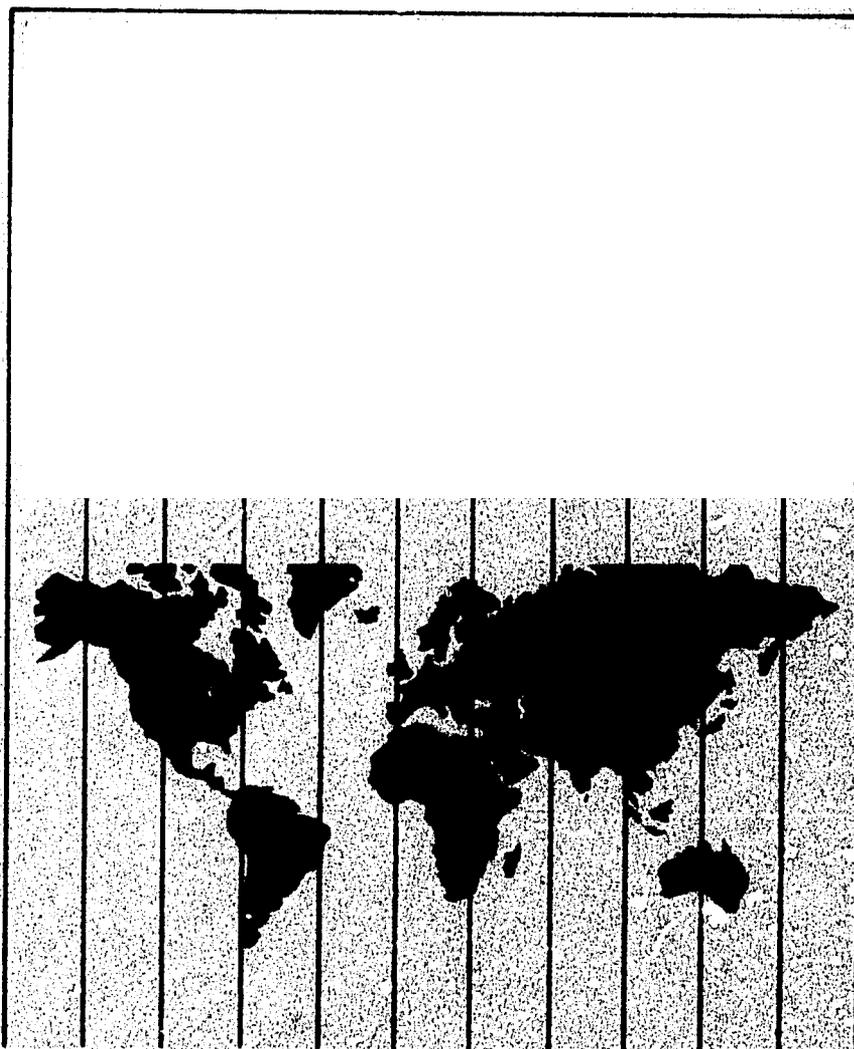


FD-302-002

UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit

REGUCIGALPA

PD-ABC-0086

ISA 62790

LIMITED PRE-AWARD  
SURVEY OF THE CREDIT COMPONENT OF  
THE EARTHQUAKE RECONSTRUCTION PROJECT  
WITH CRECE, S.A. SAVINGS AND LOANS ASSOCIATION  
USAID/EL SALVADOR PROJFCT NO. 519-0333

Audit Report No. 1-519-89-05-N  
December 30, 1988

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AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS :  
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AMERICAN EMBASSY  
TEGUCIGALPA - HONDURAS

TELEPHONES:  
32-9987  
also 32-3120 EXT. 2701-2703

December 30, 1988

MEMORANDUM

TO : D/USAID/El Salvador, Henry H. Bassford  
FROM : RIG/A/T, *Coinage N. Gothard*  
Coinage N. Gothard, Jr.  
SUBJECT: Audit Report No. 1-519-89-05-N, "Limited Pre-award Survey of the Credit Component of the Earthquake Reconstruction Project with Crece, S.A. Savings and Loan Association in El Salvador"

This report presents the results of a non-Federal limited pre-award survey requested by your Mission of the Credit Component of the Earthquake Reconstruction Project, USAID/El Salvador Project No. 519-0333, with Crece, S.A. Savings and Loan Association. The certified public accounting firm of Price Waterhouse in El Salvador prepared the report, which is dated December 12, 1988.

The purpose of this limited pre-award survey was to determine whether:  
(1) Crece's accounting system contains sufficient capacity to accurately capture accounting data under the project and the internal accounting and administrative controls are adequate for USAID/El Salvador purposes, and  
(2) Crece, S.A. has the financial and administrative capability for performing the proposed work.

In the opinion of Price Waterhouse, Crece, S.A. has an adequate accounting system and sufficient internal controls for recording, identifying and controlling data and operations on the project. Also Price Waterhouse considered Crece's financial and management capability to execute the project to be adequate.

The Price Waterhouse report contains 2 recommendations concerning Crece, S.A.'s management capability and its accounting system and internal controls. We believe that the findings are significant and therefore we are including the following recommendation:

b

Recommendation No. 1

We recommend that USAID/El Salvador require Crece, S.A. Savings and Loan Association to implement, as soon as possible, the 2 recommendations concerning its management capability and its accounting system and internal controls contained in the Price Waterhouse report dated December 12, 1988.

This report is advisory only, since it is our policy not to include pre-award survey recommendations in the Office of the Inspector General's audit recommendation follow-up system unless the recommendations involve potential savings or cost avoidance.

LIMITED PRE-AWARD SURVEY OF THE CREDIT COMPONENT  
OF THE EARTHQUAKE RECONSTRUCTION PROJECT  
WITH CRECE, S. A. SAVINGS AND LOAN ASSOCIATION  
USAID/EL SALVADOR PROJECT NO. 519-0333

\* \* \*

DECEMBER 12, 1988

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## *Price Waterhouse*



December 12, 1988

Mr. Coinage N. Gothard  
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 limited pre-award survey of the credit component of the Earthquake Reconstruction Project assigned to Crece, S. A. Savings and Loan Association, USAID/El Salvador Project No. 519-0333.

### BACKGROUND -

Crece, S. A. Savings and Loan Association was organized on November 26, 1973 to provide its savings depositors adequate financial resources for housing acquisitions, construction, repairs or improvements. As a consequence, the entity is authorized to receive funds aimed at solving the housing problems of El Salvador. Crece is controlled by the stockholders and the Board of Directors, comprised of a president, a vice president, an acting general manager, a secretary, a director and three deputy directors.

The Earthquake Reconstruction Project, USAID/El Salvador Project No. 519-0333, will provide \$75 million over a 36-month period through September 30, 1990 to assist El Salvador to restore the standard of living for Salvadorans affected by the October 10, 1986 earthquake. The project will immediately follow the \$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 metropolitan zones most seriously affected by the earthquake. The project includes two major components: credit and non-credit activities.

The credit component's aim is to provide housing loans for repair and reconstruction of individual houses; reconstruction and

rehabilitation of hostelryes for rental housing; and construction on new, low cost, condominium type apartments to replace hostelryes. The credit component's aim is to also provide business credit for private health services, private schools, and small business establishments.

The non-credit component will provide direct financing for construction of public schools, repair of municipal markets, highways reconstruction, repair of the ANDA water system, repair and reconstruction of health facilities, and development of relocation sites for families. Also, Private Voluntary Organizations (PVO) activities will be directly funded by USAID/El Salvador to provide housing assistance to low income families affected by the earthquake who have not been able to marshall the resources necessary to repair or replace their shelters.

The credit activities component includes housing credit and business credit. The housing credit will be funded with discount credit lines with the Central Bank of Reserve (Banco Central de Reserva - BCR), which will provide local currency to the National Housing Financier (Financiera Nacional de la Vivienda - FNV), which will in-turn provide funding to seven savings and loan associations in El Salvador, as needed, to provide loans for housing repair and reconstruction activities. The seven savings and loan associations involved are:

- (1) Crece, S. A.
- (2) APRISA, S. A. (Ahorro, Préstamos, Inversiones, S. A.)
- (3) Atlacatl, S. A.
- (4) AHORROMET (Ahorros Metropolitanos, S. A.)
- (5) CASA (Construcción y Ahorro, S. A.)
- (6) CREDISA (Crédito Inmobiliario, S. A.)
- (7) La Central de Ahorros, S. A.

The business credit will be administered as a rediscount credit line by the Central Bank of Reserve (BCR) to nine commercial banks, Banco Hipotecario - a private mortgage bank, Fondo de Financiamiento y Garantía para la Pequeña Empresa (FIGAPE) - a GOES financial institution, and Banco Nacional de Fomento Industrial (BANAFI) - a GOES bank. The nine commercial banks involved are:

- (1) Banco Agrícola Comercial
- (2) Banco Capitalizador
- (3) Banco de Comercio
- (4) Banco de Crédito Popular
- (5) Banco Cuscatlán
- (6) Banco de Desarrollo e Inversión
- (7) Banco Financiero
- (8) Banco Mercantil
- (9) Banco Salvadoreño

## AUDIT OBJECTIVES AND SCOPE -

The specific objectives of our limited pre-award survey were to determine whether:

1. Crece's accounting system contains sufficient capacity to accurately capture accounting data under the project and the internal accounting and administrative controls are adequate for USAID/El Salvador purposes, and
2. Crece, S. A. has the financial and administrative capability for performing the proposed work.

The survey 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) and accordingly included such tests as considered necessary in the circumstances.

The scope of our work consisted of:

1. Reviewing Crece's accounting system. This review included the evaluation of:
  - a. Internal accounting controls.
  - b. Policies for the management of funds and loans.
  - c. Procedures to request project funding, promote and receive credit applications, approve and disburse credits, and prepare periodic reports on credit lines.
2. Evaluating Crece's financial and administrative capability for performing the proposed work. This task included:
  - a. Evaluation of past performance in administering similar credit lines.
  - b. Ascertaining that current assets on hand are sufficient for Crece to function until USAID/El Salvador funding is received.

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 -

### Financial Capability

Crece, S. A. appears to have sufficient financial capability for executing the housing credit component of the Earthquake Reconstruction Project No. 519-0333, under the system of fund requests submitted to the National Housing Financier (FNV) to cover the approved loans.

## Management Capability

Crece, S. A. appears to have the management capability for undertaking the housing credit component of the Earthquake Reconstruction Project No. 519-0333, except for the lack of approved organization manuals, administrative procedures, and management information systems.

## Accounting System and Internal Accounting Controls

Crece's accounting system appears to be adequate and its internal controls are deemed to be sufficient for recording, identifying and controlling data and operations related to the Earthquake Reconstruction Project No. 519-0333, except that no accounts to control project operations have been included into the chart of accounts.

## MANAGEMENT COMMENTS

### 1. Lack of organization manuals

At the date of the survey, copies of the manuals furnished to Price Waterhouse staff lacked the approval signature, hence, concluding that they were not approved. However, said manuals were in use since May 1988, as a result of the institution organization restructuring based on a diagnosis performed by a consulting firm, who also prepared the aforementioned organization manuals.

### 2. Credit policy and procedures

Credit eligibility criteria are in process of development, but credit procedures for long and short term credits are already implemented. With small variations, the management of the USAID/El Salvador credit line can be included.

### 3. Management information system manuals

A management information system will be implemented to include efficient and timely operations generated by the USAID/El Salvador project as well as the related cash flows and report required by the National Housing Financier.

### 4. Internal accounting control system

Additions have been made to the chart of accounts to allow the recording, identification and control of sub-components and credit beneficiaries of the project.

The entire text of management comments is included in Appendix I.

*Price Waterhouse* \* \* \*

*Price Waterhouse*



CRECE, S. A. SAVINGS AND LOAN ASSOCIATION  
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT  
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON FINANCIAL CAPABILITY

AUDITOR'S OPINION

We have performed a limited pre-award survey of Crece, S. A. Savings and Loan Association's financial capability to manage the credit component of the Earthquake Reconstruction Project, USAID/El Salvador Project No. 519-0333. The survey was performed pursuant to the statement of work for the limited pre-award survey and in accordance with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision). Our work included, to the extent we considered necessary, a review of audited financial statements as of December 31, 1987, unaudited financial statements as of June 30, 1988 and the operating budget for 1988.

Based on our review, as described in the first paragraph above, we believe that at present Crece, S. A. Savings and Loan Association has the financial capability for undertaking the housing credit component of Project No. 519-0333 under the system of fund requests submitted to FNV to cover the approved loans.

This report is intended solely for the use of Crece, S. A. Savings and Loan Association and the United States 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.

*Price Waterhouse*

July 24, 1988  
El Salvador, C. A.

*Price Waterhouse*



CRECE, S. A. SAVINGS AND LOAN ASSOCIATION  
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT  
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON MANAGEMENT CAPABILITY

AUDITOR'S OPINION

We have performed a limited pre-award survey of Crece, S. A. Savings and Loan Association's capability for managing the credit component of the Earthquake Reconstruction Project, USAID/El Salvador Project No. 519-0333. The survey covered those areas we considered relevant to the criteria established by the statement of work for the limited pre-award survey. Our work was performed in accordance with 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 statement of work mentioned in the preceding paragraph, we believe that presently Crece, S. A. Savings and Loan Association, has the management capability for undertaking the housing credit component of Earthquake Reconstruction Project No. 519-0333, except for finding No. 1 described in the following page.

This report is intended solely for the use of Crece, S. A. Savings and Loan Association and the United States 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.

*Price Waterhouse*

July, 24, 1988  
El Salvador, C. A.

CRECE, S. A. SAVINGS AND LOAN ASSOCIATION  
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT  
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON MANAGEMENT CAPABILITY

FINDING

1. Crece, S. A. Does Not Have Current and Approved Organization and Position Description Manuals.

Condition:

At the date of the survey, the organization and position description manuals were not current and had not been approved.

Criterion:

To achieve its goals, every entity should have current organization and position description manuals, approved and implemented.

Cause:

It appears that due to the accelerated operations and organization growth of Crece, S. A., its recently created Organization and Methods Unit had not been able to update and/or complete the required organization manuals.

Effect:

Lack of organization and position description manuals precludes a clear definition of functions, responsibilities, authority levels and segregation of functions regarding the entity's normal operations and those of Project No. 519-0333.

Recommendation:

USAID/El Salvador should require management of Crece, S. A. to hasten the preparation, revision, and approval of the following manuals and procedures:

- a) Organization manual.
- b) Credit policies and procedures, including those related to the housing credit component, which should include review of credit eligibility criteria, provided by USAID/El Salvador as part of the credit approval procedures.
- c) Management information system manuals, including cash flows which take into consideration the project's operations and the required reports to be submitted to FNV.

*Price Waterhouse*



CRECE, S. A. SAVINGS AND LOAN ASSOCIATION  
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT  
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON THE ACCOUNTING SYSTEM AND INTERNAL ACCOUNTING CONTROLS

AUDITOR'S OPINION

We have performed a study and evaluation of the internal accounting and administrative control systems of Crece, S. A. Savings and Loan Association in connection with the limited pre-award survey of the credit component of the Earthquake Reconstruction Project, USAID/ES Project No. 519-0333. The purpose of our study and evaluation was to determine the adequacy of the control systems to record transactions under the agreement. Our study and evaluation was performed in accordance with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and pursuant to the criteria set forth in the statement of work for the limited pre-award survey. Our work was limited to an evaluation of the key controls over the procedures used to request project funding, promote and receive credit applications, approve and disburse credits, prepare periodic reports on credit lines and the record-keeping of such transactions.

The management of Crece, S. A. is responsible for establishing and maintaining adequate internal control systems in areas of significance to the project covered by the above mentioned agreement. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against waste, loss, and misuse; that resources are properly used and in compliance with established policies and procedures and applicable laws and regulations; and that reliable data are obtained, maintained, and fairly disclosed in management reports.

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

*Price Waterhouse*



CRECE, S. A. SAVINGS AND LOAN ASSOCIATION  
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT  
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON THE ACCOUNTING SYSTEM AND INTERNAL ACCOUNTING CONTROLS

AUDITOR'S OPINION

Based on our study and the criteria referred to in the first paragraph of this report, we believe that at present the accounting system of Crece, S. A. appears to be adequate and its internal controls are deemed to be sufficient for recording, identifying and controlling data and operations related to the housing credit component of Project No. 519-0333 except for finding No. 1 described in the following page.

This report is intended solely for the use of Crece, S. A. Savings and Loan Association and the United States 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.

*Price Waterhouse*

July 24, 1988  
El Salvador, C. A.

CRECE, S. A. SAVINGS AND LOAN ASSOCIATION  
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT  
USAID/EL SALVADOR PROJECT NO. 519-0333

REPORT ON THE ACCOUNTING SYSTEM AND INTERNAL ACCOUNTING CONTROLS

FINDING

1. The Chart of Accounts of Crece, S. A. Did not Include Specific Project Credit Line General Ledger Accounts and Subsidiary Accounts to Record and Control Project Operations

Condition:

Crece, S. A. has not defined, approved and included in its chart of accounts specific general ledger accounts and subsidiary accounts to record, identify and control the subcomponents and beneficiaries of the housing credit component of Project No. 519-0333.

Criterion:

According to Section B.5 (b) of Annex II to the agreement, the fund administrators should establish adequate accounting records to control separately specific project operations.

Cause:

The above mentioned specific general ledger accounts and subsidiary accounts had not been defined because project operations had not yet begun.

Effect:

Lack of specific accounts to identify project related operations could result in inadequate recording of project operations and unreliable financial data.

Recommendation:

USAID/El Salvador should require Crece, S. A. to define and approve specific general ledger accounts and subsidiary accounts to identify, record and control project operations by subcomponent and credit beneficiaries.

CRECE, S. A. SAVINGS AND LOAN ASSOCIATION  
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT  
USAID/EL SALVADOR PROJECT NO. 519-0333

LIST OF REPORT RECOMMENDATIONS

Management Capability

Recommendation 1:

USAID/El Salvador should require management of Crece, S. A. to hasten the preparation, revision and approval of the following manuals:

- a) Organization manual.
- b) Credit policies and procedures, including those related to the housing credit component, which should include review of credit eligibility criteria, provided by USAID/El Salvador as part of the credit approval procedures.
- c) Management information system manuals, including cash flows which take into consideration the project's operations and the required reports to be submitted to FNV.

Accounting System and Internal  
Accounting Controls

Recommendation 1:

USAID/El Salvador should require Crece, S. A. to define and approve specific general ledger accounts and subsidiary accounts to identify, record and control project operations by subcomponent and credit beneficiaries.

24 NOV 1988

Alameda Roosevelt y 59 Av. Norte Tel. 23-8299  
Apartado Postal (05)25, Cable: CRECE,  
San Salvador, El Salvador, C.A.



Appendix I

P-158/88

San Salvador, 18 de noviembre de 1988.

Señores  
PRICE WATERHOUSE INTERAMERICA  
Avenida Bernal No. 222,  
Colonia Miramonte  
Ciudad.

Atn. Lic. Wilfredo López Salgado.

Estimados Señores:

En atención a las observaciones efectuadas por la Auditoría sobre el manejo de la Línea de Crédito US AID/ES, me permito plantear las siguientes consideraciones:

1. FALTA DE MANUALES DE ORGANIZACION:

A la fecha que se hizo la revisión por parte de esa firma de Auditoría, únicamente faltaba la firma de aprobación en las fotocopias que les fueron mostradas a los señores Auditores, por lo que se consideró que los mismos no estaban aprobados. Sin embargo éstos están en vigencia a partir del mes de mayo del presente año, como resultado de una reestructuración organizativa de la Institución, sirviendo como base el diagnóstico organizacional que realizara una Firma Consultora particular, la cual también elaboró los manuales de organización.

2. POLICITICAS Y PROCEDIMIENTOS CREDITICIOS:

Sobre este aspecto se hace la observación que se están desarrollando las políticas necesarias para los criterios de elegibilidad crediticia; pero los procedimientos crediticios ya están implantados para créditos de Corto y Largo Plazo y Garantías Diversas, donde con una pequeña variación a dicho procedimiento, se ha incluido el manejo de la Línea US AID/ES.

3. MANUALES DE INFORMACION GERENCIAL:

Se pondrá en práctica un Sistema de Información Gerencial eficiente y oportuno que contenga las operaciones generadas por el desarrollo del Proyecto US AID/ES; y en el que contenga los correspondientes flujos de efectivo e informe requerido por la Financiera Nacional de la Vivienda.



SISTEMA CONTABLE Y CONTROL INTERNO CONTABLE

1. NOMENCLATURA DE CUENTAS:

De acuerdo al análisis de las operaciones originadas por la Línea de Crédito US AID/ES, se efectuó un agregado en la nomenclatura de cuentas y sub-cuentas, que permiten registrar, identificar y controlar los componentes, sub-componentes y beneficiarios de los créditos del Proyecto Número 519-0333.

Las Cuentas y Sub-Cuentas son las siguientes:

- 30     PRESTAMOS
  - 34     Otros Préstamos
    - 34.3 Préstamos US/AID/ES
- 50     SERVICIOS POR RECIBIR
  - 51.0 Intereses
    - 9     Intereses Préstamos AID/ES
- 120    CREDITOS
  - 122.2 Créditos FNV US AID/ES
- 300    COMPENSACIONES Y BENEFICIOS AID/ES
  - 310    Intereses
  - 315    Intereses US AID/ES
- 440    CUENTAS DE ORDEN
  - Préstamos en Administración US AID/ES
- 500    CUENTAS DE ORDEN POR CONTRA
  - Préstamos en Administración US AID/ES

Aprovecho la oportunidad para apreciar algunas de las observaciones planteadas por esa Firma Auditora, ya que es en beneficio de mejorar nuestra eficiencia operativa.

De ustedes atentamente,

Alvaro Ernesto Guatemala  
Presidente



/mo'm

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APPENDIX 2

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