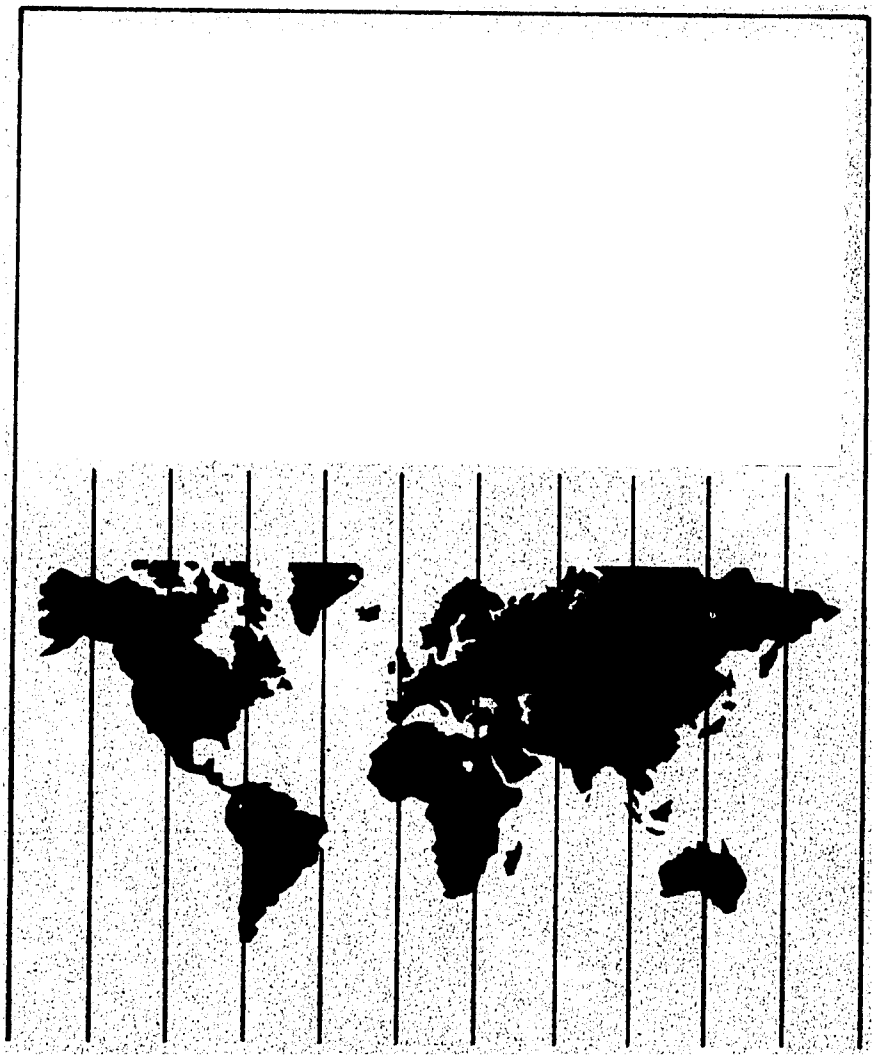
PD-ABC-010

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL



Regional Inspector General for Audit
TEGUCIGALPA

PD-ABC-010

ISN 68792

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

Audit Report No. 1-519-89-07-N
December 30, 1988

U. S. MAILING ADDRESS:
RIG/T
APO MIAMI 34022

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
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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, Jr.

SUBJECT: Audit Report No. 1-519-89-07-N, "Limited Pre-award Survey of the Credit Component of the Earthquake Reconstruction Project with Atlacatl, S.A. 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 Atlacatl, S.A., a savings and loan association in El Salvador. 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) Atlacatl, S.A.'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) Atlacatl, S.A. has the financial capability and administrative capacity for performing the proposed work.

In the opinion of Price Waterhouse, Atlacatl, S.A.:

- lacks the financial capability for undertaking the project because its legal bank reserves were below the minimum and accumulated losses amounted to more than 80 percent of its paid-in capital and reserves,

- has the management capability for undertaking the project, and

- has adequate accounting and internal control systems to identify, record, and control data and operations for the project.

6

Regarding Atlacatl, S.A.'s financial situation, Price Waterhouse notes that a subproject of Project No. 519-0333 which was underway during the auditor's review could still be executed despite Atlacatl, S. A.'s financial problems since the project design provides for funds to be furnished directly for and to the approved subprojects. However, it was Price Waterhouse's opinion that as a minimum Atlacatl, S. A. should correct its position of low legal bank reserves and prepare plans and goals to substantially reduce its high deficit percentage.

In addition to the Price Waterhouse opinion with regard to minimum steps that Atlacatl, S. A. should take to correct its overall financial situation, the Price Waterhouse report contains 6 recommendations concerning Atlacatl, S.A.'s management capability and its system of accounting and internal controls. We believe that the findings and Price Waterhouse's opinion with regard to correcting Atlacatl, S.A.'s financial situation have merit and should be implemented as follows:

Recommendation No. 1

We recommend that USAID/El Salvador require Atlacatl, S. A. to implement, as soon as possible, the 6 recommendations concerning its management capability and its system of accounting and internal controls contained in the Price Waterhouse report dated December 12, 1988.

Recommendation No. 2

We recommend that USAID/El Salvador evaluate whether project funds or execution are in jeopardy as a result of Atlacatl, S.A.'s lack of financial capability and, if there is significant risk, require that Atlacatl, S. A. correct its position of low legal bank reserves and prepare plans and goals to reduce its high accumulated losses percentage as a prerequisite to its continued participation in the project.

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 ATLACATL, S. A.

USAID/EL SALVADOR PROJECT NO. 519-0333

* * *

DECEMBER 12, 1988

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

TABLE OF CONTENTS

	PAGE
Transmittal Letter and Summary	
Background	1 - 2
Audit objectives and scope	3
Results of audit	4
Management comments	4 - 6
Financial Capability	
Auditor's opinion	7
Memorandum on financial capability	8
Management Capability	
Auditor's opinion	9
Findings	10 - 13
Accounting System and Internal Accounting Controls	
Auditor's opinion	14 - 15
Findings	16 - 17
List of Report Recommendations	18

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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 Atlacatl, Sociedad Anónima (Atlacatl, S. A.) USAID/El Salvador Project No. 519-0333.

BACKGROUND

Atlacatl, Sociedad Anónima (Atlacatl, S. A.), is a Savings and Loan Association organized on September 26, 1964 with a primary purpose to furnish its depositors and others with financing for housing construction, acquisition, repairs or improvements. Atlacatl is also authorized to receive deposits, loans and to generally engage in the operations covered by the National Housing Financier (FNV) law. It obtains loans from FNV and other sources and manages mortgage loans. It is controlled by a Board of Directors, by delegation of the stockholders' assembly.

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 hostelries for rental housing; and construction on new, low cost, condominium type apartments to replace hostelries. 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 (Bancc 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 Garantia 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. Atlacatl, S. A.'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. Atlacatl, S. A. has the financial capability and administrative capacity 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 Atlacatl, S. A.'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 credit, and prepare periodic reports on credit lines.

2. Evaluating Atlacatl, S. A.'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 Atlacatl 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

Atlacatl, S. A. appears to lack the financial capability for undertaking the housing credit component of the Earthquake Reconstruction Project No. 519-0333, because at June 30, 1988 its legal bank reserves were below the minimum and accumulated losses amounted to 83% of its paid-in capital and related reserves. This situation could jeopardize the execution of Project 519-0333, should the entity lack the required guarantees to continue the Las Conchas project, for ₡9 million, of which ₡3.5 million have been disbursed.

Management Capability

Atlacatl, S. A. appears to have the management capability for undertaking the housing credit component of the Earthquake Reconstruction Project No. 519-0333, except that:

- There are no plans of action or budgets for project execution;
- Atlacatl lacks a formally defined structured organization;
- Management has not disclosed to all departments concerned the project standards and regulations;
- The reports submitted on the project execution are at variance with the credit agreement with FNV.

Accounting System and Internal Accounting Controls

Atlacatl, S. A. appears to have an adequate accounting system and an internal control system sufficient to identify, record and control data and operations related to the housing credit component of the Earthquake Reconstruction Project No. 519-0333, except that:

- The accounting system has no specific accounts to control the project operations;
- The participation of the Internal Audit Department in the control process of Project No. 519-0333 credit line has not been defined.

MANAGEMENT COMMENTS:

1. At the date of Price Waterhouse pre-award survey, Atlacatl had not yet initiated the process of receiving credit applications for reconstruction.

2. Atlacatl's management provided some comments on the content of the background described in the draft report.

   (Applicable comments were considered by Price Waterhouse in the final report).

3. Financial capability.

   Atlacatl's financial capability presently is considered negative. However, following the investment projection agreed by the Stockholders Extraordinary General Assembly, the capital stock now amounts to ₡31.5 million by an increase of ₡12.0 million as additional capital contribution by stockholders. The level of financing averages ₡85.0 million for projects of housing complexes construction to meet the goals and objectives established by the Stockholders Ordinary General Assembly.

   Atlacatl's organization and administrative capability does not admit doubt, this can be shown by the level of recovery and collection when Atlacatl was merged with a bankrupted saving and loan association.

4. In connection with the management capability, the results obtained by us in the project "Las Conchas", which included the construction of 375 housing units costing approximately, ₡10,117,000, can be used as a reference of our capability.

   To attend the project, a department was organized to channel fund demands for housing repairs and reconstruction, where 103 application were received and 24 credits were granted with resources provided and disbursed as a loan to Atlacatl, S. A. by the National Housing Financier.

5. It is incorrect to mention that Atlacatl, S. A. does not have current action plans, since on this matter Price Waterhouse representatives did not discuss it with the President of Atlacatl.

6. In relation to accounting aspects, Atlacatl, S. A. is ruled by the National Housing Financier, therefore, such institution is the indicated to authorize the inclusion of the new accounts recommended.

7. In the future before issuing written opinions referring to Atlacatl, S. A. the matters should be discussed thoroughly with the President, if not it will be returned without acknowledgement.

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

PRICE WATERHOUSE RESPONSE

During the pre-award survey most of the findings were discussed with officials that were delegated by Atlacatl's President to provide information and discuss all the administrative aspects of the project. In a couple of ocassions Price Waterhouse requested to meet with the Atlacatl's President, and we were referred to other officials.

The fact of presenting to Atlacatl, S. A. management our draft report, before final issuance, represents the discussion of the survey's finding. This is consistent with the A.I.D. Office of the Regional Inspector General requirements and Price Waterhouse policies.

* * *

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ATLACATL, S. A.
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 Atlacatl, Sociedad Anónima's (Atlacatl, S. A.) 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 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 Atlacatl, S. A. lacks the financial capability for undertaking the housing credit component of the Earthquake Reconstruction Project No. 519-0333 because, according to its financial statements, its financial position is unacceptable. The statements indicate that at June 30, 1988 the company's legal bank reserves were below the minimum and its accumulated losses at that date amounted to 83% of its paid-in capital and related reserves, as shown in the accompanying memorandum. However, Atlacatl, S. A. could execute the project by adopting the system of fund requests submitted to FNV to cover the approved credits and continue the Las Conchas project for ₡9 million, of which ₡3.5 million has been already disbursed. This situation provides that as a minimum the position of low legal bank reserves position be corrected, and plans and goals to substantially reduce the high deficit percentage be prepared.

This report is intended solely for the use of Atlacatl, S. A. 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

August 31, 1988
El Salvador, C. A.

ATLACATL, S. A.
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

MEMORANDUM ON FINANCIAL CAPABILITY

RELEVANT DATA AND FINANCIAL RATIOS

LIQUIDITY MEASURE AT JUNE 30, 1988

Funds available	₡ 18,832,437 (1)
Savings deposits	₡ 338,451,918
Liquidity measure	0.05
Percentage wise	5%
Legal bank reserves required	10%

RELATIONSHIP OF ACCUMULATED DEFICIT TO PAID-IN CAPITAL AND RESERVES AT JUNE 30, 1988

Capital stock	₡ 19,200,000	
Legal (statutory) reserve	1,642	₡ 19,201,642
Retained earnings	₡ 21,818	
Accumulated deficit	(9,823,083)	
Deficit January 1st through June 30, 1988	(6,130,838)	₡ (15,975,739) (2)
Percentage relationship of accumulated deficit to paid-in capital and reserves at June 30, 1983		83.2%

DEFICIT COMPONENTS FOR THE PERIOD JANUARY 1st THROUGH JUNE 30, 1988

Losses before reserves	₡ (310,202)
Reorganization reserves	(5,820,636)
Net losses	₡ (6,130,838)

NOTES -

(1) The independent accountants' report at June 30, 1988 (dated July 22, 1988) states that bank reconciliations contain very old reconciliation items and for significant amounts.

(2) The deficit could increase by ₡ 1,857,581 or to 93% of paid-in capital and reserves. According to the independent accountants' report, the entity was sued for damages aggregating ₡1,857,581 and although in June 1987 an attachment on Atlacatl's assets was declared by court, the Supreme Court of Justice ordered that such act be suspended.

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USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON MANAGEMENT CAPABILITY

AUDITOR'S OPINION

We have performed a limited pre-award survey of Atlacatl, Sociedad Anónima's (Atlacatl, S. A.) management 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 our understanding of the criteria included in the statement of work mentioned in the preceding paragraph, we believe that presently, Atlacatl, S. A. has the management capability for undertaking the housing credit component of the Earthquake Reconstruction Project No. 519-0333, except for findings 1 to 4 described in the following pages.

This report is intended solely for the use of Atlacatl, S. A. 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

August 31, 1988
El Salvador, C. A.

ATLACATL, S. A.
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

1. Atlacatl, S. A. Had not Prepared Cash Flows, Budgets and Plans of Action for Project Development and for Urbanización Las Conchas - Phase I, Financed with Earthquake Reconstruction Project No. 519-0333 Funds.

Condition:

Atlacatl, S. A. did not have current and projected cash flows for the Urbanización Las Conchas Phase I project operations, nor budgets or plans of action, for the application of funds received. This situation is also applicable to the project itself.

Criterion:

Atlacatl, S. A. should have current and projected cash flows, budgets and plans of action for the execution of Urbanización Las Conchas Phase I, for the application of funds received or to be received from FNV, for the execution of Earthquake Reconstruction Project No. 519-0333.

Cause:

Atlacatl, S. A. prepared its budgets, cash flows and plans of action on an annual basis, with a semi-annual revision. Therefore, operations related to the Earthquake Reconstruction Project No. 519-0333 were not included.

Effect:

Lack of cash flows, budgets and plans of action, with detailed information on the application of funds received from FNV, can limit management ability for establishing and complying with goals and objectives for the institution and those of the Earthquake Reconstruction Project No. 519-0333.

Recommendation:

USAID/El Salvador should require Atlacatl, S. A. to prepare current and projected cash flows, budgets and plans of action for Earthquake Reconstruction Project No. 519-0333 operations, containing detailed information on the application of funds received or to be received from FNV.

ATLACATL, S. A.
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

2. Atlacatl, S. A. Lacks a Formally Defined Structured Organization

Condition:

As of the date of our report, Atlacatl, S. A. did not have current position descriptions and an organization chart for the entity in general and for the credit component in particular.

Criterion:

Atlacatl, S. A. should prepare an organization manual with position descriptions and an organization chart, to clearly define the functions and responsibilities of both officials and employees.

Cause:

Management had not deemed it necessary to prepare the above mentioned manual, and had not considered it necessary to make officials and employees aware of their functions, responsibilities and authority levels.

Effect:

Lack of an organization manual limits the clear definition of functions, responsibilities, authority levels and adequate segregation of functions with respect to the normal operations of the entity and those of Earthquake Reconstruction Project No. 519-0333.

Recommendation:

USAID/El Salvador should require the management of Atlacatl, S. A. to adopt pertinent action to prepare and approve an organization manual, and communicate it to officials and employees to ensure that its provisions are complied with.

ATLACATL, S. A.
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

3. Atlacatl, S. A. Has not Disclosed All the Documentation Related to Project No. 519-0333 to all Departments and Units Concerned.

Condition:

The documentation pertaining to the Earthquake Reconstruction Project No. 519-0333 has not been disclosed to the departments and units concerned with the recording and control of operations, such as the Accounting and Loan Departments.

Criterion:

All departments concerned with the execution and control of the project at Atlacatl, S. A. should be fully aware of the standards and regulations established for managing the related credit line.

Cause:

The above mentioned disclosure had not been made by Atlacatl, S. A. because the officials initially involved with the project resigned and did not share their cumulative knowledge with their replacements.

Effect:

Unawareness of the documentation pertaining to Project No. 519-0333 has resulted in lack of coordination between the departments and units concerned, as well as errors in application, thus jeopardizing the project's basic objectives.

Recommendation:

USAID/El Salvador should require Atlacatl, S. A. to disclose all documentation pertaining to the goals, regulations, etc. of Project No. 519-0333 to all of its departments concerned with the execution and management of the Project.

ATLACATL, S. A.
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

4. The Format Used by Atlacatl, S. A. for Project Progress Reports Was not Adequate for Credit Agreement Purposes

Condition:

The reports prepared by Atlacatl, S. A. on project progress do not meet the requirements established by the credit agreement with FNV.

Criterion:

Atlacatl, S. A. should furnish FNV with reports containing all the information required by the Project 519-0333 credit agreement.

Cause:

The above mentioned reports have not been designed according to the agreement requirements because the departments and units concerned are not aware of the Project No. 519-0333 standards and regulations.

Effect:

By using the present format, Atlacatl, S. A. is submitting information to FNV which prohibits proper credit line management and monitoring, and is not in compliance with credit agreement terms.

Recommendation:

USAID/El Salvador should require Atlacatl, S. A. and FNV to design the report formats which should contain the information required to be reported for Project No. 519-0333.

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ATLACATL, S. A.
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 Atlacatl, Sociedad Anónima (Atlacatl, S. A.) in connection with the limited pre-award survey of the credit component of the Earthquake Reconstruction Project, USAID/El Salvador 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 Atlacatl, S. A. is responsible for establishing and maintaining adequate internal control systems in areas of significance to the program 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.

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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 Atlacatl, S. A. has an adequate accounting system and its internal controls are sufficient to identify, record and control data and operations related to the housing credit component of Earthquake Reconstruction Project No. 519-0333, except for findings 1 and 2 described in the following pages.

This report is intended solely for the use of Atlacatl, S. A. 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

August 31, 1988
El Salvador, C. A.

ATLACATL, S. A.
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON THE ACCOUNTING SYSTEM AND INTERNAL ACCOUNTING CONTROLS

FINDINGS

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

Condition:

Atlacatl, S. A. had 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 Atlacatl, 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.

ATLACATL, S. A.
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON THE ACCOUNTING SYSTEM AND INTERNAL ACCOUNTING CONTROLS

FINDINGS

2. Atlacatl, S. A. Lacks a Formally Structured Plan for the Participation of the Support and Control Areas.

Condition:

Atlacatl, S. A. lacks a formally structured plan to review and control the accounting records, administrative procedures and subsidiary records related to Project No. 519-0333; furthermore, the Internal Audit Department lacks a work plan which includes project related operations.

Criterion:

The Internal Audit Department of Atlacatl, S. A. should have a specific work plan to control and review the accounting records, administrative procedures and subsidiary records related to Project No. 519-0333.

Cause:

Atlacatl, S. A. did not coordinate the execution of Project 519-0333 related activities because the control departments were unaware of the project.

Effect:

Lack of a plan to record and control the accounting records, administrative procedures and subsidiary records related to Project No. 519-0333 may result in recording errors and resulting distortion of the related financial data.

Recommendation:

Atlacatl, S. A. should implement a formally structured plan to review and control the Earthquake Reconstruction Project's related administrative and financial activities through its support and control departments.

ATLACATL, S. A.
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

LIST OF REPORT RECOMMENDATIONS

Management capabilities

Recommendation 1:

USAID/El Salvador should require Atlacatl, S. A. to prepare current and projected cash flows, budgets and plans of action for the Earthquake Reconstruction Project No. 519-0333 operations, containing detailed information on the application of funds received or to be received from FNV.

Recommendation 2:

USAID/El Salvador should require the management of Atlacatl, S. A. to adopt pertinent action to prepare and approve an organization manual, and communicate it to officials and employees to ensure that its provisions are complied with.

Recommendation 3:

USAID/El Salvador should require Atlacatl, S. A. to disclose all documentation pertaining to the goals, regulations, etc. of Project No. 519-0333 to all of its departments concerned with the execution and management of the project.

Recommendation 4:

USAID/El Salvador should require Atlacatl, S. A. and FNV to design the report formats which should contain the information required to be reported for Project No. 519-0333.

Accounting System and Internal Accounting Controls

Recommendation 1:

USAID/El Salvador should require Atlacatl, 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.

Recommendation 2:

Atlacatl, S. A. should implement a formally structured plan to review and control the Earthquake Reconstruction Project's related administrative and financial activities through its support and control departments.

Appendix I

25 NOV. 1988

ASOCIACION DE AHORRO Y PRESTAMO
ATLACATL
ATLACATL "LOS HEROES"
BOULEVARD LOS HEROES Y 25 CALLE PONIENTE
TELEFONO 25-5555

ATLACATL "CENTRO"
AV. SUR Y CALLE
RUBEN DARIO
TEL. 22-3344

ATLACATL "LA MASCOTA"
A SANTA TECLA
TEL. 23-0079

ATLACATL "MIRAMONTE"
SIERRA NEVADA
NO. 704
TEL. 26-0546

ATLACATL "JARDINES"
PLAZA DEL SOL
LA SULTANA

ATLACATL "CARIBE"
EL SALVADOR
DEL MUNDO
TEL. 23-8686

ATLACATL
AUTO-AGENCIA "79"

ATLACATL "EL TREN"
METRO - BLVD
LOS HEROES

ATLACATL

ATLACATL "AHUACHAPAN"
AV. MENENDEZ Y
CALLE PTE

ATLACATL "BARRIOS"
CALLE ORIENTE
NO. 212
TEL. 21-0528

ATLACATL "ESCALON"
PASEO GENERAL
ESCALON NO. 3021
TEL. 24-1786

ATLACATL "ROOSEVELT"
ALAMEDA ROOSEVELT
55 AV. SUR TEL. 24-

ATLACATL "SANTA TECLA"
CALLE ORIENTE
TEL. 28-2616

TEL.

22 de noviembre de 1988

Señores
LOPEZ SALGADO Y COMPAÑIA
Presente.

Atn.: Sr. Wilfredo López Salgado.

Señores:

Con fecha 3 de noviembre del presente año, recibimos de ustedes para obtener opinión de un informe que ustedes manifiestan estar preparando con relación a los recursos que AID ha puesto a la disposición de las Instituciones de Ahorro y Préstamo bajo el Convenio 519-0333.

Nuestra opinión sobre el particular, es la siguiente:

1. La fecha en la cual esa empresa Auditora realizó su investigación en Atlacatl, S.A., Atlacatl no había iniciado la recepción de solicitudes de crédito para reconstrucción.

2. En los antecedentes se menciona a Atlacatl como una Institución de Ahorro y Préstamo "con el propósito principal de suministrar a sus miembros o depositantes financiamientos para la construcción", Atlacatl, S.A. es una Institución Financiera constituida en forma de Sociedad Anónima por lo consiguiente dentro de sus componentes "no hay miembros". En los mismos antecedentes se menciona a Atlacatl como la Compañía, Atlacatl es una Asociación de Ahorro y Préstamo y así debe quedar consignado. En el segundo capítulo de los antecedentes se menciona que el propósito de los proyectos es el de ayudar al Gobierno y al Sector Privado en la reparación de casas, "empresas", etc. De acuerdo al Convenio suscrito, Atlacatl, S.A. podrá financiar la reparación o reconstrucción de viviendas ya sea unifamiliares o de conjunto, considerándose este último bajo el Régimen de Propiedad por pisos y apartamentos. También podrá financiar a empresas constructoras para la renovación de zonas devastadas por el terremoto. Dentro del mismo capítulo antecedentes, se menciona que el crédito para vivienda será administrado mediante líneas de crédito descontadas con el Banco Central de Reserva de El Salvador. El Convenio no contiene esta afirmación.

3. Respecto al contenido de los resultados de la Auditoría, expresamos lo siguiente: La capacidad financiera de Atlacatl, S.A. se considera negativa en estos momentos, sin embargo siguiendo la proyección de inversión acordada en Asamblea General Extraordinaria de Accionistas

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19

el Capital de Atlacatl, S.A. ha sido incrementado en DOCE MILLONES DE COLONES llegando este a TREINTA Y UN MILLONES DOSCIENTOS MIL COLONES. Se mantiene en financiamiento un promedio de OCHENTA Y CINCO MILLONES DE COLONES en proyectos para la construcción de conjuntos habitacionales y se están cubriendo las metas y objetivos señalados en Asamblea General Ordinaria.

Atlacatl, S.A. tiene experiencia en la administración de créditos para financiar conjuntos de viviendas con recursos ajenos, especialmente recursos AID y Banco Centroamericano. Los financiamientos de que trata el convenio 519-0333 son para financiar con recursos de ese organismo canalizados en forma de préstamos por la Financiera Nacional de la Vivienda.

La Organización y la capacidad administrativa de Atlacatl, S.A. no admite duda al respecto, lo comprueba sus índices de recuperación a partir de la fusión con Atlacatl, S.A. de otra Institución de Ahorro y Préstamo "quebrada".

En cuanto a la capacidad administrativa referente a proyectos de la competencia de este convenio, se deben remitir a la información que sobre el particular se les pueda dar con relación al proyecto "Las Conchas" que consta de 375 viviendas y su costo es de ₡10.116.669.23, por otra parte para atender este programa se tiene organizado un Departamento que canaliza la demanda de recursos para la reparación o reconstrucción de viviendas unifamiliares, y en este sentido se obtuvo una respuesta inicial de 103 solicitudes habiéndose canalizado a la fecha 24 créditos con recursos ya desembolsados por la Financiera Nacional de la Vivienda en forma de préstamos hacia Atlacatl, S.A.

No es correcto mencionar que Atlacatl, S.A. no tiene planes actuales de acción, ya que esa empresa auditora no está en capacidad de aseverarlo y en ningún momento ha conversado sobre el particular con la Presidencia de la Asociación.

En lo que se refiere a aspectos contables, Atlacatl, S.A. está reglamentada para operar bajo un catálogo de cuentas autorizado por la Financiera Nacional de la Vivienda, y en caso necesario se puede agregar nuevas cuentas mediante solicitud, y ese Organismo da la autorización en forma general para todas las Asociaciones de Ahorro y Préstamo. Ejemplo: Su Auditoría bien pudo comprobar de que para manejar los recursos generados por el Ministerio de Planificación se encuentra totalmente identificados en el Balance.

Finalmente, al dirigirse a Atlacatl, S.A. no deben hacerlo en forma genérica convirtiendo un documento para Bancos y Asociaciones de Ahorro y Préstamo, puesto que las funciones para el uso de estos recursos son totalmente separadas.

En el futuro antes de emitir una opinión por escrito que se refiera a Atlacatl, S.A. ustedes deben conversar ampliamente con la Presidencia, de lo contrario será devuelto como no conocido.

Atentamente,

Oscar Napoleón Argueta
Presidente.

-20-

APPENDIX 2

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