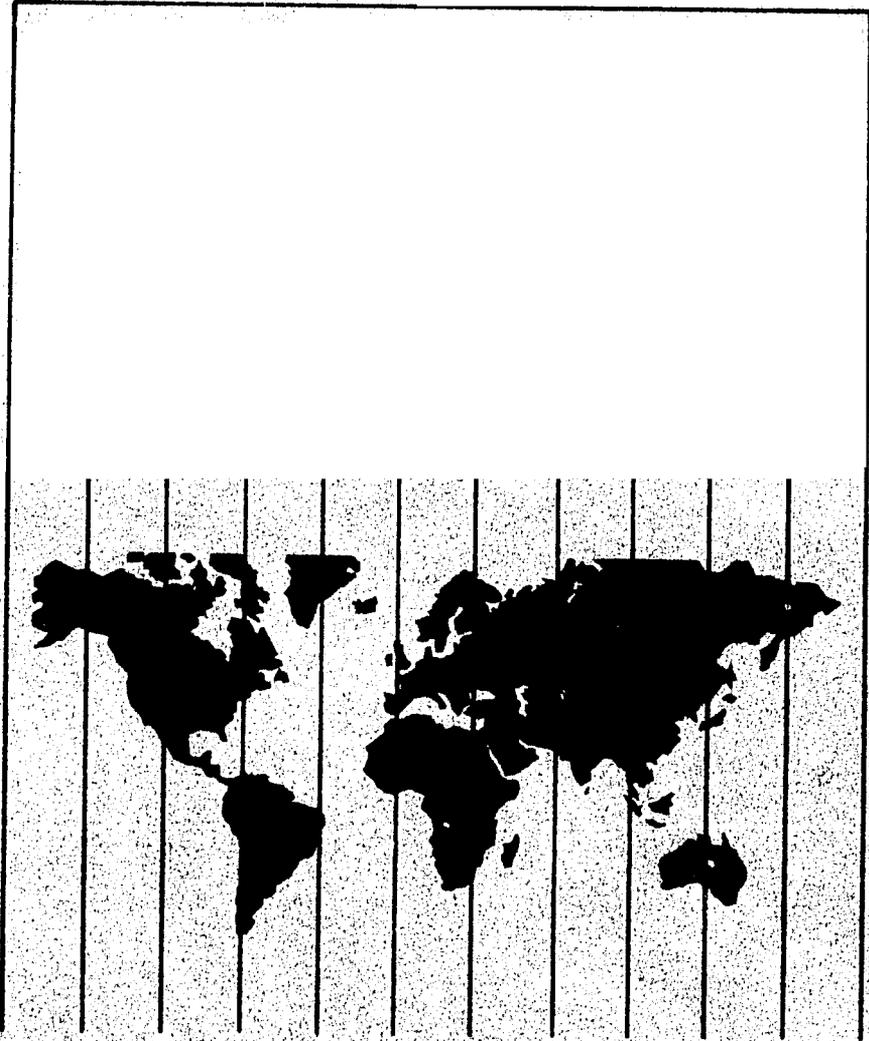


D-ABC-013

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit

TEGUCIGALPA

PD-ABC-015

ISA 68797

LIMITED PRE-AWARD
SURVEY OF THE CREDIT COMPONENT OF
THE EARTHQUAKE RECONSTRUCTION PROJECT
WITH BANCO CENTRAL DE RESERVA DE EL SALVADOR
USAID/EL SALVADOR PROJECT NO. 519-0333

Audit Report No. 1-519-89-12-N
January 9, 1989

Handwritten mark

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

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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

January 9, 1989

MEMORANDUM

TO : D/USAID/El Salvador, Henry H. Bassford
FROM : RIG/A/T, *Conrad Rothow* Coinage N. Gothard, Jr.
SUBJECT: Audit Report No. 1-519-89-12-N, "Limited Pre-award Survey of the Credit Component of the Earthquake Reconstruction Project with Banco Central de Reserva de 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 Banco Central de Reserva de El Salvador (BCR). 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) BCR'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) BCR has the financial capability and administrative capacity for performing the proposed work.

In the opinion of Price Waterhouse, BCR's accounting system and internal controls, its financial capability, and its management capability are adequate for undertaking and administering the project.

The Price Waterhouse report contains 5 recommendations concerning BCR's management capability and its accounting system and internal controls. We believe that the findings and related recommendations are significant and should be implemented as follows:

Recommendation No. 1

We recommend that USAID/El Salvador require Banco Central de Reserva de El Salvador (BCR) to implement, as soon as possible, the 5 recommendations concerning its management capability and its accounting system and internal controls contained in the Price Waterhouse report dated December 12, 1988.

b'

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.

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LIMITED PRE-AWARD SURVEY OF THE CREDIT COMPONENT
OF THE EARTHQUAKE RECONSTRUCTION PROJECT
WITH BANCO CENTRAL DE RESERVA DE EL SALVADOR
USAID/EL SALVADOR PROJECT NO. 519-0333

* * *

DECEMBER 12, 1988

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LIMITED PRE-AWARD SURVEY OF THE CREDIT COMPONENT
OF THE EARTHQUAKE RECONSTRUCTION PROJECT
WITH BANCO CENTRAL DE RESERVA DE EL SALVADOR
USAID/EL SALVADOR PROJECT NO. 519-0333

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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 Banco Central de Reserva de El Salvador (BCR) USAID/El Salvador Project No. 519-0333.

BACKGROUND

Banco Central de Reserva de El Salvador is an autonomous Government entity, created by Decree 116 of April 20, 1961 to promote and maintain the most favorable monetary, exchange, credit and finance conditions for development of the national economy. The bank's governing body has delegated full management authority to its president, who is also its legal representative.

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 hostelrys for rental housing; and construction of new, low cost, condominium type apartments to replace hostelrys. 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 marshal 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. (Aho-ro, 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. BCR'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. BCR has 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 BCR'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 BCR'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 BCR 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

BCR has the financial capability for undertaking the housing and business credit components of the Earthquake Reconstruction Project No. 519-0333, as those components will be financed by way of rediscounts, without using the bank's own funds.

Management Capability

BCR has the management capability to administer applicable housing and business credit component funds, except that:

- No specific organization and position description manuals, applicable to the officers and employees to be assigned to the project have been prepared;
- No specific project budgets, cash flows and plans of action have been prepared;
- The procedures to execute the three subcomponents of the business credit component have not been approved.

Accounting System and Internal Accounting Controls

BCR has adequate internal accounting and administrative control systems to record and control the data and operations pertaining to the housing and business credit components of the Earthquake Reconstruction Project No. 519-0333, except that:

- a) The accounts necessary to record project operations at the component and subcomponent levels have not been formally defined in writing;
- b) The BCR's Internal Audit Department has no plans for specifically reviewing project operations.

MANAGEMENT COMMENTS:

On November 3, 1988, Price Waterhouse delivered the pre-award survey draft report to bank management. The transmittal letter requested management comments not later than November 11, 1988, pointing out that if no comments or response was delivered to Price Waterhouse, it would be understood that such draft report was accepted. At the date of this report the bank had not responded to Price Waterhouse.

Price Waterhouse

* * *

Price Waterhouse



BANCO CENTRAL DE RESERVA DE EL SALVADOR
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON FINANCIAL CAPABILITY

AUDITOR'S OPINIÓN

We have performed a limited pre-award survey of Banco Central de Reserva de El Salvador's (BCR) 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, BCR has the financial capability for undertaking the housing and business credit components of the Earthquake Reconstruction Project No. 519-0333, under the system of submission of fund requests to USAID/El Salvador to cover approved credits and recovery by way of rediscounts when due, which means that none of its own funds will be used for the activities assigned to the bank in accordance with the agreement and other related documents.

This report is intended solely for the use of Banco Central de Reserva de El Salvador 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 23, 1988
El Salvador, C. A.

Price Waterhouse



BANCO CENTRAL DE RESERVA DE EL SALVADOR
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 Banco Central de Reserva de El Salvador'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 Banco Central de Reserva de El Salvador has the management capability required to administer the housing and business credit component funds of the Earthquake Reconstruction Project No. 519-0333, except for findings No. 1, 2 and 3 described in the following pages.

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Price Waterhouse

July 23, 1988
El Salvador, C. A.

BANCO CENTRAL DE RESERVA DE EL SALVADOR
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

1. An Organization Chart and Position Description Manuals Had not been prepared for the Bank in General and Specifically for Project Operations

Condition:

The BCR did not have an organization chart and position description manuals for the bank in general and specifically for project operations.

Criterion:

The BCR should have organization and position description manuals in general and specifically for control and management of project operations.

Cause:

The BCR had not established a formal organization structure to prepare and implement administrative manuals.

Effect:

Lack of a formal structure to manage the project could result in inadequate segregation of functions, badly organized administration, and poor assignment of authority and responsibility limits.

Recommendation:

USAID/El Salvador should require Banco Central de Reserva to prepare, approve and implement organization and function manuals in general and specifically to administer project No. 519-0333.

2. Project Related Budgets and Cash Flows Had Not Been Prepared

Condition:

BCR had not included project related operations into its own budget and cash flows.

BANCO CENTRAL DE RESERVA DE EL SALVADOR
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

Criterion:

The BCR should include in project related operations its own budget and cash flows.

Cause:

Preparation of budgets and cash flows for project No. 519-0333 was not considered necessary because credit applications for the business credit component of the project had not yet been received.

Effect:

Exclusion of the project credit lines from the BCR's plans and budget could limit promotion of the project and result in less opportunities for potential users.

Recommendation:

USAID/El Salvador should require the BCR to include project operations in its own budgets, cash flows, and plans to adequately promote project related benefits.

3. The Project Execution and Report Procedures Prepared by the Financial Analysis Unit of the Bank had not been Approved.

Condition:

The BCR had not approved documentation, including eligibility criteria, prepared by its financial analysis unit applicable to the business credit line subcomponents of the project.

Criterion:

The BCR should approve project credit line administrative procedures and communicate them to the participating financial entities.

Cause:

The above mentioned procedures are still under study by the bank's advisors.

BANCO CENTRAL DE RESERVA DE EL SALVADOR
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON MANAGEMENT CAPABILITY

FINDINGS

Effect:

Lack of a clear understanding of the project's implementation and reporting requirements by the participating financial entities, could result in poor data generation, application errors and non-compliance with agreement terms.

Recommendation:

USAID/El Salvador should require the BCR that prior to initiating project No. 519-0333, to approve and adequately communicate to the participating financial units, the execution, reporting and other project requirements.

Price Waterhouse



BANCO CENTRAL DE RESERVA DE EL SALVADOR
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 Banco Central de Reserva de El Salvador 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 BCR 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



BANCO CENTRAL DE RESERVA DE EL SALVADOR
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 Banco Central de Reserva de El Salvador has an adequate accounting system and sufficient internal controls to record and control data and operations of the housing and business credit components of the Earthquake Reconstruction Project No. 519-0333, except for findings No. 1 and 2 described in the following pages.

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Price Waterhouse

July, 1988

El Salvador, C. A.

BANCO CENTRAL DE RESERVA DE EL SALVADOR
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 did not Include Specific Project Credit Line General Ledger Accounts and Subsidiary Accounts to Record and Control Project Operations.

Condition:

BCR had not defined, approved and included in its chart of accounts specific accounts to record, identify and control the subcomponents and credit beneficiaries of the business credit component of the project.

Criterion:

According to Section B.5 (b) of Annex II to the agreement, the fund administrator 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 concerning project operations.

Recommendation:

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

2. The Bank's Internal Audit Department had no Specific Work Plans to Review and Evaluate the Accounting Records and Administrative Procedures Related to Project No. 519-0333

BANCO CENTRAL DE RESERVA DE EL SALVADOR
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

REPORT ON THE ACCOUNTING SYSTEM AND INTERNAL ACCOUNTING CONTROLS

FINDINGS

Condition:

The Internal Audit Department of BCR had not included in its work plans specific activities to review and evaluate the accounting records and administrative procedures related to the project's housing and business credit components.

Criterion:

The Internal Audit Department of BCR should have specific work plans to review and evaluate project operations and accounting records.

Cause:

At present, the Internal Audit Department is in the process of being restructured and therefore the above mentioned work plans have not been established.

Effect:

Excluding specific work plans to monitor and evaluate project operations could lead to inadequate review of project operations.

Recommendation:

USAID/El Salvador should require BCR to prepare, approve and implement specific work plans to review and evaluate project operations and accounting records.

BANCO CENTRAL DE RESERVA DE EL SALVADOR
CREDIT COMPONENT OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0333

LIST OF REPORT OF RECOMMENDATIONS

Management Capability

Recommendation 1:

USAID/El Salvador should require Banco Central de Reserva to prepare, approve and implement organization and function manuals in general and specifically to administer project No. 519-0333.

Recommendation 2:

USAID/El Salvador should require the BCR to include project operations in its own budgets, cash flows, and plans to adequately promote project related benefits.

Recommendation 3:

USAID/El Salvador should require the BCR that prior to initiating project No. 519-0333, to approve and adequately communicate to the participating financial units, the execution, reporting and other project requirements.

Accounting System and Internal Accounting Controls

Recommendation 1:

USAID/El Salvador should require BCR 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:

USAID/El Salvador should require BCR to prepare, approve and implement specific work plans to review and evaluate project operations and accounting records.

APPENDIX 1

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