
**Audit of USAID/El Salvador's
Infrastructure and Project Support Components
of the Earthquake Reconstruction Project
October 1, 1991 to March 31, 1993**

**Audit Report No. 1-519-95-12-N
July 26, 1995**



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



AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
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July 26, 1995

MEMORANDUM

TO: USAID/El Salvador Director, Carl Leonard

FROM: RIG/A/San José Acting, *[Signature]* Wayne Watson

SUBJECT: Audit of USAID/El Salvador's Infrastructure and Project Support Components of the Earthquake Reconstruction Project, October 1, 1991 to March 31, 1993

This report presents the results of a financial audit of the Infrastructure and Project Support Components of USAID/El Salvador's Earthquake Reconstruction Project, USAID/El Salvador Project No. 519-0333, for the period October 1, 1991 to March 31, 1993. The accounting firm affiliate of Price Waterhouse in El Salvador prepared the report dated July 31, 1993.

The project provides \$98.0 million through April 30, 1993, to assist the Government of El Salvador and the private sector to repair and reconstruct homes, businesses, basic services, and infrastructure in the metropolitan zones most seriously affected by the October 10, 1986 San Salvador earthquake. With a budget of about \$86.1 million, the infrastructure and project support components of the project provide financing to the Government of El Salvador for: (1) reconstruction of primary and secondary education schools, (2) repair and improvement of the highway from San Salvador to the Comalapa airport, (3) repair and reconstruction of municipal markets, (4) acquisition of emergency equipment for and improvement of the aqueduct system, (5) resettlement projects for approximately 2,000 families, and (6) repair and reconstruction of public health facilities.

Under the infrastructure and project support components, USAID funds provided to the Government of El Salvador were channeled through the Foreign Financing Technical Secretariat, acting as general coordinator of foreign financing, to the Central Reserve Bank, acting as depository of the

funds, to the General Directorate for Reconstruction, acting as supervisor of the eight government agencies and two private voluntary organizations implementing the project.

The objectives of the audit were to determine whether: (1) the fund accountability and costs incurred statements for the infrastructure and project support components of the project present fairly, in all material respects, the financial situation for these components during the audited period, (2) the participating institutions' internal control structures were adequate for project purposes, and (3) the participating institutions complied with the terms of the project agreement and applicable laws and regulations.

The scope of the audit included an examination of the participating institutions' activities and transactions to the extent considered necessary to issue a report thereon for the period audited. The audit included coverage of \$36,696,074 of USAID funds disbursed during the audited period.

Price Waterhouse found that the fund accountability and costs incurred statements for the infrastructure and project support components of the project present fairly, in all material respects, the components' financial activities during the period audited. No questionable costs were noted.

With respect to the participating institutions' internal control structures, the auditors identified three material weaknesses. And as regards compliance with the terms of the agreement and applicable laws and regulations, the auditors did not note any instance of non-compliance.

The draft report was discussed with representatives from USAID/El Salvador and the participating organizations. Based upon the comments and further documentation provided, appropriate revisions were made. USAID/El Salvador's written comments are included as Exhibit VII to this final report.

The project ended April 30, 1993 and most of the reported internal control weaknesses were corrected before the audit report was issued. As none of the remaining issues would appear to have any effect on questionable costs, we are not making a recommendation. This report is being transmitted to you for your information.

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

**Audit of USAID/El Salvador's
Infrastructure and Project Support Components
of the Earthquake Reconstruction Project
October 1, 1991 to March 31, 1993**

**Audit Report No. 1-519-95-12-N
July 26, 1995**



**INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT Nº519-0333
FINANCIAL AUDIT FOR THE PERIOD OCTOBER 1, 1991
THROUGH MARCH 31, 1993**

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**INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT Nº519-0333**

**FINANCIAL AUDIT FOR THE PERIOD OCTOBER 1, 1991
THROUGH MARCH 31, 1993**

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Price Waterhouse



June 30, 1994

Mr. Coinage N. Gothard
Regional Inspector
General for Audit
United States Agency for
International Development
San José, Costa Rica

Dear Mr. Gothard:

This report presents the results of our financial audit of the fund accountability and costs incurred statements for the period October 1, 1991 through March 31, 1993 of the Infrastructure and Project Support components of the Earthquake Reconstruction Project, USAID/El Salvador Project N°519-0333. This project was managed by both the Ministry of Planning and Coordination of Economic and Social Development (Ministerio de Planificación y Coordinación del Desarrollo Económico y Social - MIPLAN) through its Technical Secretariat for External Financing (Secretaría Técnica del Financiamiento Externo - SETEFE) and the General Directorate for Reconstruction (Dirección General de Reconstrucción - DGR).

BACKGROUND

The Earthquake Reconstruction Project, USAID/El Salvador Project N°519-0333, through its components, after amendments, provided up to \$98 million through April 30, 1993, to assist El Salvador in restoring the standard of living for individuals affected by the October 10, 1986 San Salvador earthquake. This project immediately followed the \$50 million Earthquake Recovery Program, USAID/El Salvador Project N°519-0331, already completed. The new project attempts to provide a long-term solution to the destruction caused by the earthquake, whereas the initial project provided immediate and intermediate solutions over a period of approximately one year.

The project's purpose is to assist the Government of El Salvador (GOES), and the private sector to repair and reconstruct homes, businesses, basic services, and infrastructure in metropolitan

zones most seriously affected by the earthquake. The project includes credit activities and the Infrastructure and Project Support components.

The Infrastructure and Project Support components provided financing to the Government of El Salvador (GOES) for the following activities:

- a. Reconstruction of primary and secondary education schools in the metropolitan area to replace those destroyed by the October 10, 1986 earthquake (the subcomponent is executed by the Rio Lempa Hydroelectric Executive Committee - CEL, and the Ministry of Education);
- b. Repair and improvement of the highway from San Salvador to the Comalapa airport (the subcomponent is executed by the Ministry of Public Works through the Public Roads Agency-DGC);
- c. Repair and reconstruction of public markets (the subcomponent is executed by the municipality of San Salvador - AMSS);
- d. Acquisition of emergency equipment for and improvement of the aqueduct system managed by the National Aqueducts and Sewerage Authority (Administración Nacional de Acueductos y Alcantarillados - ANDA);
- e. Resettlement projects for approximately 2,000 families for whom return to their former locations is impossible (the subcomponent is executed by the Viceministry of Urban Housing and Development); and
- f. Repair and reconstruction of public health facilities damaged by the earthquake (the subcomponent is executed by the Ministry of Public Health and Welfare).

In accordance with project implementation letter N°205 of March 30, 1993, the Infrastructure and Project Support components were assigned approved budgets of US\$64,006,000 and US\$22,100,000 in comparison with original budgets for US\$23,600,000 and US\$3,800,000, respectively.

The funds for the project's activities are jointly programmed by the U.S. Agency for International Development in El Salvador (USAID/El Salvador) and the Government of El Salvador (GOES) through its Ministry of Planning and Coordination for Economic and Social Development (MIPLAN). The funds are channelled through the Foreign Financing Technical Secretariat (SETEFE), acting as a general coordinator of foreign financing, the Central Reserve Bank (BCR) acting as depositary of the funds and the General Directorate for Reconstruction (DGR) as supervisor

of the participating implementing government agencies. In addition, under the Project Support Component, two Private Voluntary Organizations (PVO's) and a government agency are participating in support activities for the housing relocation project.

A separate audit report was prepared regarding the credit activities under the project.

AUDIT OBJECTIVES AND SCOPE

We were engaged to conduct a financial audit of the fund accountability and costs incurred statements of the Infrastructure and Project Support components of the Earthquake Reconstruction Project, USAID/El Salvador Project N°519-0333, managed by the General Directorate for Reconstruction (DGR) for the period October 1, 1991 through March 31, 1993. Our audit was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary to determine whether:

1. The fund accountability and cost incurred statements for the Infrastructure and Project Support components of the Earthquake Reconstruction Project, USAID/El Salvador Project N°519-0333, fairly present the financial activities for the period October 1, 1991 through March 31, 1993, and the funds provided by USAID/El Salvador as of that date were used in accordance with agreement terms.
2. The participating institutions' internal control structures were adequate for project purposes.
3. The Government of El Salvador (GOES) and the participating and coordinating entities complied with agreement terms and applicable laws and regulations which may affect the project's goals and costs.

The scope of our work consisted of:

1. Reviewing the budgets and written procedures approved by USAID/El Salvador for monitoring and managing the project.
2. Reviewing the agreements with the participating institutions, action plans, project implementation letters and all related documentation regarding project implementation.
3. Reviewing contracts and subcontracts with third parties, as applicable.

4. Selective reviewing on a judgmental basis of documentation, accounting records, internal accounting controls and disbursement procedures.
5. On-site tests, visits, inspections and observations of construction projects.
6. Reviewing the procedures used to control the funds, including their channeling from the Central Reserve Bank (BCR) to the participating institutions.
7. Reviewing all financial and project reports.

RESULTS OF AUDIT

A. FUND ACCOUNTABILITY AND COSTS INCURRED STATEMENTS

The fund accountability and costs incurred statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the fund accountability and cost incurred statements examined by us present fairly, in all material respects, the costs incurred under the Infrastructure and Project Support components of the Earthquake Reconstruction Project, USAID/El Salvador Project N°519-0333, for the period October 1, 1991 through March 31, 1993, in accordance with the cash basis of accounting.

Disbursements allocable to the projects and made directly by USAID/El Salvador amounting to US\$7,651,263 (¢55,318,631) were not posted in the accounting records of SETEFE, DGR, the implementing government agencies and PVO's; therefore, they are not reflected in the fund accountability and costs incurred statements and were not included in the scope of our audit.

B. INTERNAL CONTROL STRUCTURE

In planning and performing our audit we considered the coordinating and implementing institutions' internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability and costs incurred statements and not to provide assurance on the entities' internal control structure.

Our evaluation of the internal control structure of the Infrastructure and Project Support components' implementing institutions included the following major categories: 1) procurement controls; 2) bank accounts and reconciliations, 3) controls over subproject progress; 4) controls over fixed assets; and 5) payrolls. Our evaluation disclosed the following matters involving the project's execution that we consider to be reportable conditions of which numbers 1, 3 and 4 are considered to be material weaknesses:

1. Deficiencies in recording accounting transactions.
2. In some implementing agencies, the accounting vouchers do not show evidence of review and approval, and some check vouchers do not show evidence of receipt by the beneficiaries.
3. Bank reconciliations were not prepared timely.
4. In some cases the check voucher supporting documentation was not canceled appropriately.

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

As part of obtaining reasonable assurance about whether the fund accountability and costs incurred statements are free of material misstatement, we performed tests of compliance by SETEFE, the General Directorate for Reconstruction, and the implementing private and government institutions with agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests of compliance indicate that, with respect to the items tested, SETEFE, the General Directorate for Reconstruction and the implementing private and government institutions complied, in all material respects, with the agreement terms and applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that SETEFE, the General Directorate for Reconstruction and the implementing private and government institutions had not complied, in all material respects, with those provisions.

**COMMENTS BY THE U. S. AGENCY FOR INTERNATIONAL
DEVELOPMENT MISSION TO EL SALVADOR**

USAID/El Salvador provided written comments (included as Exhibit VII to this report). Based on additional documentation and



comments provided, some of the questionable costs and findings disclosed in the original draft were deleted in the preparation of the final report. In its comments, the Mission agrees with the remaining findings and recommendations disclosed in this report.

Pica Waterhouse

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Price Waterhouse



**INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT N°519-0333**

**FUND ACCOUNTABILITY AND COSTS INCURRED STATEMENTS
FOR THE PERIOD OCTOBER 1, 1991 THROUGH MARCH 31, 1993**

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying fund accountability and costs incurred statements of the Infrastructure and Project Support components of the Earthquake Reconstruction Project, USAID/El Salvador Project N°519-0333, for the period October 1, 1991 through March 31, 1993. These statements are the mutual responsibility of the management of the Foreign Financing Technical Secretariat (Secretaría Técnica del Financiamiento Externo - SETEFE), the General Directorate for Reconstruction (Dirección General de Reconstrucción - DGR) and the implementing private organizations and government agencies. Our responsibility is to express an opinion on the fund accountability and costs incurred statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability and costs incurred statements are free of material misstatement. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability and costs incurred statements. Our audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability and costs incurred statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying fund accountability and costs incurred statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.



In our opinion, the accompanying fund accountability and costs incurred statements examined by us present fairly, in all material respects, the costs incurred under the Infrastructure and Project Support components of the Earthquake Reconstruction Project, USAID/El Salvador Project N°519-0333, for the period October 1, 1991 through March 31, 1993, on the cash basis of accounting described in Note 1.

As described in Note 4, some disbursements in U.S. dollars were made directly by USAID/El Salvador for US\$7,651,263 (¢55,318,631). These costs were not registered in the accounting records of SETEFE, the General Directorate for Reconstruction and the implementing private organizations and government agencies; consequently, these costs are not reflected in the fund accountability and costs incurred statements and were beyond the scope of our audit.

This report is intended solely for the use of SETEFE, the General Directorate for Reconstruction, and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Krice Waterhouse

July 31, 1993

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**INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT Nº519-0333**

**FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD OCTOBER 1, 1991 THROUGH MARCH 31, 1993**

	<u>Net transactions for the period</u>	
	<u>Salvadoran colones</u>	<u>Equivalent U.S. dollars</u>
Receipts:		
Infrastructure and project support	<u>¢302,337,115</u>	<u>US\$36,423,183</u>
Disbursements:		
Infrastructure		
Public Schools Construction	125,120,822	15,147,799
Relocation/Resettlement	25,519,083	3,089,477
Municipality of San Salvador	84,139,429	10,186,371
ANDA Equipment	8,830,528	1,069,071
Comalapa highway construction	4,924,303	596,162
Health activities	<u>11,029,513</u>	<u>1,335,292</u>
	259,563,678	31,424,172
Project support	<u>43,149,389</u>	<u>5,271,902</u>
	<u>302,713,067</u>	<u>36,696,074</u>
Excess disbursements over receipts	(375,952)	(272,891)
Cash provided by (used for):		
Decrease in accounts receivable and inventories	3,260,891	393,240
Increase in accounts payable	<u>9,905,290</u>	<u>1,199,188</u>
Net increase for the year	12,790,229	1,319,537
Fund balance, beginning of period	<u>32,676,002</u>	<u>3,888,446</u>
Fund balance, end of period-		
Cash in banks	<u>¢ 45,466,231</u>	<u>US\$ 5,207,983</u>

**INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT N°519-0333**

**STATEMENT OF COSTS INCURRED BY IMPLEMENTING AGENCIES
FOR THE PERIOD OCTOBER 1, 1991 THROUGH MARCH 31, 1993**
(expressed in salvadoran colones)

GENERAL EXPENSE CATEGORY

	<u>Personal services</u>	<u>Nonpersonal services</u>	<u>Materials and supplies</u>	<u>Machinery and equipment</u>	<u>Additions, improvements and construction contracts</u>	<u>Total costs incurred</u>
Infrastructure						
Ministry of Education		£ 439,582	£ 59,866	£ 69,794	£124,535,965	£125,105,207
Rio Lempa Hydroelectric Executive Committee (CEL)	£ (24,189)	(11,443)	51,247			15,615
	(24,189)	428,139	111,113	69,794	124,535,965	125,120,822
Vice Ministry for Housing and Urban Development (VMVDU)	602,066	31,125	5,104	4,773	24,876,015	25,519,083
Municipality of San Salvador (Markets)	122,530	589,094	616,918	1,450,719	81,360,168	84,139,429
National Aqueduct and Sewerage Authority (ANDA)					8,830,528	8,830,528
Ministry of Public Works (MOP)					4,924,303	4,924,303
Ministry of Health		118,597			10,910,916	11,029,513
	<u>700,407</u>	<u>1,166,955</u>	<u>733,135</u>	<u>1,525,286</u>	<u>255,437,895</u>	<u>259,563,678</u>
Project support						
General Directorate for Re- construction (DGR)	2,290,283	690,709	374,311	224,722	188,605	3,768,630
Habitat Foundation	1,719,112				37,661,647	39,380,759
	<u>4,009,395</u>	<u>690,709</u>	<u>374,311</u>	<u>224,722</u>	<u>37,850,252</u>	<u>43,149,389</u>
	<u>£4,709,802</u>	<u>£1,857,664</u>	<u>£1,107,446</u>	<u>£1,750,008</u>	<u>£293,288,147</u>	<u>£302,713,067</u>

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**INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT N°519-0333**

INFRASTRUCTURE AND PROJECT SUPPORT

**NOTES TO THE FUND ACCOUNTABILITY AND
COSTS INCURRED STATEMENTS FOR THE PERIOD
OCTOBER 1, 1991 THROUGH MARCH 31, 1993**

**NOTE 1 - DESCRIPTION OF OPERATIONS AND
SUMMARY OF ACCOUNTING POLICIES:**

OPERATIONS -

The purpose of the Infrastructure and Project Support components is to provide financing to the El Salvador Government for the following activities:

1. reconstruction of primary and secondary education schools in the metropolitan area of San Salvador to replace those destroyed;
2. repair and improvement of the San Salvador highway to the Comalapa airport;
3. repair and reconstruction of municipal markets;
4. purchases of emergency equipment and improvement of aqueduct systems for the National Aqueducts and Sewerage Authority (Administración Nacional de Acueductos y Alcantarillados - ANDA);
5. resettlement projects for approximately 2,000 families for whom return to their former locations is impossible; and
6. repair and reconstruction of public health facilities damaged by the earthquake.

ACCOUNTING POLICIES -

The significant accounting practices and policies adopted by the General Directorate for Reconstruction and the implementing private organizations and government agencies to record the project component's transactions do not necessarily reflect the application of accounting principles generally accepted in the United States of America. The private voluntary organizations basically record their transactions and prepare their fund accountability statements on the basis of cash receipts and

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disbursements. The government agencies recorded the project component's transactions using the accounting manual designed by the Technical Secretariat for External Financing, generally by using ledger accounts on a cash basis. The fund accountability and costs incurred statements reflect the balances of cash, receipts and costs incurred during the above-mentioned period.

NOTE 2 - EXCHANGE:

The participating implementing institutions maintain their records in Salvadoran colones, the currency of legal tender in El Salvador. Since January 22, 1986, the official rate of exchange has been ¢5.00 to US\$1.00. Effective July 26, 1989, the Government of El Salvador authorized the banking system to purchase and sell United States dollars at exchange rates established by the supply and demand of U.S. currency that differ from the above-mentioned official rate of exchange. At March 31, 1993, the exchange rates in the banking system to purchase and sell United States dollars were ¢8.73 and ¢8.80 to US\$1.00, respectively.

The accompanying fund accountability and costs incurred statements have been expressed, with respect to receipts, at the prevailing exchange rates when USAID/El Salvador disbursed the monies to the Central Reserve Bank, and with respect to disbursements by the implementing entities at the average of the exchange rates corresponding to the receipts from USAID/El Salvador during the audited period.

NOTE 3 - BUDGET:

The project's original budget and revisions approved through March 31, 1993 are the following:

<u>Components/ subcomponents</u>	<u>Original budget</u>	----- Not audited -----	
		<u>Reprogrammed amounts</u>	<u>Revised budget</u>
INFRASTRUCTURE			
Public Schools Construction	US\$11,100,000	US\$19,659,983	US\$30,759,983
Relocation & Rehabilitation	5,000,000	3,257,368	8,257,368
Public Markets Reconstruction	1,400,000	14,796,349	16,196,349
ANDA Equipment	1,500,000	1,434,912	2,934,912
Highway Construction	2,200,000	(609,010)	1,590,990
Health Facilities Reconstruction	2,400,000	1,917,353	4,317,353
	<u>23,600,000</u>	<u>40,456,955</u>	<u>64,056,955</u>
PROJECT SUPPORT			
GOES	300,000	813,847	1,113,847
A.I.D.:			
Project and PVO's Assistance	3,500,000	17,394,451	20,894,451
	<u>3,800,000</u>	<u>18,208,298</u>	<u>22,008,298</u>
CREDIT ACTIVITIES	44,000,000	(32,607,284)	11,392,716
AUDIT & EVALUATIONS	500,000	36,038	536,038
INFLATION & CONTINGENCY	3,100,000	(3,094,007)	5,993
TOTAL PROJECT	<u>US\$75,000,000</u>	<u>US\$23,000,000</u>	<u>US\$98,000,000</u>

**NOTE 4 - FOREIGN CURRENCY
DISBURSEMENTS:**

According to the grant agreement terms, foreign currency allocations will be exclusively used for the acquisition of goods and services of United States of America source and origin (A.I.D. Geographic code 0C0), or exceptionally in "Free World" countries (A.I.D. Geographic code 899) for the procurement of goods and services financed with credit component funds in those fully documented cases. The related funds and procurement procedures have been directly managed by A.I.D.

Substantial project expenditures such as technical assistance services and purchases of commodities and major equipment items were paid directly by A.I.D. Such expenditures have not been reported to SETEFE, DGR and the implementing private organizations and government agencies as project costs, and consequently, they were not recorded as expenditures in their accounting records, nor are they reflected in the project fund accountability and costs incurred statements. Therefore, these expenditures were beyond the scope of the audit.

Following is a summary of the above-mentioned unaudited disbursements as confirmed by A.I.D. for the aforementioned period ended March 31, 1993:

<u>Components/Subcomponents</u>	<u>Amounts</u> (not audited)
Infrastructure	
Public schools construction	US\$1,712,280
Relocation/Resettlement	73,901
Markets	175,607
Health facilities	129,559
ANDA Equipment	<u>1,881,074</u>
	<u>3,972,427</u>
Project Support	
GOES	263,521
A.I.D.:	
Project Assistance	3,000,631
Audit and Evaluations	5,993
Inflation and Contingency	<u>408,691</u>
	<u>US\$7,651,263</u>

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Price Waterhouse



**INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT Nº519-033**

INTERNAL CONTROL STRUCTURE

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the fund accountability and costs incurred statements of the Infrastructure and Project Support components of the Earthquake Reconstruction Project, USAID/El Salvador Project Nº519-0333, managed by the Ministry of Planning and Coordination of Economic and Social Development (Ministerio de Planificación y Coordinación del Desarrollo Económico y Social - MIPLAN) through its Technical Secretariat for External Financing (Secretaría Técnica del Financiamiento Externo - SETEFE), and by the General Directorate for Reconstruction (Dirección General de Reconstrucción-DGR) and implementing private organizations and government agencies for the eighteen-month period ended March 31, 1993, and have issued our report thereon dated July 31, 1993.

We conducted our audit in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability and costs incurred statements are free of material misstatement.

In planning and performing our audit of the fund accountability and costs incurred statements of the Infrastructure and Project Support components of the Earthquake Reconstruction Project, for the period October 1, 1991 through March 31, 1993, we considered the coordinating and implementing institutions' internal control structures in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability and costs incurred statements and not to provide assurance on the internal control structures.

The management of SETEFE, the General Directorate for Reconstruction, and the implementing private organizations and

government agencies are responsible for establishing and maintaining adequate internal control structures. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability and costs incurred statements in accordance with the basis of accounting described in Note 1 to such statements. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report we have classified the significant internal control structure policies and procedures in the following categories: 1) procurement controls; 2) bank accounts and reconciliations; 3) controls over subproject progress; 4) control over fixed assets; and 5) payrolls.

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.

Our evaluation of the internal control structure, disclosed certain matters involving the project's execution that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. These reportable conditions are described in finding numbers 1 to 4 in the following pages of this report, and involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the implementing institutions' ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability and costs incurred statements.

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 fund accountability and costs incurred statements being audited, may occur and not be detected



within a timely period by employees in the normal course of performing their assigned functions. In this connection, finding numbers 1, 3 and 4 are deemed to be material weaknesses. Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions and accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended solely for the use of SETEFE, the General Directorate for Reconstruction, and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Pricewaterhouse

July 31, 1993

INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT N°519-0333

INTERNAL CONTROL STRUCTURE

AUDIT FINDINGS

1. DEFICIENCIES IN RECORDING ACCOUNTING TRANSACTIONS

CONDITION:

During our project transaction review we noted the following deficiencies:

- a. The project bank balances shown in the books of the following implementing agencies were decreased and/or overdrawn by Q7,750,564 due to checks issued during March 1993, which were actually delivered to the beneficiaries afterward.

<u>Implementing agencies</u>	<u>Explanation</u>	<u>Amount</u>
Ministry of Health	decreased by	Q1,050,985
Ministry of Education	overdrawn by	5,305,453
Habitat Foundation	overdrawn by	<u>1,394,126</u>
		<u>Q7,750,564</u>

- b. The following deficiencies were found in the Ministry of Education:

- Certain journal vouchers were recorded with different numbers from those shown in the respective vouchers.
- Certain transactions related to increases and decreases of the original contract were not posted in the project's auxiliary records.

CRITERIA:

In accordance with the cash basis of accounting, expenditures incurred by the project should be posted in the accounting records when actually paid. Moreover, the account balances should reasonably reflect the project's financial transactions.

CAUSE:

- a. It was unknown that the project completion date had been extended to April 30, 1993, hence the management of each of the implementing agencies instructed to issue checks to be applied to the expenditures of the project funds.
- b. Lack of supervision by the official responsible for the finance area.

EFFECT:

- a. Inadequate reporting of the project's financial transactions.
- b. Some expenditures could be presented for liquidation to SETEFE, without the checks issued having actually completed the cycle of being delivered to the beneficiaries, with the possibility that afterward these checks could be voided and others issued for different amounts.

RECOMMENDATION:

- a. USAID/El Salvador through SETEFE should require that all implementing entities issue a listing of checks issued and insure that these actually were delivered to and/or cashed by the beneficiaries.
- b. The Ministry of Education management should have established control procedures to ensure adequate posting of the accounting transactions.

MANAGEMENT COMMENTS:

Recommendation a.:

According to the procedures, all liquidations provide copies of the supporting documentation which evidence that funds have been cashed by the beneficiaries. At the end of projects, the liquidation process of each action plan requires that any balance available be returned to SETEFE and reconciled with the difference between advances and liquidations.

This procedure assures that any check issued but not paid before the liquidation of the action plan will not be paid, all checks issued and paid have to be liquidated (i.e. payments have to be reviewed if they were cashed by the beneficiaries), and any unliquidated balance has to be reimbursed.

USAID requests, therefore, this recommendation be closed upon issuance of the final report.

Recommendation b.:

Specific cases of the deficiencies found in the Earthquake Project were not provided by the auditors. USAID agrees for future similar projects procedures need to be incorporated in order to ensure adequate posting of the accounting transactions. USAID believes, however, that internal control structure recommendations are not practical when the project is finished and requests that this recommendation be closed upon issuance of the final report.

AUDITORS' RESPONSE:

We verified that checks delivered were cashed by the actual beneficiaries afterward.

We agree that since the project is already closed, this recommendation is applicable to future similar projects.

- 2. IN SOME IMPLEMENTING AGENCIES, THE ACCOUNTING VOUCHERS DO NOT SHOW EVIDENCE OF REVIEW AND APPROVAL, AND SOME CHECK VOUCHERS DO NOT SHOW EVIDENCE OF RECEIPT BY THE BENEFICIARIES**

CONDITION:

The prepared journal vouchers are not reviewed and approved by responsible officials prior to their posting in the project records. In addition, some voucher checks did not show evidence of receipt by the beneficiaries. These conditions were observed in the following implementing agencies:

- Ministry of Education
- Viceministry of Urban Housing and Development
- Ministry of Public Works
- Municipality of San Salvador

CRITERIA:

The journal vouchers should be reviewed and authorized by an official not involved in their preparation. Also, voucher checks should show evidence of receipt by the check payees or beneficiaries.

CAUSE:

Neglect by management in not requiring compliance with established internal control procedures.

EFFECT:

Transactions could be erroneously registered, and as a result the accumulated data in the accounting records and financial reports could contain errors or irregularities not detected in a timely manner.

RECOMMENDATION:

With no exception, all journal entry vouchers should be reviewed and authorized by an officer independent from the person who prepared them. Voucher checks should show written evidence of the person who received the corresponding checks (the responsible staff should be instructed accordingly).

MANAGEMENT COMMENTS:

Specific cases provided by the auditors have been corrected. USAID agrees for future similar projects procedures need to be incorporated to avoid internal control deficiencies, however, internal control structure recommendations are not practical when the project is finished and USAID requests that this recommendation be closed upon issuance of the final report.

AUDITORS' RESPONSE:

We verified that findings disclosed were corrected, except for the component managed by the Ministry of Education.

We agree that since the project is already closed, this recommendation is applicable to future similar projects.

3. BANK RECONCILIATIONS WERE NOT PREPARED IN A TIMELY MANNER**CONDITION:**

The bank reconciliations of the Viceministry of Housing and Urban Development and the Municipality of San Salvador were not prepared in a timely manner and do not show the date of preparation.

CRITERIA:

An adequate internal control structure requires that all bank account balances should be reconciled monthly with balances shown in the accounting records and should also include the date of preparation.

CAUSE:

Lack of recognition by the implementing managements of the importance of the above procedure for adequate control of cash balances.

EFFECT:

Potential risk that errors or irregularities may have occurred in the handling of funds and were not detected promptly.

RECOMMENDATION:

Within the first fifteen days of the following month, the bank account reconciliations should be prepared showing the date when they were completed.

MANAGEMENT COMMENTS:

The first fifteen days of the following month are not enough time to make the bank account reconciliations because the account balances are received by SETEFE and it has established a restricted schedule for delivering the account balances to the implementing agencies.

USAID believes, however, that internal control structure recommendations are not practical when the project is finished and requests that this recommendation be closed upon issuance of the final report.

AUDITORS' RESPONSE:

We agree that since the project is already closed, this recommendation is applicable to future similar projects.

4. IN SOME CASES THE CHECK VOUCHER SUPPORTING DOCUMENTATION WAS NOT CANCELED APPROPRIATELY

The supporting documentation of certain check vouchers was not rubber stamped "Paid" by the National Aqueduct and Sewerage authority.

CRITERIA:

Internal control procedures require that the supporting documentation of check vouchers without exception should be canceled with a rubber stamp indicating "Paid with check N° _____ and date".

CAUSE:

The revolving fund clerk neglected to follow established control procedures.

EFFECT:

Potential risk that the same supporting documentation could be used more than once and paid with different checks. As such, errors or irregularities may have occurred and may not have been promptly detected by responsible employees during the normal course of their assigned duties.

RECOMMENDATION:

The revolving fund clerk should ensure that all documentation supporting the checks are canceled with a stamp including both the check number and the date that the check was signed.

MANAGEMENT COMMENTS:

Specific cases provided by the auditors have been corrected. USAID agrees for future similar projects procedures need to be incorporated to avoid internal control deficiencies, however, internal control structure recommendations are not practical when the project is finished and USAID requests that this recommendation be closed upon issuance of the final report.

AUDITORS RESPONSE:

We verified that findings disclosed were corrected afterward.

We agree that since the project is already closed, this recommendation is applicable to future similar projects.

* * *

Price Waterhouse



**INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT Nº519-0333**

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

REPORT OF THE INDEPENDENT ACCOUNTANTS

We have audited the fund accountability and costs incurred statements of the Infrastructure and Project Support components of the Earthquake Reconstruction Project, USAID/El Salvador Project Nº519-0333, managed by the Ministry of Planning and Coordination of Economic and Social Development (Ministerio de Planificación y Coordinación del Desarrollo Económico y Social - MIPLAN) through its Technical Secretariat for External Financing (Secretaría Técnica del Financiamiento Externo - SETEFE), and by the General Directorate for Reconstruction (Dirección General de Reconstrucción DGR) and the implementing private organizations and government agencies for the period October 1, 1991 through March 31, 1993 and have issued our report thereon dated July 31, 1993.

We conducted our audit in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Government Auditing Standards". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability and costs incurred statements are free of material misstatement.

The management of SETEFE, the General Directorate for Reconstruction, and the implementing private organizations and government agencies, are responsible for compliance with agreement terms and applicable laws and regulations. As part of obtaining reasonable assurance about whether the fund accountability and costs incurred statements are free of material misstatement, we performed tests of compliance by SETEFE, the General Directorate for Reconstruction, and implementing institutions with agreement terms and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.



The results of our tests of compliance indicate that, with respect to the items tested, the Technical Secretariat for External Financing, the General Directorate for Reconstruction, and the implementing private organizations and government agencies complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Technical Secretariat for External Financing, the General Directorate for reconstruction, and the implementing private organizations and government agencies had not complied, in all material respects, with those provisions.

This report is intended solely for the use of SETEFE, the General Directorate for Reconstruction, and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Pricewaterhouse

July 31, 1993

**INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT Nº519-0333**

LIST OF REPORT RECOMMENDATIONS

INTERNAL CONTROL STRUCTURE

Recommendation 1:

- a. USAID/El Salvador through SETEFE should require that all implementing entities issue a listing of checks issued and insure that these actually were delivered to and/or cashed by the beneficiaries.
- b. The Ministry of Education management should have established control procedures to ensure adequate posting of the accounting transactions.

Recommendation 2:

With no exception, all journal entry vouchers should be reviewed and authorized by an officer independent from the person who prepared them. Voucher checks should show written evidence of the person who received the corresponding checks (the responsible staff should be instructed accordingly).

Recommendation 3:

Within the first fifteen days of the following month the bank account reconciliations should be prepared showing the date when they were completed.

Recommendation 4:

The revolving fund clerk should ensure that all documentation supporting the checks are canceled with a stamp including both the check number and the date that the check was signed.

EXHIBIT I

**INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT Nº 519-0333**

**FUND ACCOUNTABILITY STATEMENT
ACCUMULATED THROUGH MARCH 31, 1993**

	<u>Budget</u>		<u>Actual</u>	
	<u>U.S. dollars</u>	<u>Equivalent Salvadoran colones</u>	<u>U.S. dollars</u>	<u>Equivalent Salvadoran colones</u>
Receipts:				
Infrastructure and project support			<u>US\$72,509,379</u>	<u>¢554,201,337</u>
Disbursements:				
Infrastructure				
Public Schools Construction	US\$30,759,983	¢228,472,168	27,067,477	201,045,793
Relocation/Resettlement	8,257,368	59,318,808	7,659,111	55,021,083
Markets	16,196,349	126,227,317	14,405,698	112,271,760
ANDA equipment and water system improvement	2,934,912	19,953,953	2,018,561	13,723,843
Comalapa highway construction	1,590,990	12,118,093	1,615,796	12,307,033
Health activities	<u>4,317,353</u>	<u>31,851,818</u>	<u>2,763,241</u>	<u>20,386,160</u>
Project support	64,056,955	477,942,157	55,529,884	414,755,672
	<u>22,008,298</u>	<u>176,308,835</u>	<u>12,219,836</u>	<u>97,893,306</u>
	<u>US\$86,065,253</u>	<u>¢654,250,992</u>	<u>67,749,720</u>	<u>512,648,978</u>
Excess receipts over disbursements			4,759,659	41,552,359
Less -				
Accounts receivables			(1,153,184)	(10,067,295)
Add -				
Accounts payable			<u>1,601,508</u>	<u>13,981,167</u>
Fund balance, end of period -				
Cash in banks			<u>US\$ 5,207,983</u>	<u>¢ 45,466,231</u>

EXHIBIT II

INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
OF THE EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT N°519-0333

STATEMENT OF COSTS INCURRED BY IMPLEMENTING AGENCIES
AS OF MARCH 31, 1993

(expressed in salvadoran colones)

GENERAL EXPENSE CATEGORY

	<u>Personal services</u>	<u>Nonpersonal services</u>	<u>Materials and supplies</u>	<u>Machinery and equipment</u>	<u>Additions, improvements and construction contracts</u>	<u>Current transfers</u>	<u>Costs incurred</u>
Infrastructure							
Ministry of Education Rio Lempa Hydroelectric Executive Committee (CEL)	£ 31,256	£ 625,891		£ 69,794	£165,679,222		£166,406,163
	<u>16,459,542</u>	<u>5,764,891</u>	<u>£12,314,495</u>	<u>90,404</u>		<u>£10,298</u>	<u>34,639,630</u>
	16,490,798	6,390,782	12,314,495	160,198	165,679,222	10,298	201,045,793
Vice Ministry for Housing and Urban Development (VMVDU)	2,188,385	214,782	31,356	181,035	52,405,525		55,021,083
Municipality of San Sal- vador (Markets)	210,436	3,479,136	778,594	1,450,719	106,352,875		112,271,760
National Aqueduct and Sewerage Authority (ANDA)			4,480,301		9,243,542		13,723,843
Ministry of Public Works (MOP)		914,000			11,393,033		12,307,033
Ministry of Health		<u>1,034,819</u>		<u>337,214</u>	<u>19,014,127</u>		<u>20,386,160</u>
	<u>18,889,619</u>	<u>12,033,519</u>	<u>17,604,746</u>	<u>2,129,166</u>	<u>364,088,324</u>	<u>10,298</u>	<u>414,755,672</u>
Project support							
General Directorate for Reconstruction (DGR)	2,290,284	1,286,106	374,311	995,430	1,109,639		6,055,770
National Housing Finan- ce Agency		44,300		291,110			335,410
Habitat Foundation	2,974,045				53,581,576		56,555,621
World Relief/El Salvador	<u>1,212,417</u>	<u>929,950</u>	<u>32,003,859</u>	<u>800,279</u>			<u>34,946,505</u>
	<u>6,476,746</u>	<u>2,260,356</u>	<u>32,378,170</u>	<u>2,086,819</u>	<u>54,691,215</u>		<u>97,893,306</u>
	<u>£25,366,365</u>	<u>£14,293,875</u>	<u>£49,982,916</u>	<u>£4,215,985</u>	<u>£418,779,539</u>	<u>£10,298</u>	<u>£512,648,978</u>

EXHIBIT III

INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT Nº519-0333

FUND ACCOUNTABILITY STATEMENT
ACCUMULATED BY IMPLEMENTING AGENCIES
AS OF MARCH 31, 1993

	Ministry of Education (MINEDUC)	Rio Lempa Hydroelectric Executive Committee (CEL)	Vice Ministry for Housing and Urban Development (VIMOU)	Municipality of San Salvador (AMSS)	Ministry of Public Works (MOP)	Ministry of Health (MSPAS)	National Aqueduct and Sewerage Authority (ANSA)	TOTALS INFRASTRUCTURE	General Directorate for Reconstruction (DGR)	National Fund for Housing Population (FONAVIPO)	HABITAT Foundation	WORLD RELIEF	TOTALS PROJECT SUPPORT	TOTALS GENERAL */
RECEIPTS:	<u>£ 163,392,150</u>	<u>£34,639,630</u>	<u>£55,894,262</u>	<u>£126,617,242</u>	<u>£12,307,033</u>	<u>£20,580,312</u>	<u>£11,672,826</u>	<u>£425,103,455</u>	<u>£6,134,046</u>	<u>£335,410</u>	<u>£55,030,211</u>	<u>£34,946,506</u>	<u>£96,446,172</u>	<u>£521,549,627</u>
DISBURSEMENTS:														
Personal Services	31,256	16,459,542	2,188,385	210,436	-	-	-	18,889,619	2,290,284	-	2,974,045	1,212,417	6,475,746	25,366,365
Non Personal Services	625,891	5,764,891	214,782	3,479,136	914,000	1,034,819	-	12,033,519	1,286,106	44,300	-	929,950	2,260,356	14,293,875
Materials and Supplies	-	12,314,495	31,356	778,594	-	-	4,480,301	17,604,746	374,311	-	-	32,003,859	32,378,170	49,982,916
Additions, Improvements and Construction Contracts	165,679,222	-	52,405,525	106,352,875	11,393,033	19,014,127	9,243,542	364,088,324	1,109,639	-	53,581,576	-	54,691,215	418,779,539
Machinery and Equipment	69,794	90,404	181,035	1,450,719	-	337,214	-	2,129,166	995,430	291,110	-	800,279	2,086,819	4,215,985
Transfers	-	10,298	-	-	-	-	-	10,298	-	-	-	-	-	10,298
	<u>166,406,163</u>	<u>34,639,630</u>	<u>55,021,033</u>	<u>112,271,760</u>	<u>12,307,033</u>	<u>20,386,160</u>	<u>13,723,843</u>	<u>414,755,672</u>	<u>6,055,770</u>	<u>335,410</u>	<u>56,555,621</u>	<u>34,946,506</u>	<u>97,893,306</u>	<u>512,648,978</u>
Excess disbursements over receipts	(3,014,013)	-	873,179	14,345,482	-	194,152	(2,051,017)	10,347,783	78,276	-	(1,525,410)	-	(1,447,134)	8,900,649
Less:														
Accounts receivable	(6,808,357)	-	-	(2,676,436)	-	(117,696)	(312,197)	(9,914,686)	-	-	(152,609)	-	(152,609)	(10,067,295)
Add:														
Accounts payable	4,783,081	-	197,607	5,602,219	-	404,751	2,677,177	13,664,835	-	-	316,332	-	316,332	13,981,167
Fund balance, end of period	<u>£ (5,039,289)</u>	<u>-</u>	<u>£ 1,070,786</u>	<u>£ 17,271,265</u>	<u>-</u>	<u>£ 481,207</u>	<u>£ 313,963</u>	<u>£ 14,097,932</u>	<u>£ 78,276</u>	<u>-</u>	<u>£ (1,361,687)</u>	<u>-</u>	<u>£ (1,283,411)</u>	<u>£ 12,814,521</u>
cash in Banks */														

*/ This cash balance plus SETEFE's cash balance of Q32,651,711, represent the project's total cash in bank at March 31, 1993 (See the project fund accountability statement as of March 31, 1993 in front pages), for this same reason and amount the totals general's column and receipts, excess disbursements and fund balance lines differ from the amounts of the same line shown in Exhibit I.

5

EXHIBIT IV

**INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT N°519-0333**

**STATEMENT OF PROJECT LIQUIDATION AS OF
MARCH 31, 1993 ***

<u>Implementing agency</u>	----- Accumulated balances -----			
	Per implementing agency	Per D.G.R.	Per SETEFE	Per A.I.D.
Ministry of Education				
Funds received	¢162,144,518	¢178,675,637	¢178,227,072	-
Funds liquidated	89,795,682	127,409,250	102,124,476	¢127,900,816
Funds pending liquidation	72,348,836	51,266,387	76,102,596	-
Municipality of San Salvador				
Funds received	126,617,242	126,019,122	126,617,242	-
Funds liquidated	96,596,607	96,596,703	85,144,444	83,895,808
Funds pending liquidation	30,020,635	29,422,419	41,472,798	-
Ministry of Public Works				
Funds received	12,307,033	12,307,033	12,307,033	-
Funds liquidated	12,307,033	12,307,033	12,307,033	11,808,594
Funds pending liquidation	-	-	-	-
Vice Ministry for Housing and Urban Development				
Funds received	335,410	335,410	335,410	-
Funds liquidated	335,410	335,410	335,410	184,135
Funds pending liquidation	-	-	-	-
Rio Lempa Hydroelectric Executive Committee				
Funds received	34,639,630	34,639,630	34,639,630	34,639,630
Funds liquidated	34,639,630	34,624,104	34,642,353	34,639,630
Funds pending liquidation	-	15,526	(2,723)	-
Ministry of Health				
Funds received	20,580,312	20,580,312	20,580,312	-
Funds liquidated	18,970,049	18,977,383	18,396,041	11,393,033
Funds pending liquidation	1,610,263	1,602,929	2,184,271	-
National Aqueducts and Sewerage Authority				
Funds received	7,192,525	10,368,498	10,368,498	-
Funds liquidated	3,705,854	5,037,978	4,130,718	4,130,718
Funds pending liquidation	3,486,671	5,330,520	6,237,780	-
Vice Ministry For Housing and Urban Development				
Funds received	55,636,438	56,618,647	55,894,264	-
Funds liquidated	54,615,137	53,868,863	55,268,659	56,225,953
Funds pending liquidation	1,021,301	2,749,784	625,605	-
General Directorate for Reconstruction				
Funds received	6,134,046	6,138,396	6,134,046	-
Funds liquidated	5,077,300	5,256,891	4,821,536	4,152,493
Funds pending liquidation	1,056,746	881,505	1,312,510	-

* Does not include direct purchases by USAID/El Salvador nor logistical support figures as this data is not supplied by the mission.

INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT Nº519-0333

FOLLOW-UP OF THE FINDINGS AND QUESTIONABLE COSTS
INCLUDED IN THE AUDIT REPORT AT SEPTEMBER 30, 1991

The following are the details of the follow-up to the findings included in the audit report at September 30, 1991:

A. REPORT ON THE INTERNAL CONTROL STRUCTURE:

Audit findings

- | | | |
|--|----------|--|
| 1. Prior years incurred costs paid for and recorded in the current year. | Resolved | These incurred costs were paid with CEL funds and were promptly reimbursed. In letter R-0216 dated March 5, 1992, USAID/El Salvador approved the methodology employed by CEL to estimate the medical expenses which approximate the actual costs incurred. Due to the complexity of the cost control system of the Superintendency of Medical Services, it was considered that there would be no cost benefit in trying to quantify the actual costs incurred. |
| 2. Deficient preparation of accounting vouchers. | Resolved | Refer to audit finding Nº1 of the internal control structure. |
| 3. Inadequate procedures in the procurement department. | Resolved | Notwithstanding that World Relief/El Salvador was not subject to audit |

for this report period, this finding was already considered resolved in our report as of September 30, 1991.

- | | | |
|---|-----------|---|
| 4. Inadequate procedures surrounding contracting of professional services. | Resolved | Same as comment on point 3 above. |
| 5. Lack of a stamp on the disbursements supporting documentation to identify both the check number and date of payment. | Partially | Except for the National Aqueduct and Sewerage Authority (ANDA), this finding has been resolved. See finding N ^o 4 of the internal control structure. |

B. REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

Audit findings

- | | | |
|--|----------|---|
| 6. Vouchers checks are not issued to the revolving fund clerk. | Resolved | Based on our review of documentation, we determined that this finding has been resolved by the implementing institutions. |
|--|----------|---|

C. QUESTIONABLE COSTS

Audit findings

- | | | |
|--|--|--|
| 7. Payments made by CEL for medical services provided to project personnel during the period September, 1989 to December, 1990, with check | | CEL confirmed that the monthly costs budgeted in the action plan corresponded to the average expenditures incurred in medical costs estimated for 1989 by the Superin- |
|--|--|--|

EXHIBIT V
3 OF 3

Nº057256 dated July 5, 1991. This disbursement was not supported by proper documentation since it was made on an estimated fixed rate of medical expenses per employee and not based on actual payments made for medical services to CEL employees.

Resolved

tendency of Medical Services. This index is annually estimated for CEL budgeting purposes, based on actual expenditures incurred in the prior year. USAID/El Salvador found this procedure reasonable and approved the project allocated medical services costs, the monthly cost per employee in 1989 was estimated in ¢366 considering that the methodology followed by CEL allows the computation of estimated costs that approximate actual costs.

INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT N°519-0333

DETAIL OF FIXED ASSETS PROCURED WITH FUNDS
OF THE PROJECT AS OF MARCH 31, 1993

(salvadoran colones)

IMPLEMENTING AGENCIES

General Directorate for Construction

<u>Quantity</u>	<u>Description</u>	<u>Cost</u>
1	Swintec typewriter	¢ 5,667
4	Casio calculators	2,720
1	3M N°6040 photocopier	37,500
1	Xerox photocopier (for blueprint)	43,000
1	Computer equipment	112,553
1	IBM PS/X 30640KB computer	13,791
5	LAN interconnection cards (ethernet)	15,531
1	Swintec typewriter	5,640
1	CBC Binder or book - binder	3,545
1	Xerox typewriter	6,900
8	Regulators of voltage and SPSC	44,050
2	IBM PS/2 8525501 computers	23,042
2	IBM PS/25 computers	30,000
5	LAN cards NE-100 computers	11,000
2	IBM PS/2 N°25 computers	45,070
2	IBM PS/2 N°30 computers	77,560
5	Secretary desks	3,900
6	Secretary metallic chairs	2,220
3	Metallic book shelves	3,750
5	Filing cabinets	4,000
3	Typewriter tables	750
1	Standard metallic desk	900
1	Metallic book shelves	1,505
1	IBM 3 PS/2 computer	80,000
1	Water cooler	2,700
4	Roof electric fans	1,900
4	Aluminum elbow-chairs	4,000
1	Table	500
9	Tables	8,595
1	Murata telefax machine	10,000
1	Northern key telephone	325
3	Multiline ultra key telephones	4,155
	Carried over . . .	¢606,769

EXHIBIT VI
2 OF 7

<u>Quantity</u>	<u>Description</u>	<u>Cost</u>	
	Brought forward . . .	¢606,769	
2	Aluminum chairs	1,500	
2	Multiline telephones	1,456	
1	Multiline ultra key telephone	1,315	
2	Multiline tic businesscom telephones	2,140	
1	M-1000 Murata telephone equipment	6,000	
1	Radio equipment	111,745	
1	Panasonic facsimile machine	8,200	
4	Trip lite voltage regulators	4,180	
5	Plymouth Horizon 1989 vehicles	<u>252,125</u>	¢ 995,430
 Ministry of Education			
2	3865x/25 computers	24,686	
2	Panasonic KX-P1695 printers	10,345	
2	Omnipower 450 REG/505	8,070	
1	Lanier MG514-AG photocopier	17,000	
1	Casio DR-120 calculator	1,015	
2	Texas TC-5034 calculators	1,162	
1	Facit 1742 typewriter	4,200	
2	Casio calculators	<u>3,316</u>	69,794
 Vice Ministry for Housing and Urban Developmet			
2	IBM 80286-PS/2 computers	46,396	
2	IBM 8086-PS/25 computers	31,034	
4	Voltage regulators	4,796	
2	Epson FX-1050 132-c printers	12,416	
	Other equipment	<u>86,393</u>	181,035
 Habitat Foundation			
1	Electric draft kit	425	
3	Rydeme files	2,610	
1	Rydeme pivot chair	317	
1	Secretary desk rydeme	770	
1	Planimeter	2,750	
1	File	971	
1	Casio 7x350 calculator	250	
3	Casio HL812 calculators	150	
1	Casio FR 127 calculator	801	
1	Imperio secretary desk	<u>800</u>	
	Carried over . . .	¢ 9,844	<u>¢1,246,259</u>

EXHIBIT VI
3 OF 7

<u>Quantity</u>	<u>Description</u>	<u>Cost</u>	
	Brought forward . . .	¢ 9,844	¢1,246,259
1	Imperio secretary chair	325	
3	Casio HL-812 calculators	150	
1	Adapter for Casio calcutor	175	
1	Keyston 135MM photographic camara	480	
1	Stilograph college ploting	225	
1	Zonet calibrator	130	
1	Hansa machine for	650	
2	Plains machine	900	
1	Casio EL-531 calculator	165	
1	Marking tool Hope	125	
1	Lanier 3022 photocopier	38,000	
1	Imperio filing cabinet	1,010	
1	Computer drive	5,551	
1	Colleman emergency plant	12,000	
2	Offimet filing cabinet	2,110	
3	Cassio FX-115 Calculators	720	
1	Canon T301 Fax	12,000	
1	Regulator of voltage 480 wats, 60 h2	1,199	
2	Offimet filing cabinet	<u>1,900</u>	87,659
Ministry of Public Health Assistance and Welfare			
1	Intensive care and surgical equipment for Hospital Benjamin Bloom	<u>337,214</u>	337,214
Municipality of San Salvador			
6	General Electric refrigerators TBV-16	43,146	
6	General Electric JB5-03 kitchens	32,346	
6	General Electric WWA-5600 washers	32,346	
6	General Electric DDE-7200 dryers	31,860	
4	Sidewall air injectors	88,818	
12	Sidewall air extractors	41,575	
12	Sidewall air extractors	301,324	
12	Freezer rooms and 32 refrigerators	598,120	
133	Metallic doors with several measures	<u>37,400</u>	<u>1,206,935</u>
	Carried over . . .		¢2,878,067

35

EXHIBIT VI
4 OF 7

<u>Quantity</u>	<u>Description</u>	<u>Cost</u>	
	Brought forward . . .		ø2,878,067
Rio Lempa Hydroelectric Executive Committee			
1	IBM sistem/2 - 50z computer	ø 37,736	
3	Secretary desks	1,590	
3	Secretary chairs	870	
2	Casio DR-1205 calculators	1,500	
1	IBM system/2-25 computer	14,047	
1	Novell netware	14,577	
1	Novell NE/Z-MC Cards	5,977	
1	Novell NE/1000 Cards	6,794	
1	Novell terminator kit cards	473	
1	UPS	5,500	
1	Casio Dr-1205 calculator	750	
2	Secretary chairs	<u>590</u>	<u>90,404</u>
			<u>ø2,968,471</u>

**INFRASTRUCTURE AND PROJECT SUPPORT COMPONENTS
EARTHQUAKE RECONSTRUCTION PROJECT
USAID/EL SALVADOR PROJECT N°519-0333**

**DETAIL OF FIXED ASSETS PROCURED WITH PROJECT FUNDS
AS OF MARCH 31, 1993**

(U.S. dollars)

AGENCY FOR INTERNATIONAL DEVELOPMENT

<u>Quantity</u>	<u>Description</u>	<u>Cost</u>
Vehicles		
1	Chevy NOVA Vehicle 1988, color blue, Chassis N° 1Y1SK5149J013064, Motor N°4A1034689	US\$ 11,000
1	Chevy NOVA Vehicle 1988, color blue, Chassis N°1Y1SK514XJZ013025, motor N°4A1034388	11,000
1	1991 Jeep Cherokee, color red Chassis LENFJ28VXME000228, motor 905MX250061	17,100
1	1991 Jeep Cherokee, color grey Chassis LENFJ28VXME000219, motor 905MX250056	17,100
Photography & video equipment		
1	Tripod, blackace/3200, HANSA	824
1	Skyscraper series (VHS) (5 films)	675
Computer equipment		
1	Apple Macintosh plus computer serie E0250A6M5880	17,887
1	Hard disk 70 MB, Rodime, C07001839	<u>10,000</u>
	Carried over . . .	US\$ 85,586

**EXHIBIT VI
6 OF 7**

<u>Quantity</u>	<u>Description</u>	<u>Cost</u>
	Brought forward . . .	US\$ 85,586
1	Image Writer II Printer, TJ02224Y	6,408
1	HP Desk Jet Printer - Part N°866-276	691
1	128 K Ram Cartridge - Part N°866-877	108
1	Presentations Cartridge - Part N°866-289	69
2	866-415 500 Printer	972
	866-877 Deskjet 128K Ram Cartridge	130
2	866-083 Deskjet Plus: Helv 8, 10, 12 and 14 Point Cartridge	57
	Software	
1	Etabs, Etabsin, Plotter and Saplot	3,000
1	Conker	1,000
1	Waller	1,000
1	Quattro	250
1	Allways	88
1	Desk Plotter Software - Part N°866-879	81
1	160-025-019 DOS 4.0 5.25"	115
1	395-017-019 Time line 4.0 Symantec	424
1	356-012-019 Wordperfect V5.1 5.25"	235
1	016-035-019 dBase IV Version 1.0 5.25"	434
1	229-005-0193 Sideways V3.21 3.5"	41
1	955-M128080, Quattro Pro. 2.0 Borland Int 1. 5.25"	361
	Carried over . . .	US\$101,050

EXHIBIT VI
7 OF 7

<u>Quantity</u>	<u>Description</u>	<u>Cost</u>
	Brought forward . . .	US\$101,050
1	473-010-0193 Formfiller block publishing 3.5"	91
1	315-003-0193 Mathcad version 2.5A, Mathsoft DM	395
1	IBM Compatible Software program called "Translate"	495
	Equipment	
1	Printing Calculator Casio DR-2212	165
	Mobile radios	
2	N3A112, Delta-S mobile, Synthesiser, 110 watts, 16 Channel, with 2 pph	2,496
2	S6B100, S-550 control head 16 Channel Capacity with microphone hookswitch speaker, installation hardware	702
	Computer supplies	
5	Hp Series II toner Cartridges (black)	475
	Other	
1	Spanish-English technical engineering	<u>24</u>
		<u>US\$105,893</u>

EXHIBIT VII

**COMMENTS BY U. S. AGENCY
FOR INTERNATIONAL DEVELOPMENT
MISSION TO EL SALVADOR**



AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES OF AMERICA A. I. D. MISSION
TO EL SALVADOR

C/O AMERICAN EMBASSY.

SAN SALVADOR, EL SALVADOR, C. A.

Enero 18, 1994

Mr. Gilberto Paniagua
Partner
López Salgado & Cía.

Dear Mr. Paniagua:

The propose of this letter is to provide USAID El Salvador comments on the draft non-federal audit report for the Infrastructure and Project Support Components of the Earthquake Reconstruction Project, 519-0333 for the 18 month period ending March 31, 1993.

Since issuance of the draft report, the Mission has worked jointly with the DGR, the implementing agencies and Price Waterhouse with the purpose of reviewing the questionable costs and implementing the five recommendations presented in the report.

As a result of this joint effort, We believe that all recommendations and questionable costs should be deleted or closed upon issuance of the final report.

Comments on each recommendation are presented below.

A. QUESTIONABLE COSTS: ₡1,723,698

National Aqueduct and Sewerage Authority

"1. Second estimate payment of job order No.3 to the construction company Cromeyer Durón, check No. 01194 of Novemer 19, 1992. This disbursement lacks adequate supporting documentation such as the construction log of the changes effected in the works duly authorized by proper ANDA official (₡984,388 equivalent to US\$119,175)."

"2. Second payment of change order No.5 to the construction company Cromeyer Durón, No.03452 of February 16, 1993. This disbursement lacks adequate supporting documentation such as the construction log of the changes effected in the works duly authorized by proper ANDA official (₡591,064 equivalent to US\$71,557)."

As explained at the Exit Conference on November 19, 1993, the change orders are not authorized nor necessarily reflected in the construction log. Change orders are approved in amendments to the contract ("Resoluciones Modificativas") which are legalized by the Court of Accounts, and approved by USAID if the amount of the amendment exceeds \$15,000. All amendments are available in the DGR. Attachment 1 to this letter provides copies of the amendments No.4 and No.7 which authorized change orders No.3 and No.5 respectively.

"3. Payment made by applying the polynomial cost formula by the construction company Cromeyer Durón, check No.01197 of December 17, 1992, for which the auditors were not provided with the collective labor contract supporting the labor rated increases (¢105,145)."

The collective labor contract referred to above is a public law which was issued by the Ministry of Labor ("Laudo Arbitral"). This law regulates the construction labor costs. Attachment 2 provides copy of this law.

Ministry of Education

"4. Procurement of two computers, per voucher No.1 of June 18, 1992, for which quotes were lacking to evidence that the procurement Education was made in a free, open and competitive manner (¢43,101 equivalent to US\$5,218)

USAID considers this was an internal control structure deficiency because the Ministry of Education did not get the minimum of three quotes. We consider, however, this should not be a questionable cost because there were two quotes which evidence reasonable prices. Attachment 3 to this letter provides copy of the two quotes.

USAID hereby requests, therefore, that all questionable costs above mentioned be deleted upon issuance of the final report.

INTERNAL CONTROL STRUCTURE.

Recommendation 1:

"a. USAID/El Salvador through SETEFE should require that all implementing entities issue a listing of checks issued and insure that these actually were delivered and/or cashed by the beneficiaries."

According to the procedures, all liquidations provide copies of the supporting documentation which evidence that funds have been cashed by the beneficiaries. At the end of projects, the liquidation process of each action plan requires that any balance available be returned to SETEFE and reconciled with the difference between advances and liquidations.

This procedure assures that any check issued but not paid before the liquidation of the action plan will not be paid, all checks issued and paid have to be liquidated (i.e payments have to be reviewed if they were cashed by the beneficiaries), and any unliquidated balance has to be reimbursed.

Additionally, Attachment 4 to this letter provides a copy of the accounts balance which shows that those checks, which were issued but were not delivered at the moment of the auditor's review, have

been paid. USAID requests, therefore, this recommendation be closed upon issuance of the final report.

"b. The Ministry of Education management should have established control procedures to ensure adequate posting of the accounting transactions."

Specific cases of the deficiencies found in the Earthquake Project were not provided by the auditors. USAID agrees for future similar projects procedures need to be incorporated in order to ensure adequate posting of the accounting transactions. USAID believes, however, that internal control structure recommendations are not practical when the project is finished and requests that this recommendation be closed upon issuance of the final report.

Recommendation 2:

"With no exception, all journal entry vouchers should be reviewed and authorized by an officer independent from the person who prepared them. Voucher checks should show written evidence of the person who received the corresponding checks (the responsible staff should be instructed accordingly)."

Specific cases provided by the auditors have been corrected. Attachment 5 provides copies of the supporting documentation. USAID agrees for future similar projects procedures need to be incorporated to avoid internal control deficiencies, however, internal control structure recommendations are not practical when the project is finished and USAID requests that this recommendation be closed upon issuance of the final report.

Recommendation 3:

"Within the first fifteen days of the following month the bank account reconciliations should be prepared showing the date when they were completed."

The first fifteen days of the following month are not enough time to make the bank account reconciliations because the account balances are received by SETEFE and it has established a restricted schedule for delivering the account balances to the implementing agencies.

USAID believes, however, that internal control structure recommendations are not practical when the project is finished and requests that this recommendation be closed upon issuance of the final report.

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Recommendation 4:

"The revolving fund clerk should ensure that all documentation supporting the checks are canceled with a stamp including both the check number and the date that the check was signed."

Specific cases provided by the auditors have been corrected. Attachment 6 provides copies of the supporting documentation. USAID agrees for future similar projects procedures need to be incorporated to avoid internal control deficiencies, however, internal control structure recommendations are not practical when the project is finished and USAID requests that this recommendation be closed upon issuance of the final report.

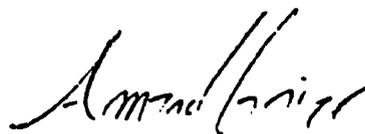
B. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS.

Recommendation 1:

"The officials responsible for the project should instruct the corresponding department to comply with SETEFE's established regulation. On a periodic and selective basis they should also ensure that such regulations are being complied with."

The physical progress reports, required by the SETEFE's established regulation, were not provided by each implementing agency because DGR was the coordinating agency which prepared consolidated reports of all earthquake subprojects for SETEFE. This regulation, therefore, was always fulfilled.

USAID hereby requests, therefore, that this recommendation be deleted, or at a minimum, be closed upon issuance of the final report.



Armand Lanier
Audit Management Officer

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