



# Auditor General

AUDIT REPORT  
DISASTER RELIEF LAMINA PROGRAM  
FOR THE PERIOD APRIL 27, 1976 TO AUGUST 10, 1976  
USAID/GUATEMALA

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TABLE OF CONTENTS

	<u>Page</u>
I - BACKGROUND AND SCOPE	1
II - SUMMARY	2
III - STATEMENT OF FINDINGS AND RECOMMENDATIONS	3
A. Lamina Sales Program	3
B. Depots	3
C. Cooperative Sales Offices	5
1. Inventory Control	5
2. Cash Sales	5
3. Damaged Lamina	6
D. End-Use Tests of Lamina	6
E. Community Projects Program	7
IV - GENERAL COMMENTS	7
EXHIBIT A - STATUS OF LAMINA SALES PROGRAM AT LOCATIONS VISITED	8
EXHIBIT B - ACCOUNTING DATA FOR LAMINA SALES PROGRAM AT LOCATIONS VISITED	9
DISTRIBUTION OF AUDIT REPORT	10

## I BACKGROUND AND SCOPE

In the aftermath of the earthquake that occurred in Guatemala on February 4, 1976, AID is assisting the Government of Guatemala (GOG) in providing housing materials to families in designated areas of the country. Recognizing the need of the GOG to provide temporary shelter for the homeless as quickly as possible, USAID entered into a grant agreement on April 27, 1976 with the National Reconstruction Committee to provide 500,000 metal roofing sheets called lamina, and necessary roofing nails. Under the program, each family in the designated assistance areas is permitted to buy up to 10 sheets of lamina at a subsidized price of \$2.50 per sheet, including nails. Proceeds from the lamina sales are deposited in the bank account of the National Reconstruction Committee for use at a later date for reconstruction purposes within the same local communities. More specifically, the funds are to be used for labor intensive projects oriented toward improvement or expansion of community facilities approved by USAID. Initiatives for identifying the projects to be financed are to come from local groups. Also plans are to later permit those families who wish to purchase additional roofing materials to do so, and to offer those without sufficient funds an opportunity to also acquire the materials.

This grant agreement remains in effect until February 28, 1977. According to the agreement, any undisbursed sales proceeds will cease to be available after that date, and the remaining funds will be donated by the GOG to voluntary organizations.

To implement the program USAID established three temporary depots as intermediate points to receive lamina and other housing materials from the port, and to redistribute the lamina and roofing nails to local cooperative sales offices in accordance with contracts entered into between the National Reconstruction Committee and various local cooperative organizations. Lamina sales began at some cooperative sales offices during early May 1976.

Initial estimates of AID obligations for housing materials totaled \$3,076,019, including \$2,331,294 for the 500,000 sheets of lamina. Subsequent obligations have been incurred for additional purchases of housing materials, including lamina.

This is an interim review of the disaster relief lamina program to determine the accountability and utilization of housing materials, and related local currency generations.

Our field tests were made in three major disaster areas to the east, north and west of Guatemala City during the period July 28 through August 10, 1976 and included visits to the three materials depots located in Pasa Bien (east), the POLITECNICA (north) and Patzicia (west) and to 7 of the 15 cooperative sales offices located in San Juan Sacatepequez, Comalapa, Patzun, Patzicia, San Agustin, Rio Hondo and Morazan. The 7 sales offices were making lamina distributions to 10 of the 20 local communities being assisted under the program.

Our audit included a review of records pertaining to movement of materials, inventory control, cash receipts and certified bank deposits slips. We did not confirm amounts of deposits or deposits in transit with the banking institutions. In addition, we visited the homes of 32 individual purchasers (4 each in 8 villages) to confirm the sales and to determine what use was made of the materials.

## II SUMMARY

Our review of the movement of materials from the port to depots, from depots to selective sales offices and from sales offices to ultimate consumers did not disclose any unreported losses of materials or of cash receipts. We found, however, some weaknesses in control, which, if not corrected, may result in losses.

The most significant findings developed during the audit are presented in Part III of this report. A digest of the more important of these findings follows:

- Since lamina sheets are procured by weight and shipped in bundles, the actual quantities of lamina sheets received in port are not known. USAID was aware of this and had taken measures to control and account for the receipt in port and the subsequent storage of the lamina by bundles rather than by sheets. The mission will never know for sure how many sheets were received in port since shipping documents and therefore accounting control had to be exercised by bundles and not sheets.
- We observed that a truck shipment of lamina from the depot to Comalapa on August 3, 1976 appeared to be short. This shortage was similar to instances detected by USAID in June 1976 which resulted in recovery of 329 sheets and reimbursement for the cost of unrecovered sheets. The possible recurrence of truck driver shortages was brought to the attention of mission personnel who investigated the related deliveries and found that the bundles were not shorted. USAID also made changes in the central procedures on the transporting of lamina from depots to sales offices that assists in the detection and reporting of shortages.
- At two sales offices visited, San Juan Sacatepequez and Morazan, weaknesses were noted in inventory monitoring and cash-handling procedures. Mission personnel made a follow-up and have taken action to have the weaknesses corrected in these two sales offices. They also have made reviews at the cooperative sales offices not covered in the review.
- End-use tests of lamina indicate that a large number of lamina sheets sold are not being used for housing at the present time. People are waiting until after the rainy season to add to or rebuild existing houses. USAID has agreed to schedule end-use checks after the rainy season.

- Procedures and accounting controls at the cooperative offices were not reviewed by the USAID Controller's Office. There should be closer coordination between the technical division responsible for these programs and the USAID Controller's Office.

### III STATEMENT OF FINDINGS AND RECOMMENDATIONS

#### A. Lamina Sales Program

The USAID reports that an estimated 469,280 sheets (exact number cannot be determined), in ten-foot lengths, were initially received for the lamina sales program rather than the 500,000 sheets requested. The difference of 30,720 sheets is due to the fact that AID/W awarded the purchase contract in metric tons of steel rather than by number of sheets. We reviewed the specifications for the contract and determined that all were adhered to. The shortage has not adversely affected the program and was considered in USAID's second request for an additional 150,000 sheets.

At the 7 local sales offices visited between July 29 and August 10, 1976 (Exhibit A), we found that 167,289 sheets had been sold. This number constitutes 49% of the 340,000 sheets programmed, and is, we believe, representative of the program.

#### B. Depots

Lamina and ridge rolls were accounted for in bundles at the port and at the depots. Procedures called for sheet counts to be made by the cooperative sales offices after bundles were delivered. These procedures were established by USAID to save material handling costs at the port and depots and because port scales were not considered reliable to weigh these materials. The total quantities of sheets received at port has been estimated by USAID based on bundle test counts and test weighings but the actual number of sheets received in port cannot be determined. USAID is fully aware of this weakness and had taken measures to exercise control over the movement and storage of the bundles. Each depot was located in a secure area and was provided with a material control supervisor permanently assigned to observe and record all transactions. Duties required these personnel to stay in close proximity of the storage areas during the day and at night.

During our several visits to the POLITECNICA, we observed that a relatively newly assigned depot man, although present for prescheduled distributions, was absent from his post on three separate occasions and was not staying in the vicinity of his post at night. The absences and his explanations were reported to USAID management who subsequently replaced the individual.

Physical inventories were being reported weekly by the depot men to USAID. At the POLITECNICA we found that although inventories were being reported weekly the boxes of roofing nails were not arranged in an inventoriable manner. Subsequently, the depot man who replaced the discharged

employee informed us that one 50-pound box was discovered missing after restacking.

Records examined at the 3 depots indicated that the assigned depot men had received and accounted for all of the 5,435 bundles of lamina, 185 bundles of ridge rolls, 1,327 boxes of roofing nails, 4,027 boxes of standard nails and 19,371 wooden posts delivered from the port through July 27, 1976. Three bundles of lamina (an estimated 240 sheets) were reportedly dropped in the water at the port while unloading and have not been recovered.

After the initial distributions of lamina from depots to cooperatives, activities at the depots were very limited. For example, during our visit to Pasa Bien on July 28, we learned that there had been no transfers in or out of that location during the previous two weeks. USAID was aware of the situation and is taking action to consolidate the 3 depots into one.

During a visit to the Cooperative at Comalapa on August 3, 1976 we observed that truck shipments of lamina received and counted that day appeared to be shorted. The average number of sheets in 16 of the bundles received and counted was 77 compared to our computed average of 80 sheets determined from the records of U.S. steel bundles opened at locations visited. One bundle in the Comalapa delivery contained as few as 67 sheets.

Past experience indicated that similar bundle shortages had occurred in June 1976 due to truck driver thefts. These losses were detected by a USAID depot man who noticed that loose banding appeared on some bundles being received from the port. Counts then made by the individual showed that one bundle contained as few as 50 sheets. Action then taken by USAID resulted in recovery of 329 stolen sheets and \$450 for an unrecovered 50 sheets from 3 inland transportation companies.

The possible recurrence of lamina shortages was brought to the attention of USAID which agreed to investigate the truck shipments and to improve existing controls over the movement of lamina.

USAID/G subsequently reported that they had investigated the related deliveries and found that the bundles were not shorted. A check of the final records at the Comalapa cooperative shows that the 16 bundles contained 1,269 sheets rather than 1,236 as preliminary count sheets indicated. Since bundles contained between 75 and 81 sheets each, the mission concludes there was no shortage in the shipment. Mission has also made changes in the control procedures on the movement of lamina with visual verification of bundles being loaded and unloaded, appropriate notes as to any bundles appearing to be shorted, time controls on departure and arrival of trucks and discussions and agreements with transportation companies owners that they have responsibility for any shortages occurring in transit.

## C. Cooperative Sales Offices

### 1. Inventory Control

The 7 sales offices visited accounted for 2,628 of the 4,095 bundles of lamina dispatched from the depots thru July 28, 1976 (Exhibit B). At 5 of these cooperatives the bundles of lamina had been opened and counted when received. At the other 2 cooperatives (San Juan Sacatepequez and Patzicia) some bundles received had not been opened. At all locations, except San Juan Sacatepequez, we found that records were being maintained of sheet counts for each bundle opened. At San Juan Sacatepequez, tallies were incomplete and were not being maintained as a permanent record to control the inventory transactions and to account for the quantity of sheets on hand. The sales manager said that he had not received instructions about the type of inventory records to be maintained. Suitable records were suggested to him, and to us, the records he plans to keep seem adequate. Also, at this location periodic physical inventories were not being taken. This was due, in part, to sheets not being stacked in a manner to facilitate taking a physical inventory. The sales manager was given permission by the USAID technician to close shop for one day to arrange stocks and take an accurate physical inventory. We returned several days later and found that the task was not completed. The USAID should follow-up to assure that the lamina is adequately controlled at this location.

At Morazan we also noted that accurate physical inventories of lamina are not periodically taken because of the way in which sheets were stacked. The manager said that sheets will be restacked and that hereafter weekly physical inventories will be taken.

At each location visited, responsibilities for inventory control and cash collection had been properly segregated.

Review of the records at the locations visited for bundles opened and counted showed that on the average, there were 97 sheets of lamina in the bundles supplied by Granite City and 80 sheets in the lamina in the bundles supplied by U.S. Steel (Exhibit B). These averages project totals slightly higher than the USAID estimates of total sheets received in port as reported to AID/W, but at the same time indicate that no substantial losses have occurred at the cooperatives where proper records are being maintained.

### 2. Cash Sales

At the 7 sales offices visited, sales of lamina totaled \$418,223 of which \$405,287 had been deposited (Exhibit B). The difference is attributed to cash on hand and deposits in transit, plus a shortage of \$6,622 in receipts at San Juan Sacatepequez. The shortage was caused by that cooperative using cash received from lamina sales to pay operating expenses rather than depositing the funds intact daily. The shortage, however, was more than offset by two uncashed local currency checks from the USAID that the cooperative was holding equivalent to \$7,987. The cooperative manager informed us that in the future, money collected from sales of lamina will be deposited daily, intact.

At other locations visited cash receipts were being deposited intact, except that at Morazan the manager had withheld \$300 from the last deposit for use as a petty cash fund. The manager was not aware that the receipts were to be deposited intact and said that they would be in the future.

Based on our findings and discussion with the mission, they have subsequently made a follow-up on the audit discrepancies noted at San Juan Sacatepequez and Morazan and taken action to assure that proper inventory and cash procedures and controls are instituted as agreed to by the cooperatives. They have also made similar reviews of the inventory and cash procedures and controls at several cooperative sales offices and will review others not visited by us during our audit and take action to see that the procedures used are such that these resources are adequately accounted for and protected.

### 3. Damaged Lamina

Each of the locations visited had varying quantities of slightly damaged sheets of lamina on hand. At Rio Hondo, for example, 373 damaged sheets were being withheld from sale. The damage reportedly occurred prior to receipt of the bundles at the sales office. Unless damaged sheets are reconditioned, a residual number of unsold sheets will remain at all locations. The USAID advised that a sheet straightening device will be sent to each location to restore damaged sheets to acceptable condition for sale.

#### D. End-Use Tests of Lamina

We reviewed the end-use put to 320 sheets of lamina in 32 selected sales which took place on or about July 18, 1976. The tests consisted of visits to the homes of 4 persons in each of 8 villages and indicated certain conditions exist:

(1) We found that only 46 of the 320 sheets sold were being used for housing at the present time. The reason generally given for the non-use of the lamina was that the parties were waiting until after the end of the rainy season (November - December) to add to or rebuild existing houses.

(2) We did not find any conclusive evidence that sales were diverted or made to other than the party intended. One party in the village of Morazan did disclaim the purchase of 10 sheets of the lamina, but 2 witnesses stated that the party had made the purchase and accepted the lamina. In two other instances in the village of Patzicia we were unable to locate 2 purchasers (Srs. Pixota and Peroba, Receipt No. 182). The Cooperative representative advised that he would make a special effort to locate these individuals and advise USAID. Also we did not locate 3 other purchasers who had moved, but who were known by their former neighbors and 5 purchasers who were located said that their lamina was stored or lent out at a place other than where they were presently living.

(3) Of 11 householders asked if they intended to obtain more than the 10 sheets of lamina purchased, 7 said yes, and 4 said no.

(4) Generally we found that the communities were well pleased with the lamina. In one village the AID technician was presented with a wall-hanging on which words of appreciation were woven.

USAID/G has subsequently advised that they will make a follow-up of the two unlocated purchasers at Patzicia to attempt to locate the purchasers or determine that they exist and that the lamina was purchased by them for their own use.

USAID/G has also advised that the lamina purchased by AID for the earthquake reconstruction program was a grant to the GOG whereby individual sheets were sold to Guatemala residents in the earthquake damaged areas with the proceeds being used for work programs in the same area and they will make selected end-use checks to ascertain that the purposes of the grant to the GOG is being accomplished.

#### E. Community Projects Program

The allocation of lamina funds for community projects had not yet taken place. This phase of the program, however, is soon to begin. We note that the procedures and accounting controls for the program, as in the case of the lamina sales program, were established by the USAID technical division without review by the USAID Controller's Office. The technical division did not seek assistance from the Controller's Office in setting up these programs. In our opinion, there should be closer coordination between the technical division responsible for these programs and the USAID Controller's Office. This was discussed with USAID management and the Controller advised that he plans to work with the technical division to develop an accounting and control procedure to be used by the various cooperative offices for implementing the community projects program.

#### IV GENERAL COMMENTS

The contents of this report were reviewed and discussed with USAID officials who concurred, in general, with the findings and recommendations. Appropriate comments of USAID were incorporated into this report.

STATUS OF LAMINA SALES PROGRAM AT LOCATIONS VISITED  
July 29 to August 10, 1976

	<u>San Juan</u> <u>Sacatepequez</u>	<u>Comalapa</u>	<u>Patzun</u>	<u>Patzicia</u>	<u>San</u> <u>Agustin</u>	<u>Rio</u> <u>Hondo</u>	<u>Morazan</u>	<u>Total</u>
Sheets Programmed	140,000	30,000	30,000	30,000	50,000	37,000	23,000	340,000
Sheets Allocated	140,000	30,000	30,000	30,000	30,000	22,000	14,000	296,000
Percent Allocated to Programmed	100%	100%	100%	100%	60%	60%	60%	
Percent Sold to Programmed	47%	74%	84%	51%	30%	51%	19%	49.2%
Date Offered for Sale	5/24/76	5/10/76	5/10/76	5/8/76	6/15/76	7/2/76	7/10/76	
Announced Housing Programs by other Donors	(a) CARE (b) Red Cross (c) Rotary Club	(a) CARE (b) Italians (c) Red Cross	(a) CARE (b) Norwegians (c) IDESAC	(a) CARE (b) Menenites	NONE	NONE	NONE	

ACCOUNTING DATA FOR LAMINA SALES PROGRAM AT LOCATIONS VISITED  
July 29 to August 10, 1976

	<u>San Juan</u> <u>Sacatepequez</u>	<u>Comalapa</u>	<u>Patzun</u>	<u>Patzicia</u>	<u>San</u> <u>Agustin</u>	<u>Rio</u> <u>Hondo</u>	<u>Morazan</u>	<u>Total</u>
<u>Bundles</u>								
Received	1,150	293	361	187	187	275	175	2,628
Unopened	387	---	95	---	---	---	---	482
Opened	<u>763</u>	<u>293</u>	<u>266</u>	<u>187</u>	<u>187</u>	<u>275</u>	<u>175</u>	<u>2,146</u>
<u>Sheets (In Bundles Opened)</u>								
On Hand	Unk	5,154	761	2,671	24	3,008	9,517 <sup>4/</sup>	
Short (Over)	Unk		(60)	(12)	14	(125)	Unk	
Sold	<u>66,222</u>	<u>22,185</u>	<u>25,092</u>	<u>15,374</u>	<u>15,019</u>	<u>18,927</u>	<u>4,470</u>	<u>167,289</u>
<u>Sales: Price (Equiv. \$)</u>	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50
Computed	\$ 165,555.00	\$ 55,462.50	\$ 62,730.00	\$ 38,435.00	\$ 37,547.50	\$ 47,317.50	\$ 11,175.00	\$ 418,222.50
<u>Cash:</u>								
On Hand	2,701.13	1,047.50	524.50	---	---	332.50	300.00 <sup>3/</sup>	4,905.63
Short (Over)	6,622.12 <sup>1/</sup>	---	12.50	(129.75)	---	---	---	6,504.87
In Transit to Bank	---	---	---	462.50	---	---	1,062.50	1,525.00
Deposited	<u>\$ 156,231.75</u>	<u>\$ 54,415.00</u>	<u>\$ 62,193.00</u>	<u>\$ 38,102.25</u>	<u>\$ 37,547.50</u>	<u>\$ 46,985.00</u>	<u>\$ 9,812.50</u>	<u>\$ 405,287.00</u>
<u>Average Sheets Per Bundle <sup>2/</sup></u>								
Granite City	Unk	97	97	96				97
U. S. Steel		80			80	80	80	80

<sup>1/</sup> Shortage due to use of receipts (about 6 days) to pay Cooperative operating expenses, however two uncashed checks from the USAID on hand totaling \$7,986.80 more than offset the shortage.

<sup>2/</sup> Based on total sheets in bundles opened including inventory overages and shortages.

<sup>3/</sup> Receipts withheld from deposit for use as petty cash fund.

<sup>4/</sup> Based on record not verified by physical inventory

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