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**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/El Salvador's
Public Sector Restoration Project
Managed by the Ministry for Economic and
Social Development Planning and Coordination
October 1, 1988 to September 30, 1990**

**Audit Report No. 1-519-93-02-N
December 18, 1992**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

AGENCY FOR INTERNATIONAL DEVELOPMENT

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December 18, 1992

MEMORANDUM

TO: D/USAID/El Salvador, John Sanbrailo

FROM: RIG/A/T, Lou Mundy *Lou Mundy*

SUBJECT: Audit of USAID/El Salvador's Public Sector Restoration Project, Managed by the Ministry for Economic and Social Development Planning and Coordination, October 1, 1988 to September 30, 1990

This report is one of six reports which present the results of a financial audit of the Public Sector Restoration Project (Project), USAID/El Salvador Project No. 519-0279. This report is on those Project activities managed by the Ministry for Economic and Social Development Planning and Coordination (the Ministry) for the period October 1, 1988 to September 30, 1990. The audit firm of Arthur Andersen & Co. prepared the report dated November 24, 1992.

The purpose of the Project was the restoration of vital public services, interrupted as a result of problems of violence in El Salvador, either by repairing or replacing the infrastructure damaged or providing other alternatives for these services. The Project was completed on September 30, 1990. Of the \$97.3 million in A.I.D. grants disbursed during the life of the Project to the six entities implementing this Project, the Ministry received \$1,472,422 in commodities. During the audit period the Ministry received commodities totaling \$509,493 under the A.I.D. Grant.

The objectives of the audit were to determine whether: (1) the Ministry's equipment/supplies accountability statement presents fairly, in all material respects, the amount of the acquisitions made under the Project for the period audited, (2) the Ministry's internal control structure was adequate to manage Project operations, and (3) the Ministry had complied with Project agreement terms and applicable laws and regulations. The scope of the audit included an examination of the Ministry's activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

The auditors concluded that the equipment/supplies accountability statement presents fairly, in all material respects, the amount of acquisitions made under the Project and managed by the Ministry during the period audited.

The auditors identified a material weakness in the Ministry's internal control structure for Project activities in that it does not have adequate control over the location of Project equipment. With respect to the Ministry's compliance with agreement terms and applicable laws and regulations, the auditors found two material instances of noncompliance: the Ministry 1) had not performed audits or evaluations of Project activities and 2) did not have separate accounting records to account for equipment/supplies acquired under the Project.

Since the Project has ended and the Ministry is not involved in the implementation of the follow-on project, we are not including the auditors' recommendations related to needed improvements concerning internal controls and compliance with Agreement terms and applicable laws and regulations. However, in considering any future projects with the Ministry, we strongly suggest that USAID/El Salvador management obtain assurance, as a part of the evaluation process, that these problems have been corrected prior to the release of A.I.D. funds to the organization.

The report was discussed with representatives from the Ministry who expressed general agreement with its contents. Managements comments are included as an annex to the Arthur Andersen & Co. report.

**Regional Inspector General for Audit
Tegucigalpa, Honduras**

**Audit of USAID/El Salvador's
Public Sector Restoration Project
Managed by the Ministry for Economic and
Social Development Planning and Coordination
October 1, 1988 to September 30, 1990**

**Audit Report No. 1-519-93-02-N
December 18, 1992**

AUDIT OF THE
PUBLIC SECTOR RESTORATION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0279
COMPONENT MANAGED BY

THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT
PLANNING AND COORDINATION (MIPLAN)

FOR THE PERIOD OCTOBER 1, 1988 THROUGH SEPTEMBER 30, 1990

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ARTHUR ANDERSEN & Co.

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Guatemala, C.A

November 24, 1992

Mr. Lou Mundy
Regional Inspector General for Audit
Agency for International Development
Tegucigalpa, Honduras, C. A.

Dear Mr. Mundy:

This report presents the results of our close-out financial audit of THE PUBLIC SECTOR RESTORATION PROJECT, USAID/EL SALVADOR PROJECT 519-0279, COMPONENT EXECUTED by THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT PLANNING AND COORDINATION (MIPLAN) for the period from October 1, 1988 to September 30, 1990.

I. BACKGROUND

On May 16, 1983 the Government of the Republic of El Salvador signed Grant Agreement No. 519-0279 for an original amount of US\$ 11,000,000 with the United States of America through the Agency for International Development (AID). The original agreement has been amended 11 times and funds have been increased to a new total of US\$ 98,000,000. In addition the Government of El Salvador agreed to provide a counterpart contribution of US\$ 2,433,000.

The purpose of the project was the restoration of vital public services which had been interrupted as a result of problems of violence in El Salvador, either by repairing or replacing the infrastructure damaged or providing other alternatives for these services. Subproject activities carried out under the project were to include the restoration of electrical power, telecommunications and water distribution systems and the repair of damaged railroad equipment, bridges, construction vehicles and equipment, buses, and other activities approved by the Deputy Administrator of the Office for Latin American and Caribbean Affairs or his representative.

There were six project implementation institutions. These institutions and their activities in the project are described below.

(a) Lempa River Hydroelectric Executive Commission (CEL)

This commission was created as an autonomous public service institution. Its purpose is to develop, conserve, administer and use the resources of the Lempa River to provide power to El Salvador. As part of the project, CEL was allocated the sum of US\$ 58,033,371 which were used to repair or replace equipment for the transmission system, purchase of vehicles, cranes, heavy duty hoists, pulleys, hydraulic jacks, air compressors and other related items for use both in urban and rural areas. The purposes of this component were:

- 1) Allow rapid damage assessments and immediate repairs of the electrical system,
- 2) Improve the security at key sites of the electrical network,
- 3) Support the electrical distribution systems managed by CAESS, CLEA, CLESA, DESSEM and DUSEM, and
- 4) Install redundant power transmission line loops.

As part of the financing, funds were allocated to CEL to lease a helicopter which was used for transmission line checks, transportation of personnel, equipment, and equipment for the constructions and repair of damaged lines.

(b) National Administration for Water and Sewage (ANDA)

This entity was created as an autonomous public service institution. ANDA's general objective is to help and provide the people of the Republic of El Salvador with water and sewage services. ANDA executed project funds for US\$ 11,338,563, which were used for the purchase of equipment to make immediate repairs to the national water and sewage system. The equipment included drilling rigs and accessories, generators, pumping equipment, electrical components and other related equipment.

(c) Ministry of Public Works (MOP)

MOP's role in the project was to rebuild roads damaged in the country's internal conflict. Part of the Ministry's responsibilities was to acquire heavy construction machinery through an institution created for the purpose and called Machinery and Equipment Administration (AME). It also included the acquisition of structures to build a Bailey bridge to be used temporarily in the critical zones in the road system. MOP, through AME, executed project funds for a value of US\$ 21,075,519.

(d) Ministry for Economic and Social Development Planning and Coordination (MIPLAN)

A Grant Agreement was signed between this Ministry and the Agency for International Development of the United States in El Salvador (USAID/EL SALVADOR) to finance the project for restoration of vital public services interrupted as

a result of the violence in El Salvador. As part of the Grant Agreement, MIPLAN received US\$ 1,472,422 to support its activities.

(e) Autonomous Executive Ports Commission (CEPA)

This commission was created as an autonomous public service institution. CEPA's general objective is to administer air and maritime transportation services, storage and leasing at the El Salvador International Airport and the Port of Acajutla. CEPA executed funds for a value of US\$ 4,051,828 used for the acquisition of heavy equipment, repair parts, rolling stock and other tools and equipment for the repair of vital rail lines.

(f) National Administration for Telecommunication (ANTEL)

This entity received funds for US\$ 1,279,680 which were used for emergency repairs and the acquisition of spares for the national telephone system.

II. AUDIT OBJECTIVES

This is a close-out financial audit of the Public Sector Restoration Project USAID/El Salvador project No, 519-0279 for the period October 1, 1988 to September 30, 1990. This project was implemented by the Lempa River Hydroelectric Executive Commission (CEL), the National Administration for Water and Sewage (ANDA), Ministry of Planning and Coordination for Economic and Social Development (MIPLAN), the Ministry of Public Works (MOP), the National Administration for telecommunications (ANTEL), and the Autonomous Executive Ports Commission (CEPA).

However, this report only cover activities of the project executed by MIPLAN.

The audit was to be performed in accordance with generally accepted auditing standards and the United States Comptroller General's Government Auditing Standards (1988 Revision) and accordingly included such tests of the accounting records as deemed necessary. The specific objectives of the audit were to determine whether:

1. The equipment/supplies accountability statement presents fairly, in all material respects, the situation of the project's activities managed by MIPLAN for the period October 1, 1988 to September 30, 1990, and costs reported as incurred during the period are allowable, allocable, and reasonable in accordance with agreement terms and applicable laws and regulations.
2. The internal control structure including the control environment, accounting system, and control procedures specifically related to procurement and accounting for commodities, of MIPLAN was adequate to manage the project's operations.
3. MIPLAN complied with agreement terms, project implementation letters, and applicable laws and regulations.

Although it was not the purpose of the audit, we were alert to situations or transactions that could be indicative of fraud, abuse, and illegal expenditures and acts.

III. SCOPE OF WORK

The scope of our work was the following:

A. Pre-audit steps

We reviewed the following documents to become familiar with the project:

1. The project paper,
2. The project agreements between USAID/El Salvador and MIPLAN, including amendments and mandatory standard provisions, as applicable,
3. Contracts and subcontracts with third parties,
4. The budgets, project implementation letters, and written procedures approved by USAID/El Salvador to manage the project,
5. Office of Management and Budget (OMB) Circular A-122 Cost Principles for Nonprofit Organizations,
6. A.I.D. Handbook 11, Country Contracting, specifically Chapter 4, Cost Principles,
7. A.I.D. Handbook 15, Commodities, specifically Chapter 10, Commodity Arrival and Disposition,
8. RIG/A/T Commodity Audit Report,
9. USAID/El Salvador Mission Order Manual (MOM), subchapter 7030, Monitoring of receipt and end-use of program and project Commodities,
10. Obtain the list of suppliers available to MIPLAN, to procure the needed inventory and equipment and any other information provided by USAID/El Salvador on this issue,
11. All project financial and progress reports, and MIPLAN's chart of accounts, organizational chart, accounting system descriptions, procurement policies, receipt of commodities, warehousing and distribution procedures of materials, as necessary to successfully complete the required work.

B. Equipment/supplies accountability statement

We examined the equipment/supplies accountability statement which included the list of the equipment and supplies provided through direct payments made by

USAID/El Salvador, the cost of each item and the total per line item, comparison between the budget and actual expenditures, the balance in quantity and amount at the end of the period audited, and questionable amounts.

The report on the equipment/supplies accountability statement was prepared as stated in section V of the statement of work, and is presented in accordance with the statement on Auditing Standards (SAS) No. 62, Special Reports, of the American Institute of Certified Public Accountants (AICPA), and the "Government Auditing Standards" of the US Comptroller General.

We obtained accounting reports from USAID/El Salvador which show vouchers paid, during the audit period to various vendors and governmental agencies for US Dollar funded commodities related to Project 519-0279. The equipment/supplies accountability statement was based on the information provided by USAID/El Salvador and included separate identification of those equipment/supplies by line item. We verified that direct A.I.D. procurement is accounted for and control procedures exist to adequately safeguard such assets.

The specific objectives at the audit were to:

1. Determine whether all the commodities provided by USAID/El Salvador during the audit period were actually received in the quantities and condition for which payment was made and were adequately reported; and, if not, that claims for differences were properly made.

Questionable costs (if any) are presented in the equipment/supplies accountability statement in two separate categories (1) "questioned" costs that are explicitly ineligible because they are not project related, unreasonable or prohibited by the agreement or applicable laws and regulations, and (2) "unsupported" costs that are not supported with adequate documentation or are not appropriately authorized.

2. Review whether transfers of equipment/supplies to and from the warehouse were properly documented, authorized and recorded, and that the deliveries have been received by posts or other location, and used as instructed and for project purposes.
3. On a selective basis, perform substantive physical inspections and inventory tests of equipment/supplies. Compare selected inventory balances to actual physical quantities of equipment/supplies on hand. Inquire about discrepancies.
4. Reconcile the inventory records for each warehouse as of September 30, 1990 with the commodities received and shipped, and the physical inventory.
5. Review purchases made by USAID/El Salvador on behalf of the project to evaluate procedures used by MIPLAN, as applicable, to properly record and control the assets and commodities received.

C. Internal control structure

We reviewed and evaluated MIPLAN's internal control structure related to the project's management as considered appropriate to comply with generally accepted auditing standards. The major internal controls that were evaluated included but were not limited to the adequacy of the accounting and information systems, procurement procedures, fixed assets and inventories.

D. Compliance with agreement terms and applicable laws and regulations

Our work on MIPLAN's compliance with agreement terms, and applicable laws and regulations was designed to:

1. Identify the agreement terms, project implementation letters and pertinent laws and regulations, and determine which of those not observed could have a direct and material effect on the project's equipment/supplies accountability statement.
2. Assess the internal controls in place to assure compliance with agreement terms and applicable law and regulations, assure that each procurement transaction reviewed meets the source and origin criteria as required by the agreement, and meets bidding requirements established by A.I.D.
3. Design steps and procedures to test compliance with agreement terms and applicable laws and regulations to provide reasonable assurance of detecting both unintentional and intentional instances of noncompliance that could have a material effect on the equipment/supplies accountability statement.
4. Determine if equipment/supplies have been used for purposes not authorized or not in accordance with agreement terms. If so, identify these costs as questionable.
5. Determine if counterpart contribution and technical assistance, as applicable, are obtained opportunely according to the agreement and to the project's needs. Quantify any shortcomings in this area.

IV. RESULTS OF THE AUDIT

This section presents a summary of the results of the audit, briefly describing the more important points and problems disclosed and which are discussed in more detail in the applicable section of this report.

Equipment/supplies accountability statement

The equipment/supplies accountability statement present fairly, in all material respects, the amount of acquisitions made under the component executed by the Ministry for Economic and Social Development Planning and Coordination (MIPLAN) for the period between October 1, 1988 and September 30, 1990.

Internal control structure

The assessment of MIPLAN's internal control revealed the following reportable condition:

- Lack of information in the reports on location of the emergency electrical generators.

Compliance with agreement terms and,
applicable laws and regulations

Except for the noncompliance situations described in findings 1 and 2, MIPLAN complied in all material respects, with the terms of the agreement and applicable laws and regulations. With respect to items not tested, nothing came our attention that caused us to believe that MIPLAN had not complied, in all material respects, with the terms of the agreement and applicable laws and regulations.

Agreement terms

- Noncompliance with the requirements of Article 5 Section 5.1 "Project Evaluation", and Section B.5 "Reports, records, inspections, audits" of Exhibit 2.
 - . During the period from October 1, 1988 to September 30, 1990 no project evaluation was made and independent audits were not contracted to review project records.
 - . Under Article 5 Section 5.1, unless the parties agree otherwise in writing, the program is to include, during execution of the project and once or more times thereafter:
 - (a) An evaluation of progress towards attaining project objectives,
 - (b) Identification of problems which can impede attainment of project objectives,
 - (c) Implementation measures to correct major problems identified as impediments to the attainment of project objectives, and
 - (d) An evaluation of the global impact of the project on development.
- Noncompliance with the requirements of Section B.2 "Follow up and report on project", Insets a) and b), and Section B.5 "Reports, records, inspections, audits", Inset (b) of Exhibit 2.
 - . Under this clause, MIPLAN should have kept or seen to it that project and agreement related books and records were kept according to generally accepted accounting practices and in

a manner suitable to identify unlimitedly the delivery and use of goods and services with grant funds, as well as present quarterly reports to A.I.D. on receipt and use of goods financed under the project and indicating:

- . List of goods received during the quarter, their value, and cumulative value of all products received to date.
- . Information on the condition of goods on arrival in El Salvador and any actions taken in relation to damaged or incomplete packages.
- . Brief description of the use made of the goods in relation to the purposes of the project.
- . Certification to the effect that the goods are being used in accordance with project goal and purpose.

V. MANAGEMENT COMMENTS:

MIPLAN's management agrees with the audit report, and has already given instructions to correct such deficiencies in the future.

Arthur Andersen & Co.

ARTHUR ANDERSEN & Co.

PUBLIC SECTOR RESTORATION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0279
COMPONENT MANAGED BY

THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT
PLANNING AND COORDINATION

EQUIPMENT/SUPPLIES ACCOUNTABILITY STATEMENT
FOR THE PERIOD OCTOBER 1, 1988 THROUGH SEPTEMBER 30, 1990

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying equipment/supplies accountability statement of the PUBLIC SECTOR RESTORATION PROJECT USAID/EL SALVADOR PROJECT No. 519-0279, COMPONENT MANAGED BY THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT PLANNING AND COORDINATION (an autonomous public service institution), for the period October 1, 1988 through September 30, 1990. This equipment/supplies accountability statement is the responsibility of the Ministry for Economic and Social Development Planning and Coordination. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and except for the matters discussed in the following paragraph, with the United States Comptroller General's Government Auditing Standards (1988 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the equipment/supplies accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by the Administration, as well as evaluating the overall equipment/supplies accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organization in Guatemala. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires the Arthur Andersen-Guatemala office to be subjected, every three years, to an quality control review by partners and managers from other Arthur Andersen & Co. offices.

As described in Note 4 to the equipment/supplies accountability statement, this statement was prepared on a cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the equipment/supplies accountability statement referred to above, presents fairly, in all material respects, the amounts of the

procurements effected by the PUBLIC SECTOR RESTORATION PROJECT USAID/EL SALVADOR PROJECT No. 519-0279, COMPONENT MANAGED BY THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT PLANNING AND COORDINATION, for the period October 1, 1988 through September 30, 1990 in conformity with the basis of accounting as described in Note 4 to the equipment/supplies accountability statement.

This report is intended for the information and use of the Ministry for Economic and Social Development Planning and Coordination, the Government of the Republic of El Salvador and the United States Agency for International Development. 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 records.

Arthur Andersen & Co.

Guatemala, C. A.

June 26, 1992

PUBLIC SECTOR RESTORATION PROJECT
USAID/EL SALVADOR PROJECTO No. 519-0279
COMPONENT MANAGED BY
THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT
PLANNING AND COORDINATION (MIPLAN)
EQUIPMENT/SUPPLIES ACCOUNTABILITY STATEMENT
FOR THE PERIOD OCTOBER 1, 1988 THROUGH SEPTEMBER 30, 1990

<u>Activity</u>	<u>Budget (unaudited)</u>	<u>Project total direct purchases</u>	<u>Accumulated direct purchases as of 30-09-88 (unaudited)</u>	<u>Period October 1, 1988 through September 30, 1990 (See Note 5)</u>
2-Project support activities	US\$ 1,488,000	US\$ 1,457,284	US\$ 962,929	US\$ 494,355
22-Contingency Fund	15,000	15,138	-	15,138
	<u>US\$ 1,503,000</u>	<u>US\$ 1,472,422</u>	<u>US\$ 962,929</u>	<u>US\$ 509,493</u>

The notes to the equipment/supplies accountability statement are an integral part of this statement.

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PUBLIC SECTOR RESTORATION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0279
COMPONENT MANAGED BY

THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT
PLANNING AND COORDINATION (MIPLAN)

NOTES TO THE EQUIPMENT/SUPPLIES ACCOUNTABILITY STATEMENT
FOR THE PERIOD OCTOBER 1, 1988 THROUGH SEPTEMBER 30, 1990

(1) Brief history and description of the project

On May 16, 1983 the Government of the Republic of El Salvador signed Grant Agreement No. 519-0279 for an original amount of US\$ 11,000,000 with the United States of America through the Agency for International Development (AID). The original agreement has been amended 11 times and funds have been increased to a new total of US\$ 98,000,000. In addition the Government of El Salvador agreed to provide a counterpart contribution of US\$ 2,433,000.

The purpose of the project was the restoration of vital public services which had been interrupted as a result of problems of violence in El Salvador, either by repairing or replacing the infrastructure damaged or providing other alternatives for these services. Subproject activities carried out under the project were to include the restoration of electrical power, telecommunications and water distribution systems and the repair of damaged railroad equipment, bridges, construction vehicles and equipment, buses, and other activities approved by the Deputy Administrator of the Office for Latin American and Caribbean Affairs or his representative.

(2) Brief history of the implementing unit

A Grant Agreement was signed between this Ministry and the Agency for International Development of the United States in El Salvador (USAID/EL SALVADOR) to finance the project for restoration of vital public services interrupted as a result of the violence in El Salvador. As part of the Grant Agreement, MIPLAN received US\$ 1,472,422 to support its activities.

(3) Currency unit

The equipment/supplies accountability statement, was prepared in United States dollars, in which currency the disbursements were made for the acquisition of equipment and supplies.

(4) Principal accounting policies

Presentation basis

The equipment/supplies accountability statement, was prepared on a cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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(5) Direct purchases made by A.I.D.

As part of the project grant, in the period from October 1, 1988 to September 30, 1990 USAID/El Salvador made the purchases indicated below for implementation of the project. These purchases were made on the basis of documentation submitted by CEL/MIPLAN, which carried out the supplier selection process on the basis of quotations received.

<u>Letter of commitment</u>	<u>Supplier</u>	<u>Date</u>	<u>Amount</u>
587	Edison Hubbard	17-01-89	\$ 398,714
628	Edison Hubbard	28-07-89	95,641
681	Joel Group	04-04-90	15,138
			<u>\$ 509,493</u>

(6) Accumulated equipment/supplies
accountability statement

The accumulated equipment/supplies accountability statement for the project from the beginning of the project March 16, 1983 to September 30, 1990 and for all components shown in the following pages:

PUBLIC SECTOR RESTORATION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0279
ACCUMULATED EQUIPMENT/SUPPLIES ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM THE BEGINNING (MARCH 16, 1983) THROUGH SEPTEMBER 30, 1990

<u>Entity/Activity</u>	<u>Budget (unaudited)</u>	<u>Project total disbursement</u>	<u>Accumulated disbursement as of 30-09-88 (unaudited)</u>	<u>Disbursement of the period October 1, 1988 through September 30, 1990</u>
The Lempa River Hydroelectric Executive Commission				
01-Procurement of equipment	\$ 38,044,000	US\$ 37,861,536	US\$ 27,965,763	US\$ 9,895,773
04-Leasing of helicopters services	8,503,000	8,494,377	6,757,762	1,736,615
05-Purchase of gas Turbine	8,302,000	8,301,800	8,301,800	-
21-Purchase of emergency generator	2,000,000	1,998,725	1,970,105	28,620
22-Contingency Fund	1,396,000	1,376,933	6,419	1,370,514
	-----	-----	-----	-----
	58,245,000	58,033,371	45,001,849	13,031,522
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The Ministry of Public Works-				
07-Purchase of Bailey Bridges	2,554,000	1,861,219	1,525,357	335,862
08-Purchase construction equipment	18,866,000	18,851,076	17,484,469	1,366,607
22-Contingency Fund	379,000	363,224	-	363,224
	-----	-----	-----	-----
	21,799,000	21,075,519	19,009,826	2,065,693
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The Autonomous Executive Ports Commission				
09-Purchase of heavy equipment	3,997,000	3,996,743	3,401,936	594,807
22-Contingency Fund	57,000	55,085	-	55,085
	-----	-----	-----	-----
	4,054,000	4,051,828	3,401,936	649,892
	-----	-----	-----	-----
The National Administration for Telecommunications				
11-Emergency Repairs	1,245,000	1,245,377	1,245,377	-
22-Contingency Fund	36,000	34,303	-	34,303
	-----	-----	-----	-----
	1,281,000	1,279,680	1,245,377	34,303
	-----	-----	-----	-----
To page 2 of 2...	US\$ 85,379,000	US\$ 84,440,398	US\$ 68,658,988	US\$ 15,781,410

PUBLIC SECTOR RESTORATION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0279
EQUIPMENT/SUPPLIES ACCUMULATED ACCOUNTABILITY STATEMENT
FOR THE PERIOD OCTOBER 1, 1988 THROUGH SEPTEMBER 30, 1990

<u>Entity/Activity</u>	<u>Budget (unaudited)</u>	<u>Project total disbursement</u>	<u>Accumulated disbursement as of 30-09-88 (unaudited)</u>	<u>Disbursement of the period October 1, 1988 through September 30, 1990</u>
From page 1 of 2...	US\$ 85,379,000	US\$ 84,440,398	US\$ 68,658,988	US\$ 15,781,410
The National Administration for Water and Sewage				
10-For Tools, equipment and parts	11,034,000	11,034,086	7,216,534	3,817,552
22-Contingency Fund	317,000	304,477	-	304,477
	<u>11,351,000</u>	<u>11,338,563</u>	<u>7,216,534</u>	<u>4,122,029</u>
The Ministry of Planning and Coordination for social and economic development				
12-Project support activities	1,488,000	1,457,284	962,929	494,355
22-Contingency Fund	15,000	15,138	-	15,138
	<u>1,503,000</u>	<u>1,472,422</u>	<u>962,929</u>	<u>509,493</u>
	<u>US\$ 98,233,000</u>	<u>US\$ 97,251,383</u>	<u>US\$ 76,838,451</u>	<u>US\$ 20,412,932</u>

ARTHUR ANDERSEN & Co.

PUBLIC SECTOR RESTORATION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0279
COMPONENT MANAGED BY

THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT
PLANNING AND COORDINATION

INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITORS' REPORT

We have audited the equipment/supplies accountability statement of the PUBLIC SECTOR RESTORATION PROJECT USAID/EL SALVADOR PROJECT No. 519-0279, COMPONENT MANAGED BY THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT PLANNING AND COORDINATION for the period October 1, 1988 through September 30, 1990, and we have issued our report in which we express an unqualified opinion thereon dated June 26, 1992.

Except for not conducting an external quality control review by an unaffiliated audit organization as described further in our opinion on the equipment/supplies accountability statement, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States (1988 revision). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the equipment/supplies accountability statement is free of material misstatement.

In planning and performing our audit of the equipment/supplies accountability statement of the PUBLIC SECTOR RESTORATION PROJECT USAID/EL SALVADOR PROJECT No. 519-0279, COMPONENT MANAGED BY THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT PLANNING AND COORDINATION, for the period October 1, 1988 through September 30, 1990, we considered its internal control structure in order to determine the nature, timing and extent of our auditing procedures for the purpose of expressing our opinion on the equipment/supplies accountability statement and not to provide assurance on the internal control structure.

The Management of the Ministry for Economic and Social Development Planning and Coordination, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the accountability statement in accordance with the basis of accounting described in Note 4 to the equipment/supplies accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the

effectiveness of the design and operation of policies and procedures may deteriorate.

For the purposes of this report, we have only evaluated internal control related to the fixed assets cycle, because the procedures for acquisition, custody and safety of equipment and supplies were performed by the Lempa River Executive Hydroelectric Commission, with previous authorization by the Ministry for Economic and Social Development Planning and Coordination.

For the control cycle listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Administration's ability to record, process, summarize, and report financial data consistent with the assertions of the Administration in the equipment/supplies accountability statement. Reportable conditions are described in finding 1 in the following page of this report.

A material weakness is a reportable condition in which the design or operation of specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the equipment/supplies accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the reportable conditions as described in the following page, are material weaknesses.

This report is intended for the information and use of the Ministry for Economic and Social Development Planning and Coordination, the Government of the Republic of El Salvador and the United States Agency for International Development. 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 records.

Arthur Andersen & Co.

Guatemala, C. A.

June 26, 1992

PUBLIC SERVICE RESTORATION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0279
COMPONENT IMPLEMENTED BY

THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT
PLANNING AND COORDINATION (MIPLAN)

FINDINGS ON INTERNAL CONTROL

1. Lack of information in reports on location of emergency electrical generators

Condition

The report on location of the emergency electrical generators indicates which of them are not available, that is, not operational, but there is no note of the reason for their non-operational status. In MIPLAN, which is the institution holding the property of these emergency electrical generators, there is no knowledge of these reasons.

Criteria

To maintain adequate control of the emergency electrical generators, MIPLAN should keep all information relative to location, record of maintenance and their physical condition.

Cause

Information on the physical location of the emergency electrical generators is prepared by personnel of the Lempa River Hydroelectric Executive Commission (CEL), and there are no written guidelines for the form and content of these reports.

Effect

MIPLAN does not know the reason for which some of the emergency electrical generators are not available.

Recommendation

Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because MIPLAN is managing the Public Services Improvement Project, USAID/El Salvador Project No. 519-0320, with similar objectives, we suggest that the following recommendation be implemented for better management of the new project.

MIPLAN should send written guidelines indicating to CEL the form and content of reports on the physical location of the emergency electrical generators.

ARTHUR ANDERSEN & Co.

PUBLIC SECTOR RESTORATION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0279
COMPONENT MANAGED BY

THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT
PLANNING AND COORDINATION

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE
LAWS AND REGULATIONS

INDEPENDENT AUDITORS' REPORT

We have audited the equipment/supplies accountability statement of the PUBLIC SECTOR RESTORATION PROJECT USAID/EL SALVADOR PROJECT No. 519-0279 COMPONENT MANAGED BY THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT PLANNING AND COORDINATION for the period October 1, 1988 through September 31, 1990, and we have issued our report in which we express an unqualified opinion dated June 26, 1992.

Except for not conducting an external quality control review by an unaffiliated audit organization as described in our opinion on the equipment/supplies accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's Government Auditing Standards (1988 revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the equipment/supplies accountability statement is free of material misstatement.

Compliance with agreement terms, applicable laws and regulations is the responsibility of the management of Ministry for Economic and Social Development Planning and Coordination (MIPLAN). As part of obtaining reasonable assurance about whether the equipment/supplies accountability statement is free of material misstatement, we performed tests of the Ministry for Economic and Social Development Planning and Coordination compliance with certain provisions agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of non-compliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the equipment/supplies accountability statement. The results of our tests of compliance disclosed the findings Nos. 1 and 2 included in the following pages which in our opinion are of material effect.

We considered these material instances of noncompliance in forming our opinion on whether the Ministry for Economic and Social Development Planning and Coordination equipment/supplies accountability statement is fairly presented, in all material respects, in conformity with the basis of accounting described in Note 4 to the equipment/supplies accountability statement, and this report does not affect our report dated June 26, 1992 on that statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Ministry for Economic and Social Development Planning and Coordination complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to the items not tested, nothing came to our attention that caused us to believe that the Ministry for Economic and Social Development Planning and Coordination had not complied, in all material respects with those provisions.

This report is intended for the information and use of the Ministry for Economic and Social Development Planning and Coordination, Government of the Republic of El Salvador and the United States Agency for International Development. 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 records.

Arthur Andersen & Co.

Guatemala, C. A.

June 26, 1992

PUBLIC SERVICES RESTORATION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0279
COMPONENT IMPLEMENTED BY

THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT
PLANNING AND COORDINATION (MIPLAN)

FINDINGS ON COMPLIANCE WITH AGREEMENT TERMS AND
LAWS AND REGULATIONS

AGREEMENT TERMS

1. Noncompliance with requirements of Article 5 section 5.1 "Project evaluation" and section B.5 "reports, records, inspections, audits", inset (b) of exhibit 2

Condition

MIPLAN did not comply with these clauses due to the following:

- During the period from October 1, 1988 to September 30, 1990, no project evaluation was made and independent audits were not contracted to review project records.

Criteria

Under the clauses mentioned, MIPLAN should have "submitted its project and agreement related books and records of account to periodic audits in accordance with generally accepted auditing procedures".

In addition, under Article 5 Section 5.1, unless the parties agreed otherwise in writing, MIPLAN should have project evaluation program to include, during implementation and once or more times thereafter:

- a) An evaluation of progress towards attainment of project objectives,
- b) Identification of problems which can impede attainment of the project objectives,
- c) Implementation measures to correct major problems identified as impediments to the attainment of the project objectives, and
- d) An evaluation of the global impact of the project on development.

Cause

Lack of communication by the Government of El Salvador to the project implementing entities of the terms of the agreement with which they should comply as part of project implementation.

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Effect

Noncompliance with the clauses mentioned, which could affect project goals.

Recommendation

Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because MIPLAN is managing the Public Services Improvement Project, USAID/El Salvador Project No. 519-0320, with similar objectives, we suggest that the following recommendation be implemented for better management of the new project.

We suggest that for implementation of the Public Services Improvement Project USAID/El Salvador Project No. 519-0320, MIPLAN prepare a program for contracting of audit services and evaluation of the project in order to comply with the terms of the agreement.

2. Noncompliance with requirements of section B.2 "follow up and report on project", insets a) and b), and section B.5 "reports, records, inspections, audits", inset (b) of exhibit 2

Condition

MIPLAN did not comply with the requirements of these clauses in as there were no separate accounting to control goods acquired with Project No. 519-0279 funds.

Criteria

As established in these clauses, MIPLAN should have kept or seen to it that project and agreement related books and records were kept in accordance with generally accepted accounting standards and in a form suitable to identify unlimitedly the delivery and use of goods and services with grant funds, as well as present quarterly reports to A.I.D. on the receipt and use of goods financed under the project, indicating:

- List of goods received during the quarter, their value, and cumulative value of all products received to date.
- Information on condition of goods on arrival in El Salvador and any action and any action taken in relation to damaged or incomplete packages.
- Brief description of the use made of the goods in relation to project purpose.
- Certification that the goods were used in accordance with project objectives.

Cause

Lack of communication by the Government of El Salvador to the project implementing entities of the terms of the agreement with which they should have complied as part of project implementation.

Effect

Noncompliance with the clauses mentioned, which could affect project goals.

Recommendation

Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because MIPLAN is managing the Public Services Improvement Project, USAID/El Salvador Project No. 519-0320, with similar objectives, we suggest that the following recommendation be implemented for better management of the new project.

We suggest that the Government of the Republic of El Salvador establishes the necessary mechanisms to communicate to the implementing entities the procedures to be followed for administering the project.

PUBLIC SERVICES RESTORATION PROJECT
USAID/EL SALVADOR PROJECT No. 519-0279
COMPONENT IMPLEMENTED BY

THE MINISTRY FOR ECONOMIC AND SOCIAL DEVELOPMENT
PLANNING AND COORDINATION (MIPLAN)

LIST OF REPORT RECOMMENDATIONS

Internal control structure

1. Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because MIPLAN is managing the Public Services Improvement Project, USAID/El Salvador Project No. 519-0320, with similar objectives, we suggest that the following recommendation be implemented for better management of the new project.

MIPLAN should send written guidelines indicating to CEL the form and content of reports on the physical location of the emergency electrical generators.

Compliance with agreement terms and applicable laws and regulations

1. Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because MIPLAN is managing the Public Services Improvement Project, USAID/El Salvador Project No. 519-0320, with similar objectives, we suggest that the following recommendation be implemented for better management of the new project.

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We suggest that the Government of the Republic of El Salvador establishes the necessary mechanisms to communicate to the implementing entities the procedures to be followed for administering the project.



**MINISTERIO DE PLANIFICACION
COORDINACION DEL DESARROLLO
ECONOMICO Y SOCIAL**

SETEFE/DACP/2472/92.

San Salvador, 13 de Agosto de 1992

ASUNTO: Comunicase aceptación de informe preliminar de auditoria efectuada por Arthur Andersen & Co.

Señores
Arthur Andersen & Co.
Edificio Nobiles de América No.31,
Alameda Juan Pablo II y
39 Avenida Norte,
Ciudad.

Estimados Señores:

Hago referencia a su informe preliminar sobre la auditoria realizada al proyecto No.519-0279 USAID/EI Salvador, correspondiente al Componente Administrado por el Ministerio de Planificación y Coordinación del Desarrollo Económico y Social- MIPLAN.

Al respecto, les comunicamos que después de haberlo revisado esta Secretaria no tiene observaciones, ya que éstas se incorporaron en el proceso de discusión de los hallazgos, por lo que a su vez lo da como aceptado.

Atentamente,



[Handwritten Signature]
JOSE MAURO IRAHETA
SUB DIRECTOR EJECUTIVO
SECRETARIA TECNICA DEL FINANCIAMIENTO EXTERNO

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