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Regional Inspector General for Audit
Tegucigalpa, Honduras

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

**Audit Report No. 1-519-93-08-N
January 19, 1993**

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AGENCY FOR INTERNATIONAL DEVELOPMENT

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January 19, 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 Administration for Machinery and Equipment, 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 of those Project activities managed by the Administration for Machinery and Equipment (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, a Directorate of the Government of El Salvador's Ministry of Public Works (Ministry), was responsible for acquiring heavy road construction machinery as well as materials for temporary construction in critical road rebuilding zones. 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 \$21.1 million from the Ministry for the implementation of this component. During the audit period the Administration received \$2,065,693.

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 \$23,715 which did not affect their opinion of the equipment/supplies accountability statement.

The auditors identified two material weaknesses in the Administration's internal control structure for Project activities. The auditors reported that the Administration: (1) did not periodically prepare an equipment/supplies accountability statement and (2) did not have adequate controls for custody and safekeeping of Project materials.

With respect to the Administration's compliance with agreement terms and applicable laws and regulations, the auditors found three material instances of noncompliance with the terms of the Project Agreement. The Administration: (1) had not performed audits or evaluations of Project activities, (2) did not maintain separate accounting records for Project activities, and (3) did not have adequate controls for custody and use of Project materials.

Since this Project ended September 30, 1990 we have not made any recommendations to correct the internal control and compliance deficiencies identified in this report in the Office of the Inspector General's audit recommendation follow-up system.

However, it should be noted that USAID/El Salvador has an existing agreement with the Administration to implement a follow-on project, the Public Services Improvement Project, USAID/El Salvador Project No. 519-0320, which has similar objectives to this Project. Arthur Andersen & Co., at the request of USAID/El Salvador, performed an award survey of the Administration's capability to manage this follow-on project. Their review disclosed similar deficiencies to those identified in this report as well as additional deficiencies for which we have made recommendations for USAID/El Salvador's action (see Audit Report No. 1-519-93-06-N dated January 19, 1993).

We are including the following recommendation on questionable costs 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 \$23,715 (questioned) identified in the Arthur Andersen & Co. audit report dated November 30, 1992 and recover from the Ministry of Public Works' Administration for Machinery and Equipment 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.

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

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

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

**Audit Report No. 1-519-93-08-N
January 19, 1993**

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

THE MINISTRY OF PUBLIC WORKS (MOP) THROUGH
ADMINISTRATION FOR MACHINERY AND EQUIPMENT (AME)

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 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 MINISTRY OF PUBLIC WORKS (MOP) THROUGH ADMINISTRATION FOR MACHINERY AND EQUIPMENT (AME) 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 Develop-
ment 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 AME.

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 AME 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 AME was adequate to manage the project's operations.
3. AME 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 AME 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. 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 AME 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 AME'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 AME, as applicable, to properly record and control the assets and commodities received.

C. Internal control structure

We reviewed and evaluated AME'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 regulation

Our work on AME'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 determinate 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. Determinate 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. 519-0349-00-1111).

Such follow up was made on findings and recommendations which could have a material effect on our evaluation, to determine if AME 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 Ministry of Public Works (MOP) through the Administration for Machinery and Equipment (AME) for the period from October 1, 1988 to September 30, 1990.

Internal control structure

The evaluation of AME's internal control revealed the following reportable conditions:

- Lack of preparation of equipment/supplies accountability statement.
- Lack of responsibility cards per employee.

Compliance with agreement terms and applicable laws and regulations

Except for the noncompliance situations described in findings No. 1 to No. 3, AME complied in all materials 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 AME 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", Inset (b) of Exhibit 2.
 - . During the period from October 1, 1988 to September 30, 1990, no independent audit was contracted to review project records.
 - . In addition, under Article 5 Section 5.1, unless otherwise agreed by the parties in writing, the program is to include, during implementation of the project 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.

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.

As established in these clauses, AME 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 the situation regarding the status of repairs or reconstructions related to the functioning of the project:

- 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 the use made of the goods in relation to the project purpose.
- d) Certification to the effect that the goods were used in accordance with project objectives.

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

- a) List of contracts in effect during the quarter, the parties involved, purpose of the contract, total cost of the 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.

Noncompliance with requirements of Section B.5 "Reports, Records, Inspections, Audits", Inset (b) of Exhibit 2.

There was no adequate control on stocks and use of goods acquired with funds from project No. 519-0279, which makes it difficult to locate and verify their existence.

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 AME 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 AME'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 MINISTRY OF PUBLIC WORKS THROUGH
ADMINISTRATION FOR MACHINERY AND EQUIPMENT

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 OF PUBLIC WORKS THROUGH ADMINISTRATION FOR MACHINERY AND EQUIPMENT (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 Administration for Machinery and Equipment. 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 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 MINISTRY OF PUBLIC WORKS THROUGH

ADMINISTRATION FOR MACHINERY AND EQUIPMENT, 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\$ 23,715 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 Administration for Machinery and Equipment, 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 PROJECT No. 519-0279
THE MINISTRY OF PUBLIC WORKS (MOP) THROUGH
ADMINISTRATION FOR MACHINERY AND EQUIPMENT (AME)
EQUIPMENT/SUPPLIES ACCOUNTABILITY STATEMENT
FOR THE PERIOD OCTOBER 1, 1988 THROUGH SEPTEMBER 30, 1990

<u>Activity</u>	<u>Budget (unaudited)</u>	<u>Project total dis- bursement</u>	<u>Accumulated disburse- ment as of 30-09-88 (unaudited)</u>	<u>For the period October 1, 1988 through September 30, 1990</u>		
				<u>Disbursement</u>	<u>Questionable costs</u>	
					<u>Questioned</u>	<u>Reference to notes</u>
				(See Note 5)		
07-Purchase of Bailey Bridges	US\$ 2,554,000	US\$ 1,861,219	US\$ 1,525,357	US\$ 335,862	US\$ 23,715	6
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	-	
	<u>US\$ 21,799,000</u>	<u>US\$ 21,075,519</u>	<u>US\$ 19,009,826</u>	<u>US\$ 2,065,693</u>	<u>US\$ 23,715</u>	

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

1/2

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

THE MINISTRY OF PUBLIC WORKS (MOP) THROUGH
ADMINISTRATION FOR MACHINERY AND EQUIPMENT (AME)

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

The Administration for Machinery and Equipment (AME) is an office attached to the Directorate General for Urbanization and Architecture (DUA), a department of the Ministry of Public Works (MOP) of the Government of El Salvador. The purpose of AME is to provide maintenance services to the machinery and equipment of the Ministry of Public Works (MOP) using funds from the USAID/El Salvador Project No. 519-0279 grant.

(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 AME, 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>
566	B. Bridge Inc.	08-12-88	US\$ 323,932
625	Marck Trucks	18-09-89	
626	Autons Inc.	18-09-89	2,814
627	Banner Ind Inc.	17-09-89	152,325
629	Edison Hubbard	22-08-89	138,026
665	Dana World	07-02-90	177,989
666	Armstrong	07-02-90	51,699
667	Mollendo	07-02-90	10,069
668	Caterpillar	07-07-90	8,770
672	Interconont Trade	21-02-90	9,861
673	Caterpillar	21-02-90	62,625
674	Global Expediting	21-02-90	10,231
675	Intercontinental	08-03-90	125,166
676	Horizon Trading	16-03-90	67,727
611	J.I. Case Co.	16-03-90	84,853
624	Roso Int. Corp.	26-05-89	462,489
560	Edison Hubbard	18-07-89	1,963
677	Armstrong	16-11-88	11,930
678	Joel Group	16-03-90	60,629
679	Fleet Parts	16-03-90	15,843
698	B. Bridges Inc.	15-03-90	16,201
676	Horizon Trading	16-03-90	264,117
			6,434
			<u>US\$ 2,065,693</u>

(6) Questionable costs

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

Tires of different brands and sizes bought with letter of commitment No. 629, the final destination of which it was not possible to verify

US\$ 23,715

(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>
The Lempa River Hydroelectric Executive Commission				
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
	<u>58,245,000</u>	<u>58,033,371</u>	<u>45,001,849</u>	<u>13,031,522</u>
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	13,866,000	18,851,076	17,484,469	1,366,607
22-Contingency Fund	379,000	363,224	-	363,224
	<u>21,799,000</u>	<u>21,075,519</u>	<u>19,009,826</u>	<u>2,065,693</u>
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
	<u>4,054,000</u>	<u>4,051,828</u>	<u>3,401,936</u>	<u>649,892</u>
The National Administration for Telecommunications (unaudited)				
11-Emergency Repairs	1,245,000	1,245,377	1,245,377	-
22-Contingency Fund	36,000	34,303	-	34,303
	<u>1,281,000</u>	<u>1,279,680</u>	<u>1,245,377</u>	<u>34,303</u>
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
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 OF PUBLIC WORKS THROUGH
ADMINISTRATION FOR MACHINERY AND EQUIPMENT

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 OF PUBLIC WORKS THROUGH ADMINISTRATION FOR MACHINERY AND EQUIPMENT 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 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 OF PUBLIC WORKS THROUGH ADMINISTRATION FOR MACHINERY AND EQUIPMENT, 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 Administration for Machinery and Equipment, 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 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 and 2 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 of the Administration for Machinery and Equipment, 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 26, 1992

PUBLIC SERVICES RESTORATION PROJECT
PROJECT No. 519-0279
COMPONENT IMPLEMENTED BY

THE MINISTRY OF PUBLIC WORKS (MOP) THROUGH
ADMINISTRATION FOR MACHINERY AND EQUIPMENT (AME)

INTERNAL CONTROL FINDINGS

1. Lack of preparation of equipment/supplies
accountability statement

Condition

The Administration for Machinery and Equipment (AME) did not prepare periodically the equipment/supplies accountability statement during the period from October 1, 1988 to September 30, 1990.

Criteria

Accounting records should be kept for the purpose of issuing periodic reports on economic operations and events regarding the project. These records serve as a financial tool for decision making by the administration.

Cause

AME did not keep separate records to record, accumulate and report on project operations in foreign currency.

Effect

There was no adequate financial control on assets acquired with project funds.

Recommendation

Since this project was concluded on September 1990, we are not including a recommendation for internal control under this project. In addition, the follow on project implemented by this entity is covered under the award survey.

2. Lack of responsibility cards per employee

Condition

AME do not use responsibility cards per employee for the control, custody and safekeeping of goods acquired with project funds.

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Criteria

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

Cause

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

Effect

It would not be possible to lay responsibilities on employees having in their charge certain equipment which suffers unjustified deterioration or loss. This leads to losses for the project and project objectives are not attained.

Recommendation

Since this project was concluded on September 1990, we are not including a recommendation for internal control under this project. In addition, the follow on project implemented by this entity is covered under the award survey.

ARTHUR ANDERSEN & Co.

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

THE MINISTRY OF PUBLIC WORKS THROUGH
ADMINISTRATION FOR MACHINERY AND EQUIPMENT

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 OF PUBLIC WORKS THROUGH ADMINISTRATION FOR MACHINERY AND EQUIPMENT 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 26, 1992.

Except for not conducting an external quality control review by an unaffiliated audit organizations 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 Administration for Machinery and Equipment. As part of obtaining reasonable assurance about whether the equipment/supplies accountability statement is free of material misstatement, we performed tests of the Administration for Machinery and Equipment 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 applicable 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 Administration for Machinery and Equipment 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 Administration for Machinery and Equipment 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 our attention that caused us to believe that the Administration for Machinery and Equipment had not complied, in all material respects with those provisions.

This report is intended for the information and use of the Administration for Machinery and Equipment, 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 26, 1992

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

THE MINISTRY OF PUBLIC WORKS (MOP) THROUGH
ADMINISTRATION FOR MACHINERY AND EQUIPMENT (AME)

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

AGREEMENT TERMS

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

Condition

AME 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, AME should have submitted its project and agreement related books and records of accounts to periodic audits in accordance with generally accepted auditing procedures.

In addition, under Article 5 Section 5.1, unless agreed otherwise in writing by the parties, AME should have established a project evaluation program including, during implementation and once or more times thereafter:

- a) An evaluation of progress towards achievement of the objectives of the project,
- b) Identification of problems which can impede the 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 of 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 clause 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 AME 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, AME prepare a program for contracting independent audit and project evaluation services to comply with the terms of the agreement.

2. 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

Condition

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

Criteria

As provided in these clauses, AME should have kept or made sure that books and records related to the project and the agreement were kept according to generally accepted accounting principles and practices and in a form suitable for identifying 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 commodities received during the quarter, their value, and accumulated value of all products received to date.
- Information on the condition of the goods on arrival in El Salvador and any action taken in relation to damaged or incomplete packages.
- Brief description of use made of the goods in relation to the purpose of the project.
- Certification 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 expenditure, cumulative expenditure and total value of each contract.
- Brief description of contractor's activities during the quarter.
- Certification to the effect that each contract in force is being used in accordance with the goal and purpose of the project.

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 with in the implementation process.

Effect

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

Recommendation

Since this project was concluded on September 1990, we are not including a recommendation for internal control under this project. We suggest considering for this entity the recommendation relative to this finding included in the report of the Award Survey.

3. Noncompliance with requirements of Section B.5 "Reports, records, inspections, audits", inset (b) of exhibit 2

Condition

There was no adequate control of stocks and use of tires acquired with funds from Project No. 519-0279, with letter of commitment No. 629, which makes it difficult to locate them and verify their existence.

Criteria

Under Section B.5 of the agreement contract, inset (b), the entity should have kept adequate records to show without any limit the receipt and use of goods acquired with funds from project.

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 with in the implementation process.

Effect

It was not possible to verify the use and final destination of the tires acquired with letter of undertaking No. 629 for value of US\$ 23,715.

Recommendation

AME should prepare the information necessary to trace the tires which have not been found, in order to settle the questionable costs.

Controls are already being kept relative to the receipt, stock and use of goods under the Public Services Improvement Project USAID/El Salvador Project No. 519-0320, for which reason we do not include a recommendation for internal control under this finding.

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

THE MINISTRY OF PUBLIC WORKS (MOP) THROUGH
ADMINISTRATION FOR MACHINERY AND EQUIPMENT (AME)

LIST OF REPORT RECOMMENDATION

Internal control structure

- 1 and 2. Since this project was concluded on September 1990, we are not including a recommendation for internal control under this project. In addition, the follow on project implemented by this entity is covered under the award survey.

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 AME 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, AME prepare a program for contracting independent audit and project evaluation services to comply with the terms of the agreement.

2. Since this project was concluded on September 1990, we are not including a recommendation for internal control under this project. In addition, the follow on project implemented by this entity is covered under the award survey.
3. AME should prepare the information necessary to trace the tires which have not been found, in order to settle the questionable costs.

Controls are already being kept relative to the receipt, stock and use of goods under the Public Services Improvement Project USAID/El Salvador Project No. 519-0320, for which reason we do not include a recommendation for internal control under this finding.

REF. GG-AME-0428/92

San Salvador, 25 de septiembre de 1992

Señores
Arthur Andersen & Co.
Ciudad.

Atn. Lic. José Alfredo Aguirre
Corresponsal en El Salvador

Estimados Señores:

En respuesta a su nota Ref. 123-AU-92, adjunto a esta nota sirvanse encontrar nuestros comentarios al Informe de la Auditoría del Proyecto de Restauración de Servicios Públicos USAID/El Salvador Proyecto Nº 519-0279, correspondiente al componente administrado por A.M.E., durante el periodo comprendido del 01 de octubre de 1988 al 30 de septiembre de 1990.

En espera de que los comentarios de esta Administración expresados anteriormente, sean tomados en cuenta para la emisión del informe final, ya que de esa forma las observaciones allí presentadas estarán reflejadas de una manera más objetiva.

Atentamente,




Ing. Carlos Francisco Cuéllar

COMENTARIOS DE LA ADMINISTRACION AL INFORME DE AUDITORIA DEL PROYECTO RESTAURACION DEL SECTOR PUBLICO USAID/EL SALVADOR, PROYECTO NQ 519-0279

1. En el numeral IV "Resultados de la Auditoria" en su segundo párrafo opinan que, el reporte contable de equipo/suministro verificado por ustedes, presenta equitativamente en todos los aspectos, el valor de las adquisiciones bajo el componente ejecutado por AME/MOP. No obstante lo anterior, en el párrafo tercero del mismo numeral, en la "Estructura de Control Interno" en su primer punto observan la "falta de preparación de reporte contable de equipo/suministros"; por lo cual solicitamos eliminar este punto del informe.

2. La observación NQ 1 planteada en el renglón "Términos del Convenio" en el numeral IV, le correspondía a AID y las demás observaciones, como se describe en el reporte de hallazgos en el cumplimiento legal; se debieron a la falta de comunicación de parte del Gobierno Central a las entidades implementadoras del proyecto, de los términos del convenio que se debieron cumplir en el proceso de su implementación.

3. El hallazgo NQ 2 de control interno, contradice lo indicado en el renglón del reporte contable de equipo/suministros, contenido en el numeral IV de la Carta de Transmisión y Resumen contenida en este informe de auditoria, donde se plantea que se revisó dicho documento.

En el caso de que el documento verificado no era el requerido para la revisión, consideramos que es necesario definir la causa contenida en su observación; ya que el verdadero motivo es que AME no recibió la documentación e información pertinente para tal efecto, así como la asesoría de que esto era una condición del donante.

4. En relación al hallazgo NQ 2 de control interno, podemos afirmar que AME sí posee procedimientos escritos para la preparación y uso de tarjetas de responsabilidad, custodia y salvaguardia de bienes adquiridos, por ejemplo el de las herramientas; por lo que consideramos que esta observación no procede.

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5. En relación al hallazgo NQ 1 de cumplimiento con aspectos legales, regulaciones y términos del convenio; aún cuando lo indicado en la causa es el verdadero motivo por el cual no se cumplieron algunos aspectos contenidos en los términos del Convenio, es importante ampliar que AME no ha contado con los fondos económicos suficientes como para poder contratar una firma auditora; además consideramos que esta era responsabilidad del Gobierno Central a través de SETEFE o directamente de AID.

6. La opinión indicada por ustedes en la "causa" del hallazgo NQ 2 es correcta; no obstante, la mayor parte de estos requisitos han sido aplicados en el manejo de los fondos para la ejecución de los proyectos financiados con fondos de AID en moneda local, distribuidos a través de SETEFE.

7. En relación al hallazgo NQ 3 de cumplimiento con aspectos legales, consideramos que la "causa" debería redefinirse, ya que el verdadero motivo es el mismo que los contenidos en los hallazgos 1 y 2 anteriores.

Esta administración considera que la dificultad que tuvo la firma de auditoría, para la verificación del uso y destino final de algunas llantas adquiridas con fondos de AID, se debe a que los comprobantes del uso de estas llantas no contenían la especificación que eran compras con fondos de AID; cuya causa está determinada claramente en el sentido que hubo falta de comunicación de parte del Gobierno Central a esta Unidad, en relación a los controles que se deberían aplicar para el uso y consumo de las llantas, en cumplimiento con el Convenio de Donación.

Por lo anterior, sugerimos que esta observación sea clasificada como un hallazgo y no como un costo cuestionable atribuible a la Unidad Ejecutora.

8. En relación al hallazgo NQ 1 del seguimiento a recomendaciones del reporte realizado por Louis Berger International Inc., sería conveniente que incluyan en éste la "causa"; ya que en reunión sostenida con ustedes previa a la emisión de este informe se les explicó que el reporte de la consultoría efectuada por Louis Berger International Inc., no fue enviado a esta Unidad; por lo tanto, era imposible aplicar las observaciones contenidas en él.

9. Con respecto al hallazgo N^o 2 del seguimiento de recomendaciones del reporte realizado por Devres, Inc., expresamos lo siguiente:

- Actualmente la Unidad de Organización y Métodos ha preparado los procedimientos para el reclamo por daños e insuficiencias. Además, contamos con una Unidad Jurídica que es la responsable de darle seguimiento a dichos reclamos.
- Los archivos de inventarios así como de repuestos en existencia adquiridos a partir del año de 1992, incluyen la información que los identifica con qué fuente de financiamiento fueron comprados.

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

THE MINISTRY OF PUBLIC WORKS (MOP) THROUGH
ADMINISTRATION FOR MACHINERY AND EQUIPMENT (AME)

FINDINGS ON FOLLOW UP TO PRIOR YEAR CONSULTING RECOMMENDATIONS

During our audit of project 519-0279 activities managed by the Administration for Machinery and Equipment (AME) and as part of our scope of work, we performed a follow up of recommendation included in the reports on AME's activities prepared by DEVRES, Inc. and Louis Berger International, Inc. These recommendations however, addressed activities carried out by AME 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 26, 1992 and disclosed the following situations:

1. Lack of implementation of certain recommendation of the report by Louis Berger International, Inc.

Condition

AME has not implemented the following recommendations in the report of Louis Berger Internal, Inc., on evaluation of contract proceedings in the beneficiary country, made in May 1991:

- Keep up-to-date records of inventories and any other equipment acquired under the project. These records should be reconciled periodically with physical inventories (Recommendation No. 4).
- The result of our follow up indicate that AME does have up-to-date records but they are not reconciled periodically with stocks as periodic inventories are not taken.
- Require the Evaluation Commission to prepare tables to compare the technical specifications of each item requested with those proposed by vendors. In addition, assign a technical expert to verify that the bids meet the technical specifications.
- Request and buy goods in accordance with the annual plan and establish limits of stock in warehouse. The warehouse should report monthly on what goods are bellow the minimum limit (Recommendation No. 8).

- AME has a purchase plan but it is not used for the purpose, as the income and expenditure budget of AME restricts a certain allocation, the plan was prepared on this basis of experience in consumption during previous years and not in coordination with an annual maintenance and repairs plan.
- As to limits in warehouse, AME is establishing them in the normal course on the basis of the following priorities: (1) Type A spares, with high movement, (2) Type B spares, with medium movement, and (3) Type C spares, with slow movement.
- Records of the Evaluation Commission and the Technical Commission, as well as correspondence with A.I.D. and suppliers, should be signed by the AME authorities and only these documents should serve as basis of support for decisions referring to contracts (Recommendation No. 9).
- Up date list of Vendors in the following manner (Recommendation No. 10).
- Prepare prequalification questionnaires and publish their availability in Commerce Business Daily and in the local newspaper.
- Evaluate response from vendors to questionnaires.
- Prepare a document of acceptable vendors. This document should be signed by AME management and A.I.D.
- The inclusion of any supplier in the list of suppliers available should be based on an evaluation of the prequalification questionnaire answered by vendors and be approved in writing by A.I.D. and AME.
- The IAL should be provided only to prequalified vendors.

Recommendation

Since this project was concluded on September 1990, we are not including a recommendation for internal control under this project. In addition, the follow on project implemented by this entity is covered under the award survey.

2. Lack of implementation of certain recommendation of the report by DEVRES, Inc.

Condition

AME has not implemented the following recommendations of the report of Devres, Inc. on evaluation of the administration system prepared in August 1991:

- Establish procedures for follow up of claims for damages and shortages (Recommendation No. 3).

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- Establish procedures for the identification and return of incorrectly ordered goods (Recommendation No. 4).
- Include information relative to source of financing in the files of inventories of spares acquired under Project No. 519-0279 (Recommendation No. 5).
- Dispose of unusable equipment and spares (Recommendation No. 8).
- Provide maintenance manuals as these are not at present available for much of the equipment in stock (Recommendation No. 9).

Recommendation

Since this project was concluded on September 1990, we are not including a recommendation for internal control under this project. In addition, the follow on project implemented by this entity is covered under the award survey.

REPORT DISTRIBUTION

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RIG/A/EUR/W	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/A/Vienna	1