

Regional Inspector General for Audit
Tegucigalpa, Honduras

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**Audit of USAID/El Salvador's
Public Sector Restoration Project
Managed by the Autonomous
Executive Ports Commission
October 1, 1988 to September 30, 1990**

**Audit Report No. 1-519-93-07-N
January 19, 1993**



U.S. 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 Autonomous Executive Ports Commission,
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 Autonomous Executive Ports Commission (the Commission) 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 Commission is an autonomous public service institution charged with the administration of port, airport, and rail services in El Salvador. 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 Commission received \$4.1 million in heavy equipment, repair parts, rolling stock, and other commodities for the repair of vital rail lines. During the audit period the Commission received \$649,892 in commodities from the Project.

The objectives of the audit were to determine whether: (1) the Commission'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 Commission's internal control structure was adequate to manage Project operations, and (3) the Commission had complied with Project agreement terms and applicable

laws and regulations. The scope of the audit included an examination of the Commission'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 Commission during the period audited.

The auditors identified a material weakness in the Commission's internal control structure for Project activities regarding deficiencies in the reports prepared by the Commission on commodities purchased with A.I.D. funds. With respect to the Commission's compliance with agreement terms and applicable laws and regulations, the auditors found two material instances of noncompliance with terms of the Project Agreement. The Commission: (1) had not had audits or evaluations performed of Project activities and (2) did not maintain separate accounting records for Project commodities acquired with A.I.D. funds.

Since this Project ended September 30, 1990 we have not made any recommendations to correct the 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 Commission to implement a follow-on project, 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 Commission's capability to manage this follow-on project. The results of their review disclosed similar deficiencies to those identified in this report as well as several additional deficiencies for which we have made recommendations for USAID/El Salvador's action (see Audit Report No. 1-51-93-05-N dated January 15, 1993).

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

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

**Audit of USAID/El Salvador's
Public Sector Restoration Project
Managed by the Autonomous
Executive Ports Commission
October 1, 1988 to September 30, 1990**

**Audit Report No. 1-519-93-07-N
January 19, 1993**

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

THE AUTONOMOUS EXECUTIVE PORTS COMMISSION
(CEPA)

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 AUTONOMOUS EXECUTIVE PORTS COMMISSION (CEPA) 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 CEPA.

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 CEPA 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 CEPA was adequate to manage the project's operations.
3. CEPA 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 USAID/El Salvador and CEPA 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 CEPA to procure the needed inventory and equipment and any other information provided by USAID/El Salvador on this issue,
13. All projects' financial and progress reports, and CEPA'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 purchases made by USAID/El Salvador on behalf of the project to evaluate procedures used by CEPA, as applicable, to properly record and control the assets and commodities received.

C. Internal control structure

We reviewed and evaluated CEPA'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 CEPA'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 law and regulations, assure that each procurement transaction reviewed meets the source and origin criteria as required by the agreement, and meets bidding requirement 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 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 CEPA 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 accountability statement

The equipment/supplies accountability statement present fairly, in all material respects, the amount of acquisitions made under the component executed by the Autonomous Executive Ports Commission (CEPA) for the period October 1, 1988 to September 30, 1990.

Internal control structure

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

- Deficiencies in the reports of commodities purchased with A.I.D. funds.

Compliance with agreement terms and applicable laws and regulations

Except for the noncompliance situations described in findings No. 1 and No. 2, CEPA 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 CEPA had not complied in all material respects, with the terms of the agreement and applicable laws and regulations.

Agreement terms

CEPA did not comply with some of the accounting and financial clauses of the agreement signed with USAID. The cases of noncompliance are described below.

- Noncompliance with the 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 or progress towards attainment of the project objectives,
 - 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.
- 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.

According to the provisions of these clauses, CEPA 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 suitably 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 reconstruction related with 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 the condition of the 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 goods in relation to project purpose.
- d) Certification that the goods were used in accordance with project objectives.

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

- a) List of contracts in effect during the quarter, 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 the 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 CEPA 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 CEPA'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 AUTONOMOUS EXECUTIVE PORTS COMMISSION

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 AUTONOMOUS EXECUTIVE PORTS COMMISSION (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 Autonomous Executive Ports Commission. 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 organization in Guatemala. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires the Arthur Andersen-Guatemala office to be subjected, every three years, to an quality control review by partners and managers from other Arthur Andersen & Co. offices.

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

In our opinion, the equipment/supplies accountability statement referred to above, presents fairly, in all material respects, the amounts of the procurements effected by the PUBLIC SECTOR RESTORATION PROJECT USAID/EL SALVADOR PROJECT No. 519-0279, COMPONENT MANAGED BY THE AUTONOMOUS EXECUTIVE PORTS COMMISSION, 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.

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This report is intended for the information and use of the Autonomous Executive Ports Commission, 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 12, 1992

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

THE AUTONOMOUS EXECUTIVE PORTS COMMISSION (CEPA)

**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>Period October 1, 1988 through September 30, 1990 (See Note 5)</u>
10-Purchase of heavy equipment	US\$ 3,997,000	US\$ 3,996,743	US\$ 3,401,936	US\$ 594,807
22-Contingency Fund	57,000	55,085	-	55,085
	<u>US\$ 4,054,000</u>	<u>US\$ 4,051,828</u>	<u>US\$ 3,401,936</u>	<u>US\$ 649,892</u>

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

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

THE AUTONOMOUS EXECUTIVE PORTS COMMISSION
(CEPA)

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

CEPA is an autonomous institution with its own juridical personality, domiciled in the capital of El Salvador. It was originally created on May 28, 1952 as the Acajutla Executive Port Commission. CEPA's general objective is to administer, direct, exploit and execute port, airport and railway services. CEPA's functions and attributions are:

- a) Planning, construction, maintenance, improvement and expansion of port, airport and railway structures and other complementary installations, present or future; b) maritime navigation aids, beacons, meteorological and oceanographic installations; c) acquisition, maintenance and improvement of equipment necessary to develop its functions; d) ship and railway loading and unloading administrations, and custody of merchandise deposited at the ports and rail stations. To develop these activities, CEPA operates through the following entities: Port of Acajutla, Port of Cutuco, El Salvador International Airport and El Salvador National Railways (FENADESAL).

(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 the 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 bellow for the implementation of the project. These purchases were made on the basis of documentation submitted by CEPA, 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>
557	Electromotive	21-Oct-88	\$ 464,933
618	Edison Hubbard Corp	23-Jun-89	52,395
619	Joel Group	03-Jul-89	45,655
680	Aqua Systems	30-Mar-90	31,824
664	Siemens	10-Jan-90	55,085
			<u>\$ 649,892</u>

(6) Accumulated equipment/supplies
accountability statement

The accumulated equipment/supplies accountability statement for the project from the beginning of the project March 16, 1983 to September 30, 1990 and for all components is 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	18,866,000	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

17.

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

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

ARTHUR ANDERSEN & Co.

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

THE AUTONOMOUS EXECUTIVE PORTS COMMISSION

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 AUTONOMOUS EXECUTIVE PORTS COMMISSION for the period October 1, 1988 through September 30, 1990, and we have issued our report in which we express an unqualified opinion thereon dated June 12, 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 AUTONOMOUS EXECUTIVE PORTS COMMISSION, 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 Autonomous Executive Ports Commission, 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 finding 1 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 Autonomous Executive Ports Commission, 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 12, 1992

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

THE AUTONOMOUS EXECUTIVE PORTS COMMISSION
(CEPA)

INTERNAL CONTROL FINDINGS

1. Deficiencies in the reports of commodities
purchased with A.I.D. funds

Condition

The reports on commodities acquired with A.I.D. funds prepared by FENADESAL have the following deficiencies:

- There is no segregation of commodities acquired under the different USAID agreements and counterpart funds.
- Dollar value and exchange rate for conversion to Colones of the cost of commodities acquired directly by USAID are not included.
- The number of the commitment letter through which the commodities are acquired is not included.
- The commodities that have not been installed and that are in the warehouse of materials of FENADESAL are not included in the report.
- Report are not presented by budget line item.

Criteria

Section VI.B (2) of the Implementation Letter No. 3 requires that independent accounting records be maintained for the uses of the funds provided under the agreement, and these records shall be kept separate from the records of all other funds.

Cause

Lack of knowledge of Agreement requirements by CEPA personnel involved in the implementation of the project.

Effect

CEPA does not have appropriate information regarding the total amount of commodities acquired under each agreement and the amount available by budget line that is available.

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 AUTONOMOUS EXECUTIVE PORTS COMMISSION

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 AUTONOMOUS EXECUTIVE PORTS COMMISSION for the period October 1, 1988 through September 31, 1990, and we have issued our report in which we express an unqualified opinion thereon dated June 12, 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, applicable laws and regulations is the responsibility of the management of the Autonomous Executive Ports Commission. As part of obtaining reasonable assurance about whether the equipment/supplies accountability statement is free of material misstatement, we performed tests of the Autonomous Executive Ports Commission compliance with certain provisions agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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

We considered these material instances of noncompliance in forming our opinion on whether the Autonomous Executive Ports Commission 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 12, 1992 on that statement.

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Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Autonomous Executive Ports Commission 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 Autonomous Executive Ports Commission had not complied, in all material respects with those provisions.

This report is intended for the information and use of the Autonomous Executive Ports Commission, the Government of the Republic of El Salvador and 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 12, 1992

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

THE AUTONOMOUS EXECUTIVE PORTS COMMISSION
(CEPA)

FINDINGS ON COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

AGREEMENT TERMS

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

Condition

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

In addition, under Article 5 Section 5.1, unless the parties agree otherwise in writing, CEPA 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 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 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.

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Effect

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

Recommendation

Under Project No. 519-0320, there is compliance with carrying out evaluation for the project, and we therefore suggest that the recommendation relative to this finding in the report of the Award Survey of USAID/El Salvador Public Services Improvement Project No. 519-0320, performed by Arthur Andersen & Co., be considered for this entity.

Because this project was concluded on September 30, 1990, we are not including a recommendation under this project. However, because CEPA 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, CEPA prepare a form in coordination with A.I.D. for contracting of audit services and project evaluation in order to comply with the terms of the agreement.

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

Condition

CEPA did not comply with the requirements of these project clauses as there was no separate control for recording goods acquired with Project No. 519-0279 funds.

Criteria

As established by these clauses, CEPA 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 manner 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 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 purposes.

- Certification that the goods were used in accordance with the project objectives.

It should 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 the 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

Recommendation included in point 1 is applicable to this finding.

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

THE AUTONOMOUS EXECUTIVE PORTS COMMISSION
(CEPA)

LIST OF REPORT RECOMMENDATION

Internal control structure

1. 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. Under Project No. 519-0320, there is compliance with carrying out evaluation for the project, and we therefore suggest that the recommendation relative to this finding in the report of the Award Survey of USAID/El Salvador Public Services Improvement Project No. 519-0320, performed by Arthur Andersen & Co., be considered for this entity.

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 the implementation of the Public Services Improvement Project, USAID/El Salvador Project No. 519-0320, CEPA prepare a form in coordination with A.I.D. for contracting of audit services and project evaluation in order to comply with the terms of the agreement.

COMISION EJECUTIVA PORTUARIA AUTONOMA

EDIF. TORRE ROBLE, BOULEVARD LOS HEROES

APARTADO POSTAL 2007, SAN SALVADOR, EL SALVADOR, C. A.

	TELEFONOS	TELEX	FACSIMILE	AEROPUERTO INTERNACIONAL EL SALVADOR	TELEFONOS
OFICINA CENTRAL	24-1133	20194	24-1355	FENADESAL	30-9455
PUERTO DE ACAJUTLA	52-3200	27000	52-4001	PUERTO DE CUTUCO	22-8000
					64-4222

16 de noviembre de 1992

Señores Arthur Andersen & CO.
Audidores USAID
Presente

001386

Estimados señores:

Hacemos referencia a su Informe de Auditoría del Proyecto de Restauración de Servicios Públicos USAID/El Salvador, Proyecto No. 519-0279, componente ejecutado por la CEPA-FENADESAL, en el periodo comprendido del 1 de octubre de 1988 al 30 de septiembre de 1990, el cual fue discutido en reunión celebrada el día 12 del presente mes en las oficinas de USAID conjuntamente con representantes de ese organismo internacional, de la Empresa Auditora y de CEPA-FENADESAL.

Nuestros comentarios a los hallazgos de dicho informe se expresan a continuación y son los siguientes:

A - ESTRUCTURA DE CONTROL INTERNO

HALLAZGOS (Pag. 22)

Se plantean varias deficiencias en el Informe de bienes comprados con fondos de AID que solicitó la firma auditora.

El informe se preparó globalmente, ya que la empresa auditora nunca manifestó cómo lo necesitaba. Existen todos los registros e información requerida y se ha tomado muy en cuenta esta observación para preparar cualquier informe en el futuro.

RECIBIDO	
FECHA:	<u>26-11-92</u>
HORA:	<u>2:10 p.M.</u>

Cepa

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COMISION EJECUTIVA PORTUARIA AUTONOMA

HOJA _____

2

B - CUMPLIMIENTO DE ASPECTOS LEGALES, REGULACIONES APLICABLES Y TERMINOS DEL CONVENIO.

HALLAZGOS (Pag. 26 - 29)

En general se plantean incumplimientos relacionados con: evaluación y seguimiento del proyecto, informes, registros, inspecciones y auditorías.

Efectivamente CEPA-FENADESAL no cumplió con algunas cláusulas del convenio por desconocimiento de las mismas y por insuficiencia de personal para cumplirlas; aunque en todos los aspectos importantes sí lo hizo. Posteriormente al período auditado se han implementado las recomendaciones y controles necesarios y se cuenta con el personal idóneo para darle seguimiento.

C - SEGUIMIENTO DE LAS RECOMENDACIONES DE CONSULTORIAS DEL AÑO ANTERIOR

Falta de implementación del informa de DEVRES, INC. en el área de inventarios, activos fijos y procesamiento electrónico de datos.

La CEPA-FENADESAL, en general está de acuerdo con los hallazgos y está tomando las medidas apropiadas para darle cobertura. No obstante, la parte más compleja en relación a la homogenización del sistema de información y control de inventarios y activos fijos, para perfeccionarse debe ser incluido como materia de consultoría sobre modernización de la administración de la CEPA y FENADESAL, cuyo financiamiento es requerido a USAID.

En relación al equipo para el procesamiento electrónico de datos, este problema está en vías de solución a través de la Asistencia Técnica y donación de nuevo equipo por parte de la USAID/El Salvador.

Atentamente,




Arturo German Martinez
Gerente General

Cepa - 30

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

THE AUTONOMOUS EXECUTIVE PORTS COMMISSION
(CEPA)

FINDING ON FOLLOW UP TO PRIOR YEAR CONSULTING RECOMMENDATIONS

During our audit of project 519-0279 activities managed by the Autonomous Executive Port Commission (CEPA) and as part of our scope of work, we performed a follow up of recommendation included in the reports on CEPA's activities prepared by DEVRES, Inc. and Louis Berger International, Inc. These recommendations however, addressed activities carried out by CEPA 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 12, 1992 and disclosed the following situations:

1. Lack of implementation of some recommendations of the DEVRES report

Condition

CEPA has not implemented the following recommendations that come from reviewing the area of inventories and fixed assets, practiced by the Consultant Company DEVRES Inc., whose report was issued dated August 23, 1991.

- Establish a system that requires estimates be established so that commodities can be properly recorded in a timely manner. Documentation for imports is often delayed in order to include even the most minor costs.
- Take steps to remove obsolete items. At port of Acajutla there are many obsolete items in warehouses which use space needed for active stocks which in turn are often stored in field warehouses.
- Have CEPA re-define responsibility for physical inventories and ensure that they are carried out on a regular basis. Physical inventories of consumable items are not currently carried out on a regular basis. In addition, this function is assigned to the Internal Audit Department which is not appropriate.
- Require CEPA's Central Office to assign responsibility for all fixed assets to one department so that one system can be used for all operating units which will include all the necessary information and

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controls. Fixed asset records and controls for most of CEPA's operations are inadequate. In addition, responsibility for fixed assets is fragmented and often in wrong hands, e. g. the Internal Auditing Department.

- Replace the central computer and purchase terminals and software as appropriate to implement the recommendations regarding inventories to be carried out efficiently for all of CEPA. Existing equipment in the Data Processing Department is obsolete.

These items were confirmed in our normal evaluation of the control procedures in the area of inventories, fixed assets and electronic data process.

Recommendation

Since this project was concluded in 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.

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