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**REVIEW OF THE COMMODITY
MANAGEMENT SYSTEM OF THE
AUTONOMOUS EXECUTIVE
COMMISSION OF PORTS (CEPA)**

**Public Services Improvement Project (PSIP)
Project No. 519-0320-I-00-1067-00
Delivery Order No. 10**

**Final Report
April 29, 1994**

FINAL REPORT

**REVIEW OF THE COMMODITY MANAGEMENT SYSTEM
OF THE AUTONOMOUS EXECUTIVE COMMISSION OF PORTS (CEPA)**

**PUBLIC SERVICES IMPROVEMENT PROJECT (PSIP)
PROJECT No. 519-0320**

ENGLISH/APRIL 29, 1994

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**Prepared by:
Price Waterhouse**

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Price Waterhouse



April 29, 1994

Armand Lanier
Audit Management Officer
Office of the Controller
U.S. Agency for International Development
Mission to El Salvador
San Salvador, El Salvador

Dear Mr. Lanier:

Attached please find the Price Waterhouse final report on the Review of the Commodity Management System of the Autonomous Executive Commission of Ports (CEPA), for the Public Services Improvement Project (PSIP) (519-0320).

This review was performed in accordance with the Statement of Work Contract No. 519-0320-I-00-1-67-00, Delivery Order No. 10.

We would like to extend our appreciation to your office for the support provided during the performance of this engagement. Should you wish to contact us, please feel free to call Mr. Oscar Cordon in (503) 790 - 745, or Ms. Bettina Garcia Welsh at (202) 861 - 6263.

Sincerely yours,

Bettina Garcia-Welsh for O.C.

Oscar Cordon
Price Waterhouse

REVIEW OF THE COMMODITY MANAGEMENT SYSTEM
OF THE AUTONOMOUS EXECUTIVE COMMISSION OF PORTS (CEPA)

PUBLIC SERVICES IMPROVEMENT PROJECT (PSIP)
PROJECT NO. 519-0320

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REVIEW OF THE COMMODITY MANAGEMENT SYSTEM
OF THE AUTONOMOUS EXECUTIVE COMMISSION OF PORTS (CEPA)

PUBLIC SERVICES IMPROVEMENT PROJECT (PSIP)
PROJECT NO. 519-0320

I. Introduction

A. Program Background

On August 30, 1989, AID signed the Public Services Improvement Project No. 519-0320 with the Government of El Salvador's (GOES) Ministry of Planning and Coordination for Social and Economic Development (MIPLAN). The general purpose of the Project is to support the restoration of services interrupted and facilities damaged or destroyed as a result of the insurgent activity or natural disaster in El Salvador.

The original amount of the Project was for US\$ 75 Million in grant funds including US\$28,900,000 for commodities to be purchased using host country procurement and fixed price contracting by Louis Berger International, Inc. (LBII). The agreement is effective for a period of five years, ending September 30, 1994.

The grant agreement established that the GOES would provide \$60 Million in counterpart contribution including ESF and PL-480 Title I generated local currency.

USAID's Major Infrastructure Division supervises the activities of the PSIP program. On behalf of the GOES, eight entities are in charge of implementing project activities, which includes MIPLAN and the Secretaria Tecnica del Financiamiento Externo (SETEFE) as administrative entities and the following six executing entities:

- Machinery and Equipment Administration (AME)
- National Administration of Aqueducts and Sewage (ANDA)
- Lempa River Hydroelectric Executive Commission (CEL)
- Autonomous Ports Executive Commission (CEPA)
- Roads and Highways National Directorate (DGC)
- El Salvador National Railways (FENADESAL)

The three specific purposes of the project are to:

- Restore and preserve vital public services provided by the infrastructure agencies
- Improve and sustain access of rural populations to markets

- Increase access to potable water supply for rural populations, and increase the proper utilization of water and sanitation systems.

The project has four components each designed to achieve the purposes stated above, as follows:

- Component I: Public Services Restoration
- Component II: Secondary, Tertiary, and Lower Class Rural Road Deferred Maintenance and Repair
- Component III: Potable Water Supply, Sanitation, and Health
- Component IV: Institution Strengthening Technical Assistance, Project Support, and Monitoring and Evaluation
- Component V: Post War Maintenance, Repair, and Reconstruction

B. CEPA's Participation

The Autonomous Commission of Ports (CEPA) was constituted on May 28, 1952, with the name of Acajutla Port Executive Commission. Its "Organic" Law, contained in Legislative Decree Number 101 was issued on November 8, 1974 and its amendments, created CEPA as a public institution, with its own autonomy and legal entity, with main domicile in the capital of the Republic of El Salvador, maintaining all corresponding powers and responsibilities assigned to the Acajutla Port Executive Commission and all other powers established by that Law.

CEPA would be responsible for the administration, the development, direction and execution of port operations in all facilities in the ports of El Salvador, or subject to special agreements as well as the protection, handling and storage of all export and import merchandise; also, the administration, development and management of the entire State-owned railroad system, besides planning and executing by itself or through contractors, the construction of new facilities and all other works required to expand and improve existing port and railroad facilities. Also the responsibility of the Commission is the management, administration, maintenance and expansion of all facilities of the El Salvador International Airport.

Within CEPA's functions and authority, is the initiation and implementation of all negotiations to obtain the necessary financing to develop and implement its own investment projects assigned to it by the Law.

The project objectives with respect to the Autonomous Port Executive Commission consisted of: (a) implementing an adequate Acajutla Port "B" dock rubber system to allow for efficient mooring of ships with a deadweight of up to 40,000 tons; and (b) the use, with the new rubbers system the four berths of the "B" dock, thus making it possible to serve a greater number of bulk carrier ships with the mechanized conveyor belt system.

Under the regulations of this Agreement, USAID/El Salvador would carry out the procurement of goods of the repair project of the Acajutla Port "B" dock rubbers, relying on the technical advice of Louis Berger International, Inc. To date, the amount of purchases of materials reaches US\$1,225,803, which have already been received and are currently in the custody of the Acajutla Port materials storage.

C. Objectives, Scope and Methodology

1. Objectives of Commodity Management System Review

The objective of the commodity management system review is to report on whether CEPA's system in place is adequate and reliable to properly account for all commodity transactions such that the Controller's Office at USAID/El Salvador can issue a certification of the system. The specific objectives of this review were to:

- Obtain an understanding of CEPA's commodity management system and assess the control risk.
- Perform tests of the systems and other procedures related to commodities purchasing, customs clearance, receiving and inspection, claims, warehousing, transfers, issuance accounting records, reporting, non-expendable property management, and end-use verification to determine whether 1) the actual procedures performed are the same as prescribed, and 2) the organization is complying with agreement terms and conditions.
- Complete the "Basic Standards for Evaluating Entity's Commodity Management System" checklist.

- Determine whether CEPA has undergone previous commodity management system studies and whether it has taken adequate corrective actions on prior audit report recommendations related to commodities.

2. Scope of Commodity Management System Review

The review of CEPA's Commodity Management System was performed in accordance with generally accepted auditing standards, the U.S. Comptroller General's "Government Auditing Standards" (Yellow Book, 1988 Revision), and the USAID/EL Salvador "Basic Standards for Evaluating Entity's Commodity Management System".

The scope of this review included the books and records, policies and procedures, organizational structure, and personnel and facilities of CEPA's implementing units.

3. Methodology of Commodity Management System Review

The review procedures performed were designed to achieve the stated objectives, through reading the relevant documents, performing selective tests, conducting interviews, and conducting physical observations.

We reviewed the Project Paper, the Grant Agreement including all amendments, the contract between USAID/El Salvador and Louis Berger International, Inc., all Project Implementation Letters (PILs), the annual plans, budgets, action and procurement plans, applicable OMB Circulars, AID Handbooks (1B, 3, 11, 14, and 15), SETEFE Guide 1262, periodic project reports, all prior reviews of CEPA's commodity management system, and CEPA's purchasing, receiving and inspection, warehousing and issuance, and general operations policies and procedures. Based upon these documents, we identified the agreement terms and applicable laws and regulations where noncompliance could have a material effect.

We secured an understanding of the design and operation of CEPA's commodity management system and its internal control structure through the review of CEPA manuals and interviews with USAID/El Salvador and CEPA personnel. To confirm our understanding of the design of the system and its operating procedures, we performed "walk-throughs" of transactions. Based upon the established policies and procedures, we assessed control risk.

In order to confirm that actual practices are in conformity with the prescribed procedures, we selectively tested transactions at CEPA project offices, USAID/El Salvador, and the warehouses visited. (See Appendix I for a list of the warehouses physically inspected.)

The findings and recommendations of prior reviews of the CEPA's commodity management system were discussed with both USAID/El Salvador and CEPA to ascertain if these prior findings had been resolved and the recommendations addressed. CEPA's comments to our draft report are included in Appendix VII.

D. Summary of Review Results

The findings and recommendations of CEPA's commodity management system review are presented in three substantive areas: Internal Control Structure, Compliance with Agreement Terms and Applicable Laws and Regulations, and Status of Prior Review Recommendations. The detailed findings are presented in the corresponding sections of this report, and are summarized below.

Some of our observations can be classified into more than one section of the report. For example, deficiencies in the warehousing of commodities could present a weakness in the internal control structure and at the same time present a case of non-compliance with the USAID grant agreement. Whenever possible, we have made reference to the finding when the same one appears in an earlier section of the report. In other cases, we have repeated the finding when, in our judgement, a clearer presentation of the finding and recommendations is warranted.

1. Commodity Management System Internal Control Structure

The review of the Commodity Management System internal control structure revealed reportable conditions that impact CEPA's capability to adequately manage project commodities. These reportable conditions relate to deficiencies in procedures manuals, warehousing operations, insurance, receipt of goods, training and development of personnel, maintenance of accounting records, and information systems. The following six reportable conditions listed below are discussed in detail in Section II.B of this report.:

- The planning and programming functions and some disbursement activities that fall under CEPA's responsibility offer room for improvement.

- CEPA does not have an organization manual that defines in writing the responsibility of the units involved in the control over Project 519-0320 commodities in the project's warehouses.
- CEPA does not have the administrative tools necessary that would allow it to be familiar with current policies and procedures and facilitate the performance of its activities efficiently and effectively with respect to its administration of materials in the warehouses.
- The physical conditions and organization of CEPA warehouses do not ensure adequate storage of Project 519-0320 materials.
- There is no evidence that the physical inventory of Project 519-0320 has been reconciled with the accounting records.
- CEPA does not have an adequate computer information system.

2. Commodity Management System Compliance with Agreement Terms and Applicable Laws and Regulations

CEPA's commodity management system is affected by the lack of compliance with certain agreement terms and applicable laws and regulations, which we believe also represent weaknesses in the internal control structure. Thus, in some cases we have repeated some findings related to the internal control structure in this section. In section II.B. of this report, we discuss in greater detail the instances of noncompliance that were identified and summarized below:

- The planning and programming functions and some disbursement activities that fall under CEPA's responsibility offer room for improvement.
- The physical conditions and organization of CEPA warehouses do not ensure adequate storage of Project 519-0320 materials.
- There is no evidence that the physical inventory of Project 519-0320 has been reconciled with the accounting records.

3. Status of Prior Review Recommendations for the Commodity Management System

Our work revealed that some prior review recommendations had not been fully or consistently implemented, thus affecting the administrative capacity of CEPA in relation to the project. Although CEPA has made significant efforts, we recommend that they continue their efforts to improve the commodity management system and correct the prior findings so that the USAID/El Salvador Controller's Office can certify the SABM.

Section IV of this report discusses in detail the prior recommendations that we believe remain to be implemented by CEPA.

E. CEPA Management Comments

In an exit conference held on March 7, 1994 with USAID and CEPA officials, we discussed the findings and recommendations included in our draft report. There were no disagreements with respect to the content of the report, and no significant revisions to the report were required. CEPA's written comments are included as Appendix VII to this final report.

F. Conclusions on CEPA Commodity Management System

We have identified several reportable conditions in CEPA's internal control structure that are deemed to be material, instances of non-compliance with agreement terms and applicable laws and regulations, as well as a number of prior review recommendations that have not yet been fully implemented. This indicates that CEPA's existing commodity management system does not yet have the administrative tools and controls necessary to permit adequate management of project commodities under the "Public Services Strengthening Project", USAID/El Salvador project number 519-0320.

Therefore, the USAID/El Salvador Controller's Office may be able to make a provisional certification on the CEPA commodity management system once CEPA, under the supervision of USAID/El Salvador's Major Infrastructure Division, has confirmation of a specific action plan to implement the noted recommendations and has made significant progress in resolving the reportable conditions.

II. Internal Control Structure

A. Independent Consultant's Report on the Internal Control Structure

We conducted a review of the Autonomous Ports Executive Commission (CEPA) commodity management system that we considered relevant to the criteria established by USAID, as set forth in the grant agreement for the Public Services Improvement Project (PSIP), USAID/El Salvador Project No. 519-0320, and in our statement of work effective November 8, 1993. Our review included tests of compliance with such procedures. Our review did not constitute an audit of any financial statements prepared by CEPA.

We conducted our tests 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 tests to obtain reasonable assurance about the internal control structure of the Commodity Management System, and therefore, in planning and performing our tests of CEPA's Commodity Management System for the PSIP Project, we considered its internal control structure.

The management of CEPA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that 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 financial statements in accordance with generally accepted accounting principles. 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 purposes of this report, we have classified the significant internal control structure policies and procedures into the following categories: 1) planning and procurement of commodities, 2) receipt, customs clearance, and inspection of commodities, 3) warehouse records and controls, 4) physical safeguards, and 5) distribution of commodities to end users.

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 judgement, could adversely affect CEPA's ability to record, process, summarize, and report financial data consistent with the assertions of management.

The following are the reportable conditions observed in our review according to this criteria:

- The planning and programming functions and some disbursement activities that fall under CEPA's responsibility offer room for improvement.
- CEPA does not have an organization manual that defines in writing the responsibility of the units involved in the control of Project 519-0320 personal property in all the warehouses.
- CEPA does not have complete administrative tools that would allow it to be familiar with the current policies and procedures and facilitate the performance of its activities efficiently and effectively on its administration of materials in its warehouses.
- The physical conditions and organization of CEPA warehouses do not ensure an adequate storage of Project 519-0320 materials.
- There is no evidence that the physical inventory of Project 519-0320 have been reconciled with the records.
- CEPA does not have an adequate computerized information system.

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 statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe, however, that the reportable conditions our review identified are deemed to be material weaknesses.

This report is intended solely for the use of CEPA and the U.S. Agency for International Development.

Price Waterhouse

January 14, 1994
San Salvador

II. Internal Control Structure

B. Findings and Recommendations

- Material Weaknesses

1. *The planning and programming functions and some disbursement activities that fall under CEPA's responsibility offer room for improvement.*

Condition:

Some of the conditions noted were:

- Lack of a duly reprogrammed action plan to ensure compliance with all of the activities, objectives and related goals of the project, through to its completion.

The following are examples of noncompliance:

- CEPA did not meet the USAID/El Salvador requirement noted in Implementation Letter 60, dated June 10, 1993, with respect to the reprogramming of the original action plan for the repair of the Acajutla Port "B" dock. The action plan is outdated and needs immediate reprogramming to ensure compliance with the goals and objectives of the original plan, by September 30, 1994.
- CEPA failed to carry out all the activities of the action plan approved by SETEFE on July 17, 1992, since: (a) there has been considerable delays in contracting with construction and supervisory firms, since the deadline for this was in September 1992 and CEPA has yet to perform this task; and (b) there were delays in the availability of materials. According to the action plan, CEPA should have received these prior to September 30, 1992; however, these were only received in 1993.
- Failure to utilize counterpart funds in the amount of 8.5 million colones, since this amount is insufficient to cover the value of bids received from construction and supervisory firms, whose offers significantly exceed the amount of the counterpart funds.

Criteria:

CEPA should have complied with the activities foreseen in the action plan approved by SETEFE in a letter dated July 17, 1992 and required by USAID/El Salvador Implementation Letter Number 60; likewise, it should have carried out the reprogramming of the original action plan, as required by a USAID/El Salvador letter dated June 10, 1993, in which the extension of the Project to September 30, 1994, was also approved. Standard regulation Manual 3 allows reviews and changes to the budget that could be considered reprogramming modifications or adjustments.

Cause:

The original action plan was not developed with an anticipation of possible changes or important situations that would require the foreseen activities to be modified in the future, in the short or long run. In this sense, strategic planning was not consistent in foreseeing the important situations that could occur.

CEPA officials indicated that the bids submitted by construction companies ranged from 23.8 to 24.5 million colones and those from supervisory firms were approximately 5.2 million colones. These amounts are significantly higher than the 8.5 million colones that were budgeted. Thus, a committee consisting of LBII, USAID/El Salvador and CEPA was formed to analyze in detail the bids submitted and to identify corresponding solutions.

Effect:

The probability of not complying with the activities, objectives and goals of the project established to be carried out before September 30, 1994, and failure to comply with the terms of the Grant Agreement, and applicable USAID Regulations.

Recommendation:

At the earliest possible date, CEPA should reprogram the original action plan, establishing reasonable activities, objectives and goals with the intention of obtaining the approval of USAID/El Salvador for its execution, measuring the progress that would be possible in relation to the original plan and notifying USAID of such.

2. CEPA does not have an organization manual that defines in writing the responsibility of the units involved in the control over Project 519-0320 commodities in the project's warehouses.

Condition:

Some of the conditions noted were:

- There are weaknesses in the communication system within the different organizational units at CEPA Headquarters, CEPA Acajutla, LBII and USAID/El Salvador. These weaknesses cause delays in activities and unfamiliarity with the information contained in the action plans, receiving reports, purchase orders, etc., issued as part of the development of the project.
- CEPA officials need additional training relating to the management of projects financed by USAID, their regulations, and other applicable laws.

Criteria:

CEPA should have maintained an internal control environment which conforms to the provisions of OMB Circular A-123, "Internal Control System", policy 4, which requires executive units to participate in the administration of goods, operate with clear and well-defined responsibilities and with effective coordination among them.

Cause:

Lack of human resources and funds to carry out actions intended to resolve the existing reportable conditions.

Effect:

The probability that CEPA's and the Project's operational activities will be carried out without standard guidelines and without an adequate segregation of duties, leading to noncompliance with the terms of the grant agreement and applicable laws and regulations. From the latter it is derived that errors or irregularities may occur and not be detected in a timely manner by officials and employees of the institution or through its control, monetary, and support agencies.

Recommendation:

CEPA should appropriately define the functions of its key executives, which implies an adequate coordination of the activities and, therefore, timely and efficient communication. Likewise, it should take all necessary efforts to train its key staff in all aspects related to USAID regulations. Thus, the possibility of hiring experts to design and/or define an organizational manual through which those functions are defined as well as their information or transmission systems, should be considered. The manual should include USAID policies and procedures on the management of commodities.

- 3. CEPA does not have the administrative tools necessary that would allow it to be familiar with current policies and procedures and facilitate the performance of its activities efficiently and effectively with respect to its administration of materials in the warehouses.***

Condition:

CEPA does not have up-to-date procedures for the receipt and inspection of goods, customs clearing, claims, warehouse operations, transfers, distribution and/or deliveries, presentation of reports and verification of the final use of assets.

Criteria:

In accordance with OMB Circular A-123, section 5(d), "Internal Control System," a strong internal control environment should have adequate documentation relating to the system and should include manuals with policies and procedures, organizational charts, flowcharts and all the necessary related documentation to describe the organizational structure of the entity. It should also include operational and administrative procedures to communicate responsibilities and levels of authority among the staff, to comply with programs and objectives of the institution and to facilitate the training of new staff.

Cause:

The lack of human resources that can devote themselves to update the procedures has caused this situation.

Effect:

The probability that CEPA's and the Project's operational activities have been carried out empirically or according to the best criteria in its execution, and that it has not complied with the terms of the Grant Agreement. Likewise, limitations to carry out follow-up and supervisory programs for those activities and for the functioning of the key controls and the possibility that errors and irregularities may occur and not be detected in a timely manner by employees of the entity or by their monetary, control and support agencies.

Recommendation:

CEPA should make all necessary efforts to develop corresponding corrective actions, requiring organizational and administrative procedures manuals, as well as continuing training and development programs.

- 4. The physical conditions and organization of CEPA warehouses do not ensure adequate storage of Project 519-0320 materials.***

Condition:

Some of the conditions noted in the Acajutla Warehouse were:

- Responsibility for the custody, storage and distribution of goods does not fall directly on the chief of this warehouse, since he does not sign the documents of incoming goods (i.e., receiving reports).
- The physical conditions of the auxiliary warehouse at the Acajutla Port are not adequate to store the goods; cases such as humidity, dust and other factors could affect the status and quality of the goods.

Criteria:

In accordance with Handbook 1B, Procurement Policy, Article 24, materials financed with USAID funds shall be in adequate conditions for storage, in warehouses that are in good condition, including equipment for adequate handling of goods. Likewise, CEPA should have maintained control according to OMB Circular A-123, "Internal Control System," policy 4, which requires that executing units that participate in the administration of goods, operate with clear and well-defined responsibilities and with effective coordination among them.

Cause:

Basically, the lack of human and financial resources have allowed the established conditions.

Effect:

The inadequate physical conditions of the warehouses and the lack of staff in charge increases the risk of losses of personal property and may cause their deterioration before their final use.

Recommendation:

CEPA should continue its efforts to incorporate the corresponding corrective actions, such as hiring additional staff and defining their functions under an adequate segregation of duties. CEPA's management should program the improvement of all warehouses and the purchase of the necessary equipment.

5. *There is no evidence that the physical inventory of Project 519-0320 has been reconciled with the accounting records.*

Condition:

At least in the last two years, no physical inventory of goods has been carried out, nor have the real inventories been reconciled with the accounting records. It has been estimated that approximately 60% to 70% of the total inventory has not moved in ten years.

Criteria:

CEPA should take physical inventories of the goods and perform reconciliations with kardex and accounting records of all the warehouses, in accordance with the regulations included in the OMB Circular A-110, article N, which requires, besides annual physical inventories, reconciliation and investigation of resulting differences.

Cause:

Basically, the lack of human and financial resources have allowed the occurrence of the indicated conditions.

Effect:

Due to the lack of physical inventories of Project 519-0320 goods and their reconciliation with the accounting records, material differences could exist among the inventory/the kardex and accounting records of the Project.

The lack of complete physical inventory and the reconciliation of accounting records increases the risk of losses of goods that are not detected in a timely manner, as well as incorrect or unreliable records.

Recommendation:

CEPA should assign the main responsibility for planning and execution of physical inventories in all warehouses. For the assets of Project 519-0320, we recommend that CEPA initiate the physical inventory before completion of the project in September 1994. The individual in charge should ensure that at least once per year, physical inventories are performed and its results are reconciled with the kardex and accounting records.

6. CEPA does not have an adequate computer information system.

Condition:

- The information system generated by the computerized program for inventory control does not include sufficient inventory data, such as daily movements of inputs, outputs, initial and final balance by good, total consumption, accumulation of inputs and outputs during a certain period of time and good, obsolete inventories and their time of immobilization and rotation or unusual movements.
- Adequate information is not generated on immobilized goods, which currently account for 60% to 70% of total inventories.

Criteria:

In accordance with PIL 60, section (b), number (5), CEPA should have had accurate and timely accounting information and kardex systems (Computerized System) as relates to the materials inventory including those corresponding to projects financed with USAID funds, to know the amount of total materials handled at a certain date,

Cause:

In general, the lack of financial resources to carry out updating reviews of the information systems has not allowed the strengthening of the computerized systems. Certain computer equipment is obsolete.

Effect:

The deficiencies noted in the commodity management information system do not provide support to CEPA management (through complete and timely information) as related to inventory administration. Besides, there is the probability that decisions that are not very well documented will be made and that the supervisory, support and control agencies cannot carry out their assigned functions.

Recommendation:

CEPA should develop and implement a definite program to develop the computerized system and include the information relevant to management. The important aspects to be considered in the program should include the analysis of requirements, evaluation of the current system against meeting the needs of users, analysis of alternatives, relative costs of solutions, selection and development of the implementation plan, etc. CEPA management should decidedly support this program.

III. Commodity Management System Compliance with Agreement Terms and Applicable Laws and Regulations

A. Independent Consultant's Report on Compliance with Agreement Terms and Applicable Laws and Regulations

We have applied procedures to test the Autonomous Ports Executive Commission's (CEPA) compliance with requirements governing the Commodity Management System that are applicable to the Public Services Improvement Project (PSIP), USAID/El Salvador Project No. 519-0320.

We conducted our review in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States.

Compliance with laws, regulations, contracts and grants applicable to CEPA and the PSIP project is the responsibility of that entity's management. As part of obtaining reasonable assurance about the compliance of the commodity management system, we performed tests of the CEPA's compliance with the grant agreement for the PSIP project and its amendments, and the Project Grant Standard Provisions.

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 commodity management system. The results of our tests of compliance disclosed the following instance of noncompliance that is described as finding number 3 in Section II of the report and is summarized as:

1. The planning and programming functions and some disbursement activities that fall under CEPA's responsibility offer room for improvement.
2. The physical conditions and organization of CEPA warehouses do not ensure adequate storage of Project 519-0320 materials.
3. There is no evidence that the physical inventory of Project 519-0320 has been reconciled with the accounting records.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, CEPA complied, in all material respects, with the provisions referred to

in the third paragraph of this report, and that with respect to the items not tested, nothing came to our attention that caused us to believe that CEPA had not complied, in all material respects, with those provisions.

This report is intended for the information of CEPA and the U.S. Agency for International Development.

Price Waterhouse

January 14, 1994
San Salvador

IV. Status of Prior Review Recommendations for the Commodity Management System

Our review revealed that CEPA has made considerable advances in its efforts to strengthen the control structure. In addition, LBII has provided assistance to CEPA to complete recommendations made by prior reviews. However, our review revealed that in the following cases procedures and policies set forth to implement recommendations were not observed within a certain time period. In order to present a clear presentation in these instances, we have made reference to the number corresponding to the original report and also to the findings from this report that include the information.

A. Devres, Inc.: Review of the Commodity Management System.
Execution Date: August, 1991

- Recommendation No. 3: Take measures to remove obsolete articles. There exists a large quantity of obsolete articles at the Port of Acajutla warehouse utilizing space that is needed for usable commodities, which are frequently stored in field warehouses that are not controlled.

PW Comment: This recommendation is in the process of being implemented. See observation No. 5 in the present report.

- Recommendation No. 7: Replace the central computer and acquire the appropriate terminals and programs to implement the recommendations regarding inventories efficiently by CEPA. The existing equipment at the Electronic Data Department is obsolete.

PW Comment: CEPA has not fully implemented this recommendation. See finding No. 6 in the present report.

B. Louis Berger International, Inc.: Verification of CEPA Inventories,
September 1992.

- Recommendation No. 1: A procedures manual should be established for the operation of warehouses and one person should be designated to supervise compliance with the instructions of the warehouse manual.

PW Comment: CEPA has not implemented this recommendation. See finding No. 3 in the present report.

APPENDIX I

DESCRIPTION OF THE COMMODITY MANAGEMENT SYSTEM

A. Procurement for project execution

Procurements that have already been effected have been based on the provisions of the corresponding action plan developed by CEPA. In the action plan, the amounts necessary for the award of procurements are defined.

To date, the procurements for project commodities have been performed by USAID, who has also coordinated the solicitation and award processes and the payment of imports. CEPA has not effected any purchases, nor have they contracted with any construction or supervisory firms for services.

With respect to the execution of the project, only CEPA is in charge of contracting the above-mentioned services, which account for 8.5 million El Salvadorean colones of counterpart funds, which in light of the estimates that have been received are considered insufficient.

B. Receipt of Goods

The imports that have been received thus far have been coordinated by USAID/El Salvador. Together, USAID and CEPA representatives receive the goods and ensure that they are conforming (i.e., according to the agreed-upon specifications, including price). CEPA will then formally accept these goods, provide the applicable documents to the warehouseman, and record the purchase in the kardex inventory.

C. Distribution of Goods

To date, no imported goods have been distributed, since their distribution is dependent upon the construction and supervisory firms' ability to proceed based on the formal requirements.

D. Local and Foreign Procurement Procedures

Notwithstanding section A above, the administrative procedures utilized by CEPA to effect local and foreign procurements is described below.

1. Local Procurement Procedures

Chief of the local procurement section:

- Receives from the chief of the procurement department the purchase orders submitted by the operational units of the Commission, authorized by transmission of the purchase (including those that have been authorized through suppliers via the public solicitation process), and submits to the purchasing and service procurement agent to proceed in preparing the terms of reference.
- Distributes the order to the corresponding buyer, according to the nature of the articles or services that are being solicited.

Buyer:

- Prepares written application for estimates, to send to a minimum of six suppliers.
- Transfers the completed applications for estimates to the chief of the procurement and services department for his signature.
- The signed applications are then sent to the suppliers, so that in one term of not more than 10 days they present their offers by mail or by seller.
- The chief of the procurement department receives the estimates and relates them back to the buyer who is in charge of the procurement steps.
- When the buyer receives the offers, he proceeds to complete an evaluation form, noting the offered price for each article or service and the special details required.
- Based on the evaluation form, the buyer recommends the procurement to the best offer; if the amount of the procurement is below fifty thousand El Salvadorean Colones (50,000) proceed to execute the Order from Supplier application detailing in it the supplier, the amounts, unit prices and total value of the supply. If the amount is larger then 50,000 Colones, the buyer transmits the offers and the evaluation form to the local procurement section chief.
- After the application has been finished, the buyer remits to the chief of the local procurement section a copy of the estimate and the evaluation form and the respective offers for review.

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- The chief of the local procurement section receives the evaluation form with the offers, the application of the order from the supplier, and a copy of the estimate, verifying the quantity, price and totals. The reviewed application of the order from the supplier is remitted to the person in charge of its execution.
- When the procurement is greater than 50,000 Colones and less than 150,000 Colones, the chief of the local procurement section reviews the offers and the evaluation forms with the chief of the department. If a technical opinion is required, the unit soliciting the supplier receives the information so that they can analyze and establish which of the offers best meets their requirements, and based on this they write a memo verifying the above to the Board of Directors.

Person in charge of supplier orders and shipments:

- Receives applications of orders for supplies from the chief of the local [procurement section, including a copy of the necessary requirements and the evaluation charts and offers.
- Prepares the supply order and based on the solicitude prepared by the buyer is sent. If the requirement is totally met, the original is sent.
- Remits to the chief of the department the suppliers orders and sends to the respective firm authorization, including the necessary documentation (suppliers order applications, evaluation charts, original and copy of the requirement).
- The chief of the department of procurement and services reviews the evaluation forms and if there is agreement with the buying decision, he authorizes the order of supplies.
- With the supply order authorized and sent, the chief of the department returns the documentation to the person in charge of the supply orders, that proceeds to note in the "Book of Daily Control" each one of the supply orders made by each division.
- If the requirement is attended in a partial way, the supply orders are discharged of the original requirements and will be held back until completed.

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- Once the orders from suppliers are discharged, the original and copied of the supply order application is distributed in the following way:

Original.....Supplier
Copy 1.....Accounting
Copy 3.....Fiscal Proposal
- Transmits the "Complete" application for shipment (original and 5 copies), requirement and copy of the requirement, to the person in charge of shipping controls in the warehouse for materials.
- Returns to the buyer the supply order form and the evaluation chart together with the offers.

2. Foreign Procurement Procedures

Chief of the foreign procurement section:

- The chief of the procurement department receives the requirements remitted through the operational units of the Commission, properly authorized. According to the requirement appendix, the request for the procurement of the articles detailed in the requirements for foreign procurement is previously authorized on the "Justification for Costs" form.
- Reviews the requirements to verify that they have all the necessary specifications and determines which suppliers will have estimates solicited to.
- Proceeds to prepare in writing the estimate applications on the required form to send to at least six suppliers.
- Transmits to the chief of the procurement and services department, the applications of estimate for authorization.
- Once the applications are authorized they are sent to the suppliers, so that in a 2 to 3 week period they can remit their offers by mail, by their local representative or by fax.
- The chief of the procurement department receives the estimates and comments on them to the chief of the foreign procurement section.

- When the chief of foreign procurement receives the offers and the comments, he proceeds with the evaluation chart noting each article or service and the price offered by each supplier.
- Based on the evaluation chart, he recommends the procurement to the supplier who presents the best offer transmitting this to the chief of procurement.
- The chief of the procurement department analyzes the amount of the procurement, and if the amount is less than fifty thousand El Salvadorean Colones (50,000), he proceeds to authorize the request; but if its greater than the value, he proceeds in the following manner:
 - If the amount is greater than fifty thousand El Salvadorean Colones (50,000) but less than one hundred and fifty thousand (150,000), the documentation is returned to the chief of the foreign procurement section so that a memo justifying the solicitation to the Board of Directors will authorize the award and procurement. Once the procurement is authorized by the Board of Directors, you proceed to the request.
 - If the amount is greater than one hundred and fifty thousand El Salvadorean Colones (150,000), the same procedures are followed as above, except that the request will be handled until the procurement is declared 'urgent', then the Manager of the Juridical Assistance should solicit the Minister of the Economy that the expense is declared "urgent". Once the "urgent" status has been granted the request is processed.
- Once the foreign request is processed, it is sent to the supplier and the credit card is solicited to the bank to cancel the value of the request.
- When the request reaches any customs in the country, the supplier sends the documents to the bank; this notifies CEPA to prepare the policy that will be used to calculate the corresponding taxes.
- With the taxes calculated, the department of finances is notified to prepare the necessary checks.
- Once the taxes are paid at customs, the supplies are released and the procurement department takes responsibility for the soliciting units request.

APPENDIX II

LIST OF WAREHOUSES VISITED

The warehouses visited to evaluate the structure, office equipment, human resources and other elements that are necessary for proper administration of commodities were:

Central Office Warehouse CEPA

Principal Warehouse and Auxiliary of CEPA in Acajutla

El Salvador Airport Warehouse

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APPENDIX III

LIST OF PERSONS INTERVIEWED

<u>NAME</u>	<u>TITLE</u>
Ing. Carlos Américo Hidalgo	Manager of Technical Assistance and projects
Ing. Guillermo Merlos	Chief of Procurement Department
Lic. José Edgardo Larios	Chief of Internal Audit
Ing. Marco Aurelio Serrano	Chief of Systems Department
Ing. Rolando H. Avendaño	Assistant Manager of Engineering
Ing. José Eduardo Calderón	Technical Assistant to Projects
Sr. Silvio Diógenes Roldán	Treasurer
Lic. José Alfredo Angulo	Chief of Local Procurement Section
Sr. Víctor Solano	Chief of Foreign Procurement Section
Sr. Marcelino Vásquez	Internal Audit Assistant
Sr. Hugo Molina	Collaborator Internal Auditor
Sr. Erick Colocho	Project Accountant
Sr. Ernesto Coto Central Office	Chief of Materials Supply Store
Sr. Eduardo García	Chief of Storing Material Acajutla

APPENDIX IV

LIST OF DOCUMENTS REVIEWED AND REFERENCED

The documents reviewed are the following:

- Grant Agreement between USAID/El Salvador and the GOES
- Project Action Plan of the project
- Prior Reviews and Reports by Devres, Arthur Anderson and Louis Berger
- Project USAID/El Salvador No. 519-0320 Improvement of Public Services
- Technical Assessment Contract of Louis Berger to USAID/El Salvador
- A.I.D. Handbook Numbers 1, 10, 11, 14 and 15
- Circulars A-110 and A-123
- PIL Nos. 3, 10, 54, 57, 60, 70, 71, 77

APPENDIX V

VISITS OVER FINAL USE

Since the project to repair the Acajutla Port "B" dock has not started its execution phase, we only visited the physical facilities of the warehouses to verify the status and custody of the goods purchased with USAID/El Salvador funds that will be used in the project. To date, the materials were purchased directly by USAID but the same have not been used for lack of contracting of the construction and supervisory firms.

II-B OBSERVACIONES Y RECOMENDACIONES

1. CEPA tiene fallas en la planeación estratégica, plan de compras y actividades de desembolsos.

CONDICIONES:

Falta un plan de acción debidamente reprogramado para cumplir con todas las actividades, objetivos y metas relacionadas con el proyecto y a la conclusión del mismo. Las siguientes son ejemplos de incumplimiento:

Falta de una planificación y programación adecuada de compras en detalle, que no permite a CEPA prepararse para cumplir oportunamente con los objetivos del proyecto a la conclusión del mismo.

Ninguna utilización de los fondos de contrapartida por 0.5 millones de colones, ya que este monto es insuficiente para cubrir el valor de las ofertas de las firmas constructoras y supervisoras cuyas cotizaciones sobrepasan significativamente el monto de los fondos de contrapartida.

RECOMENDACION:

A la brevedad posible CEPA debe llevar a cabo la reprogramación del plan de acción original, estableciendo actividades, objetivos y metas razonables a efecto de obtener la aprobación de USAID/El Salvador para su ejecución, midiendo el avance que sea posible en relación con lo originalmente establecido y notificando de ello a USAID.

Se considera que la observación y recomendación son procedentes. La CEPA ha estado trabajando en la materia, estimándose que el plan de acción estará reprogramado en la semana comprendida entre los días 7 y 11 de marzo de 1994.

No obstante lo anterior, CEPA no está de acuerdo en que la observación generalice "CEPA tiene fallas en la planeación estratégica,..." por cuanto las condiciones, el criterio, etc., hasta la recomendación son de carácter específico y en relación al proyecto USAID:

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2. CEPA carece de un manual de organización que defina por escrito la responsabilidad de las unidades involucradas en el control de los bienes muebles del proyecto 519-8320 en todas las bodegas.

CONDICIONES:

El sistema de comunicación en las distintas unidades organizacionales de CEPA Central, CEPA Acajutla, LBII, y USAID/El Salvador presenta ciertas deficiencias, las cuales originan atrasos de las actividades y desconocimiento de la información contenida en los planes de acción, actas de recepción, compras, etc. emitidos para el desarrollo del proyecto.

Los funcionarios de CEPA necesitan capacitación adicional sobre la administración de proyectos financiados por USAID, sus regulaciones, y otras leyes aplicables.

RECOMENDACION:

CEPA debe definir apropiadamente las funciones de sus ejecutivos clave, lo cual implica una adecuada coordinación de las actividades y por lo tanto una comunicación oportuna y eficaz. Asimismo, debe hacer los esfuerzos necesarios para capacitar a sus funcionarios clave en aquellos aspectos relacionados con las regulaciones de USAID, para lo cual debe considerarse la posibilidad de contratar expertos para diseñar y/o definir un manual de organización por medio del cual se confirmen esas funciones y sus sistemas de información o transmisión correspondientes. El manual debe incluir las políticas y procedimientos de USAID sobre la administración de bienes muebles.

CEPA estima que la observación de PW es valedera. A raíz de la auditoría llevada a cabo por Arthur Andersen solicitamos a la AID financiamiento para una consultoría que se encargara de un manual de organización y procedimientos e igualmente se le indicó a AID que el personal de la CEPA involucrado en proyectos USAID, efectivamente requería de capacitación. No obstante en aquella oportunidad, la capacitación solamente fue enfocada hacia el área de auditoría interna.

A partir del mes de enero del presente año comenzó a funcionar en la CEPA el Departamento de Organización y Métodos (DyM), pero el requerimiento de una consultoría financiada por AID se reitera, para que el Departamento indicado actúe como contraparte. Entendemos que dicha consultoría incluiría un programa de capacitación integral.

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3. CEPA no cuenta con instrumentos administrativos completos que le permitan conocer las políticas y procedimientos vigentes y le facilite realizar sus actividades con eficiencia y efectividad sobre la administración de los materiales en las bodegas.

CONDICION:

CEPA no cuenta con procedimientos debidamente actualizados para la recepción, inspección, despacho de aduanas, reclamos, operaciones de bodega, transferencias, salidas y/o entregas, presentación de informes y verificación del uso final de las existencias.

RECOMENDACION:

CEPA debe hacer los esfuerzos necesarios para formular las acciones correctivas correspondientes, requiriendo manuales de organización y de procedimientos administrativos, así como programas continuos de capacitación y adiestramiento.

CEPA considera que ésta observación también es procedente y estima que es parte de la consultoria a que nos hemos referido anteriormente, en la que O y M actuaría como contraparte.

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4. La organización y las condiciones físicas de las bodegas de CEPA no aseguran un adecuado almacenamiento de los materiales del proyecto 519-8320.

CONDICIONES:

Insuficiencia de personal encargado para atender los requerimientos de bienes en horas nocturnas.

La responsabilidad por la custodia, almacenamiento y distribución de los bienes no recae directamente en el Jefe de este Almacén, ya que no firma los documentos de ingreso de bienes.

Las condiciones físicas del almacén auxiliar del Puerto de Acajutla no resultan adecuadas para el almacenamiento de los bienes; casos tales como humedad, polvo y otros factores que pudieran incidir en el estado y calidad de los bienes.

RECOMENDACION:

CEPA debe hacer los esfuerzos necesarios para incorporar las acciones correctivas correspondientes, tales como contratar personal adicional definiéndose sus funciones bajo una adecuada segregación de las mismas. La Gerencia de CEPA debe programar el mejoramiento de todas las bodegas y la adquisición de los equipos necesarios.

CEPA considera adecuada la observación y ha venido trabajando en el asunto teniéndose las siguientes proyecciones:

- a) Una inversión de aproximadamente \$80,000.00 para mejorar las condiciones de la bodega actual y para 1995 la construcción de una nueva bodega.
- b) Contratación de 2 personas adicionales en marzo-abril/94 (el 90% de los materiales del proyecto se recibió hasta enero/94)
- c) Para las operaciones normales no son necesarios bodegueros nocturnos. Su necesidad para proyectos USAID dependerá del programa de obra que se convenga con los contratistas. Para el caso particular del proyecto "Defensas Muelle B", tal programa se espera conocer dentro de la 2a. quincena de abril/94.

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5. No hay evidencia de que las existencias físicas de materiales del proyecto 519-8328 se concilien con los registros.

CONDICION:

Cuando menos en los dos últimos años no se han practicado inventarios físicos de los bienes, ni conciliado las existencias reales con los datos contables. Además, se ha estimado que los artículos reales sin movimiento desde hace aproximadamente diez años representan entre un 60% y un 70% del inventario total.

RECOMENDACION:

CEPA debe asignar la responsabilidad principal para planificar y ejecutar inventarios físicos en todas las bodegas. Para los bienes muebles del proyecto 519-328, recomendamos que CEPA inicie el inventario físico antes de la conclusión del proyecto en septiembre de 1994. La persona responsable debe asegurar que por lo menos una vez al año se realicen inventarios físicos y se concilien sus resultados con los registros del kardex y de contabilidad.

La observación es valedera, entendiéndose que está referida a los bienes del proyecto. Consecuentemente se tomarán las medidas para que se realicen inventarios completos respecto del proyecto antes de septiembre/94, encargando para ello a la Oficina de Auditoría Interna. En lo que se refiere a inventarios generales, se ha previsto que los proyectos mismos sean de carácter selectivo para que puedan realizarse año con año. Ambos casos implican las conciliaciones que corresponden, con los kardex y registros contables.

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6. CEPA carece de un adecuado sistema computarizado de información.

CONDICIONES:

El sistema de información generado por el programa computarizado para el control de inventarios no incluye suficientes datos de las existencias, tales como movimientos diarios de entrada, salida, saldo inicial y final por bien, consumos totales, acumulación de entradas y salidas por determinado período y bien, existencias obsoletas, y su tiempo de inmovilización y rotación o movimientos poco usuales.

No se genera información adecuada y oportuna de los artículos sin movimiento, los cuales a la fecha representan aproximadamente un 60% - 70% del inventario total.

RECOMENDACION:

CEPA debe elaborar e implantar un programa definitivo para desarrollar el sistema computarizado e incluir las informaciones importantes a la Gerencia. Los aspectos importantes para considerar en el programa deben incluir el análisis de los requerimientos, evaluación del sistema actual contra cumplimiento con las necesidades de los usuarios, análisis de alternativas y gastos relativos de las soluciones, selección y desarrollo del plan de implantación, etc. La Gerencia de CEPA debe apoyar en forma decidida este programa.

El sistema de control es antiguo y además opera en equipo obsoleto. Dentro de los planes de la CEPA está que a principios de abril se inicie el desarrollo del proyecto "Control de Almacés de Materiales, el cual se espera que esté montado en equipo moderno a finales de 1994.

III CUMPLIMIENTO CON LAS CONDICIONES DEL CONVENIO, LEYES Y REGLAMENTOS

Ver página 20 del informe de PW.

IV OBSERVACIONES S/RECOMENDACIONES REVISIONES ANTERIORES

Ver página 22 del informe de PW.

07/03/94