

PD-ABJ-547

**REVIEW OF THE COMMODITY  
MANAGEMENT SYSTEM OF THE  
MACHINERY AND EQUIPMENT  
ADMINISTRATION (AME)**

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

**Final Report  
April 29, 1994**

PD-ABS-547  
1994-03-28

**FINAL REPORT**

**REVIEW OF THE COMMODITY MANAGEMENT SYSTEM  
OF THE MACHINERY AND EQUIPMENT ADMINISTRATION (AME)**

**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 Machinery and Equipment Administration (AME), 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

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OF THE MACHINERY AND EQUIPMENT ADMINISTRATION (AME)**

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

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**REVIEW OF THE COMMODITY MANAGEMENT SYSTEM  
OF THE MACHINERY AND EQUIPMENT ADMINISTRATION (AME)**

**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. AME's Participation**

On July 1, 1987, the Machinery and Equipment Administration (AME) was created as a dependent entity of the Ministry of Public Works of El Salvador (MOP). AME's primary function is to provide maintenance and repairs to MOP's machinery and equipment.

AME relies on three maintenance facilities that offer internal, external, and field workshop services. These workshops are located strategically in San Salvador (central facility), El Coro, and Santa Ana. Each workshop relies on its own warehouses to store spare parts and materials used for repairing machinery and equipment. Temporarily, a warehouse was installed in MOP's facilities in San Miguel to cover the needs of the Eastern part of the country.

Project 519-0320 provides the grantee, by means of selected entities, Ame being one of them, technical support, training, and limited operational support until completion of the project in September of 1994.

Under Components I and II, USAID financed commodities inputs to Caminos (DGC) include light equipment, construction materials, and office equipment. Commodity inputs to AME consist of tools, spare parts and maintenance materials for DGC's equipment.

## **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 AME'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 AME'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 AME 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 AME'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 AME'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 AME's commodity management system, and AME'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 AME's commodity management system and its internal control structure through the review of AME manuals and interviews with USAID/El Salvador and AME 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 AME 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 AME's commodity management system were discussed with both USAID/El Salvador and AME to ascertain if these prior findings had been resolved and the recommendations addressed.

#### **D. Summary of Review Results**

The findings and recommendations of AME'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 findings can be classified into more than one area of the report. In this case the finding is referenced back to the original section.

## 1. Commodity Management System Internal Control Structure

As explained in detail in section II.B of this report our review of the internal control structure at AME identified two reportable conditions that impact AME's capability to adequately manage project commodities. These conditions are summarized below.

- AME's policies and procedures manual does not include details regarding procedures for verification for the end-use of assets received under the grant and that correspond to the project.
- AME has not purchased risk insurance to cover the articles in the warehouse and the fixed assets of the institution.

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

In section II.B. of this report, we discuss in greater detail the reportable conditions identified and summarized below:

- AME has not obtained risk insurance for the protection of the projects commodities from disasters.
- Some equipment and tools donated and financed by USAID do not have the required emblem.

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

Our review revealed that AME has made considerable efforts to implement the recommendations developed by prior auditors and consultants related to the commodity management system. Section IV of this report discusses in detail the prior recommendations that we believe remain to be implemented by AME.

### **E. AME Management Comments**

On March 8, 1994 we held an exit conference with representatives of AME to recognize and discuss AME's comments on the PW draft report. Additional information was provided to us by AME during that meeting. This final report incorporates all changes deemed necessary which were made subsequent to the exit conference, where additional information and

explanations were provided by officials from AME and USAID/EI Salvador. AME's formal comments are included as Appendix V.

#### **F. Conclusions on AME Commodity Management System**

We have identified several significant reportable conditions in AME'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 are reviewed in this report and are explained in detail in the corresponding sections. Except for the conditions our review revealed, AME's existing commodity management system has the administrative tools and controls necessary to permit adequate management of Project commodities from the "Public Services Strengthening Project", USAID/EI Salvador No. 519-0320 project.

Therefore, the Office of the Controller may be able to award provisional certification to the AME commodity management system once AME, with supervision from USAID/EI 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 Machinery and Equipment Administration (AME) 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 AME.

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

The management of AME 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 AME'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:

- AME's policies and procedures manual does not include details regarding procedures for the verification of the end-use of assets received under the grant and that correspond to the project.
- AME has not purchased risk insurance to cover the articles in the warehouse and the fixed assets of the institution.

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 two reportable conditions our review identified are deemed to be material weaknesses.

Our review also found other matters related to the internal control structure and its operation. These findings have been communicated to AME in a separate document.

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

*Price Waterhouse*

January 14, 1994  
San Salvador

## II. Internal Control Structure

### B. Findings and Recommendations

1. *AME's policies and procedures manual does not include details regarding procedures for the verification of the end-use of assets received under the grant and that correspond to the project.*

#### Condition:

AME's policies and procedures manual includes the important aspects with respect to inventory management. However, this manual does not address the verification of the end-use of the inventory items.

#### Criteria:

OMB Circular A-123 defines that internal control system should include policies and procedures, organization charts, manuals, memoranda, flow charts, and all related written materials necessary to describe the organizational structure, operating procedures, and administrative practices. USAID regulations (MOM, "Mission Operations Manual", Monitoring of Receipt and End-Use of Program and Project Commodities) require grantees to maintain adequate documentation to demonstrate the disposition of all fixed assets and equipment financed by USAID.

#### Cause:

AME's manual was prepared for institutional use and because of this it does not contain the procedures for USAID financed commodities (i.e. verification of end-use).

#### Effect:

Since there is a lack of policies and procedures regarding the verification of end-use of the assets, employees responsible for control over the end-use of these assets are not provided with proper guidance, and thus procedures followed may not be performed consistently among the various employees and may not be adequately controlled by them.

**Recommendation:**

We recommend that AME establish, document, and implement procedures regarding the control over the end-use of fixed assets, spare parts and materials. These procedures should include sufficient measures to help ensure that parts are utilized only for the repair of project-related equipment.

- 2. AME has not purchased risk insurance to cover the articles in the warehouse and the fixed assets of the institution.*

**Condition:**

AME does not have insurance to protect themselves against losses relating to the articles in the warehouse and the fixed assets of the institution.

**Criteria:**

Proper control over inventories includes adequate insurance coverage that will safeguard assets against losses due to fire and other catastrophes. The general stipulations of the Agreement, Section C.7 (b), Insurance, require that the grantee insure the assets financed under the grant against risks from the moment of their receipt until they are no longer utilized.

**Cause:**

In the past, AME has put forth an effort to obtain detailed information regarding insurance coverage for the assets maintained in the warehouses and for the project. However, due to the high cost of premiums, management decided not to purchase the insurance.

**Effect:**

In case of losses, the institution will have to cover the cost of the damaged goods or of those items that have disappeared, when responsibility for the loss could not be determined.

**Recommendation:**

All property financed by USAID should be insured for an amount that is in accordance with the terms of the Agreement.

## **II. Independent Consultant's Report on Compliance with Agreement Terms and Applicable Laws and Regulations**

### **A. Independent Consultants report**

We have applied procedures to test the Machinery and Equipment Administration's (AME) 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 AME 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 AME'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 instances of noncompliance that are summarized as:

- AME has not purchased risk insurance to cover the articles in the warehouse and the fixed assets of the institution.
- Equipment donated and financed by USAID did not always have a USAID emblem.

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

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

*Price Waterhouse*

January 14, 1994  
San Salvador

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

A. Findings and Recommendations

1. *AME has not purchased risk insurance to cover the articles in the warehouse and the fixed assets of the institution.*

**NOTE:** This observation is discussed in detail in the previous section pertaining to the internal control structure.

2. *Equipment donated and financed by USAID did not always have a USAID emblem.*

Condition:

During our visit to the tools and spare parts warehouse, we noted some items that did not have a USAID emblem.

Criteria:

In accordance with the general stipulations of the project of the grant, attachment to the Agreement, section B.8, the grantee should provide notice to the public and the Project that the asset has been financed under a United States program, should identify the project site and should mark the asset as financed by USAID.

Cause:

AME explained that USAID had used the entire supply of emblems.

Effect:

AME is not in compliance with the provisions of the grant agreement.

Recommendation:

AME management should initiate immediate action to identify USAID project assets that need to be marked with the USAID emblem.

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

##### A. Observations and Recommendations

Our review demonstrated that AME has made several efforts to implement recommendations made by prior auditors and consultants. AME's most significant effort was to obtain LBI's technical assistance to develop the commodity management system through the CFA. However, our review demonstrated that in some cases the policies and procedures established by AME to improve the system did not provide an adequate long-term solution to their problems. Below, we describe the recommendations made by prior auditors and consultants which we believe have not been fully implemented.

##### B. Status of Open Recommendations

a) Devres, Inc. Review of Commodity Management System  
Date Performed: August 1991

- *Recommendation No. 1:* Develop operational and procedural manuals and provide training in their implementation.

*Status:* Implemented according to Arthur Anderson & Co. (AA) June 1992 report.

*PW Comment:* Other important aspects of commodity management were not included, for example the verification of commodities end use. See finding no. 1 in the internal control structure section.

- *Recommendation No. 8:* Proceed to take stock of AME fleet and dispose of unserviceable and surplus equipment and spares.

*Status:* AME conducted an inventory of obsolete materials and equipment. On March 22, 1993, the general manager of AME sent to MOP a list of 64 items for disposal. On April 2, 1993, a copy was sent to the Internal Audit Unit for verification. Corrections to the initial list were made. LBII closed this recommendation in June 1993.

*PW Comment:* To-date approval to dispose of obsolete materials from Corte de Cuentas is not received. We recommend that the manager pursue approval before the Corte de Cuentas.

b) Louis Berger International, Inc.: Host Country Contracting Assessment,  
June 23, 1992

No recommendations are near implementation.

c) Arthur Anderson, Study of Project Award, June 23, 1992

Administrative Capability

- *Recommendation No. 1:* AME should obtain additional space to increase capability for storage. AME should take measures to dispose obsolete equipment and materials which should be included in the annual plan.

*PW Comment:* See comment to Devres recommendation No. 8.

Internal Controls

- *Recommendation No. 2:* AME should designate an area for obsolete materials and equipment. Also AME should obtain prior approval from the Court of Accounts.

*PW Comment:* See comment to Devres recommendation No. 8.

## APPENDIX I

### DESCRIPTION OF THE COMMODITIES ADMINISTRATIVE SYSTEM

#### A. FOREIGN PROCUREMENT

The Technical Committee prepares the Annual Procurement Plan. This Committee consists of members of the Supply, Maintenance, and Warehouse Departments.

AME submits a listing of their procurement needs to the Roads and Highways National Directorate (DGC) to incorporate into their procurement plan, which is submitted for approval to USAID.

An Invitation for Bid (IFB) is drafted and submitted to the DGC and to USAID for their approval. USAID approves the IFB and issues a Letter of Implementation (PIL).

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

The suppliers' bids are received until the established date and time. Offers are registered according to time and date of arrivals. Any bids arriving subsequent to the deadline are returned to the sender unopened. The offers are opened on the date designated by the Evaluation/Award Committee, which is composed of members of AME, DGC, LBII and a representative from USAID.

Comparative charts of the bids are compiled, and the Committee decides to which supplier the award should be made. The results of this process are sent to USAID for their final approval.

The supplier is notified of the award. USAID delivers a Commitment Letter (L/COM) which commits them to finance the purchase of the goods.

The person in charge of international procurement at the DGC coordinates all the logistics for importation. When the commodities are released from customs, AME becomes responsible for the coordination of the materials departure from customs.

The materials are received by the Department of Receiving of Commodities at AME Central. The materials are individually inspected against their IFB and importation documentation. Minutes from the receiving of the commodities are prepared, any discrepancies are noted. A copy of the results is sent to USAID and the DGC. In this same department, an inventory

code is assigned to the materials, a Warehouse Receipt is prepared, and the materials are transferred to the Central Warehouse where the receiving of the commodities is registered on the kardex cards.

In case of complaints regarding mistaken or damaged commodities, the complaints are placed directly with the supplier or with the local representative, before any complaints are made to the insurance company.

#### **B. LOCAL PROCUREMENT WITH EXTRAORDINARY FUNDS (ESF 91/92)**

The need arises to acquire commodities, because of an Order for Work to Repair Equipment or because of the warehouseman's decision to restock inventory. Therefore, the department of warehouses and supplies completes the Requisition of Materials and presents it to the supply department.

The supply department reviews and makes a public announcement for private or public bidding, according to the total amount of the commodities to be purchased. The terms of reference are sent to the suppliers interested in participating.

The supply department receives and registers the bids and prepare a comparative chart. Depending on the amount of the procurement, the chief of supplies determines and submits the decision to the Bid Evaluation Committee.

The accounting department provides the funds for the procurement. A Purchase Order is prepared and delivered to the supplier.

The supplier delivers the materials to the receiving department. All the materials and spare parts are individually checked and the results of the receipt of materials are recorded. If discrepancies exist, they are reported immediately and the entire order is considered unacceptable until the situation is resolved. The materials are codified and the Warehouse Receipt (which is required for the transfer of materials to the Central Warehouse) is completed. Once the materials have been transferred the accounting department expedites the payment of the awarded material.

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

### **C. DISPATCH AND END USE OF SPARE PARTS AND MATERIALS**

The need to repair equipment arises. The Work Order and Requisition of Materials is authorized by the chief of portable workshops (for repairs in the field), or by the chief of the receiving and testing unit (for repairs in internal workshops).

The warehouseman receives the Requisition of Material and prepares the exit voucher. The materials and spare parts are delivered to the mechanic who is identified with the damaged spare parts in the exit voucher, except when authorized by the General Manager.

When the internal workshops finish the repair, the reception and testing unit, examines the condition of the repaired equipment, and verify's the end-use of the spare parts and materials. The portable workshops, or external workshops, are responsible for their individual verification of the end-use of spare parts. An independent review unit does not exist for the use of spare parts in this type of workshop.

### **D. TRANSFERRING OF COMMODITIES AMONG WAREHOUSES**

When spare parts and materials are transferred among warehouses, the warehouseman of the delivering warehouse emits the exit voucher with the materials (already coded by the Department of Receiving Materials). The materials are removed from the originating warehouse's kardex and added to the kardex file of the receiving warehouse. At the receiving warehouse a Listing of Materials in Warehouse to complete the documentation of the movement of materials.

**APPENDIX II**

**LIST OF WAREHOUSES VISITED**

The different warehouses for AME's materials that were examined during the development of the report are presented below.

**A. AME CENTRAL INSTALLATIONS, SOYAPANGO**

- Principal warehouse
- Receipt and codification of commodities
- Warehouse for tools and batteries
- Warehouse for tires
- Warehouse for used spare parts
- Warehouse for fuel and lubricants
- Workshop for maintenance

**B. AME WORKSHOP EL CORO**

- Warehouse for office supplies
- Warehouse for responses 1 and 2
- Warehouse for fuel and oils
- Workshop for maintenance

**C. AME STA. ANA**

- Principal warehouse
- Warehouse for tires
- Workshop for maintenance

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**APPENDIX III**

**LIST OF PEOPLE INTERVIEWED**

	<b>NAME</b>	<b>POSITION</b>
1.	Ing. Carlos Cuéllar	General Manager
2.	Lic. Vilma de López	Director of Administration and Finance
3.	Ing. Rafael Rodríguez	Maintenance Manager
4.	Ing. Gracia Monteflores	Chief of Procurement Unit
5.	Ing. Ana Márquez	Assistant of Procurement Unit
6.	Ing. Eduardo Figueroa	Chief of Warehouses/Supplies
7.	Ing. David Mena	Assistant of Warehouses/Supplies
8.	Carlos García	Warehouseman - Sta. Ana
9.	Carlos Sta. María	Warehouseman - El Coro
10.	Ing. Adan Fuentes	Chief of the Central Resource Department
11.	Lic. Johnny W. Muñoz	Internal Auditor
12.	Mario de La Roque	Chief of the Tools/Batteries Warehouse
13.	Claudia Castro	Chief of International Procurement (\$) DGC/AME
14.	Ing. Fermín López	Maintenance Chief
15.	Julio Funes	Chief Receiving and Testing Officer

	<b>NAME</b>	<b>TITLE</b>
16.	Ing. Orlando Melgar S.	Chief of u. Procurement - DGC
17.	Lic. Valencia	Chief of Accounting Department
18.	Bruce Davis	LBII Equipment Specialist.
19.	Ted Tiedeken	LBII Equipment Specialist.
20.	José Miguel Campos	USAID Commodities Specialist.
21.	José A. Ramos Chorro	USAID Project Officer

In addition to the persons identified above, interviews were also held with employees responsible for the warehouse of tire repair - central and the receipt and codification office.

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**APPENDIX IV**

**DOCUMENTS REVIEWED BY DEPARTMENTS/AREAS**

Grant Agreement

Project Paper for the Public Services Improvement Project

Letters of Implementation

USAID Handbooks

Action Plan 1992: Counterpart Funds for Project No. 519-0320

Procurement Plan 1992/1993 - Foreign Currency

Organizational Manuals and Charts, Procurement Procedures Manual

Auditors/ Consultants Prior Reports:

- LBII, Host Country Contracting Assessment, Julio 1991
- Devres Report, May 1991
- LBII, Final Report From the Specialist on Administration of Inventory, October 1993
- Arthur Anderson & Co. - Audit of Project No. 519-0279, June 1992
- Arthur Anderson & Co. - Audit of Project No. 519-0320, June 1992

Instructions Publication for Bidding of Supplies (USAID)

Instructions from USAID for Procurement Bidding

Instruction 1262 of SETEFE

COMENTARIOS DE LA ADMINISTRACIÓN DE A.M.E.,  
SOBRE LAS OBSERVACIONES MATERIALES

1. **La Administración de Maquinaria y Equipo-A.M.E., carece de políticas y procedimientos documentales y accesibles para la verificación del uso final de los bienes recibidos en donación de A.I.D., para el personal involucrado en el desarrollo del proyecto.**

En relación a esta observación, y tal como se expuso en la discusión del informe borrador, sostenida con representantes de PRICE WATERHOUSE y de USAID el día 8 de marzo del corriente año. A.M.E. si tiene procedimientos documentados que garantizan la verificación del uso final de los bienes y no solo de los bienes recibidos en donación, sino también los comprados a través del Presupuesto Ordinario que administra nuestra Institución.

En dicha discusión se acordó que A.M.E. debería enviar lo antes posible a la firma evaluadora, evidencia documental de al menos un procedimiento de los que A.M.E. dijo tener relacionados con el punto en discusión y de esta forma, la firma evaluadora analizaría la posibilidad de eliminar del informe final esta observación.

En tal sentido, manifestamos que con fecha 11 de marzo de 1994, fue enviada a la firma PRICE WATERHOUSE fotocopia de los procedimientos denominados "Ingreso a Reparación de Equipos a los Talleres Internos, Código GMA 601 perteneciente al área de mantenimiento donde se refleja el uso final de la mayor parte de bienes consumibles (repuestos) en la Institución, y los procedimientos : Cambio de Batería a Equipo en Reparación, Código GAF-147, Sistema de procedimientos para obtener cambio de llantas para un equipo, Códigos PR-CLL-1, 2 y 3; Procedimiento a la autorización de vales de gasolina, Código GAF-155.

Con el envío de estos documentos, esperamos sea eliminada la observación.

2. **La Administración de Maquinaria y Equipo (A.M.E.), aplica inconsistentemente las políticas y procedimientos que rigen el proceso de adquisición.**

Para esta observación, la administración de A.M.E. aclaró en la reunión del informe borrador, que el error fue involuntario y se debió a la ausencia del Gerente de Mantenimiento por motivos de enfermedad, en la fecha de firma de los documentos relacionados con el proceso de adquisición de bienes. No obstante se demostró que dicho funcionario participó en cada una de las etapas del proceso, faltando únicamente la firma del Acta de Evaluación y Adjudicación.

Por las razones antes expuestas y al encontrarse firmada dicha acta se garantiza la confiabilidad del proceso.

Por tal razón y a satisfacción de la firma evaluadora, se acordó eliminar esta observación del informe final.

3. **La Administración de Maquinaria y Equipo (A.M.E.), carece de cobertura de seguros de protección contra riesgos para los artículos en las bodegas y activos fijos de la Institución.**

En la discusión del informe borrador, sobre este punto A.M.E. expuso las razones por las cuales no había cumplido hasta la fecha con ese requerimiento, las cuales parecieron razonables, pero no aceptables para la firma evaluadora. A raíz de la discusión surgió la duda por parte de USAID en relación a la interpretación del Convenio de Donación, específicamente en lo concerniente a la cobertura de seguros, por lo cual se acordó que USAID revisaría el convenio y se pronunciaría al respecto.

Se manifestó además que si la interpretación de la Sección C.7 (b) Seguro, exigía tener cobertura de seguros de protección contra riesgos para los artículos en las bodegas y activos fijos de la Institución, se mantendría esta observación y que la única manera de eliminarla era solicitando a USAID una dispensa de dicho requisito.

4. **La Administración de Maquinaria y Equipo (A.M.E.), corre riesgos debido a la práctica de marcación en las cajas y tarjetas de kardex.**

Con relación a este punto, en la discusión del informe borrador, A.M.E. explicó que los riesgos de pérdidas de bienes no se originaban únicamente por el marcaje de precios en las cajas de los repuestos y en las tarjetas, sino que el riesgo está inherente en el tipo de variedades de repuestos que custodia A.M.E., por lo cual la administración desde años atrás adoptó medidas preventivas y correctivas, para la protección adecuada de los bienes.

Se mencionó además, que por requerimientos legales de la Corte de Cuentas de la República de El Salvador, se obligaba a las Instituciones Públicas el marcaje del precio de los bienes en las tarjetas de kardex, razón por la cual la firma evaluadora aceptó eliminar esta observación del informe final.

5. **La Administración de Maquinaria y Equipo (A.M.E.), carece de un fiel cumplimiento de los procedimientos establecidos para las salidas y transferencias de los repuestos y materiales.**

Para esta observación en la discusión del informe borrador, A.M.E. aclaró que no se ha incumplido ningún procedimiento para las salidas y transferencias de los repuestos y materiales, ya que por instrucciones dadas a conocer por la Gerencia General de A.M.E., al personal involucrado en dichas operaciones, se autorizaba temporalmente las salidas de repuestos y materiales con la firma y Visto Bueno del jefe de talleres, requiriéndose posteriormente la firma del Gerente de Mantenimiento para efectos de control.

Por lo antes expuesto, la firma evaluadora acordó eliminar esta observación, con la condición de que A.M.E. le presentara en forma documentada, las instrucciones que la Gerencia General en su oportunidad giró al personal involucrado en la operación en cuestión.

En tal sentido, manifestamos que con fecha nueve de marzo de 1994, fue enviada la evidencia testimonial de los expuesto por A.M.E., a la firma evaluadora, con el propósito de que se elimine la observación material No. 5 del informe final.

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