

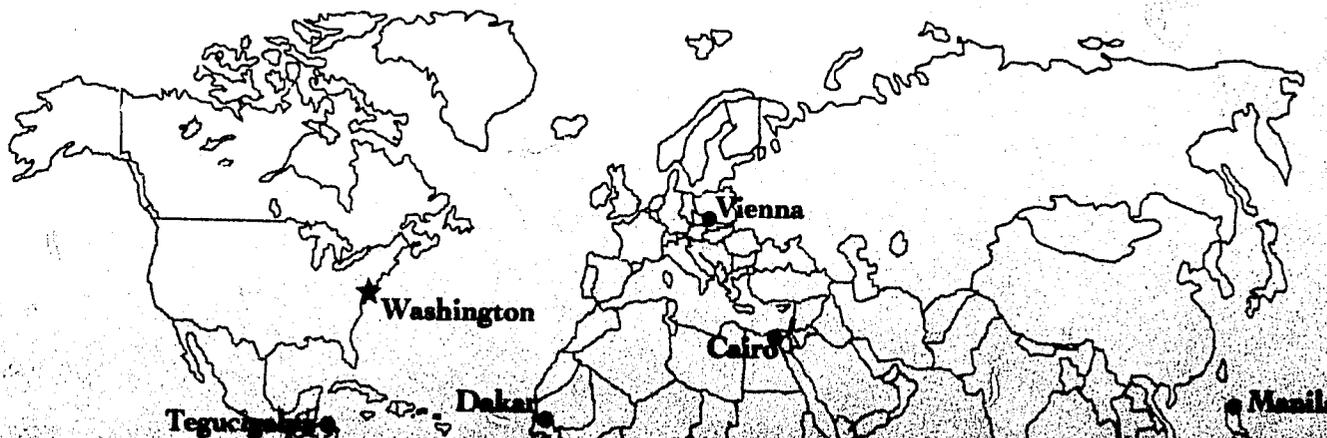
Regional Inspector General for Audit
Tegucigalpa, Honduras

2D-ABF-720

ISA 82001

**Audit of
USAID/El Salvador's Education
System Revitalization Project
Managed by the Ministry of Education
October 1, 1988 to December 31, 1990**

**Audit Report No. 1-519-93-16-N
April 1, 1993**



**INSPECTOR
GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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AGENCY FOR INTERNATIONAL DEVELOPMENT

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April 1, 1993

MEMORANDUM

TO: D/USAID/El Salvador, John A. Sanbrailo

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

SUBJECT: Audit of USAID/El Salvador's Education System Revitalization Project, Managed by the Ministry of Education, October 1, 1988 to December 31, 1990

This report presents the results of a financial audit of the Education System Revitalization Project, USAID/El Salvador Project No. 519-0295 (Project), managed by the Government of El Salvador's Ministry of Education (Ministry) for the period October 1, 1988 to December 31, 1990. The accounting firm of Peat, Marwick, Mitchell & Co. (Latin America), S.A., the KPMG Peat Marwick affiliate in El Salvador, prepared the report dated February 15, 1993.

The objective of the Project was to aid the Government of El Salvador in restoring the effectiveness and accessibility of elementary educational services in the most conflictive areas of the country through construction and reconstruction of classrooms; school maintenance; procurement of furniture, equipment, and school supplies; and technical, administration, and management assistance. The Project was completed on December 31, 1990. The Ministry reported expenditures of \$5.3 million (equivalent to ₡42.7 million) during the period under audit.

The objectives of the audit were to determine whether: (1) the Ministry's fund accountability statements present fairly, in all material respects, the financial position of the Project for the period audited, (2) the Ministry's internal control structure was adequate to manage Project operations, and (3) the Ministry had complied with Project Agreement terms and applicable laws and regulations. The scope of the audit included an examination of Ministry activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

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Peat, Marwick, Mitchell & Co. found that the Ministry's fund accountability statement, with the exception of questionable costs of \$1,169,607 (equivalent to ₡8,713,614), presents fairly in all material respects, the Project's financial activities for the audit period. Questionable costs were related to: (1) payments for unapproved items and expenditures in excess of approved amounts (\$103,694), (2) lack of prior approval from USAID/El Salvador for major purchases (\$892,232), and (3) contracts, exchange orders and other documentation not located by the auditors (\$173,681).

The auditors identified five material weaknesses in the Ministry's internal control structure for Project activities. The auditors reported that the Ministry did not: (1) obtain the signature of the construction chief to support payments for alteration orders to approved construction plans, (2) maintain an orderly filing system for documents supporting Project activities, (3) prepare timely bank reconciliations, (4) maintain evidence that all school materials and supplies issued from the warehouse had been received by school officials, and (5) maintain adequate control over fixed assets.

With respect to the Ministry's compliance with Agreement terms and applicable laws and regulations, the auditors found five material instances of noncompliance for Project activities related to: (1) use of A.I.D. Project funds for expenditures properly payable with counterpart funds, (2) lack of approval from USAID/El Salvador for pre-qualification of contractors and proposals for goods and services, (3) failure to provide USAID/El Salvador with quarterly reports concerning the administration and financial execution of the Project, (4) failure to present USAID/ El Salvador with information regarding the assignment of professors to classrooms newly built or rebuilt under the Project, and (5) purchase of goods and services in excess of \$5,000 without prior authorization from USAID/El Salvador.

Although this Project has terminated, USAID/El Salvador has an existing agreement with the Ministry to implement the Strengthening Achievement in Basic Education Project (USAID/El Salvador Project No. 519-0357). **Because of the serious problems disclosed by the auditors in the Ministry's management of this Project we strongly suggest that USAID/El Salvador obtain assurance that these problems concerning the weaknesses in the Ministry's internal control structure and noncompliance with Agreement terms have been corrected before providing further funding under the Strengthening Achievement in Basic Education Project.**

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

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Recommendation No. 1

We recommend that USAID/El Salvador resolve the questionable costs of \$1,169,607 (\$103,694 questioned and \$1,065,913 unsupported) identified in the KPMG Peat Marwick report dated February 15, 1993, and recover from the Ministry of Education the amounts determined to be unallowable.

Recommendation No. 1 will be considered resolved upon the Mission's determination of the amount of recovery, and will be considered closed upon the recovery of funds, offset of funds, or issuance of a Bill for Collection.

The draft report was discussed with representatives from the Ministry. The auditors considered their comments in preparing the final report. The Ministry did not provide written comments.

This final audit 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 Education
System Revitalization Project
Managed by the Ministry of Education
October 1, 1988 to December 31, 1990**

**Audit Report No. 1-519-93-16-N
April 1, 1993**

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AUDIT OF USAID/EL SALVADOR'S EDUCATION SYSTEM
REVITALIZATION PROJECT N° 519-0295
MANAGED BY THE MINISTRY OF EDUCATION
FOR THE PERIOD OCTOBER 1, 1988 TO DECEMBER 31, 1990

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AUDIT OF USAID/EL SALVADOR'S EDUCATION SYSTEM
REVITALIZATION PROJECT N° 519-0295
MANAGED BY THE MINISTRY OF EDUCATION
FOR THE PERIOD OCTOBER 1, 1988 TO DECEMBER 31, 1990

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Peat Marwick

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February 15, 1993

Mr. Lou Mundy
Regional Inspector General for Audit
U.S. Agency for International Development (USAID)
Tegucigalpa, Honduras

Dear Mr. Mundy:

This report presents the results of our close-out financial audit of the Education System Revitalization Project USAID/El Salvador Agreement N° 519-0295, managed by the Ministry of Education, through the Administración del Proyecto de Revitalización del Sistema Educativo (APRE) for the period from October 1, 1988 to December 31, 1990.

BACKGROUND

On April 18, 1985, the Agency for International Development USAID/El Salvador and the Government of El Salvador, through the Ministry of Education, signed Grant Agreement N° 519-0295 for US\$ 37,600,000 to finance the Education System Revitalization Project for the period from April 18, 1985 to December 31, 1990. To aid in the development of this Project the Government of El Salvador (GOES) would provide a counterpart contribution of US\$13,000,000 in cash and in kind.

The activities of the Project were managed and coordinated by Administración del Proyecto de Revitalización del Sistema Educativo (APRE).

The objective of the Project was to aid the Government of El Salvador in the restoration of the effectiveness and accessibility of the elementary educational services in the most conflictive areas of the country.

The Project included the following components:

- Construction and Reconstruction of Classrooms
- School Maintenance
- Furniture, Equipment and School Supplies
- Technical Assistance
- Administration and Management



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The budget and expenses executed at December 31,1990 corresponding to the grant Agreement are the following:

| <u>Component</u> | <u>Amount Budgeted</u> | <u>Expenses Realized</u> | <u>Available</u> |
|-----------------------------------|------------------------|--------------------------|-------------------|
| Construction and Reconstruction | ¢ 64,967,820 | 53,288,113 | 11,679,707 |
| School Maintenance | 3,540,700 | 2,660,194 | 880,506 |
| Equipment and School Supplies | 7,823,000 | 6,896,174 | 926,826 |
| Training and Technical Assistance | 3,480,700 | 2,041,889 | 1,438,811 |
| Administration and Management | <u>6,828,050</u> | <u>4,766,662</u> | <u>2,061,388</u> |
| Total | ¢ <u>86,640,270</u> | <u>69,653,032</u> | <u>16,987,238</u> |

Furthermore, the Agreement establishes that the Government of El Salvador through the Ministry of Education make a counterpart contribution of US\$13,000,000.

The budget and expenses realized at December 31, 1990 corresponding to the counterpart contribution of the grant Agreement are the following:

| <u>Component</u> | <u>Amount Budgeted</u> | <u>Expenses</u> | <u>Available</u> |
|-----------------------------------|------------------------|-------------------|------------------|
| Construction and Reconstruction | ¢ 11,355,165 | 8,139,010 | 3,216,155 |
| Maintenance of Schools | 33,089,730 | 29,444,851 | 3,644,879 |
| Equipment and School Supplies | 1,417,000 | 1,381,830 | 35,170 |
| Training and Technical Assistance | 1,000,000 | 951,454 | 48,546 |
| Administration and Management | <u>4,225,240</u> | <u>4,016,284</u> | <u>208,956</u> |
| Total | ¢ <u>51,087,135</u> | <u>43,933,429</u> | <u>7,153,706</u> |

AUDIT OBJECTIVES AND SCOPE

We were contracted to perform a close-out financial audit of the fund accountability statement for the Education System Revitalization Agreement, USAID/El Salvador N° 519-0295, managed by the Ministry of Education, for the period from October 1, 1988 to December 31, 1990.

Our audit was performed in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States, and consequently included an examination of the accounting records and other auditing procedures with the goal of determining if:

- a) The fund accountability statement for the Project reasonably presents the funds received and the expenses made for the period from October 1, 1988 to December 31,1990.



- b) The internal control structure used by the Ministry of Education was adequate for Project purposes.
- c) The Ministry of Education complied with the terms of the Agreement and applicable laws and regulations, which might affect the Project's goals and costs.

The scope of our work included the following procedures:

- a) Selective review of the documentation that supports the disbursements of the Project in order to determine if the fund accountability statement reasonably represents, in all material aspects, the financial activities of the Project and to determine if the expenses are supported by adequate documentation and if they are reasonable and permissible according to the terms of the Agreement.
- b) Review of the Agreement, the plans of action, the implementation letters, the reports of Banco Salvadoreño, and all the documentation related to the Project.
- c) Evaluate if the accounting system that was used to record all the transactions related to the Project was adequate.
- d) Study and evaluation of the purchasing system and the procedures for the management and control of fixed assets.
- e) Review of the compliance with the conditions, applicable laws and regulations of the Project.
- f) Our review was based on records of income and expenditures kept by the Ministry and not on the accounting records prepared by the Banco Salvadoreño, because these accounting records are not reliable.

During our examination we were alert to situations or transactions that could indicate fraud, abuse, or any other illegal disbursements.

AUDIT RESULTS

Fund Accountability Statement

The fund accountability statement was prepared on the basis of cash receipts and disbursements which differs from generally accepted accounting principles.

In our opinion, except for the effect of questioned costs for ¢571,715 and unsupported costs for ¢8,141,899 most of which relate to the lack of prior approval from USAID/El Salvador as further described in note 4, the fund accountability statement presents fairly, in all material respects, Project revenues and costs incurred and reimbursed of the Education System Revitalization Project N° 519-0295 managed by the Ministry of Education through the Administración del Proyecto de Revitalización del Sistema Educativo (APRE) for the period October 1, 1988 to December 31, 1990 in conformity with the basis of accounting described above.

Internal Control Structure

In planning and performing our audit of the Education System Revitalization Project we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

Our evaluation identified the following material weaknesses in the internal control structure of the Project:

- Alteration orders not signed by APRE's construction chief.
- Inadequate filing of documents supporting Project expenditures.
- Lack of bank reconciliations.
- Issuance of school materials supplies without evidence of being received.
- Lack of controls over fixed assets.

Compliance with Agreement Terms, and Applicable Laws and Regulations

As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement we performed tests of APRE compliance with certain provisions Agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Our evaluation identified the following material instances of non compliance:

- Payments corresponding to counterpart operations made with funds provided by USAID/EI Salvador.
- Lack of authorization from USAID/EI Salvador for all prequalification of contractors and proposals for the adquisition of goods and services.
- Failure to present to USAID/EI Salvador information in relation to the control and financial execution on the Project.
- Failure to present to USAID/EI Salvador information regarding the assignment of professors to the constructed classrooms.
- Purchases made above US\$5,000 without prior approval from USAID/EI Salvador.

Management Comments

Draft of this report was discussed with representatives from USAID/EI Salvador and the Ministry of Education. Their comments have been considered in the preparation of this final report. No written comments were provided.

KPMG Peat Marwick



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AUDIT OF USAID/EL SALVADOR'S EDUCATION SYSTEM
REVITALIZATION PROJECT N° 519-0295
MANAGED BY THE MINISTRY OF EDUCATION
FOR THE PERIOD OCTOBER 1, 1988 TO DECEMBER 31, 1990

INDEPENDENT AUDITORS' REPORT

We have audited the fund accountability statement of the Education System Revitalization Project USAID/El Salvador Project N° 519-0295, managed by the Ministry of Education through the Administración del Proyecto de Revitalización del Sistema Educativo (APRE) for the period from October 1, 1988 to December 31, 1990. The fund accountability statement is the responsibility of the Ministry of Education's management. Our responsibility is to express an opinion on the fund accountability statements based on our audit.

Except as indicated in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We do not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of chapter 3 of Government Auditing Standards because no such quality review program is offered by professional organizations in El Salvador. 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 KPMG Peat Marwick worldwide internal quality control program which requires the KPMG Peat Marwick El Salvador office to be subjected, every three years, to an extensive quality control review by partners and managers from other KPMG offices.

As described in Note 4 to the fund accountability statement, these were questioned costs for ¢571,715 and unsupported costs of ¢8,141,899. Unsupported costs include ¢7,155,705 in valid Project expenses which lack prior approval from USAID/El Salvador.



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Klynveld Peat Marwick Goerdeler

RAMS

As described in Note 1, it is the policy of the Ministry of Education to prepare its financial statements on the basis of cash income and disbursements, therefore, certain income and the corresponding asset is recognized when received and not when earned and certain expenses are recognized when paid and not when the obligation is incurred. This accounting basis differs from generally accepted accounting principles.

In our opinion, except for the items discussed in the fourth paragraph, the fund accountability statement referred to above presents fairly, in all material respects, Project revenues and costs incurred and reimbursed for the period from October 1, 1988 to December 31, 1990, in conformity with the basis of accounting described in Note 1.

This report is intended solely for the use of the Ministry of Education and the U.S. Agency for International Development (USAID). This restriction is not intended to limit the distribution of the report which upon acceptance by the office of the Regional Inspector General for Audit (RIG/A/T) is a matter of public record.

RPM/ Peat Marwick

July 10, 1992

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AUDIT OF USAID/EL SALVADOR'S EDUCATION SYSTEM
 REVITALIZATION PROJECT N° 519-0295
 MANAGED BY THE MINISTRY OF EDUCATION
 FOR THE PERIOD OCTOBER 1, 1988 TO DECEMBER 31, 1990
 FUND ACCOUNTABILITY STATEMENT

| | <u>BUDGET</u> (Note 3) | <u>ACCUMULATED</u> <u>DISBURSEMENTS</u> <u>TO 12-31-90</u> | <u>ACCUMULATED</u> <u>DISBURSEMENTS</u> <u>TO 9-30-88</u> | <u>FROM 10-01-88</u> <u>TO 12-31-90</u> | <u>QUESTIONABLE COSTS</u> | |
|-----------------------------------------------|---------------------------|------------------------------------------------------------------|-----------------------------------------------------------------|--------------------------------------------|-------------------------------|--------------------------------|
| | | | | | <u>QUESTIONED</u> (Note 4) | <u>UNSUPPORTED</u> (Note 4) |
| <u>REVENUE</u> | | | | | | |
| Funds provided | ¢ <u>86,640,270</u> | ¢ <u>68,592,845</u> | ¢ <u>28,990,316</u> | ¢ <u>39,602,529</u> | | |
| <u>DISBURSEMENTS</u> | | | | | | |
| Construction and Reconstruction of Schools | 64,967,820 | 53,288,112 | 22,090,260 | 31,197,852 | ¢ 430,322 | ¢ 329,013 |
| School Maintenance | 3,540,700 | 2,660,194 | 939,387 | 1,720,807 | - | 631,454 |
| Furniture Equipment and School Supplies | 7,823,000 | 6,896,174 | 202,393 | 6,693,781 | 98,709 | 6,774,982 |
| Technical Assistance | 3,480,700 | 2,041,889 | 859,341 | 1,182,548 | - | 62,060 |
| Administration and Management | <u>6,828,050</u> | <u>4,766,662</u> | <u>2,828,774</u> | <u>1,937,888</u> | <u>42,684</u> | - |
| Total Disbursements | <u>86,640,270</u> | <u>69,653,031</u> | <u>26,920,155</u> | <u>42,732,876</u> | - | <u>344,390</u> |
| Balance to be Liquidated | ¢ <u>-</u> | ¢ <u>(1,060,186)</u> | ¢ <u>2,070,161</u> | ¢ <u>(3,130,347)</u> | ¢ <u>571,715</u> | ¢ <u>8,141,899</u> |

See accompanying notes to the fund accountability statement



AUDIT OF USAID/EL SALVADOR'S EDUCATION SYSTEM
REVITALIZATION PROJECT N° 519-0295
MANAGED BY THE MINISTRY OF EDUCATION
FOR THE PERIOD OCTOBER 1, 1988 TO DECEMBER 31, 1990
NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM OCTOBER 1, 1988 TO DECEMBER 31, 1990

1) Summary of Significant Accounting Policies

a) Basis of Presentation

The Project's financial statements have been prepared on a cash basis. Under the cash basis income is recognized when received and not when earned and expenses when paid and not when the obligation is incurred.

Disbursements are made up of payments for operational expenses and for the acquisition of capital assets.

The cash basis is not in accordance with generally accepted accounting principles, therefore, the financial statements do not pretend to reflect the Project's financial information in accordance with generally accepted accounting principles.

b) Accounting Period

The income and disbursements included in the fund accountability statement cover the period from April 18, 1985 to December 31, 1990.

c) Furniture and Equipment

The furniture and equipment is recorded at cost and no depreciation is recorded. These assets are controlled by the Department of Inventory Control of the Ministry of Education, which is responsible for the control of all the assets of the Ministry of Education.

2) Operations

On April 18, 1985, the Ministry of Education signed with the Agency for International Development, USAID/El Salvador, the Donation Agreement N° 519-0295, under which USAID/El Salvador agreed to finance the Educational System Revitalization Project, up to an amount of US\$37,600,000 and a contribution of US\$13,000,000 by the Government of El Salvador through the Ministry of Education.

The purpose of the Project was to aid the Government of El Salvador (GOES) in the restoration of the effectiveness, and accessibility of elementary educational services at the levels prior to the armed conflict.

3) Budget Information

a) Budget

Following is the estimated budget of the Project according to the Agreement in US\$ (000).

| <u>COMPONENTS</u> | <u>Estimated Cost Budget approved to September 30, 1988 (Not audited)</u> | | | <u>Reprogramming of Estimated Costs (Not audited)</u> | | | <u>Final Budget Approved at December 31, 1990 (Not audited)</u> | | |
|--------------------------------------------------|---------------------------------------------------------------------------|---------------|---------------|-------------------------------------------------------|-------------|--------------|-----------------------------------------------------------------|---------------|---------------|
| | <u>AID</u> | <u>GOES</u> | <u>Total</u> | <u>AID</u> | <u>GOES</u> | <u>Total</u> | <u>AID</u> | <u>GOES</u> | <u>Total</u> |
| 1- Construction and Reconstruction of classrooms | US\$ 12,966 | 6,133 | 19,099 | (2,198) | (2,811) | (5,009) | 10,768 | 3,322 | 14,090 |
| 2- Vehicles and spareparts | 1,013 | 1,362 | 2,375 | - | - | - | 1,013 | 1,362 | 2,375 |
| 3- Furniture, Equipment and School Supplies | 9,557 | - | 9,557 | 2,736 | 283 | 3,019 | 12,293 | 283 | 12,576 |
| 4- Technical Assistance | 11,808 | 1,225 | 13,033 | (135) | (691) | (827) | 11,672 | 534 | 12,206 |
| 5- Operational Cost of APRE | 1,755 | 1,045 | 2,800 | (410) | 6,454 | 6,044 | 1,345 | 7,499 | 8,844 |
| 6- Evaluations and audit | 53 | - | 53 | - | - | - | 53 | - | 53 |
| 7- Contingency and Inflation | 448 | 3,235 | 3,683 | 8 | (3,235) | (3,227) | 456 | - | 456 |
| Total | US\$ 37,600 | 13,000 | 50,600 | - | - | - | 37,600 | 13,000 | 50,600 |

b) The Budget in Local Currency

The budgets approved by the Secretary of External Financing (SETEFE), in the different plans of action by components for the Project for the period April 18, 1985 to December 31, 1990 is the following:

COMPONENT I: Construction and Reconstruction of Classrooms

| | |
|-----------------------------------------|-------------------|
| -Non-personal services | ¢ 500,000 |
| -Additions and improvements by contract | 58,312,220 |
| -General allocations | <u>6,155,600</u> |
| | <u>64,967,820</u> |

COMPONENT II: School Maintenance

| | |
|-------------------------|------------------|
| -Non-personal services | 1,454,900 |
| -Materials and supplies | 1,937,300 |
| -General allocations | <u>148,500</u> |
| | <u>3,540,700</u> |

COMPONENT III: Furniture, Equipment and School Supplies

| | |
|-------------------------|------------------|
| -Non-personal services | 637,000 |
| -Materials and supplies | <u>7,186,000</u> |
| | <u>7,823,000</u> |

COMPONENT IV: Technical Assistance

| | |
|--------------------------|------------------|
| -Personal services | 453,160 |
| -Non-personal services | 1,827,900 |
| -Material and supplies | 293,200 |
| -Machinery and equipment | 289,300 |
| -General allocations | <u>617,140</u> |
| | <u>3,480,700</u> |

COMPONENT V: Administration and management

| | |
|--------------------------|---------------------|
| -Personal services | 3,288,800 |
| -Non-personal services | 1,346,740 |
| -Materials and supplies | 935,160 |
| -Machinery and equipment | 158,800 |
| -Current transfers | 29,200 |
| -General Allocations | <u>1,069,350</u> |
| | <u>6,828,050</u> |
| Total Budget | ¢ <u>86,640,270</u> |

4) Questionable Costs

Following is a summary of costs deemed questionable for not meeting eligibility requirements for the purpose of the Project, not having sufficient supporting documentation, not being properly authorized and/or not fulfilling the established procedures in the donation Agreement of USAID/El Salvador.

| <u>Questionable Costs</u> | |
|---------------------------|--------------------|
| <u>Questioned</u> | <u>Unsupported</u> |

Component: Construction and Reconstruction of Classrooms

a- Exchange Orders not Obtained. (See finding N° 2 in the Internal Control section)

During the examination of the selected payments for exchange orders, these were not obtained for examination for the following contract:

| <u>Contract N°</u> | <u>Contractor</u> | <u>Amount Exchange Orders</u> | | |
|-----------------------------|-----------------------|-------------------------------|---|---------|
| 101-C-S-7/88 | Mario Ernesto Aguilar | 201,771 | ¢ | 201,771 |
| (Equivalent to US\$ 40,354) | | | | |

b- We did not receive the receipts for the payments made for the Estimations and the Exchange Order. (See finding N° 2 in the Internal Control section)

Upon examining the documentation that supports the payments made for the estimations and the exchange orders, evidence was not obtained of some of the receipts provided by the contractor.

The detail follows:

| <u>Contract N°</u> | <u>Contractor</u> | <u>Amount</u> | | |
|-----------------------------|-------------------------------------------------|---------------|---|---------|
| 4-S-2/88 | SPI Ingenieros Payment of orders of exchange | ¢ 127,242 | | 127,242 |
| (Equivalent to US\$ 25,448) | | | | |
| Total carried forward | | | ¢ | 329,013 |

| <u>Questionable Costs</u> | |
|---------------------------|--------------------|
| <u>Questioned</u> | <u>Unsupported</u> |
| ¢ - | 329,013 |

Total brought forward

- c- Payments made in excess of that approved by USAID/El Salvador. (See finding N° 1 in the Compliance section)

Upon examining that the payments made for construction or reconstruction of classrooms did not exceed 100% and 125% of that approved by USAID/El Salvador, we observed that payments were made that exceeded those amounts:

Those are the following:

| <u>Contract N°</u> | <u>Contractor</u> | <u>Amount Paid in excess</u> | | |
|-----------------------------|------------------------------|------------------------------|-----------------------|-----------------------|
| 74-S-3/88 | CONINSAL, S. A. DE C. V. | ¢ 5,181 | | |
| 72-S-3/88 | Pedro Amilcar González | 11,340 | | |
| 65-S-3/88 | FESSIC, S.A. de C.V. | 56,209 | | |
| 70-S-3-88 | Ricardo Alas Alfaro | 98,371 | | |
| 75-S-3/88 | SPI Ingenieros | 38,044 | | |
| 101-C-S-7/88 | Mario Ernesto Aguilar | 57,592 | | |
| 32-C-S-8/89 | Bustamante López Arquitectos | <u>163,585</u> | <u>430,322</u> | - |
| (Equivalent to US\$ 86,064) | | | | |
| Total Component | | | <u><u>430,322</u></u> | <u><u>329,013</u></u> |

Component: School Maintenance

- d- Our audit disclosed that APRE had not requested prior approval from USAID/El Salvador for purchases in excess of \$5,000. Even though our tests show that the expenditure were made for agreed upon purpose as stated in the Agreement and were approved by USAID/El Salvador through the approval of action plans, section V, B of the standard provisions require that all purchases in excess of \$5,000 should be previously approved by USAID/El Salvador. (See finding N° 5 in the Compliance section)

| <u>Beneficiary</u> | <u>Date</u> | <u>Number</u> | <u>Amount</u> | | |
|---------------------------------|-------------|---------------|----------------|-----|-----------------------|
| Materiales de Construcción | 9/5/90 | 9 | ¢ 243,644 | | |
| Goldtree Liebes, S. A. de C. V. | 11/5/90 | 11 | 180,180 | | |
| Goldtree Liebes, S. A. de C. V. | 15/5/90 | 4 | <u>207,630</u> | - | <u>631,454</u> |
| (Equivalent to US\$78,735) | | | | | |
| Total Component | | | | ¢ - | <u><u>631,454</u></u> |

Questionable Costs

Questioned Unsupported

Total brought forward

¢ 305,991

g- Disbursements not eligible in the plan of action of the Agreement. (See finding N° 1 in the Compliance section).

The payment made to the insurance company La Centroamericana for the insurance premium for the car insurance is not included in the plan of action approved for the grant Agreement.

98,709

(Equivalent to US\$12,308)

h- Our audit disclosed that APRE had not requested prior approval from USAID/El Salvador for purchases in excess of \$5,000. Even though our tests show that the expenditure were made for agreed upon purpose as stated in the Agreement and were approved by USAID/El Salvador through the approval of action plans, section V, B of the standard provisions require that all purchases in excess of \$5,000 should be previously approved by USAID/El Salvador. (See finding N° 5 in the Compliance section)

| <u>Beneficiary/Concept</u> | <u>Date Recorded</u> | <u>Journal Entry N°</u> | <u>Amount Recorded</u> | | |
|-------------------------------------------------------------------------------|----------------------|-------------------------|------------------------|-------------------------------|---------|
| Industria Papelera, 92,000 notebooks. | 23/1/89 | 17 | ¢ 94,500 | | |
| Fábrica Centroamericana, S. A. de C. V., ballpoint pens, erasers and pencils. | 13/6/89 | 15 | 124,800 | | |
| Industria Papelera, S. A. de C.V., 60,000 lined notebooks N° 100. | 14/7/89 | 15 | 83,400 | | |
| Fábrica Centroamericana, de Lápices, S. A. de C. V., 1,000 gross of pencils. | 18/7/89 | 19 | 64,800 | | |
| Paid to Héctor Rodríguez Burgos, by 1,650 world atlas. | 29/9/89 | 27 | 112,000 | | |
| Industria Transformadora de Papel, S. A. de C. V., 1,075 reams of bond paper. | 26/10/89 | 25 | 46,767 | | |
| Tipografía Offset Lasser, letter size paper. | 5/4/90 | 6 | 87,120 | | |
| FACELA, S. A. de C. V., school supplies. | 5/4/90 | 6 | <u>1,268,933</u> | - | - |
| Total carried forward | | | | ¢ 98,709 | 305,991 |

RPMU

| | | | | <u>Questionable Costs</u> | |
|----------------------------------------------------------------------------------|----------------------|-------------------------|------------------------|---------------------------|--------------------|
| Total brought forward | | | | <u>Questioned</u> | <u>Unsupported</u> |
| <u>Beneficiary/Concept</u> | <u>Date Recorded</u> | <u>Journal Entry N°</u> | <u>Amount Recorded</u> | ¢ | ¢ |
| FERROCENTRO, construction materials and other. | 5/4/90 | 6 | 63,930 | | |
| ADUSA, school bags. | 5/4/90 | 6 | 430,500 | | |
| Cartotecnia Centroamericana, stationery. | 19/4/90 | 10 | 889,688 | | |
| ADUSA, school bags. | 19/4/90 | 10 | 69,375 | | |
| Miguel Angel Balsanilboso Garcia, 2,000 domino games and 192,900 plastic rulers. | 23/4/90 | 17 | 113,444 | | |
| Cartotecnia Centroamericana, supplies. | 3/5/90 | 2 | 377,278 | | |
| Cartotecnia Centroamericana, 4th payment of contract N° 7 | 4/5/90 | 5 | 619,470 | | |
| Cartotecnia Centroamericana, 45,000 notebooks | 15/5/90 | 15 | 76,950 | | |
| Cartotecnia Centroamericana, 47,000 notebooks | 15/5/90 | 15 | 80,937 | | |
| FERROCENTRO, S. A. de C.V., 9350 brooms. | 15/5/90 | 15 | 46,282 | | |
| Industria Papelera, S. A. de C. V., carbon paper | 4/6/90 | 14 | 47,475 | | |
| Oficentro, S. A. de C. V., school supplies | 15/6/90 | 31 | 75,150 | | |
| Tipografía Offset Lasser por 7,500 Basic Education School books. | 23/12/88 | 29 | 87,750 | | |
| Tipografía Offset Lasser, S. A., 213,000, notebooks. | 5/4/90 | 2 | 413,859 | | |
| Tipografía Offset Lasser, S. A., math notebooks. | 19/4/90 | 12 | 209,551 | | |
| Hotel Siesta expenses 25 to March 30: 1 to January 6, 1990 | 12/6/90 | 27 | <u>73,773</u> | | |
| Total carried forward | | | | ¢ | ¢ |
| | | | | 98,709 | 305,991 |

RAMS

| | | | | <u>Questionable Costs</u> | |
|---------------------------------------------------------------------------|----------------------|-------------------------|------------------------|---------------------------|--------------------|
| | | | | <u>Questioned</u> | <u>Unsupported</u> |
| Total brought forward | | | | ¢ 98,709 | 305,991 |
| <u>Beneficiary/Concept</u> | <u>Date Recorded</u> | <u>Journal Entry Nº</u> | <u>Amount Recorded</u> | | |
| Proveduría General de la República, gasoline and diesel. | 20/3/90 | 2 | 59,952 | | |
| Proveduría General de la República, gasoline and diesel. | 31/5/90 | 26 | <u>91,854</u> | | |
| Cerillera Luz, S. A. de C. V., chalk. | 4/7/90 | 7 | 109,000 | | |
| Miguel Angel Basanilboso García, 123,500 plastic rulers-contract 6MDA/90. | 4/7/90 | 8 | 44,460 | | |
| Gloria del Carmen Sánchez de Vanegas Guzmán, 6,578 boxes of white chalk. | 23/7/90 | 39 | 49,992 | | |
| La Nueva Escolar, S. A. de C.V., buy the 6,000 boxes of white chalk. | 23/7/90 | 18 | 45,000 | | |
| IMMES, S. A. de C. V., 2,000 geometry sets. | 31/8/90 | 18 | 250,000 | | |
| Impresos Offset, S. A. de C. V., map sets of El Salvador. | 31/8/90 | 18 | 66,000 | | |
| Tipografía Offset Lasser, engravings related to plant and animal life. | 30/6/90 | 125 | <u>195,000</u> | - | <u>6,468,991</u> |
| (Equivalent to US\$806,607) | | | | | |
| Total Component | | | | ¢ <u>98,709</u> | <u>6,774,982</u> |

| <u>Questionable Costs</u> | |
|---------------------------|--------------------|
| <u>Questioned</u> | <u>Unsupported</u> |

Component: Technical Assistance

- i- Purchase Orders or Contract not obtained. (See finding N° 2 in the Internal Control section)

Some payments made to suppliers are not accompanied with the corresponding purchase order or contract therefore we were not able to verify if the payments made coincide with the order or contract issued by APRE.

The cases are the following:

| <u>Date</u> | <u>Journal entry N°</u> | <u>Supplier</u> | <u>Amount</u> | |
|-------------|-------------------------|---------------------|---------------|-------|
| 05-04-90 | 2 | Francisco Alwood | 5,000 | |
| 05-04-90 | 2 | Edwin Ayala Turcios | <u>1,800</u> | 6,800 |

(Equivalent to US\$848)

- j- Our audit disclosed that APRE had not requested prior approval from USAID/El Salvador for purchases in excess of \$5,000. Even though our tests show that the expenditure were made for agreed upon purpose as stated in the Agreement and were approved by USAID/El Salvador through the approval of action plans, section V, B of the standard provisions require that all purchases in excess of \$5,000 should be previously approved by USAID/El Salvador. (See finding N° 5 in the Compliance section)

(Equivalent to US\$6,890)

Total Component

| | | |
|---|---|---------------|
| | - | <u>55,260</u> |
| e | - | <u>62,060</u> |

Questionable Costs

| | |
|-------------------|--------------------|
| <u>Questioned</u> | <u>Unsupported</u> |
|-------------------|--------------------|

Component: Administration and Management

k- Disbursements not eligible in the Plan of Action of the Agreement. (See finding N° 1 in the Compliance section)

Upon reviewing the payments made for salaries we determined that some payments charged to expenses of the Project are not approved in the plan of action.

The payments are the following:

| <u>Date</u> | <u>Journal entry N°</u> | <u>Supplier</u> | <u>Amount</u> | | |
|---------------------------|-------------------------|----------------------------------------------------|---------------|---|------------------------|
| 30-06-90 | 130 | Salaries and bonus corresponding to December 1989. | ¢ 23,312 | | |
| 30-06-90 | 132 | Salaries corresponding to November 1989. | <u>19,372</u> | ¢ | <u>42,684</u> <u>-</u> |
| (Equivalent to US\$5,322) | | | | | |
| Total Component | | | | | <u>42,684</u> <u>-</u> |

Other

l- Exchange orders not signed by the construction chief. (See finding N° 1 in the Internal Control section)

| | | |
|-----------------------------------------|---|---------------------------------|
| Total Component | - | <u>344,390</u> |
| (Equivalent to US\$68,878) | | |
| Total Questionable Costs of the Project | ¢ | <u>571,715</u> <u>8,141,899</u> |

5) Purchases and Direct Payments Made by USAID/El Salvador

During the development of the Project, USAID/El Salvador made direct payments for the acquisition of furniture, equipment, supplies, technical assistance, etc., for an amount of US\$22,302,701.

6) Exchange Rate System and Monetary Unit

The financial statements are expressed in Colones (¢), the monetary unit of El Salvador, and the official exchange rate is ¢5.00 for US\$1.00.

On July 11, 1989, the "Junta Monetaria de El Salvador" adopted Agreement JM- 18/89 by which it established that, as of July 25, 1989, it would recognize two foreign exchange markets: the fixed rate market and the banking rate market. In the fixed rate market, the rate will be maintained at ¢5.00 per US\$1.00. In the banking market, the exchange rate is not pegged and is intended to reflect the supply and demand for foreign exchange for commercial transactions channeled through banks. On December 31, 1990, the exchange rate in the banking market was ¢8.02 /US\$1.00.

Since April, 1990, the State has authorized the establishment of foreign exchange houses that can buy and sell US dollars without any restrictions as to the type of transaction. On December 31, 1990, the exchange rate was ¢8.10/US\$1.00.



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AUDIT OF USAID/EL SALVADOR'S EDUCATION SYSTEM
REVITALIZATION PROJECT N° 519-0295
MANAGED BY THE MINISTRY OF EDUCATION
FOR THE PERIOD OCTOBER 1, 1988 TO DECEMBER 31, 1990

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS

We have audited the fund accountability statement of the Education System Revitalization Project USAID/El Salvador Agreement N° 519-0295, managed by the Ministry of Education through the Administración del Proyecto de Revitalización del Sistema Educativo (APRE), for the period from October 1, 1988 to December 31, 1990, and have issued our report thereon dated July 10, 1992.

Except for not conducting an external control review by an unaffiliated audit firm as further discussed in our report on the Fund 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the Education System Revitalization Project, we considered the internal control structure as established by the Administración del Proyecto de Revitalización to determine the auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of APRE is responsible for establishing and maintaining an internal control structure for the management of the Project. 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 fund accountability statement in accordance with the basis of accounting described in Note 1 to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.





For the purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Conscience of Control
- Accounting System
- Protection of Assets and Records
- System of Purchases and Payments

For all the internal control structure categories listed above, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation, and we have 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 judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement. See findings 1 through 5 in the following pages.

A material weakness is a reportable condition in which the design or operation of the 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 fund 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. In this regard, findings 1 through 5 are deemed to be material weaknesses.

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.

This report is intended solely for the use of the Ministry of Education and The United States Agency for International Development (USAID). This restriction is not intended to limit the distribution of this report, which, upon acceptance by the office of the Regional Inspector General (RIG/A/T), is a matter of public record.

KPMG Peat Marwick

July 10, 1992



AUDIT OF USAID/EL SALVADOR'S REVITALIZATION
OF EDUCATIONAL SYSTEM PROJECT Nº 519-0295 MANAGED
BY THE MINISTRY OF EDUCATION PERIOD FROM
OCTOBER 1, 1988 TO DECEMBER 31, 1990

INTERNAL CONTROL

AUDIT FINDINGS

1. ORDERS FOR ALTERATIONS NOT SIGNED BY CONSTRUCTION CHIEF

Condition

Upon reviewing documentation in support of payments for alteration orders we observed that an amount of ¢344,390 does not bear signature of revision by APRE's construction chief.

Criteria

In accordance with control procedures established by APRE, all orders for alterations must bear revision signature by the construction chief.

Cause

APRE's management ignores why the orders for alterations were not signed, furthermore, they mention that the University of New Mexico contracted by USAID/EL Salvador reviewed and approved the orders.

Effect

Taking into account that APRE managed the funds, by not controlling the funds, it could make payments which did not comply with the Project needs.

Recommendation

- a- On future projects we recommend that established control procedures be complied with, so that the Institution's officials are aware of these changes in order to justify payments before the donors.
- b- APRE should provide USAID/El Salvador justification for alterations made which are not supported.

2. DOCUMENTS SUPPORTING THE PROJECT'S ACTIVITIES ARE NOT ADEQUATELY FILED

Condition

While conducting our examination, we observed that documents supporting the Project's activities were neither in order nor adequately filed, making it impossible to verify documents of some of the finished sub-projects.



The documentation we were not able to find is the following:

| | | |
|--------------------------------------------------------|---|----------------|
| - Change orders | ¢ | 201,771 |
| - Payment receipts issued by change orders | | 127,242 |
| - Supply orders or contracts not obtained: | | |
| Component: furniture, equipment and school supplies | | 173,901 |
| Component: technical assistance | | <u>6,800</u> |
| | ¢ | <u>509,714</u> |

Criteria

In order to justify operations, it is important to control adequately all documents produced, as this is part of the evidence that supports the progress of the Project.

Cause

APRE's Administration did not considered necessary to file documents in an orderly manner to enable revision at any given time.

Effects

Documents can disappear, in which case, the Administration would not have the necessary evidence to support the finished work. Furthermore, due to the lack of supporting documents, the fund accountability statement presents unsupported costs for ¢509,714.

Recommendation

- a- We recommend for APRE to present the documentation supporting the above disbursements or reimbursements to USAID/El Salvador.
- b- On future projects, we recommend that a filing system for every document be implemented and instructions given to all personnel participating in the Project, to make sure they are aware and conscious of the need to follow these steps.

3. **BANK RECONCILIATIONS ARE NOT PREPARED ON A TIMELY BASIS**

Condition

Upon examining the way cash is controlled, we found that bank reconciliations had not been made and were prepared only until we asked to see them.

Criteria

An adequate control of cash includes the preparation of bank reconciliations on a timely basis because it presents the situation between balances reported in the accounting records and those shown by the bank statement.

Cause

APRE's Administration did not assign personnel in the administrative area to control the use of funds.

Effect

When differences occur between the balance shown in the books and the statement sent by the bank, these could not be cleared by the entity and the bank in due time.

Recommendation

In order to control funds efficiently, we recommend for future projects that the Administration assign the necessary and competent personnel to prepare the bank reconciliations adequately and on a timely basis.

4. **ISSUANCE OF SCHOOL MATERIALS AND SUPPLIES WITHOUT EVIDENCE OF BEING RECEIVED**

Condition

In order to verify that school materials and supplies issued were received by the proper schools, we examined a sample of 20 transactions for ¢550,967 and found that 24% of our sample of school materials and supplies issued did not have evidence of being received by the schools. The detail is the following:

| <u>Description</u> | <u>Date Issued Kárdex</u> | <u>Order N°</u> | <u>Value</u> | <u>Observation</u> |
|--------------------|---------------------------|-----------------|------------------|----------------------------------|
| Green board paint | 03/05/90 | 093 | ¢ 46,500 | No signature of person receiving |
| Beige oil paint | 03/05/90 | 093 | 84,630 | No signature of person receiving |
| White cardboard | 04/25/90 | 539 | 780 | No signature of person receiving |
| Ink for mimeograph | 08/08/90 | 838 | <u>180</u> | No signature of person receiving |
| | | | ¢ <u>132,090</u> | |

Criteria

The evidence that assures that material and supplies were issued by the warehouse is the signature of the employee assigned by each of the schools.

Cause

No explanation was given for the reason why the issues of material and supplies were not signed by those receiving them.

Effect

APRE can't assure itself that all issues from the warehouse were received by the schools.

Recommendation

- a- It is recommended to verify all issues of school materials and supplies in order to establish the total amount issued without receipt and resolve together with USAID/El Salvador the measures to be taken.
- b- We recommend obtaining the evidence of the issuance of materials and school supplies.

5. LACK OF CONTROL OF FIXED ASSETS

Condition

Upon evaluating APRE's control of fixed assets obtained during the Project's duration, it was determined that no separate control for fixed assets was made from the one of the Ministry of Education.

Criteria

APRE should have conducted a separate control of fixed assets giving dates of acquisition, description, codes of reference, locations and totals.

Cause

APRE considered that the inclusion of assets in the Ministry of Education's control was sufficient.

Effect

APRE's Administration cannot prove the final distribution of the assets.

Recommendation

In order to carry out on adequate control of acquired assets for future projects, we recommend that a register of control containing at least a code of reference, date of acquisition, description, location and amount of all purchased goods be made. A code of reference and a description of the Project should be given to each assets, and a specific and competent public official should be assigned to do the job.

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AUDIT OF USAID/EL SALVADOR'S EDUCATION SYSTEM
REVITALIZATION PROJECT N° 519-0295
MANAGED BY THE MINISTRY OF EDUCATION
FOR THE PERIOD OCTOBER 1, 1988 TO DECEMBER 31, 1990

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

We have audited the fund accountability statement of the Education System Revitalization Project USAID/El Salvador Agreement N° 519-0295 managed by the Ministry of Education through the Administración del Proyecto de Privatización del Sistema Educativo (APRE) for the period from October 1, 1988 to December 31, 1990 and have issued our report thereon dated July 10, 1992.

Except for not conducting an external quality control review by an unaffiliated audit organization as further discussed in our report on the Fund 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with Agreement terms and laws and regulations applicable to the Education System Revitalization Project is the responsibility of the Ministry of Education's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of APRE'S 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 noncompliance 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 fund accountability statement. The results of our tests of compliance disclosed the following material instances of noncompliance.

As indicated in the audit findings that follow this report, for the period October 1, 1988 to December 31, 1990, the Ministry of Education through APRE did not comply with certain terms and applicable laws and regulations of the Agreement.

KPMG

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement of the Education System Revitalization Project for the period from October 1, 1988 to December 31, 1990 is presented fairly, in all material respects, in conformity with the basis of accounting described in Note 1, to the fund accountability statement, this report does not affect our report on the fund accountability statement, dated July 10, 1992.

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

This report is intended solely for the use of the Ministry of Education and the U.S. Agency for International Development (USAID). This restriction is not intended to limit the distribution of the report, which, upon acceptance by the Office of the Regional Inspector General for audit (RIG/A/T) is a matter of public record.

KPMG Peat Marwick

July 10, 1992

AUDIT OF USAID/EL SALVADOR'S EDUCATION SYSTEM
REVITALIZATION PROJECT Nº 519-0295
MANAGED BY THE MINISTRY OF EDUCATION
FOR THE PERIOD OCTOBER 1, 1988 TO DECEMBER 31, 1990

COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS

AUDIT FINDINGS

1. PAYMENTS CORRESPONDING TO COUNTERPART OPERATIONS (OPERATIONS PERTAINING TO GOES) MADE WITH FUNDS PROVIDED BY USAID/EL SALVADOR

Condition

Our audit tests disclosed that APRE had made certain payments with AID grant funds for activities that should have been financed with GOES counterpart funds. Further analysis disclosed that throughout the life of the Project APRE had been making inter-fund loans to finance Project operations; however, due to the condition of the records and the poor accounting practices, we could not determine the extent of these loans; we could, however, satisfy ourselves that all payments were made for agreed upon purposes.

Criteria

According to the implementation letter Nº 3, which modifies section VII of the Standard Provisions of the Agreement, point AZ (b), the Ministry of Education should maintain the control of the funds of the Agreement separate from other sources of financing.

Cause

Lack of an adequate accounting system.

Effect

Even though we could not determine the extent of the loans made between counterpart and grant funds, we do not believe that this practice had a detrimental effect because funds were used for Project purposes and neither grant nor counterpart funds were depleted. However, our test disclosed costs of ¢571,715 which were not eligible for payment with grant funds.

Recommendation

We recommend that APRE:

- a- Reimburse USAID/El Salvador ¢571,715 deemed questioned costs.
- b- For future Projects establish an adequate accounting system to properly account for Project expenditures.

2. THE APPROVAL OF USAID/EL SALVADOR WAS NOT OBTAINED FOR ALL PRE-QUALIFICATIONS OF CONTRACTORS AND PROPOSALS FOR THE ACQUISITION OF GOODS AND SERVICES

Condition

During the examination of the source documents that support the disbursements for purchases of goods and services, we detected that APRE did not obtain the approval, in writing, by USAID/El Salvador for the pre-qualifications of contractors and proposals.

Criteria

According to what is established in point (b), section C.3 Plans, Specifications and Contracts of the General Conditions of the Agreement; the Ministry of Education should obtain approval, in writing, by USAID/El Salvador for the pre-qualifications of contractors and for the proposals of goods and services prior to their issuance.

Cause

The Administration thought that they had received prior approval from USAID/El Salvador when they submitted the forms to USAID/El Salvador to acquire the goods and services they were to receive.

Effect

Noncompliance with these regulations may result in appropriations not being accepted by USAID/El Salvador.

Recommendation

On future projects, we recommend that reports on control and financial gains of same be submitted in writing as required by the agreements.

3. FAILURE TO PRESENT TO USAID/EL SALVADOR INFORMATION IN RELATION TO THE CONTROL AND FINANCIAL EXECUTION OF THE PROJECT

Condition

During the period examined ending December 31, 1990, the Administration of APRE failed to present to USAID/El Salvador the quarterly reports of the activities of the Project. These reports should contain: financial information, which provides detail of the use of the funds of the donation and the funds provided by the Government of El Salvador as contributions to the Project; information about the progress of the Project detailing the activities initiated, those in process, and those finished during the quarter; the problems that delay the Project, and the recommendations of solutions to those problems.

Criteria

According to what is established in implementation letter N° 3, section VII of the General Conditions of the Agreement, point A2, the Ministry of Education should present quarterly reports that discuss the activities and the progress of the Project.

Cause

The Administration considered that the information they provided USAID/El Salvador in meetings during the Project was sufficient.

Effect

Noncompliance with these regulations may lead the donor to condition future donations.

Recommendation

We recommend that all future projects be issued in writing and on time as required by the Agreement.

4. FAILURE TO PRESENT TO USAID/EL SALVADOR INFORMATION REGARDING THE ASSIGNMENT OF PROFESSORS TO THE CONSTRUCTED

Condition

The Administration of APRE did not present to USAID/El Salvador reports regarding the assignment of professors to the newly built or rebuilt classrooms during the development of the Project under the component "Construction of Classrooms".

Criteria

According to what is established in point (c), section 4.2 Additional Disbursements of the Agreement, the Ministry of Education will remit to USAID/El Salvador evidence that professors have indeed been assigned to the newly built or rebuilt classrooms.

Cause

The Administration was unable to clear why no information was provided

Effect

USAID/El Salvador is unaware of the assignment of professors in the classrooms that have been built or rebuilt; in the same manner, noncompliance with this regulation may lead the donor to condition future donations.

Recommendation

We recommend that all future projects be issued in writing and on time, as required by the Agreement.

5. PURCHASE OF GOODS AND SERVICES ABOVE US\$5,000 WITHOUT PRIOR AUTHORIZATION FROM USAID/EL SALVADOR

Condition

APRE did not obtain prior authorization from USAID/El Salvador for the purchase of goods and services above US\$5,000. A summary for each component follows:

| | |
|------------------------------------------|--------------------|
| School maintenance | ¢ 631,454 |
| Furniture, equipment and school supplies | 6,468,991 |
| Technical assistance | <u>55,260</u> |
| | ¢ <u>7,155,705</u> |

Criteria

According to section V, point B of the general conditions of the Agreement all purchases above US\$5,000 or its equivalent in Salvadorean colones must have prior authorization from USAID/El Salvador.

Cause

The Administration did not comply with this condition of the Agreement because it considered that the authorization was included in the action plan.

Effect

These disbursements may not be accepted by USAID/El Salvador.

Recommendation

We suggest a meeting with USAID/El Salvador to define alternatives that may be followed on these disbursements.

AUDIT OF USAID/EL SALVADOR'S EDUCATION SYSTEM
REVITALIZATION PROJECT Nº 519-G295
MANAGED BY THE MINISTRY OF EDUCATION
FOR THE PERIOD OCTOBER 1, 1988 TO DECEMBER 31, 1990

LIST OF REPORT RECOMMENDATIONS

INTERNAL CONTROL ESTRUCTURE

Recommendation 1:

- a- On future projects we recommend that established control procedures be complied with, so that the Institution's officials are aware of these changes in order to justify payments before the donors.
- b- APRE should provide USAID/El Salvador justification for alterations made which are not supported.

Recommendation 2:

- a- We recommend for APRE to present the documentation supporting the above disbursements or reimbursements to USAID/El Salvador.
- b- On future projects, we recommend that a filing system for every document be implemented and instructions given to all personnel participating in the Project, to make sure they are aware and conscious of the need to follow these steps.

Recommendation 3:

In order to control funds efficiently, we recommend for future projects that the Administration assign the necessary and competent personnel to prepare the bank reconciliations adequately and on a timely basis.

Recommendation 4:

- a- It is recommended to verify all issues of school materials and supplies in order to establish the total amount issued without receipt and resolve together with USAID/El Salvador the measures to be taken.
- b- We recommend obtaining the evidence of the issuance of materials and school supplies.

Recommendation 5:

In order to carry out on adequate control of acquired assets for future projects, we recommend that a register of control containing at least a code of reference, date of acquisition, description, location and amount of all purchased goods be made. A code of reference and a description of the Project should be given to each assets, and a specific and competent public official should be assigned to do the job.

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Recommendation 1:

- a- Reimburse USAID/El Salvador ø571,715 deemed questioned costs.
- b- For future Projects establish an adequate accounting system to properly account for Project expenditures.

Recommendation 2:

On future projects, we recommend that reports on control and financial gains of same be submitted in writing as required by the agreements.

Recommendation 3:

We recommend that all future projects be issued in writing and on time as required by the Agreement.

Recommendation 4:

We recommend that all future projects be issued in writing and on time, as required by the Agreement.

Recommendation 5:

We suggest a meeting with USAID/El Salvador to define alternatives that may be followed on these disbursements

APPENDIX I

REPORT DISTRIBUTION

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