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**Audit of USAID/Ecuador's  
Water and Sanitation for Health and Ecuadorian  
Development Project Managed by the  
Ecuadorian Institute of Sanitary Works  
September 22, 1989 to June 30, 1992**

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**Audit Report No. 1-518-94-09-N  
June 15, 1994**



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Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

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AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE REGIONAL INSPECTOR GENERAL  
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June 15, 1994

**MEMORANDUM**

TO: Director USAID/Ecuador, John A. Sanbrailo

FROM: RIG/A/San José, *Coinage N. Gothard*  
Coinage N. Gothard

SUBJECT: Audit of USAID/Ecuador's Water and Sanitation for Health and Ecuadorian Development Project, Managed by the Ecuadorian Institute of Sanitary Works, September 22, 1989 to June 30, 1992

This report presents the results of a financial audit of the Water and Sanitation for Health and Ecuadorian Development Project, USAID/Ecuador Project No. 518-0081, managed by the Ecuadorian Institute of Sanitary Works (the Institute) for the period September 22, 1989 to June 30, 1992. The audit firm of Ernst & Young prepared the report dated February 18, 1994.

The purpose of the project is to strengthen the Institute's capability to assist rural communities in eight provinces to: (1) install cost effective technologically appropriate safe water supply systems and latrines, (2) use water and latrines to improve family health status, and (3) maintain and improve the systems in the future. The project assistance completion date is December 31, 1994. During the period audited, the Institute reported expenditures of \$346,904 under the project.

The objectives of the audit were to determine whether: (1) the Institute's fund accountability statement presents fairly, in all material respects, the financial position of the project activities managed by the Institute during the audited period, (2) the internal control structure of the Institute is adequate to manage its project operations, and (3) the Institute complied with the terms of the agreement and applicable laws and regulations. The scope of the audit included an examination of the Institute's activities and transactions to the extent considered necessary to issue a report thereon for the period audited.

Ernst & Young qualified its opinion on the fund accountability statement due to its inability to obtain written confirmation from the Institute's legal department concerning any outstanding legal matter which might require disclosure in the fund accountability statement. Additionally, audit tests disclosed questionable costs of \$6,421 relating to transactions that did not have supporting documentation.

The auditors identified four reportable conditions with respect to their review of the Institute's internal control structure, none of which were considered to be material weaknesses.

With respect to the Institute's compliance with agreement terms, and applicable laws and regulations, the auditors identified two material instances of noncompliance: (1) the Institute did not contract annual financial and compliance audits of the project and (2) the Institute temporarily borrowed funds from the project.

The project is scheduled to end on December 31, 1994 and, according to USAID/Ecuador project representatives, the Mission does not have plans to use the Institute on further projects in the future. Therefore we are not recommending any action to correct the procedural deficiencies identified by the auditors with respect to the Institute's internal control structure and compliance.

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

**Recommendation No. 1**

**We recommend that USAID/Ecuador resolve the questionable costs (unsupported) of \$6,421 identified in the Ernst & Young report dated February 18, 1994, and recover from the Ecuadorian Institute of Sanitary Works the amounts determined to be unallowable.**

Recommendation No. 1 will be considered resolved upon USAID/Ecuador'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 report was discussed with representatives from the Institute who expressed their general agreement with the report's findings and their willingness to take the recommended corrective actions.

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

**Regional Inspector General for Audit  
San José, Costa Rica**

**Audit of USAID/Ecuador's  
Water and Sanitation for Health and Ecuadorian  
Development Project Managed by the  
Ecuadorian Institute of Sanitary Works  
September 22, 1989 to June 30, 1992**

**Audit Report No. 1-518-94-09-N  
June 15, 1994**

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
DEVELOPMENT PROJECT  
USAID/ECUADOR PROJECT No. 518-0081  
MANAGED BY THE ECUADORIAN INSTITUTE OF SANITARY WORKS  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
DEVELOPMENT PROJECT  
USAID/ECUADOR PROJECT No. 518-0081  
MANAGED BY THE ECUADORIAN INSTITUTE OF SANITARY WORKS  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

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February 18, 1994

**Mr. Coinage N. Gothard**  
**Regional Inspector General for Audit**  
**United States Agency for International Development**  
**San Jose, Costa Rica C.A.**

Dear Mr. Gothard:

This report presents the results of our financial audit of USAID/Ecuador's Water and Sanitation for Health and Ecuadorian Development Project, USAID/Ecuador Project No. 518-0081, managed by the Ecuadorian Institute of Sanitary Works for the period September 22, 1989 to June 30, 1992.

**Background:**

On September 22, 1989, the United States Agency for International Development Mission to Ecuador (USAID/Ecuador) approved the Water and Sanitation for Health and Ecuadorian Development (WASHED) Project, USAID/Ecuador Project No. 518-0081, which provided \$4,000,000 in grant funds to the Ministry of Health (MOH) to improve the health status of infants and children in Ecuador. The purpose of this project is to strengthen the Ecuadorian Institute of Sanitary Works' (IEOS) capability to assist rural communities in eight provinces to: (1) install cost effective technologically appropriate safe water supply systems and latrines, (2) use water and latrines to improve family health status, and (3) maintain and improve the systems in the future. The eight provinces to be served by the project are: Imbabura, Cotopaxi, Chimborazo, Azuay, Pichincha, Tungurahua, Carchi and El Oro. It was agreed that the Government of Ecuador would provide a counterpart contribution equivalent to \$15,761,000 and the communities assisted by the project would contribute an equivalent of \$2,600,000. The project assistance completion date is estimated to be December 31, 1994.

The project consists of five major components:

**a. Systems Construction:**

Will provide IEOS with financial and technical support to enable it to construct more rural water supply and sanitation systems (RWS&S) in eight provinces selected for the project. The objective is to fully institutionalize the decentralized construction planning and management process known as the "operational module" system, which was initiated under the predecessor Integrated Rural Health Delivery System Project, USAID/Ecuador No. 518-0015.

**b. Hygiene Education:**

Will address the problem identified by IEOS that investments in rural water supply and sanitation systems have not achieved their potential health impacts, particularly in contributing to the reduction of infant and young child mortality and morbidity, because proper hygiene practices have not been followed.

**c. Operations and Maintenance:**

Deals with the responsibility that the IEOS has for ensuring the proper functioning of the potable water and sanitation systems it has installed by providing technical assistance to the communities to enable them to carry out appropriate preventive maintenance services as required.

**d. Appropriate Technology:**

Deals with IEOS's policy to design and construct rural water supply and sanitation systems which are efficient, low cost, and easy to operate, maintain and repair.

**e. Training:**

This component will: (1) upgrade the traditional technical and management skills of IEOS headquarters and field personnel in the eight provinces to perform their assigned tasks appropriately, and (2) introduce new management practices and technical skills called for by this project's innovations (i.e. decentralized management, hygiene education, appropriate technology R&D, pilot project approaches, and impact evaluation). Persons trained will be those involved directly in rural water supply and sanitation system programs, or those providing management support to these programs.

In accordance with the terms of the agreement, the total cost of the project is \$22,361,000 with financing of \$4,000,000 in grant funds from USAID/Ecuador, an equivalent of \$15,761,000 from the Ecuadorian Government (including \$1,600,000 in local currency generated under two prior USAID/Ecuador Economic Support Fund (ESF) programs and an equivalent of \$2,600,000 in contributions in kind on the part of the assisted communities.

The financial plan that summarizes the contributions (in US dollars) of USAID/Ecuador, the Government of Ecuador and the assisted communities is follows:

Item	USAID	GOE	Communities	Total
Technical Assistance				
International	\$1,035,000	-	-	\$1,035,000
National	300,000	-	-	300,000
Training				
Overseas	100,000	10,000	-	110,000
In-Country	497,000	190,000	-	687,000
Commodities				
Equipment	140,000	90,000	-	230,000
Materials	315,000	-	-	315,000
Vehicles	170,000	460,000	-	630,000
Operating costs				
Salaries	240,000	802,000	-	1,042,000
Services	664,000	72,000	-	736,000
Construction				
RWS&S Systems	-	12,800,000 (1)	2,600,000	15,400,000
O&M Warehouse	120,000	50,000	-	170,000
Evaluation & Audit	200,000	-	-	200,000
Contingency				
Inflation	219,000	1,287,000	-	1,506,000
	<u>\$4,000,000</u>	<u>\$15,761,000 (1)</u>	<u>\$2,600,000</u>	<u>\$22,361,000</u>

(1) Includes an equivalent of \$1,600,000 in local currency provided under of the Economic Stabilization and Recovery Projects I and II, USAID/Ecuador Project Nos. 518-0058 and 518-0078.

#### Audit Objectives:

We were engaged to perform a financial audit of the Water and Sanitation for Health and Ecuadorian Development Project managed by the Ecuadorian Institute of Sanitary Works (IEOS) for the period September 22, 1989 to June 30, 1992.

Our audit was performed in accordance with generally accepted auditing standards and the Government Auditing Standards of the U.S. Comptroller General and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances to determine whether:

- The fund accountability statement presents fairly, in all material respects, the financial situation of the Water and Sanitation for Health and Ecuadorian Development Project managed by the Ecuadorian Institute of Sanitary Works for the period September 22, 1989 to June 30, 1992; and the costs reported as incurred and reimbursed by USAID/Ecuador during the period audited are allowable, allocable and reasonable in accordance with the agreement terms and applicable laws and regulations.
- The internal control structure of IEOS is adequate to manage the project's operations.
- IEOS complied the terms of the agreement and applicable laws and regulations which may affect the project goals and incurred costs.

During our audit we were alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

**Scope of the Audit:**

The scope of our work consisted of the following:

1. We examined the fund accountability statement, including the budgeted amounts by category and major items, the costs incurred during the period of September 22, 1989 to June 30, 1992, and the revenues received from USAID/Ecuador for the period.
2. We determined whether costs incurred are allocable, allowable and reasonable under the agreement terms.
3. We reviewed the costs reimbursed by USAID/Ecuador, identifying and quantifying questionable costs. Any costs which are not supported with adequate documentation or not in accordance with applicable agreement terms were questioned and included as findings.
4. We reviewed the general ledger and project ledgers to determine whether costs incurred were properly recorded. We reconciled direct costs reimbursed by USAID/Ecuador to the project ledgers and to the general ledger.

5. We reviewed the procedures used to control the funds, including their channelization to contracted financial institutions or other implementing units.
6. We determined whether advances of funds were justified with documentation including reconciliation of funds advanced, disbursed, and available.
7. We determined whether income and reimbursements, if any, representing recoveries of project costs are recorded as income or as credits to project cost accounts.
8. We reviewed direct payments and purchases made by USAID/Ecuador on behalf of the project to evaluate procedures used by IEOS to properly record and control the assets, commodities and technical assistance received.
9. We determined whether salary rates are reasonable for those positions in Ecuador and salaries paid are supported by appropriate payroll records. We determined whether overtime was charged to the project and whether it was allowable under the terms of the agreement.

#### **Results of Audit:**

#### **Fund Accountability Statement**

The fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. We have issued a qualified report on the reasonableness of the fund accountability statement due to a limitation to the scope for our examination caused by the impossibility of obtaining a written confirmation from the Legal Department of the Ecuadorian Institute of Sanitary Works.

Regarding project execution, our audit tests disclosed costs equivalent to \$6,421 which we consider to be questionable for the reasons explained in note 15 to the fund accountability statement. These questionable costs do not affect our opinion on the fund accountability statement.

#### **Internal Control Structure**

Based on the results of our evaluation, the following have been identified as reportable conditions:

1. Supporting documentation is not included for some payments that were made.
2. There is no evidence of responsibility in some documents and accounting transactions.
3. There is no control over rejected liquidation transactions
4. Some accounting documents are not adequately cancelled.

We do not consider any of the above conditions to be a material weakness.

### **Compliance with Agreement Terms and Applicable Laws and Regulations**

The results of our tests of compliance disclosed the following material instances of noncompliance:

1. The dispositions established in the grant agreement have not been completed in regards to recurrent audits.
2. A temporary loan was made with project funds.

### **Management Comments**

A copy of the draft report was sent to the representatives of Ecuadorian Institute of Sanitary Works and USAID/Ecuador on June 24, 1993 and was discussed with them on July 8, 1993. In this meeting they expressed their general agreement with the findings presented by us and were willing to take corrective actions to implement the recommendations. See Annex I.

*Ernst & Young*

Quito, Ecuador

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
DEVELOPMENT PROJECT**

**USAID/ECUADOR PROJECT No. 518-0081**

**MANAGED BY THE ECUADORIAN INSTITUTE OF SANITARY WORKS  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**REPORT ON THE FUND ACCOUNTABILITY STATEMENT**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the fund accountability statement of the Water and Sanitation for Health and Ecuadorian Development Project, USAID/Ecuador Project No. 518-0081, managed by the Ecuadorian Institute of Sanitary Works for the period from September 22, 1989 through June 30, 1992. The fund accountability statement is the responsibility of the Institute's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in paragraphs 3 and 4, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of the Government Auditing Standards (1988 revision), 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial 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 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 control review program is offered by professional organizations in Ecuador. We believe that the effect of this departure from the financial audit requirements of the Government Auditing Standards is not material because we participate in the Ernst & Young International worldwide internal quality control program which requires our office in Ecuador to be subjected, every two years, to an extensive quality control review by partners and managers from other Ernst & Young International offices.

We have not received a reply to our request for confirmation submitted to the Water and Sanitation for Health and Ecuadorian's Legal Department in which we have asked for information concerning any outstanding legal matter which may affect or require additional disclosure in the accompanying fund accountability statement.

As described in Note 2, the fund accountability statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the effects of the adjustments, if any, as might have been determined to be necessary had we been able to obtain the confirmation indicated in paragraph 4, the accompanying fund accountability statement referred to above presents fairly, in all material respects, the cash receipts and expenditures of the Water and Sanitation for Health and Ecuadorian Development Project managed by the Ecuadorian Institute of Sanitary Works for the period September 22, 1989 to June 30, 1992.

Regarding project execution, our audit tests disclosed costs equivalent to \$6.421 (S/6.684.065) which have been considered questionable for the reasons explained in Note 15. These questionable costs do not affect our opinion on the fund accountability statement.

This report is for the information of the Ministry of Public Health, the Ecuadorian Institute of Sanitary Works, 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.

*Ernst & Young*

December 24, 1992  
Quito, Ecuador

*[Handwritten signature]*

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
DEVELOPMENT PROJECT  
USAID/ECUADOR PROJECT No. 518-0081  
MANAGED BY THE ECUADORIAN INSTITUTE OF SANITARY WORKS**

**FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

(Expressed in US dollars)

	Budget	Actual	Available	Questionable Costs Questioned	Unsupported
<b>Income:</b>					
Funds provided by USAID/Ecuador (Note 4)	\$4,000,000	\$466,910	\$3,533,090		
<b>Disbursements:</b>					
Technical Assistance	1,335,000	2,857	1,332,143		
Training (Note 5)	597,000	115,242	481,758		\$4,271
Commodities (Note 6)	625,000	15,379	609,621		18
Operating costs (Note 7)	904,000	106,688	797,312		
Construction (Note 8)	120,000	103,095	16,905		2,132
Evaluation and audit	200,000	-	200,000		
Contingency-inflation (Note 9)	219,000	3,643	215,357		
	\$4,000,000	\$346,904	\$3,653,096		\$6,421
 Fund Balance		\$120,006	(\$120,006)		
 Fund Balance:					
Banks (Note 10)		4,34			
Revolving funds (Note 11)		18,503			
Account receivables (Note 12)		80,376			
Advances to contractors (Note 13)		14,059			
Conversion (Note 3)		2,884			
		\$120,006			

*See Notes to the Fund Accountability Statement.*

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
DEVELOPMENT PROJECT  
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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT  
PERIOD FROM SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**1. Background**

The Ecuadorian Institute of Sanitary Works (IEOS), a public organization, part of the Ministry of Public Health, with its own legal recognition, patrimony and funds, is in charge of the planning and execution of sanitary works for the country specifically related to potable water and sewage systems.

The National Fund for Environmental Sanitation was created by Law 182 published in the Official Register No. 805 on August 10, 1984 to carry out studies and administer potable water and sewage system works and other environmental sanitation programs required by the rural and marginal urban population. This Fund is administered by the Ministry of Public Health through its Subsecretary of Environmental Sanitation and Sanitary Works and for this purpose the Subsecretary designated a unit within the Ecuadorian Institute of Sanitary Works named the National Office for the Administration of the National Fund for Environmental Sanitation (DINEFONASA) to be responsible for implementing the planning, execution, financial control, supervision, control and evaluation of the works contemplated in Law 182.

On September 22, 1989, the Government of Ecuador signed grant agreement No. 518-0081 with the United States Agency for International Development Mission to Ecuador (USAID/Ecuador) to administer the Water and Sanitation for Health and Ecuadorian Development Project, USAID/Ecuador Project No. 518-0081, with the principal beneficiary and administrator of this project being the Ecuadorian Institute of Sanitary Works, through DINEFONASA. Among other obligations, the grant agreement establishes that the Ecuadorian Government must supply sufficient funds to permit IEOS to carry out a program for the construction of potable water systems and environmental sanitation. Under the agreement, USAID/Ecuador is to provide \$4,000,000 while the Government of Ecuador and the communities benefiting from the project's works are to contribute an equivalent of \$15,761,000 and \$ 2,600,000 respectively. The period of the agreement is from September 22, 1989 to December 31, 1994.

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT (CONTINUATION)  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**2. Basis for the Presentation of the Fund Accountability Statement**

The fund accountability statement is prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

**3. Conversion of US Dollars**

For the purpose of the fund accountability statement, we have used the following bases for conversion of sucres to US dollars:

**Funds provided by USAID/Ecuador and Disbursements by IEOS:** In accordance with the exchange rate used by USAID/Ecuador for the dates of receipt and disbursement of said funds.

<u>Year</u>	<u>Exchange rate</u>
1990	S/. 900
1991	S/. 1.044 and 1.135
1992	S/. 1.363 and 1.510

**Balance as of June 30, 1992: S/. 1.510 per \$1.00**

**4. Advance Payments Received**

As of the date of our report on the fund accountability statement we have the following information:

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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT (CONTINUATION)  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**4. Advance Payments Received (Continuation)**

USAID/Ecuador Receipt No.	Date	Advance Payments <i>US Dollars</i>
90264401	September 4, 1990	\$ 84,660.00
911428	April 10, 1991	119,573.00
25180110	September 19, 1991	109,469.35
25181576	March 17, 1992	80,245.73
		\$ 393,948.08

**5. Training**

Includes cost of training in Ecuador such as: travel allowance, air or land fares, room, board, materials and supplies. The people trained were those that were directly involved in the programs for potable water and basic rural sanitation or those that supplied administrative support to said programs.

**6. Commodities**

**Equipment:** Includes costs of audiovisual equipment for training, laboratory equipment for the water quality monitoring plan, and pipes and accessories.

**Materials:** Includes costs of office supplies, materials for the warehouses, and workshop and didactic materials for seminars.

**Vehicles:** Includes costs of vehicles that are being used by the project.

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT (CONTINUATION)  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**7. Operating Costs**

**Salaries:** Comprises the salaries that are paid to sanitary promoters.

**Services:** This category includes the amounts paid to radio stations for the broadcasting of the sanitary education programs and debit notes for the delivery of bank statements and the purchase of checkbooks.

**Operational and Maintenance Consultants:** Comprises payment for the purchase of materials, air or land fares, board, etc. for consultants that provide advice to the assisted communities on the operation and maintenance of the installed water and sanitation systems.

**8. Construction**

Includes costs for the purchase of materials necessary for the construction of warehouses.

**9. Contingency**

Includes the acquisition of a copier and maintenance and repair of two vehicles used by international technical consultants.

**10. Banks**

The financial resources of grant agreement No. 518-0081 were handled through checking account No. 112243.1 at the Central Bank of Ecuador. The bank account was employed to register income from credit notes and deposits, and expenditures by debit notes and checks approved by the Financial Officer of the National Fund for Environmental Sanitation or the National Financial Officer of IEOS.

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT (CONTINUATION)  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**11. Revolving Funds**

To fulfill the objectives of the project the financial administration was decentralized to the provinces of Carchi, Imbabura, Pichincha, Cotopaxi, Tungurahua, Chimborazo, Azuay and El Oro through the creation of revolving funds, information about which is consolidated each month by the central office in Quito.

**12. Accounts Receivable**

*US Dollars*

Private sector - advances	\$	6,082	
USAID/Ecuador		72,890	
Functionaries and employees -advances		1,404	
	\$	80,376	

**13. Advance Payments to Contractors**

These occurred as a result of the contractual obligations for the execution of the works or labor and were discounted from the costs of the project at the time of the payment of the billings received for works or labor carried out.

**14. Reconciliation of the Accounting Records**

	In records	In report	Difference	
	<i>(US Dollars)</i>			
Income	\$ 393,948	\$ 466,910	\$ 72,962	(1)
Operating costs	73,163	106,688	33,525	(2)

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT (CONTINUATION)  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**14. Reconciliation of the Accounting Records (Continuation)**

- (1) Income received from USAID/Ecuador for the project on July 14, 1992 and registered on that date.
- (2) Corresponds to the salaries of the sanitary promoters and was registered on November, 1992.

**15. Questionable Costs**

According to USAID regulations, costs charged to a project must meet the following general criteria:

- a. Be reasonable for the performance of the project. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the same circumstances.
- b. Be allocable to the project. A cost is allocable in accordance with the relative benefits received.
- c. Be in conformance with any limitations or exclusions set forth in the agreements on which the project is based.
- d. Be adequately documented.

There are two types of questionable costs: questioned costs and unsupported costs. Questioned costs are those costs which are not allocable or which are unallowable in accordance with laws, regulations, and agreement terms. Unsupported costs are those costs not properly supported by the recipient.

The following costs were determined to be questionable (unsupported costs) because there was no adequate evidence to support the expenses:

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT (CONTINUATION)  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**15. Questionable Costs (Continuation)**

IEOS	Disbursement	Voucher No.	Date	In Sucres	In US Dollars
Central	Training	79	June 21, 1991	S/3.403.300	\$ 3,260
	Training	80	June 21 de 1991	200.000	192
	Training	129	September 23, 1991	8.000	8
Carchi	Training	20	June 7, 1991	7.200	7
	Commodity	22	June 12, 1991	19.150	18
Imbabura	Training	44 to 48	October 19, 1990	9.250	10
	Training	49 to 63	October 19, 1990	18.400	20
	Training	65	October 19, 1990	2.000	2
	Training	79	May 3, 1991	80.000	77
	Training	801	October 31, 1991	12.000	12
	Training	802	October 31, 1991	79.986	77
	Training	803	October 31, 1991	300.000	287
Pichincha	Training	3	October 20, 1990	35.000	39
	Training	16 and 17	December 3, 1990	50.000	56
Cotopaxi	Training	66	August 9, 1991	3.750	4
	Construction	68	August 20, 1991	1.762.200	1,688
Tungurahua	Training	36	January 31, 1991	3.600	3
	Training	48	May 11, 1991	104.000	100
Chimborazo	Training	28	April 12, 1991	3.000	3
	Training	79	September 26, 1991	66.000	63
Azuaay	Construction	53	March 26, 1991	245.025	235
	Construction	152	August 15, 1991	218.000	209
	Training	170	October 3, 1991	4.500	4
Machala	Training	49	December 10, 1991	49.200	47
				<u>S/6.684.065</u>	<u>\$ 6,421</u>

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**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
DEVELOPMENT PROJECT**

**USAID/ECUADOR PROJECT No. 518-0081**

**MANAGED BY THE ECUADORIAN INSTITUTE OF SANITARY WORKS  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**REPORT ON THE INTERNAL CONTROL STRUCTURE**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the fund accountability statement of the Water and Sanitation for Health and Ecuadorian Development Project, USAID/Ecuador Project No. 518-0081, managed by the Ecuadorian Institute of Sanitary Works for the period from September 22, 1989 to June 30, 1992 and we have issued our qualified report thereon dated December 24, 1992. Our qualification was originated by limitation to the scope for our examination caused by the impossibility of obtaining a written confirmation from the Legal Department of the Ecuadorian Institute of Sanitary Works.

Except for not conducting an external quality control review by an unaffiliated audit organization as further described in our opinion on the fund accountability statement and not obtaining the above - mentioned written confirmation of potential legal matters outstanding, we conducted our audit in accordance with generally accepted auditing standards and the 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 fund accountability statement of the Water and Sanitation for Health and Ecuadorian Development Project managed by the Ecuadorian Institute of Sanitary Works for the period from September 22, 1989 to June 30, 1992, 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.

The management of the Ecuadorian Institute of Sanitary Works is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide the management with reasonable, but not absolute, assurance that 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 accounting basis described in Note 2 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: accounting and information systems, procurement procedures and practices, auxiliary accounting systems and records, bank account controls, advance payments, development procedures, procedures for counterpart contributions, requirements for reimbursements, planning procedures, and controls to assure that charges to the project are proper and adequately documented.

For all of the internal control structure categories 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 Ecuadorian Institute of Sanitary Works' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted are described in findings Nos. 1 to 4 in the following pages.

A material weakness is a reportable condition in which the design or operation of one or more of the 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 financial 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. However, we do consider any of the reportable conditions mentioned above to be material weaknesses.

We also noted others matters involving the internal control structure and its operation that we have reported to the management of the Ecuadorian Institute of Sanitary Works in a separate letter dated December 24, 1992.

This report is intended for the information of the Ministry of Public Health, the Ecuadorian Institute of Sanitary Works 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.

*Ernst & Young*

December 24, 1992  
Quito, Ecuador

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
DEVELOPMENT PROJECT**

**USAID/ECUADOR PROJECT No. 518-0081**

**MANAGED BY THE ECUADORIAN INSTITUTE OF SANITARY WORKS  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**INTERNAL CONTROL STRUCTURE - REPORTABLE FINDINGS**

**1. Supporting documentation is not included for some payments that were made**

**Condition:**

Supporting documentation is not included for the following payments:

IEOS	Disbursement	Voucher No.	Date	In Sucres	In US Dollars
Central	Training	79	June 21, 1991	S/.3.403.300	\$3,260
	Training	80	June 21 de 1991	200.000	192
	Training	129	September 23, 1991	8.000	8
Carchi	Training	20	June 7, 1991	7.200	7
	Commodity	22	June 12, 1991	19.150	18
Imbabura	Training	44 to 48	October 19, 1990	9.250	10
	Training	49 to 63	October 19, 1990	18.400	20
	Training	65	October 19, 1990	2.000	2
	Training	79	May 3, 1991	80.000	77
	Training	801	October 31, 1991	12.000	12
	Training	802	October 31, 1991	79.986	77
	Training	803	October 31, 1991	300.000	287
Pichincha	Training	3	October 20, 1990	35.000	39
	Training	16 and 17	December 3, 1990	50.000	56
Cotopaxi	Training	66	August 9, 1991	3.750	4
	Construction	68	August 20, 1991	1.762.200	1,688
Tungurahua	Training	36	January 31, 1991	3.600	3
	Training	48	May 11, 1991	104.000	100
Chimborazo	Training	28	April 12, 1991	3.000	3
	Training	79	September 26, 1991	66.000	63
Azuary	Construction	53	March 26, 1991	245.025	235
	Construction	152	August 15, 1991	218.000	209
	Training	170	October 3, 1991	4.500	4
Machala	Training	49	December 10, 1991	49.200	47
				<b>S/.6.684.065</b>	<b>\$6,421</b>

**Criteria:**

The standards for Internal Controls in the Federal Government, issued by the United States General Accounting Office, establish that all transactions must be clearly and exactly documented and should be available for audit.

Official Register No. 403 of April 1990 requires that sums paid for the transport of functionaries for commissions carried out be supported with documentation issued by the transport companies.

**Cause:**

IEOS has not issued internal procedures to ensure proper custody of the documents. IEOS officials told us that the supporting documentation was given to USAID/Ecuador, but IEOS did not retain any copies for its files.

**Effect:**

Due to the situation described in the condition section above, we are questioning the unsupported payments of S/. 6.684.065 (\$6,421) according to dispositions issued by USAID/Ecuador.

**Recommendation:**

We recommend that IEOS implement an adequate procedure for the handling and filing of payment vouchers and their supporting documentation for the purpose of documenting financial accounting information.

**2. There is no evidence of responsibility in some documents and accounting transactions**

**Condition:**

- a. There are no signatures or identification initials regarding the process of approval, registration, and supervision in the following documents:

<b>IEOS</b>	<b>Voucher No.</b>	<b>Date</b>
Central	314	May 20, 1992
	349	June 10, 1992
Imbabura	1	October 2, 1990
	11	October 17, 1990
Pichincha	69	June 17, 1991
	95	July 9, 1991
	96	July 9, 1991
	97	July 9, 1991
Cotopaxi	5	February 14, 1991
	92	December 24, 1991
	133	May 13, 1992
Tungurahua	9	November 7, 1990
	122	August 29, 1991
Machala	10	February 13, 1991

b. There is no evidence of approval of the bank reconciliations done by the IEOS central office for the months of July, August, September, October, November 1990 and January, February and March 1991.

**Criteria:**

The standards for Internal Controls in the Federal Government, issued by the United States General Accounting Office, for an adequate internal control structure establish that functions and responsibilities for authorizations, processes, records and the review of transactions must be segregated among individuals and that there must be evidence of the exercise of said responsibilities.

**Cause:**

a. Regarding condition a. above, only the transactions that are made in the provinces have these weaknesses. The central office in Quito receives the documentation and records it, but for reasons of time, it cannot send all the documents back to the provincial offices to obtain the signatures of the responsible parties. However, the central office does make the respective commentaries to the paymasters.

b. As regards condition b. above, we could not determine the cause because since the dates of the conditions noted above there has been a change of personnel responsible for approving bank reconciliations.

**Effect:**

The absence of evidence of the functions carried out does not permit the detection of weaknesses in the processing of accounting transactions and as a consequence the opportune correction of errors.

**Recommendation:**

We recommend that IEOS control the processing of transactions by means of an appropriate segregation of functions and written evidence of the same, with the objective of maintaining an adequate system of internal control.

**3. There is no control over rejected liquidation transactions**

**Condition:**

We have observed that IEOS does not maintain an auxiliary record to keep track of those transactions rejected by USAID/Ecuador when IEOS submits its documentation to liquidate its cash advances from USAID/Ecuador.

**Criteria:**

An adequate system of internal control requires the establishment of procedures that permit the evaluation and follow-up of financial information and facilitate the opportune recording of any adjustments needed.

**Cause:**

Since USAID/Ecuador controls the approval of transactions included within the liquidation vouchers submitted by IEOS, IEOS believes that USAID/Ecuador rather than IEOS should maintain a record of the rejected transactions. USAID/Ecuador, however, believes it is IEOS's responsibility to keep track of the rejections and any subsequent resubmission of rejected transactions.

**Effect:**

IEOS does not maintain an up-to-date record of rejected transactions or the subsequent resubmission of transactions rejected for lack of proper supporting documentation, which could lead to some supportable transactions not being resubmitted or the failure to remove expenses found to be ineligible from the project's accounting records.

**Recommendation:**

We recommend that IEOS maintain an auxiliary record to keep track of rejected transactions in liquidation vouchers submitted to USAID/Ecuador, including any subsequent resubmission of these transactions.

**4. Some accounting documents are not adequately cancelled**

**Condition:**

The following receipts for payments made have not been adequately cancelled.

<b>IEOS</b>	<b>Voucher No.</b>	<b>Date</b>
Central	104	July 31, 1991
	261	April 27, 1992
Carchi	1	December 18, 1990
Imbabura	7	October 16, 1990
	37	October 17, 1990
	42	October 19, 1990
	68	October 19, 1990

<b>IEOS</b>	<b>Voucher No.</b>	<b>Date</b>
Pichincha	6	November 16, 1990
	10	December 3, 1990
	11	December 3, 1990
	12	December 3, 1990
	24	January 11, 1991
	33	February 5, 1991
	39	February 25, 1991
	Cotopaxi	6
	24	April 23, 1991
Tungurahua	19	November 20, 1990
	31	January 28, 1991
Azuary	5	January 10, 1991
	6	January 10, 1991
	8	January 10, 1991
	27	February 18, 1991

**Criteria:**

Approved control procedures establish that the documentation that supports payments must be adequately cancelled with the objective of avoiding improper payments and to protect the information and its integrity.

**Cause:**

The procedure established by IEOS is to compare the check, the invoice, and the sums that are on the warehouse receipt and not to cancel these documents. IEOS considers that there have been no improper payments.

**Effect:**

An invoice that has already been cancelled may be paid more than once thus leading to loss of project funds.

**Recommendation:**

We recommend that IEOS stamp cancelled invoices as paid to eliminate the possibility of using the documentation to support multiple payments of the same expenses.

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
DEVELOPMENT PROJECT**

**USAID/ECUADOR PROJECT No. 518-0081**

**MANAGED BY THE ECUADORIAN INSTITUTE OF SANITARY WORKS  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**REPORT ON COMPLIANCE WITH AGREEMENT TERMS  
AND APPLICABLE LAWS AND REGULATIONS**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the fund accountability statement of the Water and Sanitation for Health and Ecuadorian Development Project, USAID/Ecuador Project No. 518-0081, managed by the Ecuadorian Institute of Sanitary Works for the period from September 22, 1989 to June 30, 1992, and we have issued our qualified report thereon dated December 24, 1992. Our qualification was originated by limitation to the scope for our examination caused by the impossibility of obtaining a written confirmation from the Legal Department of the Ecuadorian Institute of Sanitary Works.

Except for not conducting an external quality control review by an unaffiliated audit organization as further described in our opinion on the fund accountability statement and not obtaining the above - mentioned written confirmation of potential legal matters outstanding, we conducted our audit in accordance with generally accepted auditing standards and the 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 Water and Sanitation for Health and Ecuadorian Development Project managed by the Ecuadorian Institute of Sanitary Works is the responsibility of the Ecuadorian Institute of Sanitary Works' management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests the Ecuadorian Institute of Sanitary Works' compliance with significant agreement terms and applicable laws and regulations. However, the objective of our audit of the fund accountability statement 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 prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the

fund accountability statement being audited. The results of our tests of compliance disclosed the material instances of noncompliance described in the accompanying findings Nos. 1 and 2.

We considered these material instances of noncompliance in forming our opinion on whether the Ecuadorian Institute of Sanitary Works' fund accountability statement for the project for the period September 22, 1989 to June 30, 1992 is presented fairly, in all material respects, in conformity with the accounting basis described in Note 2 to the fund accountability statement, and this report does not affect our report dated December 24, 1992 on that fund accountability statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Ecuadorian Institute of Sanitary Works 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 Ecuadorian Institute of Sanitary Works had not complied, in all material respects, with those provisions.

We also noted other immaterial instances of noncompliance with agreement terms and applicable laws and regulations that we have reported to the management of the Ecuadorian Institute of Sanitary Works in a separate letter dated December 24, 1992.

This report is intended for the information of the Ministry of Public Health, the Ecuadorian Institute of Sanitary Works and the United States Agency for International Development. However, this restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.



December 24, 1992  
Quito, Ecuador

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
DEVELOPMENT PROJECT  
USAID/ECUADOR PROJECT No. 518-0081  
MANAGED BY THE ECUADORIAN INSTITUTE OF SANITARY WORKS  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND  
REGULATIONS - REPORTABLE FINDINGS**

- 1. The dispositions established in the grant agreement have not been completed in regards to recurrent audits**

**Condition:**

IEOS has not contracted a firm of public auditors for annual financial and compliance audits of the project.

**Criteria:**

Agreement No. 518-0081, in annex 1, requires IEOS to contract a firm of public auditors acceptable to the Ecuadorian Government and to USAID/Ecuador to conduct annual financial and compliance audits.

**Cause:**

IEOS did not consider it necessary to comply with this requirement because it believes its administration of the project is adequate and that it maintains good relations with USAID/Ecuador.

**Effect:**

IEOS is not complying with the agreement terms and is not exercising the additional control over the financial execution of the project afforded by financial and compliance audits.

**Recommendation:**

We recommend that IEOS follow the clauses contained in the grant agreement regarding to annual financial and compliance audits.

## **2. A temporary loan was made with project funds**

### **Condition:**

On May 5, 1992, with disbursement receipt No. 287, a temporary loan was made from the account of USAID 518-0081 to the account of the National Fund for Environmental Sanitation (FONASA) for the amount of S/.15.000.000 (\$ 9,993).

### **Criteria:**

The funds granted by USAID/Ecuador must be used only to accomplish with the agreement activities and must not be used for any other purpose.

### **Cause:**

We did not determine FONASA's reasons for taking the loan. However we noted that the loan was repaid in June 1992.

### **Effect:**

Non-fulfillment of the terms established in the agreement and instructions of USAID/Ecuador.

### **Recommendation:**

We recommend that IEOS use the project funds only and exclusively to pay expenses of the same.

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
DEVELOPMENT PROJECT  
USAID/ECUADOR PROJECT No. 518-0081  
MANAGED BY THE ECUADORIAN INSTITUTE OF SANITARY WORKS**

**LIST OF REPORT RECOMMENDATIONS  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

<b>INTERNAL CONTROL STRUCTURE</b>	<b>Page</b>
1. We recommend that IEOS implement an adequate procedure for the handling and filing of payment vouchers and their supporting documentation for the purpose of documenting financial accounting information.	21
2. We recommend that IEOS control the processing of transactions by means of an appropriate segregation of functions and written evidence of the same, with the objective of maintaining an adequate system of internal control.	23
3. We recommend that IEOS maintain an auxiliary record to keep track of rejected transactions in liquidation vouchers submitted to USAID/Ecuador, including any subsequent resubmission of these transactions.	24
4. We recommend that IEOS stamp cancelled invoices as paid to eliminate the possibility of using the documentation to support multiple payments of the same expenses.	26

**COMPLIANCE WITH AGREEMENT TERMS AND  
APPLICABLE LAWS AND REGULATIONS**

**Page**

1. We recommend that IEOS follow the clauses contained in the grant agreement regarding annual financial and compliance audits. 29
2. We recommend that IEOS use the project funds only and exclusively to pay expenses of the same. 30

**AUDIT OF THE WATER AND SANITATION FOR HEALTH AND ECUADORIAN  
DEVELOPMENT PROJECT  
USAID/ECUADOR PROJECT No. 518-0081  
MANAGED BY THE ECUADORIAN INSTITUTE OF SANITARY WORKS  
FOR THE PERIOD SEPTEMBER 22, 1989 TO JUNE 30, 1992**

**ANNEX 1:           MANAGEMENT COMMENTS**

(Note: The annexes referred to in the attached management comments were provided to USAID/Ecuador and the Regional Inspector General for Audit, San Jose, Costa Rica. Copies will be made available upon request.)

**1. No se han registrado en cuentas de gastos desembolsos efectuados (Carta Administrativa)**

Respecto a los S/. 35'000.000,00 entregados al IEOS para cubrir los sueldos y beneficios a los Promotores Sanitarios, correspondiente al segundo semestre de 1991, me permito manifestar que, con asientos de diario No. 275 y 370 de Julio y Noviembre de 1992 se ha procedido a liquidar los S/. 35'000.000,00. El retraso se debe a que la División Financiera Fonasa no contó con los soportes para la legalización del gasto, pese a que se insistió en la entrega de la información para lo cual se adjuntó oficios. (Anexo 1).

Con el propósito de mejorar esta deficiencia se ha adoptado como procedimiento que la Dirección de Recursos Humanos elabore los roles de pago a Promotores Sanitarios a nivel de las Provincias, los mismos que son remitidos a la División Financiera de Fonasa, para control previo, verificado sus cálculos, se envían a la Gerencia para su autorización y posteriormente se realiza la transferencia. Esto ha permitido que los gastos de sueldos y beneficios a Promotores Sanitarios a nivel de las Provincias sean registrados oportunamente.

**2. No se sustentan adecuadamente ciertos pagos. (Observación No.1 Control Interno)**

De acuerdo a la revisión que se ha realizado de estos documentos, se pudo establecer que los originales se encuentran en las Direcciones Provinciales como por ejemplo, la Provincia de Tungurahua ha remitido la documentación original, la misma que ha sido adjuntada al comprobante No. 60.

Sin embargo, con el propósito de dar cumplimiento a la recomendación, se ha enviado un télex, en el cual se recuerda a los Directores Provinciales y Analistas de Control Interno, que la documentación que debe ser remitida a las oficinas centrales deben ser originales para garantizar la autenticidad del pago.

Además que con memorando No. 068-DFF-AID-93, se ha solicitado a los Señores Analistas de Control Interno, realicen las gestiones pertinentes para recabar la documentación original, y así los comprobantes observados que son:

PICHINCHA	83 y 84	Junio 21 de 1991	76.000,00
TUNGURAHUA	60	Junio 25 de 1991	79.200,00
MACHALA	10	Febrero 13 de 1991	350.000,00
	30	Agosto 19 de 1991	<u>174.240,00</u>
		TOTAL :	<u>679.440,00</u>

queden debidamente soportados. (Anexo 2)

**3. Cierta documentación ha sido contabilizada en períodos posteriores. (Carta Administrativa)**

...2...

El retraso de la contabilización del D. 350 de Octubre 30 de 1992, se debe a que la Dirección Provincial de Pichincha no remitió oportunamente la documentación, de acuerdo a los oficios que se adjuntan en el (ANEXO 4), además, no se contaba con el personal necesario en la División Financiera Fonasa.

A partir de Junio de 1992, se contó con el personal para procesar la documentación de bodega, situación que se encuentra normada en la presente fecha, cumpliéndose así con la recomendación No. 3 de su informe.

**4. No se mantienen adecuados controles en relación con los archivos de documentación contable. (Carta Administrativa)**

La disposición de que los archivos se encuentren en orden secuencial numérico de toda la información financiera, existe, pero no se da cumplimiento debido a la falta de espacio físico, situación que esperamos en los próximos meses se supere.

Sin embargo, la Unidad Financiera Fonasa, ha dispuesto, según memorando No. 344-DFF-93 que los comprobantes detallados en el numeral 4 de su informe sean comprobantes detallados para soportar adecuadamente los desembolsos del proyecto. (ANEXO 5).

**5. No se controlan adecuadamente los comprobantes de egreso anulados. (Carta Administrativa)**

Los procedimientos de la Institución cuando se procede a anular cheques, es poner el sello de anulado, pero para dar cumplimiento a las normas de control interno del Gobierno Federal, emitidas por la Oficina General de Contabilidad, se ha dispuesto mediante telex que, como medida de control interno, se destruyan las firmas en los cheques que han sido anulados. Se adjunta copias xerox de los cheques por ustedes enumerados en el literal 5, donde se ha destruido las firmas de los cheques anulados.

**6. Existen diferencias en la aplicación de la Ley de Régimen Tributario Interno en relación con Retenciones en la Fuente. (Carta Administrativa).**

Se ha notificado a las direcciones Provinciales a fin de que se proceda a recuperar los impuestos no retenidos. Se adjunta oficios enviados, (ANEXO 6) y se recuerda que los impuestos se aplique en forma estricta a lo que establece la Ley de Régimen Tributario.

**1. Se han efectuado pagos en exceso en concepto de viáticos. (Carta Administrativa)**

De acuerdo al análisis que se ha realizado al rubro Cuentas por Cobrar Sector Privado, se ha llegado a establecer que no han efectuado un cruce adecuado de la información ya que estas cuentas han sido liquidadas oportunamente como se evidencia en el cuadro que a continuación se detalla. Se adjunta copias de los Diarios y Auxiliares de registro donde se verifica su liquidación.

<u>LIQUIDACION</u>					
	COMP.	VALOR	COMP.	FECHA	VALOR
IEOS	NO.		DIARIO		
Tungurahua	46	5.860,00	97	Septbre.91	5.860,00
Chimborazo	7	22.900,00	33	Marzo 91	22.900,00
	10	15.140,00	198-199	Enero 92	15.140,00
	11	20.900,00	09	Septbre.91	20.900,00
Central	236	6.200,00	No corresp.al No. de compr. Se adj.copia		
Imbabura	9 al 36	19.200,00	Solicitado liq. con Of. 069-DFE-AID-93		
(ANEXO 1)					

**2. No se adjunta la documentación de respaldo en algunos pagos efectuados. (Observación No.1 Control Interno)**

Con memorandum No. 070-DFE-AID-93, se ha solicitado a los Analistas de Control Interno realizar los trámites pertinentes a fin de recuperar la documentación para soportar adecuadamente la información financiera contable. (ANEXO 2).

**3. No se mantiene una adecuada comunicación con las Provincias. (Carta Administrativa)**

**4. No se deja evidencia de responsabilidad en algunos documentos y transacciones contables. (Observación No.2 Control Interno)**

**6. No se cancelan adecuadamente algunos documentos contables. (Observación No.4 Control Interno)**

Mediante télex se ha solicitado a las Direcciones Provinciales nos remitan los ingresos a bodega que certifiquen la recepción de los vehículos (ANEXO 3).

Además con oficio No. 000354-G-USAID-93, se ha dado las disposiciones del caso a las Direcciones Provinciales, para mantener un adecuado control interno contable, dando así cumplimiento a las recomendaciones 3, 4 y 6 de su informe. (ANEXO No. 4).

**5. No se controlan extracontablemente las desaprobaciones de pago. (Observación No.3 Control Interno)**

Con el objeto de dar cumplimiento a la recomendación de mantener un control en el que se detalle las fechas de las desaprobaciones y fechas de las justificaciones a efectos de controlar adecuadamente los fondos utilizados, se ha dispuesto mediante memorandum No. 071-DFE-AID-93, se realice el control por ustedes sugerido. (ANEXO 5).

...2...

**CUMPLIMIENTO CON LOS TERMINOS DE LOS CONVENIOS, LEYES Y REGULACIONES APLICABLES.**

**1. No se ha dado cumplimiento a la disposición establecida en el Convenio de Donación, respecto a Auditorías recurrentes. (Observación No.1, Cumplimiento)**

Con el objeto de dar cumplimiento a la recomendación en la cual el IEOS solicite se contrate una firma de Auditores Públicos para desarrollar las auditorías financieras, en los próximos días se mantendrá una reunión con el Gerente del Proyecto Ing. Diego González e Ing. Adalid Arratia, Coordinado del Proyecto, con el propósito de concretar la contratación de los Auditores Públicos y verificar la asignación presupuestaria que cubrirá este gasto, además, se solicitará la autorización respectiva por parte de la AID, de la no objeción de celebrarse este contrato.

**2. Se ha concedido un préstamo temporal con fondos del Proyecto. (Observación No.2, Cumplimiento)**

Con fecha 5 de Mayo de 1992, se realizó un préstamo temporal de la Cuenta USAID 518-0081 a la Cuenta de Fonasa, por un valor de S/. 15'000.000,00, esto se realiza previa verificación de que estos fondos no iban a ser utilizados en forma inmediata, además de que es cancelado con fecha 3 de Junio de 1992.

Este procedimiento de igual forma se realiza cuando la Contraparte Local o Fonasa dispone de los fondos y realiza préstamos temporales al Proyecto IEOS-USAID, sin embargo con el propósito de dar cumplimiento a la recomendación, los fondos del Proyecto serán utilizados única y exclusivamente para solventar gastos del mismo, evitando así realizar préstamos posteriores.

## APPENDIX I

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