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**REVIEW OF THE COMMODITY
MANAGEMENT SYSTEM OF THE
NATIONAL ADMINISTRATION OF
AQUEDUCTS AND SEWAGE (ANDA)**

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

**Final Report
April 29, 1994**

PD-ABS-474

FINAL REPORT

**REVIEW OF THE COMMODITY MANAGEMENT SYSTEM
OF THE NATIONAL ADMINISTRATION OF AQUEDUCTS AND SEWAGE (ANDA)**

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

ENGLISH/APRIL 29, 1994

**Prepared for:
U.S. Agency for International Development
Mission to El Salvador
Office of the Controller**

**Prepared by:
Price Waterhouse**

**Performed under:
Contract No. 519-0349-I-00-1067-00
Delivery Order No. 10**

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 National Administration of Aqueducts and Sewage (ANDA), 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 NATIONAL ADMINISTRATION OF AQUEDUCTS AND SEWAGE (ANDA)
PUBLIC SERVICES IMPROVEMENT PROJECT (PSIP)
PROJECT NO. 519-0320**

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**REVIEW OF THE COMMODITY MANAGEMENT SYSTEM
OF THE NATIONAL ADMINISTRATION OF AQUEDUCTS AND SEWAGE (ANDA)**

**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. ANDA's Participation

The GOES established the National Administration of Aqueducts and Sewage (ANDA) through Decree 341 of the Director Militar, on October 17, 1961 as an independent public service entity with the objective to supply and help supply the residents of the Republic of El Salvador with aqueducts and sewage, through planning, financing, execution, operation, maintenance, administration and exploitation of necessary or required works.

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

Our objective was not to audit, examine, and render an opinion on CEL's financial statements.

2. Scope of Commodity Management System Review

The review of ANDA'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 ANDA'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 ANDA's commodity management system, and ANDA'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 ANDA's commodity management system and its internal control structure through the review of ANDA manuals and interviews with USAID/El Salvador and ANDA 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 ANDA 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 ANDA's commodity management system were discussed with both USAID/El Salvador and ANDA to ascertain if these prior findings had been resolved and the recommendations addressed. ANDA's comments to our draft report are included in Appendix VII.

D. Summary of Review Results

The findings and recommendations of ANDA'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 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 area of the report. For example, deficiencies in the warehousing of commodities can represent a weakness in the internal control structure and also represent non-compliance with USAID Agreement Terms. In some cases where observations are presented in more than one area of the report, the earlier observation is referenced. In other cases we have repeated the observation to ensure a clear presentation of observations and recommendations.

1. Commodity Management System Internal Control Structure

The review of the Commodity Management System internal control structure identified four reportable conditions that impact ANDA's capability to adequately manage project commodities. These reportable conditions relate to deficiencies in procedures manuals, warehousing organization and operations, accounting records, and information systems. The reportable conditions listed below are discussed in detail in Section II.B.:

- ANDA demonstrates deficiencies related with the update of its Organization and Administrative Procedures Manuals, their dissemination and application.
- Some ANDA goods are stored outdoors, without identification of the financing source and stored without desegregating those belonging to ANDA and those belonging to Project No. 519-0320.
- Deficiencies were observed in the maintenance of kardex cards and accounting records maintained by ANDA for project administration.
- ANDA has not purchase insurance to cover risk of losses to give adequate protection to project goods.

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

ANDA's commodity management capability is affected by its system lack of compliance with certain Agreement terms and applicable laws and regulations. In section II.B. of this report, we discuss in greater detail the reportable conditions and have considered them either as material or significant. They are identified and summarized below:

- Non-compliance due to lack of accounting of the goods transferred by USAID and the counterpart inputs.
- ANDA has goods stored outdoors, without identification of the financing source and stored without desegregating those belonging to ANDA and those belonging to Project No. 519-0320.
- ANDA has not purchase insurance to cover risk of losses for adequate protection of Project goods.

3. Status of Prior Recommendations for the Commodity Management System

This section of the report presents recommendations made by prior auditors and consultants that have not been fully implemented or have not been executed in a constant manner and that affect the entities management system in relation to the project. ANDA's commodity management system has been reviewed three times during the Public Services Improvement

project. The reviews were made by Arthur Anderson (from November 30, 1992), Devres, Inc. (from December 31, 1991), and López Salgado and Co. (from November 31, 1991). In our judgement, these recommendations were referenced to faults related directly with the organization (segregation of functions), lack of administrative procedures manuals and financial operations in the warehouses, and end-use of commodities. Section IV discusses in detail the prior review recommendations that we believe remain to be implemented.

E. ANDA Management Comments

In a final meeting on March 8, 1994 with USAID and ANDA officials, a general consensus was formed regarding the findings and recommendations of our review. ANDA's specific comments for example, a proposed course of action to adopt the recommendations made, are included in this report as Appendix VI.

F. Conclusions on ANDA Commodity Management System

We have identified several significant reportable conditions in ANDA's Commodity Management System internal control structure, non-compliance with agreement terms and applicable laws and regulations, as well as a number of prior reviews' recommendations which have not been implemented that indicate the ANDA's existing commodity management system does not yet have the administrative tools and controls necessary to permit adequate management of Project commodities.

Therefore, the Office of the Controller may be able to award provisional certification to the ANDA commodity management system once ANDA, with supervision from USAID/El Salvador's Major Infrastructure Division, has written confirmation of specific action plan 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 National Administration of Aqueducts and Sewage (ANDA) 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 ANDA.

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 ANDA's Commodity Management System for the PSIP Project, we considered its internal control structure.

The management of ANDA 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 the ANDA'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:

- ANDA demonstrates deficiencies related with the update of its Organization and Administrative Procedures Manuals, and their dissemination and application.
- Some ANDA goods are stored outdoors, without identification of the financing source and stored without the separation of those belonging to ANDA and those belonging to Project No. 519-0320.
- Deficiencies were observed in the maintenance of kardex cards and accounting records maintained by ANDA for project administration.
- ANDA has not purchase insurance to cover risk of losses to give adequate protection to project goods.

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 the risk that errors or irregularities in relation to the financial statements being audited may occur and may 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 considered important reportable conditions. Accordingly, our consideration 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 ANDA and the U.S. Agency for International Development.

Price Waterhouse

January 14, 1994
San Salvador

II. Internal Control Structure

B. Findings and Recommendations

1. *ANDA demonstrates deficiencies related with the update of its Organization and Administrative Procedures Manuals, their dissemination and application.*

Condition:

ANDA procedural manuals and circulars have not been widely disseminated among the concerned staff. In some cases, an old manual is used to execute inventories, which differs from the one mentioned above. ANDA's Operations and Administrative/Accounting Procedures Manual does not include appropriate procedures for the administration and execution of inventories, nor the forms that should be used.

Criteria:

The following guidelines were used:

- In accordance with OMB A-123 Circular, section 5, letter (d), of the Internal Control System, a good internal control environment should have enough documentation on the system and should include manuals with policies and procedures, organizational charts, flowcharts and all the related documentation necessary to document the organizational structure, procedures and administrative practices of the institution. It should also include operational and administrative procedures that allow to communicate responsibilities and levels of authority among the staff, to comply with the entity's programs and objectives and to facilitate training for new staff.
- The A.I.D. regulation (MOM, Receipt and Final Use of Program and Project Personal Property) requires that the donors maintain the documentation needed to prove the use of all the equipment and goods financed by A.I.D.
- Annex I, Expanded Project Description, Sec. A.3.b, Component II, specifies that the MOP Management Unit must prepare policies and procedures manuals on accounting, personnel, contracting, procurement and management information systems.

Cause:

There is a lack of human and financial resources to update the manuals, carry out their design or improvements, implementation, their dissemination and the ability to implement training and development processes and the corresponding follow-up.

Effect:

Without standard guidelines, the probability that inadequate procedures and processes are being developed to implement the administration of goods, and that errors and irregularities are not timely detected by the staff and employees of support, control and monitoring agencies. Likewise, failure to comply with the terms, applicable laws and regulations of the Grant Agreement, contributes to the probability of cost inquiries.

Recommendation:

ANDA should engage in all necessary efforts to complete the organizational and administrative procedure manuals, disseminate them to staff and organize a training and development program covering the contents of the same.

- 2. Some ANDA goods are stored outdoors, without identification of the financing source and stored without the separation of those belonging to ANDA and those belonging to Project No. 519-0320.*

Condition:

Some Project goods, controlled through kardex cards in Warehouse 7 (El Coro Facility) are located outside Warehouse 3 (La Ceiba Facility). Project goods located in Warehouse 14 of the San Molino Facility and in Warehouse 16 at the Jalacatal facility in San Miguel, do not identify the financing source and therefore have been stored without separation from those belonging corresponding to ANDA and those purchased with Project 519-0320 funds.

Criteria:

Manual 1, Annex B, Article 24, requires that materials financed with USAID funds, be in appropriate storage conditions, in warehouses with good physical conditions, and having the appropriate handling equipment. The Execution Letter 60, Annex 1, Article B, Section B.8, and standard regulations require the marking of all goods funded by the Project. (OMB Circular A-110, Article N, requires the execution of physical inventories and reconciliation with kardex cards and accounting records and investigation of the resulting differences).

Cause:

The warehouses visited are overflowing with goods. Additionally, (there is lack of care in the identification of project goods), shortage of staff and critical season for handling of goods.

Effect:

The existence of inadequate procedures and processes to implement the administration of personal property may result in failure to detect losses on a timely basis. This situation does not facilitate identification of those goods funded by USAID or by counterpart funds. Non-compliance with the terms and applicable laws and regulations of the Grant Agreement, may increase the probability of the questioning of costs by the donor agency.

Recommendation:

- a) ANDA should immediately identify or separate goods according to the financing source.
 - b) Additionally, ANDA should make all the necessary efforts to obtain the funding and human resources needed to take the corrective measures that are needed to overcome the deficiencies noted above.
3. *Deficiencies were observed in the maintenance of kardex cards and accounting records maintained by ANDA for project administration.*

Condition:

The following deficiencies were observed in the maintenance of accounting records carried out by ANDA with respect to project administration:

- Goods transferred and paid for by USAID/El Salvador, as well as counterpart inputs provided by GOES, are not recorded in ANDA's accounting system.
- In at least one case, the recording of the arrival of goods was untimely. The piping bought from Intermarketing Group, Inc., was provisionally received on September 2, 1993 at warehouse 3, La Ceiba Facility; the record of arrival was prepared on October 28, 1993, and delivery to warehouse 7 was made on November 17, 1993.
- Kardex cards at warehouse 16, El Jalacafal Facility, San Miguel, show a backlog of approximately fifteen days. Additionally, the physical inspection of the goods (hand pumps) showed a difference with the data recorded in the kardex cards. Generally, kardex cards do not include information on the minimum or maximum levels and the quantities to be ordered.

Criteria:

Implementation Letter 60, Appendix II to the Grant Agreement, Article B, Section B-5, Reports, Records, Inspections and Audits (standard provisions) required maintenance of adequate accounting records. Execution Letter 3, Sections VI.B.1 and VI.B.2 established that the Government of El Salvador (GOES) would ensure that adequate accounting records be kept for project operations.

Cause:

ANDA is subject to the accounting record system established by SETEFE. This system was inappropriately designed to perform the type of operations required by the documents cited above. The current procedure is too slow in the signing and deliverance of the receiving records. Additionally, ANDA does not have enough human resources to be able to perform physical and updated inventories to the kardex cards. The Kardex cards show the original design, invariable to the Government level.

Effect:

Non-compliance with the requirements established by USAID in the Grant Agreement and its related documentation increases the probability that the necessary Project evaluations, revisions and audits may not be implemented. The lack of complete records and the non-performance of auxiliary records makes auditing processes more difficult.

Recommendation:

ANDA's management should make all necessary efforts to modify the system to account for project transactions and obtain SETEFE's approval for their incorporation and implementation. Likewise, it should make all necessary efforts to design appropriate administrative functions and procedures for the arrival of goods, the updating of kardex cards and accounting records.

- 4. ANDA has not purchased insurance to cover risk of losses to give adequate protection to project goods.*

Condition:

ANDA does not have risk protection insurance coverage for the goods in the warehouses and the fixed assets of the Institution.

Criteria:

Correct inventory control includes maintaining adequate insurance coverage to protect all personal property from losses caused by fire and other disasters. The General Agreement regulations, Section C.7 (b), Insurance, require that the grantee insures the financed goods under the Grant and imported for the project against losses from their reception to their end-use.

Cause:

ANDA maintains a policy, like other public sector institutions, of not purchasing insurance coverage against disasters.

Effect:

In case of losses, the institution would have to cover the cost of the damaged or lost goods, whenever the responsibility for the loss or damage cannot be determined.

Recommendation:

In compliance with the terms of the agreement, we recommend that ANDA obtains the necessary insurance against risks for all personal property funded by USAID.

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 National Administration of Aqueducts and Sewage (ANDA) 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 ANDA 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 ANDA'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 are summarized as:

- Non-compliance due to lack of accounting of the goods transferred by USAID and the counterpart inputs.
- Some ANDA goods are stored outdoors, without identification of the financing source and stored without the separation of those belonging to ANDA and those belonging to Project No. 519-0320.
- ANDA has not purchase insurance to cover risk of losses to give adequate protection to project goods.

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

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

Rice Waterhouse

January 14, 1994
San Salvador

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

B. Findings and Recommendations

See section II.B Internal Control Structure for the discussion of our findings and recommendations, utilizing the corresponding numbers as references.

2. Non-compliance due to lack of accounting of the goods transferred by USAID and the counterpart inputs.
3. Some ANDA goods are stored outdoors, without identification of the financing source and stored without the separation of those belonging to ANDA and those belonging to Project No. 519-0320.
4. ANDA has not purchase insurance to cover risk of losses to give adequate protection to project goods.

IV. Status of Prior Recommendations for the Commodity Management System

As part of the review by ANDA's commodity management system, we reviewed the condition of the recommendations made by prior auditors and consultants and noted that those recommendations have not been implemented to date. This directly affects the administrative capacity of the Administration of ANDA in relation with the project. The commodity management system of ANDA has been through three reviews during the Public Services Improvement Project:

- Arthur Andersen (November 30, 1991)
- Devres, Inc. (August 23, 1991)
- Lopez Salgado y Cia. (December 31 1991)

Although, ANDA has not made the necessary efforts to accomplish the implementation of the recommendations that were made by prior auditors and consultants, there still exist some recommendations, that in our judgement have not been completely sustained or resolved.

This section describes the recommendations made previously and our findings at the time of our evaluation. We reference the numbers corresponding to the original report and also to the finding in our report that incorporates this information.

A. Arthur Andersen y Co. (November 30, 1991)

Recommendation:

We suggest that ANDA produce an Administrative and Accounting Procedures Manual that includes the accounting process and the necessary information flow to prepare an aggregated monthly statement of the equipment and procurement accounted for, and be able to provide the project financial information at a certain date. This recommendation specifically referred to the lack of accounting of the purchases in U.S. Dollars made directly by AID.

PW Comment:

The issue covered by the recommendation is yet to be resolved. A similar recommendation is included in Observation No. 1 of the Internal Control Structure of this Report.

Recommendation:

We suggest that ANDA provides the necessary resources to construct the required warehouses and that they are ample enough to store the project goods and to protect them from deterioration or loss.

PW Comment:

To date this has not been resolved. This recommendation is included once again in Observation No. 2 of the Internal Control Structure of this Report.

B. Devres Inc. (August 23, 1991)

Recommendation Number 2:

Compare the goods against the kardex cards and against inventory listings during the annual physical inventory. The resulting adjustments should be documented along with the reconciliation both of the kardex and the inventory lists. Currently, neither the inventory lists nor the kardex cards are reconciled vis-a-vis the other.

PW Comment:

This is still not resolved. This recommendation is included in Observation No. 3 in the Internal Control Structure of this Report.

Recommendation Number 3:

A complete manual on ANDA's disposition of goods, income, withdrawals and claims processing should be prepared. The Executing Unit lacks manuals establishing detailed procedures for the administration of the goods.

PW Comment:

This is still not resolved. This recommendation is included in Observation No. 1 of the Internal Control Structure.

Recommendation Number 4:

Direct access to the central computer system should be established to avoid duplication of efforts. Currently, inventory recording is made manually and it is later duplicated in the central computer system.

C. López Salgado and Cía. (December 31, 1991)

PW Comment:

This is still not resolved. This recommendation is included in Observation No. 3 of the Internal Control Structure.

Recommendation:

The staff members responsible for the projects should evaluate and design the necessary improvements to the accounting records system and request SETEFE's authorization to perform modifications to the accounting guide mentioned above.

APPENDIX I

DESCRIPTION OF THE COMMODITY MANAGEMENT SYSTEM

A. FOREIGN PROCUREMENT

Based on the action plan approved by USAID for ANDA, procurement are realized, the terms of reference are prepared with the technical specifications of the goods, and the goods are sent to USAID for their approval.

An Invitation for Bid (IFB) is made and is submitted to USAID for approval. USAID approves the IFB and issues a letter of Implementation (PIL).

The invitation is published in the *Commerce Business Daily* and in local newspapers. The IFB's are distributed to those interested in participating.

The suppliers' bids are received until the established date and time. Offers are registered according to offerors names, the firm and the name of the person responsible for the terms of reference. The offers are opened on the date designated by the Evaluation Committee, which is composed of members of ANDA and the ANDA-A.I.D. and a representative of A.I.D.

Comparative charts of the bids are compiled. The Evaluation Committee recommends which suppliers to award the procurement to and submit's the recommendation to the Award Committee.

The Award Committee, taking into account the recommendation made by the Evaluation Committee and in the presence of a representative from USAID, awards the procurement. The Minutes, containing the results are sent to USAID for their final approval.

USAID approves the award, contracts, sends a fax of the award, and presents the letter of commitment (L/COM) which commits them to finance the purchase of the goods.

The management at ANDA-A.I.D. sends the supplier a fax including the award and the contract.

The management of ANDA-A.I.D. coordinates the logistics for importation, including the purchase order and customs procedures, involving the exit of goods from customs and the receiving of goods at the ANDA warehouses. The goods are received at the assigned warehouse by the chief of the logistics department of ANDA, the warehouseman, the

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suppliers in country representative, the person in charge of imports and the representative from USAID. The goods are inspected individually against the IFB and import documentation. Minutes from the receiving of the materials are prepared, and any discrepancies are noted and signed by those present. A copy of the results is sent to USAID. At the warehouse where the materials are received, the materials are registered on the kardex cards.

In case of complaints regarding missing, mistaken or damaged goods, (although not a written procedure) the supplier of ANDA-A.I.D. places the complaints directly with the supplier or local representative, before any complaints are made to the insurance company.

B. LOCAL PROCUREMENT

In accordance with the action plan and the need to store goods, the soliciting department prepares the purchase order and presents it to the procurement department of the ANDA-A.I.D. Unit.

The Department of Procurement prepares an Order of Purchase and Services and delivers it to the chief of the Administrative Department of ANDA-A.I.D. for authorization.

The Department of Procurement prepares an application for quotas from suppliers, reviews and announces the contest for private or public bidding, or free competition according to the total amount of the materials to be purchased. The terms of reference are sent to the suppliers interested in participating.

When, due to its amount the procurement will be classified as free competition, it is customary for ANDA to request at least three of the registered suppliers to participate with their bids.

A Purchase Order is prepared and is delivered to the supplier. The supplier hands over the goods to the Department of Storage. All the goods are individually inspected. If no discrepancies exist, the receiving papers are signed. The goods are coded and the Storage of Goods document is prepared. Later, the chief of procurement sends the payment of the award of the goods before he sends the Charge of Rotating Funds.

C. TRANSFER BETWEEN WAREHOUSES AND END USE OF MATERIALS

The need to repair equipment exists. The soliciting department prepares the inquiry for materials.

The chief of the Administrative Department authorize the exit, the warehousemen delivers the materials (previously coded), and they are signed received in Materials, and the received goods are added to the kardex cards.

At the conclusion of the work, the department responsible for the work reviews the condition of the work executed and verify's the end-use and hands over the goods for receiving.

D. TRANSFERRING OF COMMODITIES AMONG WAREHOUSES

When goods are transferred between warehouses, (usually between the Plantel El Coro and the warehouses of the departments of interior of the country), the warehouseman of the receiving warehouse prepares the documents which indicate what goods are leaving the warehouse by transfer, and what goods from storage are entering the warehouse by transfer. In some warehouses the Kardex cards are controlled.

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APPENDIX II

LIST OF WAREHOUSES VISITED

Store No. 1	Plant El Coro-Final Avenida Peralta
Store No. 2	Plant El Coro-Final Avenida Peralta
Store No. 3	Plant La Ceiba-Carretera a Santa Tecla
Store No. 4	Plant El Coro-Final Avenida Peralta
Store No. 5	Plant El Coro-Final Avenida Peralta
Store No. 6	Plant El Coro-Final Avenida Peralta
Store No. 7	Plant El Coro-Final Avenida Peralta
Warehouse No. 14	Plant El Molino-Carretera Panamericana, Kilómetro 63-64, Santa Ana
Warehouse No. 16	Plant El Jalacatal, San Miguel
Warehouse No. 19	Plant El Coro-Final Avenida Peralta
Store No. 20	Plant El Coro-Final Avenida Peralta

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APPENDIX III

LIST OF PERSONS INTERVIEWED

Ronald Angel Hidalgo Córdoba	In Charge of Store 1
Ramón Cruz Villatoro	In Charge of Store 2
Rafael Guzmán Valencia	In Charge of Store 3
Humberto de Jesús Cárdenas	In Charge of Store 4
Marcelino Antonio Durán	In Charge of Store 5
Juan Balta Borja	In Charge of Store 6
Luis Alonso Colocho	In Charge of Store 7
Juan Carlos Alvarez Montejo	In Charge of Warehouse 14
Francisco López	In Charge of Warehouse 16
Manuel de Jesús Miranda	In Charge of Warehouse 19
Víctor Manuel Gómez	In Charge of Store 20

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APPENDIX IV

LIST OF DOCUMENTS REVIEWED

The principal documents which were the focus of our research and review were:

Grant Agreement and PILS
Plan of Action
Project Paper for the Public Services Improvement Project

A.I.D. HANDBOOK 1
A.I.D. HANDBOOK 10
A.I.D. HANDBOOK 11, Host Country Contracting
A.I.D. HANDBOOK 14, FAR Regulations
A.I.D. HANDBOOK 15, Financed Commodities
A.I.D. HANDBOOK 10

OMB CIRCULAR A-110, A-123 and A-125

Auditors and Consultants Report

- Arthur Andersen and Co. November 3, 1992; Audit of the Public Services Improvement Project; USAID/El Salvador, Project 519-0279.
- Devres Inc.: Evaluation of the System of Administration of Commodities; August 23, 1991.
- López Salgado And Co.; Financial Audit of Projects Financed with Resources From the Local Currency Program Inside the Proposed Extraordinary Economic Reactivation; December 31, 1991.

APPENDIX V

VISITS OVER THE END - USE

Except for the obtained results that were described in this report, according to the visits that we made to the warehouses and stores of ANDA, that we selected to include in our review, we did not establish additional deficiencies that could be indicators of other flaws in the end use of the goods.

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ADMINISTRACION NACIONAL DE ACUEDUCTOS Y ALCANTARILLADOS
 SAN SALVADOR, EL SALVADOR

SAN SALVADOR

No. 01109

C+R
 Date: 17 MAR 1994

RECEIVED

ACTION COPY

14 de Marzo 1994

52,088,94

Señor
 James W. Habron
 Coordinador División
 de Infraestructura Mayor
 Agencia Internacional
 para el Desarrollo (AID),
 Presente.

Estimado Señor Habron:

ACTION TO: <i>COM</i>	DPP/ODI																			
ACTION DUE: <i>2/27</i>	PRY/IRD																			
INFO:	ECON/IRC/MIL																			
DIR	CONT/IRD/NUL																			
DDIR	ANS/IRC/RUD																			
RIA	HPC/CSU/S																			
CA	EXO/PER																			
EXO	EXO/PER																			
EXO/PER	EXO/PER																			
EXO/PER	EXO/PER																			
EXO/PER	EXO/PER																			
EXOC/CO																				
SUBJECT: <i>ending</i>																				
<i>comment, defect</i>																				
<i>report submitted from</i>																				
<i>Area: water works</i>																				
<i>579-0320 PROJ.</i>																				
INITIALS:																				

En reunión que sostuviéramos con representantes de esa Agencia Internacional de Desarrollo, y los señores de la Firma Consultora Price Waterhouse, para discutir y evaluar el Informe borrador presentado por los consultores, luego de haber conversado, nos permitimos a continuación detallar algunos aspectos que hemos considerado oportuno externarle sobre el mencionado informe específicamente sobre las tres Areas en que se enfoca el estudio:

- 1) ANDA tiene deficiencias relacionadas con la actualización de sus manuales de Organización, Procedimientos Administrativos y su divulgación en la práctica.
 Como se indico en la reunión, si bien ANDA no cuenta con una completa actualización de los manuales en mención, si vale la pena mencionar que estos existen y que se está trabajando en ellos prueba de eso son aquellos que a la fecha ya se encuentran elaborados y que a continuación me permito anexar.

OFFICE OF
 THE COORDINATOR
 MAR 18 10:06 AM '94

La divulgación de esos manuales se realizará a través de la Unidad de Capacitación con que cuenta la Institución CENCA, y efectuando cursos de capacitación del CAPRE, con el cual continuamente se están intercambiando experiencias que redundan en beneficio de una mejor capacitación.



Ref. 52.088.94

PAGINA No.2

No omito manifestarles que nos estamos esforzando para dar mayor impulso, a la consecución de aquellos otros manuales que puedan constituirse en herramientas efectivas de apoyo para una mejor administración de bienes que están al cuidado de la institución.

- 2) " Los bienes de ANDA están almacenados a la intemperie, sin identificación de la fuente de financiamiento y almacenados sin efectuar una separación de los que corresponden a ANDA y la del Proyecto 519-032".

Sobre esto nos permitimos observar que son algunos bienes los que están a la intemperie, como se indica en la condición de este manual. Valdría la pena incluir la palabra "algunos" al principio de la línea quedando: 2o. "Algunos bienes de ANDA
..... 519-0320"

Tal como se explicó en la reunión, la institución no está en capacidad financiera para poder construir nuevas bodegas para dar mayor espacio a ciertos materiales. Sin embargo se están haciendo esfuerzos para reubicarlos, lo que ya se está haciendo es retirar "chatarra" o muebles inservibles; por otro lado se cuenta con planos y presupuestos de ampliación de una de las bodegas ubicadas en el Plantel El Coro.

También nos permitimos destacar que a partir del 17 de Enero del corriente año se creó la Unidad de "Control de Inventarios", en base a recomendación que hiciera la firma Louis Berger, que cuenta con 4 equipos de computación. A la fecha y dentro de las limitaciones que existen en la institución consideramos que se ha avanzado bastante.

Acerca de la "Recomendación" de este numeral, y tal como se señaló en la reunión, esta debería, seccionarse en dos partes:

- a) En forma inmediata, ANDA debe identificar o segregar los Bienes Muebles según la fuente de financiamiento.
- b) ANDA debe hacer los esfuerzos necesarios para lograr el financiamiento y los recursos humanos necesarios para poder, dentro de la medida de lo posible, tomar acciones correctivas que tengan como objetivo final superar las deficiencias anotadas anteriormente



Ref. 52.088.94

PAGINA No.3

- 3) Se observan deficiencias en el mantenimiento de los kardex y de los registros contables que lleva ANDA para la Administración del proyecto.

Los registros contables serán regulados, al implementarse a partir del 4 de Enero.94, el nuevo Sistema de Contabilidad Gubernamental el cual contempla que los proyecto financiados con fondos del PERE, se incorporen directamente en cada una de sus partidas, a la contabilidad general de la Institución, debiendo de emitirse Estados de Situación para la Institución y para cada proyecto.

Esperando haber atendido lo recomendado, acerca de exponer nuestras observaciones, y sin más por el momento les reitero las muestras de consideración y alta estima.

Atentamente,

Lic. Francisco Alfaro Lara
GERENTE ADMINISTRATIVO FINANCIERO

C.C.50



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LISTADO DE MANUALES ADMINISTRATIVOS Y FORMULARIOS
ELABORADOS POR LA DIVISION DE PLANIFICACION PARA
MEJORAR EL SISTEMA DE BIENES MUEBLES DE ANDA
(PERIODO 1991-1993)

A) MANUALES ADMINISTRATIVOS

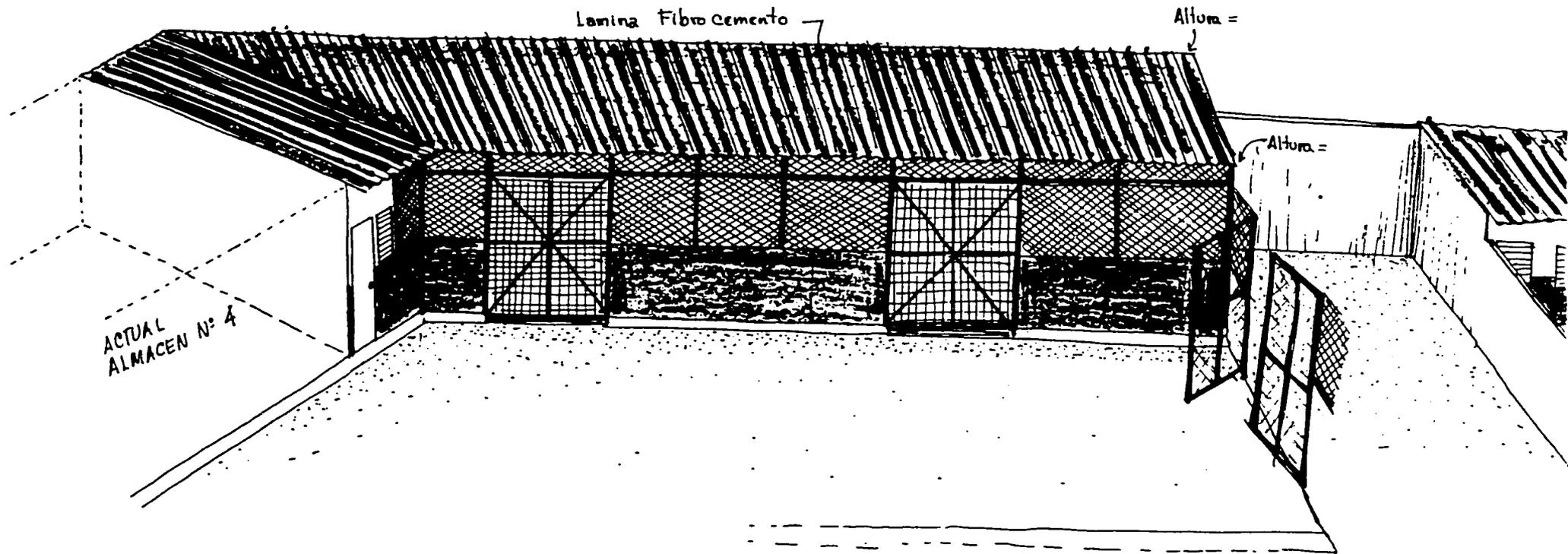
- | | |
|---|--------------|
| 1) Manual de Procedimientos del Sistema Mecanizado de las Bodegas y Almacenes | Agosto/91 |
| 2) Manual de Procedimientos de Almacenes y Bodegas. | Marzo/93 |
| 3) Manual de Organización del Departamento de Proveeduría. | Mayo/92 |
| 4) Manual de Funciones del Departamento de Administración del Patrimonio. | Noviembre/93 |
| 5) Disposiciones Normativas en los últimos años para el Area de Suministros. | Julio/93 |

B) SISTEMA DE INFORMACION

Se implementaron los Formularios:

- | | <u>RESPONSABLE</u> |
|---|-----------------------|
| 1. Consumo de Materiales (en colones) | Almacenes |
| 2. Ingreso y Egreso de Materiales Para los 7 Almacenes Centrales. | |
| 3. Seguimiento de Notas de Pedido en la Unidad de Almacenes. | Depto. de Proveeduría |
| 4. Seguimiento de Notas de Pedido | Unidad de Almacenes |

AMPLIACION DE ALMACEN N° 4



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