

Regional Inspector General for Audit  
Tegucigalpa, Honduras

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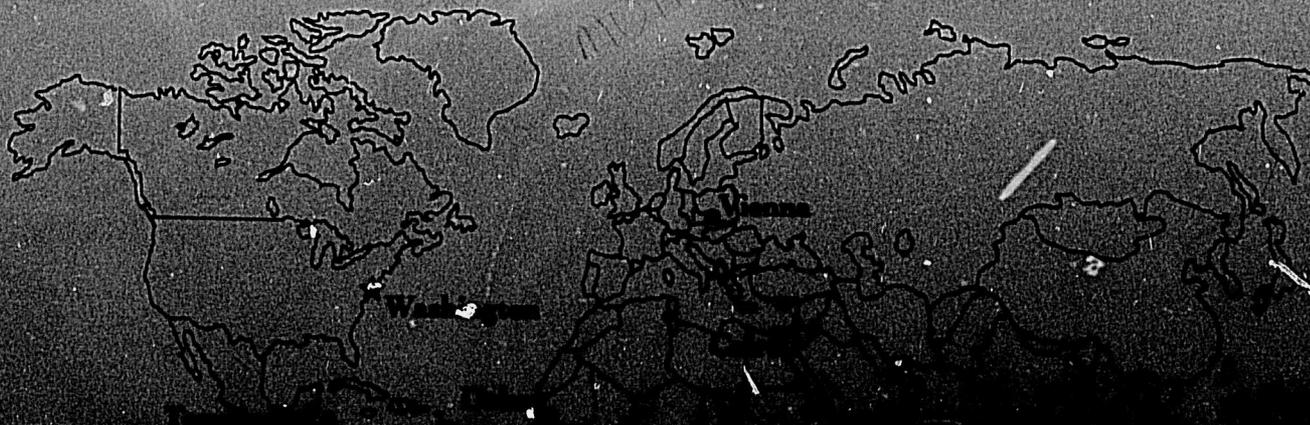
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**Audit of USAID/El Salvador's  
Public Sector Restoration Project  
Managed by the National Administration  
for Water and Sewage  
October 1, 1988 to September 30, 1990**

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**Audit Report No. 1-519-93-03-N  
January 13, 1993**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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**AGENCY FOR INTERNATIONAL DEVELOPMENT**

OFFICE OF THE REGIONAL INSPECTOR GENERAL

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TEGUCIGALPA - HONDURAS

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January 13, 1993

**MEMORANDUM**

TO: D/USAID/El Salvador, John Sanbrailo

FROM: RIG/A/T, Lou Mundy 

SUBJECT: Audit of USAID/El Salvador's Public Sector Restoration Project, Managed by the National Administration for Water and Sewage, October 1, 1988 to September 30, 1990

This is a report on one of the six implementing entities of the Public Sector Restoration Project (Project), USAID/El Salvador Project No. 519-0279. This report presents the results of a financial audit on those Project activities managed by the National Administration for Water and Sewage (the Administration) for the period October 1, 1988 to September 30, 1990. The audit firm of Arthur Andersen & Co. prepared the report dated November 30, 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 Administration is an autonomous public service institution charged with the administration of the water and sewage 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, the Administration received \$11.3 million in drilling equipment and accessories, generators, pumping equipment, electrical components, and other related equipment for the repair of sewage and water services. During the audit period the Administration received \$4,122,029 in commodities from the Project.

The objectives of the audit were to determine whether: (1) the Administration'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 Administration's internal control

structure was adequate to manage Project operations, and (3) the Administration had complied with Project agreement terms and applicable laws and regulations. The scope of the audit included an examination of the Administration'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 Administration during the period audited. The auditors reported questionable costs of \$39,664 which did not affect their opinion of the equipment/supplies accountability statement.

The auditors identified six material weaknesses in the Administration's internal control structure for Project activities. The auditors reported that the Administration: (1) did not maintain separate records to account for and report on supplies and equipment acquired with Project funds, (2) did not have an adequate control for the custody and safekeeping of supplies and equipment, (3) lacked an adequate control for the physical location of all goods acquired, (4) did not have an adequate plan for the acquisition of parts and maintenance of vehicles acquired under the Project, (5) did not properly store all equipment and supplies, and (6) had never performed a physical inventory at one of its warehouses.

With respect to the Administration's compliance with agreement terms and applicable laws and regulations, the auditors found three material instances of noncompliance with terms of the Project Agreement: the Administration (1) had not performed audits or evaluations of Project activities, (2) could not provide evidence that in-kind counterpart contributions totaling the equivalent of \$1.3 million had been provided, and (3) did not prepare required quarterly reports on contracts and on the receipt and use of goods financed under the Project.

Although this Project has ended, USAID/El Salvador has an existing agreement with the Administration to implement a follow-on project, Public Services Improvement Project, USAID/El Salvador Project No. 519-0320, which has similar objectives to this Project. For this reason **we strongly suggest that USAID/El Salvador obtain assurance that the problems noted in this report concerning the material weaknesses in the Administration's internal control structure and noncompliance with Agreement terms are not evident in the Public Services Improvement Project.**

We are including the following recommendation in the Office of the Inspector General's audit recommendation follow-up system.

**Recommendation No. 1**

**We recommend that USAID/El Salvador resolve the questionable costs of \$39,664 (\$35,215 questioned and \$4,449 unsupported) identified in the Arthur Andersen & Co. audit report dated November 30, 1992 and recover from the National Administration for Water and Sewage all amounts determined to be unallowable.**

Recommendation No. 1 can be resolved when the Mission determines the amount of recovery and closed upon the recovery of funds, offset of funds, or issuance of a Bill for Collection.

The report was discussed with representatives from the Administration who expressed general agreement with its contents. Management's comments are included as Annex I to the Arthur Andersen & Co. report.

This final report is being transmitted to you for action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations .

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

**Audit of USAID/El Salvador's  
Public Sector Restoration Project  
Managed by the National Administration  
for Water and Sewage  
October 1, 1988 to September 30, 1990**

**Audit Report No. 1-519-93-03-N  
January 13, 1993**

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

THE NATIONAL ADMINISTRATION FOR WATER AND SEWAGE  
(ANUA)

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

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ARTHUR ANDERSEN & Co.

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P.B.X.: 327939, FAXES: 316914, 316916  
Guatemala, C.A

November 30, 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 NATIONAL ADMINISTRATION FOR WATER AND SEWAGE (ANDA) 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, constructions 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 covers activities of the project executed by ANDA.

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 ANDA 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 ANDA was adequate to manage the project's operations.
3. ANDA 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 projects agreements between the USAID/El Salvador and ANDA, 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 projects,
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. DEVRES report, August 23, 1991,
9. RIG/A/T Commodity Audit Report,
10. LBII study on Host Country Contracting,
11. USAID/El Salvador Mission Order Manual (MOM), subchapter 7030, Monitoring of receipt and end-use of program and project Commodities,
12. Obtain the list of suppliers available to ANDA to procure the needed inventory and equipment and any other information provided by USAID/El Salvador on this issue,
13. All project financial and progress reports, and ANDA'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 statements 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 the purchases made by USAID/El Salvador on behalf of the project to evaluate procedures used by ANDA, as applicable, to properly record and control the assets and commodities received.

C. Internal control structure

We reviewed and evaluated ANDA'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 ANDA'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 the 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.
- E. Follow up to prior year consulting recommendations

We performed the follow up to findings and recommendations included in the Report on Host Country Contracting Assessment performed by Louis Berger International, Inc. on May, 1991 (Contract No. 519-0320-C-00-01103-00); and in the Report on Evaluation of the Commodity Management System, performed by DEVRES, INC. on August, 1991 (Contract No. 519-0349-C-00-1111).

Such follow up was made on findings and recommendations which could have a material effect on our evaluation, to determine if ANDA has taken adequate corrective measures.

#### 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 accounting statement

The equipment/supplies accountability statement present fairly, in all material respects, the amount of acquisitions made under the component executed by the National Administration for Water and Sewage (ANDA) for the period October 1, 1988 to September 30, 1990.

##### Internal control structure

The assessment of ANDA's internal control revealed the following reportable conditions:

- Purchases in US dollars paid directly by USAID not recorded in separate accounting records by ANDA and lack of preparation of equipment/supplies accountability statement.
- Lack of responsibility cards per employee.
- There is no adequate control of final destination of goods acquired.
- Difficulty in finding spare parts for the maintenance of the project vehicles.
- Existence of products not properly stored.
- No physical inventory has been taken in El Coro Warehouse 4.

##### Compliance with agreement terms and applicable laws and regulations

Except for the noncompliance situations described in findings 1 to 3, ANDA 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 ANDA had not complied, in all material respects, with the terms of the agreement and applicable laws and regulations.

##### Agreement terms

- Noncompliance with requirements of Article 5 Section 5.1 "Project Evaluation" and Section B.5 "Reports, Records, Inspections, Audits", Exhibit 2.

- . During the period from October 1, 1988 to September 30, 1990, no project evaluation was made and no independent audit was contracted to review project records.
- . In addition, under Article 5 Section 5.1, unless the parties agree otherwise in writing, the program is to include, during project implementation and once or more times thereafter:
  - a) An evaluation of progress towards attaining the 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.
- There is no evidence of compliance with Article 3 Section 3.2 "Grantee's Resources for the Project".
  - . Under this Clause and Amendment No. 11, the resources provided by the Grantee for the project shall be in kind for an equivalent of US\$ 1,333,000.
- Noncompliance with 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 these Clauses, ANDA should have kept or seen to it that project and agreement related books and records were kept according to generally accepted accounting principles and practices 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 receipt and use of goods financed under the project, and indicating:
    - a) List of goods received during the quarter, their value, and cumulative value of all products received to date.
    - b) Information on condition of goods on arrival in El Salvador and any action taken in relation to damaged or incomplete shipments.
    - c) Brief description of use made of the goods in relation to the project purpose.
    - d) Certification that the goods were used in accordance with the project objectives.

- Moreover, it should have prepared quarterly reports on contracts financed with project funds:
  - a) List of contracts in effect during the quarter, the parties involved, purpose of contract, total cost of contract and its duration.
  - b) List by contract of quarterly expenses, cumulative expenses, and total value of each contract.
  - c) Brief description of contractor's activities during the quarter.
  - d) Certification to the effect that each contract in effect is being used in accordance with project goal and purpose.

Follow up to prior year consulting  
recommendations

Due to the fact that the reports of the Consulting Firms DEVRES, Inc. and Louis Berger International, Inc. covered a period after the completion date of the Project 519-0279, this section does not apply to this report.

However, since the follow up to the recommendations included in these consulting reports are part of our scope of work, a follow up to the recommendations is included as Annex II to this report.

V. MANAGEMENT COMMENTS:

The draft of this report was discussed with representatives from ANDA and USAID/El Salvador, who in general, agreed with the report. Their comments have been considered in the preparation of this report.

The entire text of ANDA's Management Comments is included as Annex I to this report.

*Arthur Andersen & Co.*

ARTHUR ANDERSEN & Co.

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

THE NATIONAL ADMINISTRATION FOR WATER AND SEWAGE

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 NATIONAL ADMINISTRATION FOR WATER AND SEWAGE (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 National Administration for Water and Sewage. 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 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 organizations 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 NATIONAL ADMINISTRATION FOR WATER

AND SEWAGE, 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.

Regarding project activities financed with A.I.D. Grant Funds, our audit test disclosed cost of US\$ 39,664 which have been considered questionable for the reasons explained in Note No. 6 to the equipment/supply accountability statement. These questionable costs do not affect our opinion on the statement.

This report is intended for the information and use of the National Administration for Water and Sewage, 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 record.

*Arthur Andersen & Co.*

Guatemala, C. A.

June 10, 1992

PUBLIC SECTOR RESTORATION PROJECT

USAID/EL SALVADOR PROJECT No. 519-0279

THE NATIONAL ADMINISTRATION FOR WATER AND SEWAGE (ANDA)

EQUIPMENT/SUPPLIES ACCOUNTABILITY STATEMENT

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

<u>Activity</u>	<u>Budget (unaudited)</u>	<u>Project total disbursement</u>	<u>Accumulated disbursement as of 30-09-88 (unaudited)</u>	<u>For the period October 1988 through September 30, 1990</u>		
				<u>Disbursement (See Note 5)</u>	<u>Questionable costs</u>	
					<u>Questioned</u>	<u>Reference to notes</u>
10-For tools, equipment and parts	US\$ 11,034,000	US\$ 11,034,086	US\$ 7,216,534	US\$ 3,817,552	US\$ 39,664	(6)
22-Contingency Fund	317,000	304,477	-	304,477	-	
	<u>US\$ 11,351,000</u>	<u>US\$ 11,338,563</u>	<u>US\$ 7,216,534</u>	<u>US\$ 4,122,029</u>	<u>US\$ 39,664</u>	

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

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

THE NATIONAL ADMINISTRATION FOR WATER AND SEWAGE  
(ANDA)

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, constructions 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

ANDA was create under Decree No. 341 of the Civil Military Directorate on October 17, 1961 as an autonomous public service institution whose basic objective is to provide and help to provide the inhabitants of the Republic of El Salvador with Water Systems and Sewage through the planning, financing, implementation, operation, maintenance, administration and exploitation of works which are necessary or convenient.

(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.

(5) Purchases in US dollars paid directly by USAID

As part of the project grant, in the period from October 1, 1988 to September 30, 1990 USAID/El Salvador paid directly the purchases indicated below for implementation of the project. These purchases were made on the basis of documentation submitted by ANDA, 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>
561	ED Hubbard	22-11-88	
562	Southern EQ	22-11-88	US\$ 476,392
586	Gould Permps Inc.	17-01-89	451,260
588	Joel Group	03-01-89	317,950
589	Technical Inc.	07-01-89	7,638
590	Century Bank	06-01-89	22,245
591	Aqua Systems	23-01-89	157,258
600	Caterpillar	15-02-89	354,004
623	Caterpillar	10-07-89	752,370
630	Technical Inc.	22-08-89	424,887
632	Siemens	22-08-89	30,001
633	Edison Hubbard	22-08-89	37,413
634	Mollendo EQ	22-08-89	12,917
653	Aqua Systems	14-09-89	16,694
654	Technical Inc.	14-09-89	430,867
654	Technical Inc.	14-09-89	34,312
655	Mollendo	14-02-89	112,500
690	Technical Inc.	06-04-90	280,624
697	Technical Inc.	20-04-89	17,445
697	Technical Inc.	20-04-89	10,720
			174,532
			<u>US\$ 4,122,029</u>

(6) Questionable costs

Our audit disclosed the following items which we considered to be questionable costs:

<u>Cost questioned-</u>	<u>Amount</u>	<u>Reason for questioning</u>
Starter of 7 1/2" HP 230 V. mark "Selectric", No. PX23/007WL, acquired with LCOM No. 586	US\$ 1,018	(1)
To page 17...	US\$ 1,018	

	<u>Amount</u>	<u>Reason for questioning</u>
From page 16...	US\$ 1,018	
Tee MJMXXFIG of 16" 2 bells with lateral bridle, acquired with LCOM No. 586	818	(1)
Two Gate Valve of 14" Ho. Fdo., 2 bells, acquired with LCOM No. 586	3,139	(1)
Two Gate Valve of 16" Ho. Fdo., 2 bells with given operating, acquired with LCOM No. 591	5,300	(1)
Two Gate Valve of 14" Ho. Fdo., 2 bells with given operating, acquired with LCOM No. 591	2,904	(1)
Bomb formed compress cistern mark "Flaway" model 12LKX, column 8" turbine 8" by 11 stages No. 9020031, acquired with LCOM No. 654	5,376	(1)
Two valves "Check" mark "APCO" model 6000 CP, class 300, 8" of diameter, Ho. Fdo. together Bridle acquired with LCOM No. 654	3,764	(1)
Two valves "Check" mark "APCO" model 6000 CP, class 300, 6" of diameter, with LCOM No. 654	2,759	(1)
C y L kit 4 per Engine, acquired with LCOM No. 655	6,333	(1)
Clorinator mark "Modern", model T410 series No. 905571-3, acquired with LCOM No. 697	876	(1)
Hipoclorador mark "Milton King" model D11 series No. 9002397, acquired with LCOM No. 697	810	(1)
Turbine of 4" by 6 stages, model 7RAHC with colander No. LT 89797, acquired with LCOM No. 586	612	(2)
Turbine of 4" by 8 stages, model 8RAHC with colander No. LT 89805, acquired with LCOM No. 586	1,639	(2)
To page 18...	<u>1,639</u> US\$ 35,348	

	<u>Amount</u>	<u>Reason for questioning</u>
From page 17...	US\$ 35,348	
Turbine of 6" by 13 stages, model 10JHC with colander No. LT 89808, acquired with LFCOM No. 586	2,198	(2)
Starter of 30HP 230 V. mark "Selectric", No. PA23/030WL, acquired with LCOM No. 586	2,118	(1)
	<u>US\$ 39,664</u>	

- (1) These commodities were not located, in accordance with the location indicate in the kardex, and it was not possible for the institution to establish its real location.
- (2) We were not able to observe these commodities physically, due to the inherent conditions of its location, neither necessary documentation was provided to establish if such asset was installed where indicated.

(7) 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 show 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 direct purchases</u>	<u>Accumulated direct purchases as of 30-09-88 (unaudited)</u>	<u>Direct purcha- ses of the period October 1, 1988 through September 30, 1990</u>
<b>The Lempa River Hydroelectric Executive Commission</b>				
01-Procurement of equipment	US\$ 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
	-----	-----	-----	-----
<b>The Ministry of Public Works-</b>				
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
	-----	-----	-----	-----
<b>The Autonomous Executive Ports Commission</b>				
02-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
	-----	-----	-----	-----
<b>The National Administration for Telecommunications (unaudited)</b>				
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 direct purchases</u>	<u>Accumulated direct purchases as of 30-09-88 (unaudited)</u>	<u>Direct purcha- ses 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
<b>The National Administration for Water and Sewage</b>				
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>
<b>The Ministry of Planning and Coordination for social and economic development</b>				
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 NATIONAL ADMINISTRATION FOR WATER AND SEWAGE

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 NATIONAL ADMINISTRATION FOR WATER AND SEWAGE for the period October 1, 1988 through September 30, 1990, and we have issued our report in which we expressed an unqualified opinion thereon dated June 10, 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 NATIONAL ADMINISTRATION FOR WATER AND SEWAGE, 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 National Administration for Water and Sewage, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments 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 purpose of this report, we have classified the significant internal control structure policies and procedures in the following economic cycles: 1) equipment and supplies acquisition, 2) inventory procedures, 3) custody and equipment and supplies safeguard.

For all of the control cycles 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 findings from 1 to 6 in the following pages 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 pages, are material weaknesses.

This report is intended for the information and use of the National Administration for Water and Sewage, 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 record.

*Arthur Andersen & Co*

Guatemala, C. A.

June 10, 1992

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

THE NATIONAL ADMINISTRATION FOR WATER AND SEWAGE

INTERNAL CONTROL FINDINGS

1. Purchases in US dollars paid directly by USAID not recorded in separate accounting records by ANDA and lack of preparation of equipment/supplies accountability statement.

Condition

The National Administration for Water and Sewage (ANDA) did not maintain separate records to account for purchases of commodities financed under the project and paid directly by AID. As a result, the equipment/supply accountability statement was not periodically prepared during the period October 1, 1988 to September 30, 1990.

Criteria

In accordance with generally accepted accounting standards, all operations should be recorded in the period and at actual costs. Accounting records should be kept with the purpose of issuing periodic reports on economic operations and events under the project. These records serve as a financial tool for decision making by the administration.

Cause

There was no accounting-administrative procedures manual for recording, accumulating and reporting project operations in foreign currency.

Effect

There was no adequate control of assets acquired with project funds, and there was lack of accounting records for the equipment and supplies bought through A.I.D. with project No. 519-0279 funds.

Recommendation

Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because ANDA 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 recommend that ANDA prepare an accounting and administrative procedures manual covering accounting treatment and flow of information needed for the monthly preparation of the accumulated equipment/supplies accountability statement, and to provide project financial information at a given date.

2. Lack of responsibility cards per employee

Condition

The ANDA/AID division do not use responsibility cards per employee for the control, custody and safekeeping of goods acquired with project funds.

Criteria

As a sound internal control measure it is necessary to have written controls to make it possible to define responsibilities for the proper use and custody of goods acquired.

Cause

There is a lack of written requirements for the specific controls per employee, of the commodities acquired by project funds.

Effect

It would not be possible to lay responsibilities on employees having under their responsibility certain equipment which suffers unjustified deterioration or loss. This could lead to losses for the project and project objectives not attained.

Recommendation

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

The ANDA/AID division should implement procedures to cover the use of responsibility cards per employee for the control of goods acquired, and which should contain as a minimum:

- Equipment control code, in running order
- Place and date of delivery
- Name of employee receiving equipment
- Description of equipment delivered
- Location and/or destination of equipment

- Signature of employee to the effect that he has satisfactorily received the equipment described on the card.
3. There is no adequate control of final destination of goods acquired

Condition

When we performed our physical observation of the goods acquired with funds from Project No. 519-0279, we noticed that in some cases the physical location indicated in the auxiliary record does not agree with actual location.

Criteria

Under the Clauses of the Agreement, the entity should have records to show without any limit the receipt, destination and final use of the goods.

Cause

Lack of an accounting and administrative procedures manual to define the records and controls necessary and which should be kept for control of the goods during implementation of the project.

Effect

Because there are no necessary and updated records, we could not find certain assets, which fact led to questionable costs of US\$ 39,664.

Recommendation

ANDA should prepare a detail of the location and/or final destination of the assets which have not been found and which were acquired with funds from USAID/El Salvador Project No. 519-0279 in order to settle the questionable costs.

Because this project was concluded on September 30, 1990, we are not including a recommendation for internal control under this project. However, because ANDA is managing the Public Services Improvement Project, USAID/El Salvador Project No. 510-0320, with similar objectives, we suggest that the following recommendation be implemented for better management of the new project.

ANDA should prepare and implement an accounting and administrative procedures manual for implementation of USAID projects.

4. Vehicle maintenance

Condition

During our audit, we selected a sample of 50 vehicles for physical verification. Our review disclosed that three of the vehicles inspected (vehicles identified as Nos. 1PDT, 57PDT and 66PDT) had been out of working

condition for over one year. According to ANDA officials, these vehicles had not been repaired due to lack of spare parts in the local market.

#### Criteria

Sound business practices require the proper maintenance of capital equipment to enhance its useful life and to obtain the expected project benefits.

#### Cause

Vehicles were purchased without first making a study of the local market regarding the availability of spare parts for such vehicles, or the availability of an authorized dealer who could provide the needed vehicle maintenance.

#### Effect

The project was not benefiting as intended, of the use of vehicles procured under the project.

#### Recommendation

We recommend that prior to the acquisition of vehicles, ANDA negotiates with the authorized local dealership the provision of maintenance to vehicles acquired with project funds.

### 5. Existence of products not properly stored

#### Condition

There are materials stocked outside the warehouse, without any protection.

#### Criteria

As a sound control measure materials and supplies should be stored in an appropriate and safe place to avoid their deteriorating.

#### Cause

Lack of physical space in the warehouses to store all the goods acquired for the project.

#### Effect

In the San Miguelito (Santa Ana) and La Ceiba 3 warehouses we found products rusted and in bad condition.

#### Recommendation

Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because ANDA 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 ANDA provide the resources necessary to build the warehouses which are required and which should be adequate to store project goods in order to protect them from deterioration or loss.

6. No physical inventory has been taken  
in El Coro Warehouse 4

Condition

El Coro Warehouse 4 began to be used in 1989. As of date no general physical inventory has been taken in this warehouse.

Criteria

As an internal control measure, at least one physical inventory of goods in stock should be taken every year.

Cause

There are no written policies and procedures on the handling, control and safekeeping of goods acquired with A.I.D. funds for implementation of the project.

Effect

Lack of physical control can lead to overages or shortages which are not detected in time.

Recommendation

Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because ANDA 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 preparing and implementing written policies and procedures defining handling, control and safekeeping of the goods in order to detect, prevent and correct errors in a timely manner.

ARTHUR ANDERSEN & Co.

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

THE NATIONAL ADMINISTRATION FOR WATER AND SEWAGE

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 NATIONAL ADMINISTRATION FOR WATER AND SEWAGE for the period October 1, 1988 through September 31, 1990, and we have issued our report in which we expressed an unqualified opinion thereon dated June 10, 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 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 and applicable laws and regulations is the responsibility of the management of the National Administration for Water and Sewage. As part of obtaining reasonable assurance about whether the equipment/supplies accountability statement is free of material misstatement, we performed tests of the National Administration for Water and Sewage 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 to 3 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 National Administration for Water and Sewage 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 10, 1992 on that statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the National Administration for Water and Sewage 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 National Administration for Water and Sewage had not complied, in all material respects with those provisions.

This report is intended for the information and use of the National Administration for Water and Sewage, 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 record.

*Arthur Andersen & Co.*

Guatemala, C. A.

June 10, 1992

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

THE NATIONAL ADMINISTRATION FOR WATER AND SEWAGE  
(ANRA)

FINDING ON COMPLIANCE WITH LEGAL ASPECTS, APPLICABLE  
REGULATIONS AND TERMS OF AGREEMENT

**AGREEMENT TERMS**

1. Noncompliance with requirements of Article Section 5.1 "project evaluation" and Section B.5 "Reports, records, inspections, audits", inset (b) of exhibit 2

Condition

ANRA 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 no independent audit was contracted to review project records.

Criteria

Under the Clauses mentioned, ANRA should have submitted its project and agreement related books and records of account to periodic audits in accordance with generally accepted audit procedures.

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

- a) An evaluation of progress towards attainment of the 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 which should have been complied with.

### Effect

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

### Recommendation

Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because ANDA 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 the implementation of the Public Services Improvement Project, USAID/El Salvador Project No. 519-0320, ANDA prepare a program for contracting audit services and evaluation of the project in order to comply with the terms of the agreement.

2. There is no evidence of compliance with Article 3 Section 3.2 "Grantee's resources for the project"

### Condition

We could not verify in ANDA compliance with the requirements of this clause because there are no auxiliary records to show how the counterpart funds were provided by the Government of El Salvador.

### Criteria

Under this Clause and the provisions of Amendment No. 11, the resources provided by the Grantee for the project shall be in kind for an equivalent of US\$ 1,333,000.

### Cause

There were no controls over the counterpart funds provided by the Government of El Salvador.

### Effect

Compliance with this clause could not be verified.

### Recommendation

Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because ANDA 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 ANDA prepare controls to make it possible to provide sufficient evidence as to the counterpart funds that have been contributed to Project No. 519-0320.

3. 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

ANDA did not comply with the requirement of these project clauses as there was no separate control to record the goods acquired with funds from Project No. 519-0279.

#### Criteria

According to these clauses, ANDA should have kept or seen to it that project and agreement related books and records were kept in accordance with generally accepted accounting principles and practices 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 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 taken in relation to damaged or incomplete shipments.
- Brief description of use made of the goods in relation to the project purpose.
- Certification to the effect that the goods were used in accordance with the project objectives.

It should also have prepared quarterly reports on contracts financed with project funds:

- List of contracts in effect during the quarter, the parties involved, purpose of the contract, total cost of the contract and its duration.
- List by contract of quarterly expenses, cumulative expenses and total value of each contract.
- Brief description of contractor's activities during the quarter.
- Certification to the effect that each contract in effect is being used in accordance with project goal and purpose.

### 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 the project goals.

### Recommendation

Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because ANDA 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 create the mechanisms necessary to communicate 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 NATIONAL ADMINISTRATION FOR WATER AND SEWAGE  
(ANDA)

LIST OF REPORT RECOMMENDATION

Internal control structure

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

1. We recommend that ANDA prepare an accounting and administrative procedures manual covering accounting treatment and flow of information needed for the monthly preparation of the accumulated equipment/supplies accountability statement, and to provide project financial information at a given date.
2. The ANDA/AID division should implement procedures to cover the use of responsibility cards per employee for the control of goods acquired, and which should contain as a minimum:
  - Equipment control code, in running order
  - Place and date of delivery
  - Name of employee receiving equipment
  - Description of equipment delivered
  - Location and/or destination of equipment
  - Signature of employee to the effect that he has satisfactorily received the equipment described on the card.
3. ANDA should prepare a detail of the location and/or final destination of the assets which have not been found and which were acquired with funds from USAID/El Salvador Project No. 519-0279 in order to settle the questionable costs.

ANDA should prepare and implement an accounting and administrative procedures manual for implementation of USAID projects.

4. We recommend that prior to the acquisition of vehicles, ANDA negotiates with the authorized local dealership the provision of maintenance to vehicles acquired with project funds.
5. We suggest that ANDA provide the resources necessary to build the warehouses which are required and which should be adequate to store project goods in order to protect them from deterioration or loss.
6. We suggest preparing and implementing written policies and procedures defining handling, control and safekeeping of the goods in order to detect, prevent and correct errors in a timely manner.

Compliance with agreement terms and applicable laws and regulations

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

1. We suggest that for the implementation of the Public Services Improvement Project, USAID/El Salvador Project No. 519-0320, ANDA prepare a program for contracting audit services and evaluation of the project in order to comply with the terms of the agreement.
2. We suggest that ANDA prepare controls to make it possible to provide sufficient evidence as to the counterpart funds that have been contributed to Project No. 519-0320.
3. We suggest that the Government of the Republic of El Salvador and the project implementing entities create the mechanisms necessary to communicate the implementing entities the procedures to be followed for administering the project.



ADMINISTRACION NACIONAL DE ACUEDUCTOS Y ALCANTARILLADOS  
UNIDAD ANDA - A I D

FECHA 14/septiembre/92

SAN SALVADOR, EL SALVADOR

REF.:

13 . 640 . 92

Señores  
Aguirre Paredes y Asociados,  
Auditores y Consultores  
Presente

Attn. Lic. Alfredo Aguirre

Estimado Licenciado Aguirre:

Nos es grato referirnos a usted en relación a la nota ref. 124 - AU - 92 de fecha 1 de los corrientes para remitirles nuestros comentarios al informe de auditoría del proyecto Restauración de servicios públicos USAID/El Salvador N° 519 0279, preparado por la firma Arthur Andersen & Co.



Muy atentamente,

Ing. Mauricio Antonio Chicas  
Gerente ANDA AID

dp./

INFORME DE AUDITORIA EXTERNA ARTHUR ANDERSEN & Co.  
 PROYECTO RESTAURACION DE SERVICIOS PUBLICOS USAID/EL SALVADOR  
 PROYECTO 519-0279  
 PERIODO 1º DE OCTUBRE/88 HASTA 30 DE SEPT/90

HALLAZGOS DE CONTROL INTERNO

No.	OBSERVACIONES DE AUDITORIA	COMENTARIOS DE ANDA
1.	<p>COMPRAS DIRECTAS HECHAS POR USAID NO REGISTRADAS POR ANDA Y FALTA DE PREPARACION DE ESTADO DE EQUIPOS/SUMINISTROS CONTABILIZADOS.</p>	<p>ANDA registró las compras al Exterior en su contabilidad general integrándolas a su activo fijo, pero no llevó una contabilidad separada del proyecto. Para esto se utilizó el catálogo de cuentas vigente de la Institución. No se preparó el estado de equipos/suministros contabilizados. ANDA no contó con una unidad específica para efectuar todo el proceso desde la Licitación hasta su registro contable, sino que se utilizaron las distintas unidades de ANDA para efectuar el proceso de compras al exterior. ANDA está de acuerdo en implementar esta recomendación para el proyecto 519-0320 ya que cuenta con la infraestructura necesaria para su implementación así como también par efectuar registros consistentes en determinado período y a su costo real, solo requerimos de AID la entrega oportuna de los comprobantes de pago efectuados a los suministrantes. También hacemos de su conocimiento que utilizaremos para los registros contables, la guía para el registro de las operaciones contables en las unidades ejecutoras del presupuesto extraordinario para</p>

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HALLAZGOS DE CONTROL INTERNO

No.	OBSERVACIONES DE AUDITORIA	COMENTARIOS DE ANDA
	CONTINUACION No. 1	reactivación económica aprobada por La Secretaría Técnica para el Financiamiento Externo.
2.	FALTA DE PROCEDIMIENTOS ESCRITOS PARA LA PREPARACION Y USO DE TARJETAS DE RESPONSABILIDAD.	Efectivamente no hay procedimientos escritos para la preparación y uso de tarjetas de responsabilidad, solo existe una tarjeta de control y acta de recepción para vehículos la cual es firmada por la persona que recibe el vehículo y el Delegado del Depto. de Transportes. ANDA no podrá implementar esta recomendación para el proyecto 519-0320 por la naturaleza de utilización de los bienes ya que algunos bienes como son los equipos de Bombeo, la cañería, las turbinas, los motores y otros accesorios quedan instalados en los proyectos; se continuará manteniendo este control para los vehículos, Equipos de Ingeniería, mobiliario y equipo de oficina.
3.	NO EXISTE UN ADECUADO CONTROL DEL DESTINO FINAL DE LOS BIENES ADQUIRIDOS.	ANDA continúa con el proceso de identificación de los bienes no localizados por la Auditoría Externa; sobre esta recomendación ANDA remitió a AID con fecha 10 de junio/92 los procedimientos actualizados de la gestión de

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HALLAZGOS DE CONTROL INTERNO

No.	OBSERVACIONES DE AUDITORIA	COMENTARIOS DE ANDA
	CONTINUACION No. 3	compras al exterior que incluía el uso y destino final de los bienes; asimismo la ANDA aplicará el Manual de Operaciones de la Misión sobre el monitoreo del recibo y uso final de los bienes del programa y proyecto.
4.	NO SE UTILIZAN EFICIENTEMENTE LOS VEHICULOS ADQUIRIDOS CON LOS FONDOS DEL PROYECTO.	Sobre esta observación la ANDA reservará fondos para reparar los vehículos en mal estado. Para el proyecto 519-0320 la Gerencia ANDA AID si dispone de los fondos necesarios para atender estas reparaciones con los vehículos asignados para su normal funcionamiento.
5.	EXISTENCIA DE PRODUCTOS NO ALMACENADOS APROPIADAMENTE.	En cuanto a esta observación la ANDA ya inició las mejoras en el Almacén No. 3 La Ceiba, según consta en punto No. 2 de la reunión de Gerentes No. 33 y quedará concluido en octubre/92, para la de Santa Ana se concluirán en dic/92.
6.	NO SE HA PRACTICADO INVENTARIO FISICO EN ALMACEN 4 EL CORO.	Se ha considerado un programa anual de realización de inventario físico y para este almacén se ha programado efectuarlo en los meses de septiembre y octubre/92.

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HALLAZGOS SOBRE CUMPLIMIENTO DE ASPECTOS LEGALES  
 REGULACIONES APLICABLES Y TERMINOS DEL CONVENIO

No.	COMENTARIOS DE AUDITORIA	COMENTARIOS DE ANDA
1.	<p>INCUMPLIMIENTO DE LOS REQUISITOS INCLUIDOS EN EL ARTICULO 5 SECCION 5.1 "EVALUACION DEL PROYECTO" Y EN LA SECCION B.5 "INFORMES REGISTROS, INSPECCIONES AUDITORIAS" INCISO (b) DEL ANEXO 2.</p>	<p>El informe sobre la evaluación del Proyecto no se tiene conocimiento si se elaboró, pero si se trabajó en estrecha relación con personal de AID responsable de darle seguimiento a este proyecto y si tenían conocimiento del progreso del proyecto.</p> <p>Para el proyecto 519-0320 se considera esta recomendación con excepción de la contratación de los servicios de auditoría para la evaluación del proyecto, ya que esta debe ser contratada por AID, así también la Unidad Ejecutora no dispone de los fondos necesarios para atender estos servicios.</p>
2.	<p>NO EXISTE EVIDENCIA DEL CUMPLIMIENTO DE LO ESTIPULADO EN EL ARTICULO 3 SECCION 3.2 "RECURSOS AL DONATARIO PARA EL PROYECTO"</p>	<p>Efectivamente no se pudo determinar el cumplimiento de esta condición contractual.</p> <p>Para el Proyecto 519-0320, si se tienen controles para conocer los fondos recibidos de contrapartida.</p>

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HALLAZGOS SOBRE CUMPLIMIENTO DE ASPECTOS LEGALES  
REGULACIONES APLICABLES Y TERMINOS DEL CONVENIO

No.	OBSERVACIONES DE AUDITORIA :	COMENTARIOS DE ANDA
3.	INCUMPLIMIENTO DE LOS REQUISITOS ESTABLECIDOS EN LA SECCION b.2 "SEGUIMIENTO Y REPORTE SOBRE EL PROYECTO" INCISOS a Y b Y SECCION b.5 "INFORMES, REGISTROS INSPECCIONES Y AUDITORIAS" INCISO (b) DEL ANEXO 2.	Esta condición contractual no tenemos conocimiento de su cumplimiento pero si estamos de acuerdo en implementarla para el proyecto 519-0320.

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HALLAZGOS SOBRE EL SEGUIMIENTO DE LAS  
 RECOMENDACIONES DE CONSULTORIAS DEL AÑO ANTERIOR

No.	OBSERVACIONES DE AUDITORIA	COMENTARIOS DE ANDA
1.	FALTA DE IMPLEMENTACION DE ALGUNAS RECOMENDACIONES DEL INFORME DE LOUIS BERGER INTERNATIONAL, INC.	Sobre el cumplimiento de estas recomendaciones manifestamos que éstas no fueron entregadas a ANDA oportunamente en forma oficial si no fue hasta que se recibió la nota de USAID-IRD-228 de fecha 20 de mayo/92 donde manifiesta los items cumplidos y no cumplidos. ANDA dio respuesta a esta solicitud de AID en nota ref. 10-340-92 de fecha 10 de junio de 1992, para dar cumplimiento a lo ahí estipulado; ANDA no ha recibido respuesta todavía: se adjunta copia del informe.
2.	FALTA DE IMPLEMENTACION DE ALGUNAS DE LAS RECOMENDACIONES DEL INFORME EMITIDO POR DEVRES, INC.	Caso similar al anterior, ANDA no recibió oportunamente no oficialmente este informe. Estas observaciones se cumplieron con el envío a AID de la nota ref. 10.340.92 de fecha 10 de junio de 1992.

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

THE NATIONAL ADMINISTRATION FOR WATER AND SEWAGE  
(ANDA)

FINDINGS ON FOLLOW UP TO PRIOR YEAR CONSULTING RECOMMENDATIONS

During our audit of project 519-0279 activities managed by the National Administration for Water and Sewage (ANDA) and as part of our scope of work, we performed a follow up of recommendations included in the reports on ANDA's activities prepared by DEVRES, Inc. and Louis Berger International, Inc. These recommendations however, addressed activities carried out by ANDA under project 519-0320; which is a follow on project with objectives similar to those under project 519-0320.

Our review of the status of recommendations was to June 10, 1992 and disclosed the following situations:

1. Lack of implementation of some recommendations of the reports of Louis Berger International, Inc.

Condition

ANDA has not implemented the following recommendations of the report of Louis Berger International, Inc., on host country contracting assessment done in May 1991.

- Warehouse supplies incoming forms should be numbered before incomings are processed.
- ANDA should keep up-to-date records of inventories and other equipment acquired under the project, reconcile these records monthly with the General Inventories Register and periodically with the physical inventories.
- ANDA should make certain that the technical units prepare tables for the Evaluation Committee to compare technical specifications with those proposed by bidders.

Recommendation

Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because ANDA 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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ANDA should prepare a program including activities and dates to implement in the shortest possible time the recommendations included in the report issued by Louis Berger International, Inc., in order to improve project controls.

2. Lack of implementation of some of the recommendations of the Report Issued by Devres, Inc.

Condition

1. Develop procedures for final use and distribution of goods to allow for adequate follow up from warehouse despatch to final use, as these end use verification procedures are not being followed.
2. Compare goods with cards (kardex) and inventory lists during annual physical inventory. Adjustments should be recorded with documents explaining the differences. The kardex and inventory lists should be reconciled at this time. At present, physical inventories are not compared with inventory lists and warehouse cards.
3. Prepare comprehensive procedures manual for receipt, process, claims and distribution of ANDA's goods. The management unit has no manuals providing detailed procedures for administration of the goods.
4. Inspect supplies received in the warehouse within a period of 48 hours and communicate discrepancies immediately to A.I.D. and the supplier. Verification of shipments of supplies received in the ANDA warehouses is not done in a timely manner.
5. Obtain appropriate mobile warehouse equipment, such as forklifts and cranes. The management unit should work with ANDA to buy the equipment. At present ANDA's warehouses do not have sufficient equipment, which leads to improper handling and damage to goods.
6. Provide direct access from the warehouses to the computer center thus eliminating duplication of efforts. All inventory recording in the warehouses is done by hand and then repeated in the computer center.

Recommendation

Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because ANDA 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.

ANDA should prepare a program to include activities and dates to implement in the shortest possible time the recommendations of the report of Devres, Inc., in order to improve project related controls.

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