

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL

AUDIT OF THE HEALTH SYSTEMS
SUPPORT PROJECT WITH THE MINISTRY OF
PUBLIC HEALTH AND SOCIAL ASSISTANCE

Audit Report No. 1-519-90-18-N
March 22, 1990



Regional Inspector General for Audit
TEGUCIGALPA

AGENCY FOR INTERNATIONAL DEVELOPMENT

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March 22, 1990

MEMORANDUM

TO: USAID/El Salvador Director, Henry H. Bassford

FROM: *Coinage N. Gothard*
RIG/A/T, Coinage N. Gothard, Jr.

SUBJECT: *Audit Report No. 1-519-90-18-N, "Audit of the Health Systems Support Project with the Ministry of Public Health and Social Assistance"*

This report presents the results of a non-Federal financial related audit requested by your Mission of U.S. dollar funded commodities flowing through the Matazano Complex Central Warehouse and the Urban Housing Institute Annex (IVU) under the Health Systems Support Project managed by the Ministry of Public Health and Social Assistance, USAID/El Salvador Project No. 519-0308. The accounting firm of Price Waterhouse in Guatemala prepared the report, which is dated March 7, 1990.

The purpose of the project is to support and strengthen the capability of the Ministry of Public Health and Social Assistance (the Ministry) to deliver and support basic health care services. The logistical support component is to provide commodities - pharmaceutical and medical supplies, insecticides, equipment and materials, vehicles, and computer equipment - in the amount of \$35,677,500 during a five year period ending September 29, 1991. The audit period was from January 1, 1988 to May 31, 1989, and included coverage of commodities flowing through the Matazano Complex Central Warehouse and the IVU Annex (the warehouses).

The purpose of the audit was to determine whether: (1) the commodity accountability statements for the warehouses fairly present receipts and disbursements of commodities; (2) the internal control structures of the warehouses are adequate for USAID/El Salvador's purposes; and (3) the Ministry has complied with agreement terms and applicable laws and regulations.

Price Waterhouse disclaimed an opinion on the commodity accountability statements because of scope limitations; i.e. the Ministry was unable to provide commodity accountability statements because such statements were impossible to prepare from the completely inadequate accounting system and records maintained by the Ministry. Because of this lack of overall accountability

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for such commodities, Price Waterhouse considered all of the unaccounted for commodities from the beginning of the project to May 31, 1989 as questionable costs - amounting to \$2,043,107 in questionable costs for pharmaceutical and medical supplies. Questionable amounts for other unaccounted for commodities could not be quantified because Price Waterhouse only performed physical inventories as of May 31, 1989 for pharmaceutical and medical supplies. Price Waterhouse's study and evaluation of the Ministry's internal control structure at the warehouses disclosed material weaknesses consisting of (1) inadequate guard services and physical protection to safeguard inventories and prevent break-ins; (2) inadequate controls over commodity movements, i.e. no prenumbered control documents, kardex files not maintained up-to-date, no periodic physical inventories, etc.; and (3) ineffective follow-up and investigation of shortages detected during receipt of commodities. Price Waterhouse was of the opinion that, with respect to items tested, the Ministry complied with agreement terms and applicable laws and regulations, except that (1) adequate books and records to provide accountability for project commodities had not been maintained, and (2) required annual audits of the project had not been performed. With respect to items not tested, nothing came to their attention that caused them to believe that the Ministry was not in compliance.

The draft report was discussed with representatives of the Ministry and USAID/El Salvador on January 23, 1990. The Ministry provided written comments which generally agreed with the findings contained in the report.

The Price Waterhouse report contains six recommendations on the commodity statements, internal controls, and compliance. We have summarized the most significant findings and related recommendations for inclusion in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/El Salvador:

- a. require the Ministry of Public Health and Social Assistance to provide an adequate accounting for the U.S. dollar funded commodities flowing through the Matazano Complex Central Warehouse and the Urban Housing Institute Annex from the beginning of the project in 1986 to May 31, 1989. The use and disposition of all unaccounted for commodities, including quantified questionable costs amounting to \$2,043,107 for pharmaceutical and medical supplies and unquantified questionable costs for other commodities, should either be supported with adequate documentation or equivalent dollar amounts should be refunded; and
- b. require the Ministry of Public Health and Social Assistance to maintain an adequate accounting system and records to provide accountability for U.S. dollar funded commodities flowing through the Matazano Complex Central Warehouse and the Urban Housing Institute Annex.

Recommendation No. 2

We recommend that USAID/El Salvador require the Ministry of Public Health and Social Assistance to improve its internal control structure at the Matazano Complex Central Warehouse and the Urban Housing Institute Annex by:

- a. establishing adequate guard services and physical protection to safeguard inventories and prevent break-ins;*
- b. establishing adequate controls over commodity movements, i.e. prenumbered control documents, up-to-date kardex files, periodic physical inventories, etc.; and*
- c. ensuring that there is effective follow-up and investigation of shortages detected during receipt of commodities.*

Recommendation No. 3

We recommend that USAID/El Salvador require annual financial audits of the project in accordance with agreement terms. Such audits should be performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision).

Please advise this office within 30 days of actions planned or taken to clear the recommendations.

AUDIT OF THE HEALTH SYSTEMS SUPPORT PROJECT
USAID/EL SALVADOR PROJECT No. 519-0308
WITH THE MINISTRY OF PUBLIC HEALTH AND SOCIAL ASSISTANCE

AUDIT OF THE HEALTH SYSTEMS SUPPORT PROJECT
USAID/EL SALVADOR PROJECT No. 519-0308
WITH THE MINISTRY OF PUBLIC HEALTH AND SOCIAL ASSISTANCE

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Price Waterhouse



March 7, 1990

Mr. Coinage N. Gothard, Jr.
Regional Inspector General for Audit
U. S. Agency for International Development
Tegucigalpa, Honduras, C. A.

Dear Mr. Gothard:

This report presents the results of our financial related audit of the management of the U.S. dollar funded commodities flowing through the Matazano Complex Central Warehouse and The Urban Housing Institute (Instituto de la Vivienda Urbana - IVU) Annex, under the Health Systems Support Project, USAID/El Salvador Project No. 519-0308, managed by the Ministry of Public Health and Social Assistance during the period from January 1, 1988 to May 31, 1989.

BACKGROUND

On August 29, 1986, the United States Agency for International Development in El Salvador (USAID/El Salvador) and Government of El Salvador (GOES) through the Ministry of Planning and Coordination of the Social Economic Development (MIPLAN), signed grant agreement No. 519-0308 in the amount of US\$48,000,000 to fund the Health Systems Support Project, USAID/El Salvador Project No. 519-0308. The project assistance completion date is September 29, 1991.

The project's grant agreement specified that the project would be managed under the aegis of the Vice-Minister of Public Health, who would have staff assistants to monitor the day-to-day implementation matters. As of the date of our review, the Vice-Minister, with the approval of USAID/El Salvador, had organized a special administrative unit to look after the project which included, among others, a medical director, a technical assistant, an accountant, a warehouse supervisor and an administrative assistant.

The purpose of the project is to support and strengthen the capability of the Ministry of Public Health and Social Assistance (the Ministry) to deliver and support basic health care services, including preventive and primary care services important to the Ministry's Child Survival Program. The project will provide commodities and financial and technical assistance to the Ministry during a period of five years. The project has three components:

- a) Logistical support: acquisition, distribution, and management of drugs, medical supplies, equipment and facilities.
- b) Improving basic health services delivery, and
- c) Strengthening policy and program planning and management.

The U.S. dollar budget for the commodities to be provided under the logistical support component is as follows:

<u>Commodities</u>	<u>Total</u> (000's)
Pharmaceutical and medical supplies	US\$26,158.00
Insecticides	2,300.00
Equipment and materials	1,894.50
Vehicles	4,588.00
Computer equipment	<u>737.00</u>
	<u>US\$35,677.50</u>

The Ministry stores the major portion of the commodities bought under this project in the Matazano Complex Central Warehouse located at Cantón Matazanos, San Salvador, for further delivery to other health facilities (regional warehouses, the Central Laboratory, hospitals and health units). Selected items such as laboratory glassware and equipment are stored at the IVU Annex. Vehicles and computer equipment were not stored at either of the above locations and therefore were not included in our audit. Purchases of vehicles and equipment under the project, according to the Ministry, amount to ¢8,395,478 (\$1,679,096 at the rate of exchange of ¢5.00 = US\$1.00 prevailing at the date the purchases were made).

Purchases of medical and pharmaceutical supplies under the project (excluding insecticides) are reported by the Ministry at ¢21,165,028 (\$4.233,006) from the beginning of the project to May 31, 1989.

AUDIT OBJECTIVES AND SCOPE

Our financial related audit of the management of the U.S. dollar funded commodities flowing through the Matazano Complex Central Warehouse and the IVU Annex covered only those commodities provided under the project purchased with U.S. dollars during the period from January 1, 1988 to May 31, 1989. The main audit objective was to determine whether:

- a) The project's commodities statements for the Matazano Complex Central Warehouse and the IVU Annex fairly present project receipts and issues from January 1, 1988 to May 31, 1989, and the balances on hand as of this later date.

- b) The internal control structures at the above mentioned warehouses are adequate for USAID/El Salvador purposes.
- c) The Ministry has complied with agreement terms and applicable laws and regulations which may affect the project inventories.

Additionally, as part of a separate contractual effort for USAID/El Salvador, we performed physical inventories of the items stored at the Matazano Complex Central Warehouse and the IVU Annex as of May 31, 1989. The unaudited value of pharmaceutical and medical supplies on hand at the date of our physical inventories, (excluding insecticides) and identified with U.S. Dollar acquisitions was established at ø10,949,493 (\$2,189,899).

Except for what is mentioned in the following paragraph, the audit was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision).

Record keeping procedures established by the Ministry at the Matazano Complex Central Warehouse and the IVU Annex do not provide for a centralized accounting of the total value of the inventories on hand at any given time. Inventory movements, in units or quantities only, are posted by the storekeeper responsible for each warehouse to individual control cards supplied by and numerically controlled by the Office of the Comptroller General's Court of Accounts (Corte de Cuentas). A general ledger type of control for the overall inventory to permit the quantification of the value of inventory receipts and shipments taking place during a given period of time is not kept by the Ministry.

Because of the accounting system and related procedures in place, the Ministry was not in a position to prepare commodities statements for the project or to reconcile the commodities shown to be on hand as of May 31, 1989, per our physical inventory counts, with the commodities that should have been on hand as of that date.

Because of the limitations explained in the preceding two paragraphs, our work consisted of:

1. Determining on a sample basis if inventory movements during the period covered by our audit were referenced to the appropriate receipt or shipping documents.
2. Determining for a sample of importations into the Central Warehouse and IVU Annex whether quantities purchased were actually received and were adequately recorded.
3. Determining for a sample of shipments from the Central Warehouse and IVU Annex whether the shipments were received by the regional warehouses, the Central Laboratory,

hospitals and health units, and if those shipments selected were approved by authorized officials and adequately recorded.

4. Reviewing the individual kardex cards for those shipments sampled to determine whether there were unusual or unsupported items recorded.
5. Reviewing and evaluating whether the Ministry has adequate controls over project materials, equipment, and supplies flowing through the Central Warehouse and the IVU Annex, including shipping and receiving procedures, and
6. Determining whether the Ministry has complied with the terms of the agreement, implementation letters, amendments, and applicable laws and regulations that may have a material effect on the project inventories.

RESULTS OF AUDIT

Project's Commodities Statements

The accounting system kept by the Ministry for the Health Systems Support Project did not allow for the preparation of these statements for the period covered by our audit, January 1, 1988 to May 31, 1989. Preparation of these statements would require a considerable investment of time and effort in the tabulation, on an item-by-item basis, of all inventory movements reflected in the inventory kardex cards kept at the Matazano Complex Central Warehouse and the IVU Annex during the period covered by the audit. The overall lack of accountability over the use of US dollar funded commodities results in quantified questionable costs amounting to \$2,043,107 for pharmaceuticals and medical supplies. We were unable to quantify questionable amounts for vehicles and equipment because we did not perform physical inventories of those items as of May 31, 1989.

Our limited testing of commodities flowing through the Matazano Complex Central Warehouse and the IVU Annex to other health facilities (regional warehouses, the Central Laboratory, hospitals and health units), however, did not disclose significant differences in quantities regarding inventory movements.

Internal Control Structure

Our study and evaluation of the Ministry's internal control structure related to the management of inventories at the Matazano Complex Central Warehouse and the IVU Annex, identified the following weaknesses:

1. Guard services and physical protection were inadequate to prevent break-ins.

2. Control procedures over project inventories were inadequate.
3. There was no effective follow-up on shortages detected during the receipt of commodities.
4. Stocks of medicines contained expired items.

Compliance with Agreement Terms and Applicable Laws and Regulations

The results of our audit tests for the period January 1, 1988 to May 31, 1989, disclosed the two instances of noncompliance with the terms of the agreement or with applicable laws and regulations as noted below. With respect to items not tested, nothing came to our attention that caused us to believe that the Ministry had not complied, in all material respects, with such provisions.

Instances of non-compliance with agreement terms noted during our audit:

1. The Ministry had not maintained adequate records to account for project inventories, and
2. An external audit of the project had not been performed.

Management Comments:

A copy of this report was provided to the Ministry of Public Health and Social Assistance and A.I.D. and discussed with them on January 23, 1990. The Ministry of Health and Social Assistance provided us written comments, included as Annex I, which indicate general agreement with our findings and recommendations. We took the Ministry's written comments into account, as appropriate, in modifying this final report.

Eric Waterhouse

Price Waterhouse



AUDIT OF THE HEALTH SYSTEMS SUPPORT PROJECT
USAID/EL SALVADOR PROJECT No. 519-0308
WITH THE MINISTRY OF PUBLIC HEALTH AND SOCIAL ASSISTANCE

COMMODITIES STATEMENTS
FOR THE MATAZANO COMPLEX CENTRAL WAREHOUSE AND IVU ANNEX

JANUARY 1, 1988 TO MAY 31, 1989

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit the commodities statements for the US dollar funded commodities flowing through the Matazano Complex Central Warehouse and IVU Annex in connection with the Health Systems Support Project, USAID/El Salvador Project No. 519-0308, managed by the Ministry of Public Health and Social Assistance (the Ministry) for the period January 1, 1988 to May 31, 1989. These statements, containing financial information regarding the value of inventory balances and movements, are the responsibility of the Ministry.

The records established by the Ministry, however, did not allow for the preparation of commodities statements, as inventory controls were kept only through individual kardex cards (one for each inventory item) by each warehouse. The procedures followed at the Matazano Complex Central Warehouse and the IVU Annex do not permit a reconciliation of the computed value of inventories on hand at any given date with physical counts because no control account or general ledger is maintained to account for and control all inventories on an aggregate basis.

Because of the lack of overall accountability for US dollar funded commodities flowing through the Matazano Complex Central Warehouse, we consider as questionable costs all of the unaccounted for commodities from the beginning of the project to May 31, 1989. Such questionable costs can only be quantified for pharmaceutical and medical supplies amounting to \$2,043,107 (see finding No. 1), which is the difference between total purchases of pharmaceutical and medical supplies and the unaudited value of our physical inventory of these commodities on hand as of May 31, 1989. We did not perform physical inventories of vehicles and equipment.

Since the Ministry did not prepare commodities statements for the Matazano Complex and IVU Annex warehouse for the period from January 1, 1988 to May 31, 1989 and because of the limitations imposed by the accounting records, as explained in the preceding two paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accountability for the project's US dollar funded commodities flowing through the Matazano Complex Central Warehouse and IVU Annex during the period from January 1, 1988 to May 31, 1989.

This report is intended solely for use of the Ministry of Public Health and Social Assistance and the U. S. Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

A handwritten signature in cursive script, appearing to read "Eric Waterhouse".

October 5, 1989

AUDIT OF THE HEALTH SYSTEMS SUPPORT PROJECT
USAID/EL SALVADOR PROJECT No. 519-0308
WITH THE MINISTRY OF PUBLIC HEALTH AND SOCIAL ASSISTANCE

REPORT ON THE COMMODITIES STATEMENTS

FINDING

1. The Ministry Had not Maintained Adequate Records to Account for Project Inventories

Condition:

Record keeping procedures established by the Ministry at the Matazano Complex Central Warehouse and the IVU Annex do not provide for a centralized accounting of the total value of the inventories on hand at any given time. A general ledger type of control for the overall inventory to permit the quantification of the value of inventory receipts and shipments taking place during a given period of time and the balance that should remain is not kept.

Criteria:

Section B.5, paragraph (B) of the grant standard provisions requires that the Ministry maintain adequate books and records in accordance with generally accepted accounting principles to show without limitation the receipt and use of commodities acquired under the project.

Cause:

It appears that the Ministry considered that the inventory control system prescribed by the Office of the Comptroller General's Court of Accounts for all government units would be sufficient for project and USAID/El Salvador's purposes. However such inventory control system is directed at the detail level of individual inventory items at individual locations, and it does not provide an overall accounting control so as to be able to identify inventory shortages on an aggregate basis. (See also finding No. 2 of our report of the internal control structure.)

Effect:

Because of the accounting system and related procedures in place, the Ministry was not in a position to prepare commodities statements for the project or to reconcile the commodities shown to be on hand as of May 31, 1989 per our physical inventory counts with the commodities that should have been on hand as of that date. As a result, all of the unaccounted for commodities from the beginning of the project to May 31, 1989 are considered to be questionable costs. Such questionable costs can only be

quantified for pharmaceutical and medical supplies amounting to \$2,043,107, which is the difference between total purchases of pharmaceutical and medical supplies reported by the Ministry and the unaudited cost of the physical inventory of those commodities on hand as of May 31, 1989. We did not perform physical inventories of vehicles and equipment.

Recommendation:

USAID/El Salvador should require the Ministry of Public Health and Social Assistance to maintain a general ledger type control over all the project inventory classes or groupings so as to keep track of the value of inventory receipts, shipments and remaining balance for each accounting period. Inventory records from the beginning of the project through the present should be reconstructed to permit the implementation of this control. Unreconcilable differences between the computed inventory balance and our physical inventory as of May 31, 1989 should be considered to be questionable costs.

Price Waterhouse



AUDIT OF THE HEALTH SYSTEMS SUPPORT PROJECT
USAID/EL SALVADOR PROJECT No. 519-0308
WITH THE MINISTRY OF PUBLIC HEALTH AND SOCIAL ASSISTANCE

REPORT ON INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit the commodities statements for the U.S. dollar funded commodities flowing through the Matazano Complex Central Warehouse and IVU Annex in connection with the Health Systems Support Project, USAID/El Salvador Project No. 519-0308, managed by the Ministry of Public Health and Social Assistance for the period from January 1, 1988 to May 31, 1989, on which we have disclaimed our opinion because of significant audit scope limitations.

In planning and performing our financial related audit of the management of the U.S. dollar funded commodities flowing through the Matazano Complex Central Warehouse and the IVU Annex, under the Health Systems Support Project, USAID/El Salvador Project No. 519-0308, managed by the Ministry of Public Health and Social Assistance (the Ministry) during the period from January 1, 1988 to May 31, 1989, we considered the Ministry's internal control structure related to the project in order to determine our auditing procedures for the purposes of our engagement and not to provide assurance on the effectiveness of the internal control structure. Our evaluation was limited to a preliminary review of the internal control structure to obtain an understanding of the control environment in the area of inventories and the flow of inventory movement through the accounting system.

The management of the Ministry of Public Health and Social Assistance is responsible for establishing and maintaining an internal control structure. 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 financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless

occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in, and have evaluated, the following categories: 1) receipt and issue procedures for commodities at the warehouses; 2) record keeping procedures; 3) physical safeguards; and 4) receipt by other health facilities of shipments made from the warehouses.

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 Ministry's internal control structure, as it relates to inventories at the Matazano Complex Central Warehouse and IVU Annex, disclosed certain matters involving the project's execution, as described in the accompanying findings 1 to 4, that we consider to be reportable conditions in accordance with generally accepted auditing standards and the United States Comptroller General's "Government Auditing Standards" (1988 Revision). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our opinion, could adversely affect the Ministry's ability to record, process, summarize, and report financial information on the project's inventories or related financial data.

In accordance with U.S. Comptroller General and AICPA standards, auditors are required to identify material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. In this connection, finding Nos. 1 to 3 are deemed to be material weaknesses.

This report is intended solely for the use of the Ministry of Public Health and Social Assistance and the U.S. Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.



October 5, 1989

AUDIT OF THE HEALTH SYSTEMS SUPPORT PROJECT
USAID/EL SALVADOR PROJECT No. 519-0308
WITH THE MINISTRY OF PUBLIC HEALTH AND SOCIAL ASSISTANCE

REPORT ON INTERNAL CONTROL STRUCTURE

FINDINGS

1. Guard Services and Physical Protection were Inadequate to Prevent Break-Ins

Condition:

The Matazano Complex, an area of approximately five square city blocks, maintained only three guards on duty at a time, and it was broken into on weekends and holidays several times during 1988 and three times through May 1989.

Criteria:

The guard services at the Matazano Complex need to be large enough, and organized and vigilant enough to detect and deter break-ins and thefts at these warehouses, especially during weekends and holidays.

Cause:

As evidenced by the ongoing series of break-ins at the Matazano Complex, all of which reportedly occurred on weekends or holidays, three guards are insufficient to deter break-ins when the facility's normal work force is not present.

Effect:

Reportedly, there have been losses of approximately \$25,000 worth of project commodities during the first quarter of 1989 attributed to break-ins and thefts at the Matazano Complex.

Recommendation:

USAID/El Salvador should require the Ministry of Public Health and Social Assistance to maintain an increased guard force at the Matazano Complex, especially during weekend and holiday periods, so as to be better able to detect and deter break-ins and thefts of project commodities.

2. Control Procedures over Project Inventories Were Inadequate

Condition:

Control procedures over project inventories were not adequate in some respects and not uniformly implemented in others. Deficiencies noted include the following:

- a) At none of the locations reviewed (including the Matazano Complex Central Warehouse, the IVU Annex, the Central Laboratory, regional warehouses, hospitals and health units) were the receipt, requisition, and shipment documents pre-numbered;
- b) Shipping documents were not cross-referenced to the corresponding requisition forms;
- c) At two locations, the Central Laboratory and the insecticides warehouse, the inventory system prescribed for all government units by the Office of the Comptroller General's Court of Accounts was not used. By this we mean that at neither location did the storekeepers use the preprinted and numerically controlled kardex cards provided by the Court of Accounts to document inventory status. Also, at the insecticides warehouse the kardex files that were used were maintained in pencil;
- d) At the Pneumological Hospital, one of the hospitals receiving project commodities, postings to the kardex files for surgical materials were approximately three months in arrears;
- e) There were no periodic physical counts of inventories to verify the accuracy of the amounts shown in the kardex files. Inventories were inspected or counted only when an irregularity was reported or when a storekeeper was to be replaced; and
- f) At the insecticides warehouse, the storekeeper was physically located outside the Matazano Complex premises and deliveries from this warehouse were sometimes made without his supervision.

Criteria:

As part of a strong system of internal accounting control over inventories, preprinted and prenumbered forms (including those forms which document the receipt, requisition and issue of inventories) should be used to assure the accountability of all transactions, as well as to prevent the undetected alteration of previously recorded transactions. Also, to evidence that each shipment from stock was properly approved, the shipment of commodities should be supported by the requisition which was the basis for issuing the commodities from inventory.

The role of kardex cards in an inventory control system is to document the computed number of items remaining for each inventory line item. These cards should be maintained in an up-to-date status and the accuracy of the computed balances should be periodically verified through physical counts.

Complete inventory counts should be conducted annually and selective test counts of individual inventory items should be performed periodically. Any differences noted between the physical counts and the quantities reflected on the kardex cards should be investigated and the kardex cards should be adjusted to reflect the physical counts. Approval for such adjustments should be obtained from the Ministry of Public Health and Social Assistance and the Court of Accounts.

All governmental units are required to use the inventory system prescribed by the Court of Accounts which entails the Court issuing and collecting preprinted and numerically controlled kardex cards semiannually.

Finally, better warehouse accountability is assured when the responsibility for assets at a given location is identifiable to a single storekeeper.

Cause:

It is not the practice of the Government of El Salvador, as far as it concerns control of inventories, to use forms which are prenumbered at the point the forms are preprinted. The practice is to enter the number by hand at the time of using the preprinted forms.

The Court of Accounts relies upon the numerically controlled kardex cards that it provides to implementing entities, supported by signed copies of receiving documents (actas de inspección), requisitions and shipment documents (vales de salida) as its basis for internal control. The shipment documents additionally are signed by the recipients as evidence of having satisfactorily received the quantity of products sent.

We attribute the other matters discussed in the condition section above to the failure of the project's special administrative unit to provide adequate procedural guidance and instructions to the various project participants. For instance, established control procedures do not require periodic physical counts of inventories.

Effect:

The failure to use forms that are prenumbered as they are printed, although it is accepted within the inventory control system prescribed for all government entities by the Court of Accounts, introduces the possibility of irregularities without detection. With collusion, receiving and shipping documents could be altered after the fact resulting in commodities that are off the record, shipments diverted to unauthorized users, or shipments that are not documented.

The lack of periodic physical counts of the inventory and reconciliation of the amounts reflected in warehouse kardex cards with these counts also leaves open the possibility of losses in commodities that would not be detected.

With regard to the other conditions noted, the effect generally is to blur the audit trail of evidence on whether receipts and deliveries are approved and adequately recorded and to pinpoint responsibility in the case of errors or irregularities.

Recommendation:

USAID/El Salvador should require the Ministry of Public Health to implement adequate controls and procedures for all the entities handling project inventories. Such controls and procedures should include:

- a) using receipt, requisition, and shipment documents and forms which are preprinted and prenumbered at the point of printing to assure the accountability of all transactions;
- b) having the Office of the Comptroller General's Court of Accounts control all inventory transactions for the project through the use of the preprinted and numerically controlled kardex cards, which it provides to government entities, with the originals of such kardex cards and supporting documentation being returned to the Court of Accounts semiannually;
- c) performing complete physical inventories of project commodities annually and selective counts periodically, with reconciliation of the amounts reflected on kardex cards with the physical inventory counts and investigation of any differences;
- d) evidencing that each shipment from stock was properly approved by cross-referencing inventory shipment documentation to the related requisition;
- e) requiring that kardex cards on project inventories be maintained in an up-to-date status; and
- f) requiring that a single storekeeper be assigned full responsibility for acceptance, safeguarding and issuing of project stocks at each storage location.

3. There Was no Effective Follow-up on Shortages Detected During the Receipt of Commodities

Condition:

During the review of the receipt of commodities at the Matazano Complex Central Warehouse we detected that some receipt documents (actas de inspección) disclosed shortages when compared to the supplier's invoice. (See Exhibit I for examples.) We did not

find evidence that the Ministry of Public Health and Social Assistance had investigated these shortages promptly or that it had attempted to make recoveries. However USAID/El Salvador eventually initiated appropriate action.

Criteria:

Shortages should be investigated as soon as they are detected in order to determine who is responsible and to make appropriate recoveries.

Cause:

Since these shortages relate to purchases of commodities made directly by A.I.D., the Ministry of Public Health and Social Assistance apparently felt it was sufficient action to provide copies of the receipt documentation (actas de inspección) to USAID/El Salvador.

Effect:

The responsibility for the shortages was not determined timely and recoveries have not been made.

Recommendation:

USAID/El Salvador should require the Ministry of Public Health and Social Assistance to investigate shortages noted when receiving commodities under the project and to initiate action for recovery.

4. Stocks of Medicines Contained Expired Items

Condition:

Inventories on hand included significant amounts of medicines that had passed their expiration dates and had not been destroyed.

Criteria:

Periodically, the warehousemen should provide the Ministry of Public Health and Social Assistance a summary of the medicines that have expired and those that will expire in the forthcoming months so that the Ministry can take appropriate action in a timely manner.

Cause:

Procedures for action, in these areas, are not adequately enforced.

Effect:

Medicines had surpassed their expiration dates without being used, which resulted in a waste of project resources.

Recommendation:

The Ministry of Public Health and Social Assistance should confirm and enforce written procedures for warehouse control in order to keep track of the shelf life status of its medicines to maximize the use of these items before they expire and to assure replacement of needed stocks on a timely basis.

Price Waterhouse



HEALTH SYSTEMS SUPPORT PROJECT
USAID/EL SALVADOR PROJECT No. 519-0308
WITH THE MINISTRY OF PUBLIC HEALTH AND SOCIAL ASSISTANCE

REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S OPINION

We were engaged to audit the commodities statements for the U.S. dollar funded commodities flowing through the Matazano Complex Central Warehouse and IVU Annex, in connection with the Health Systems Support Project, USAID/El Salvador Project No. 519-0308, managed by the Ministry of Public Health and Social Assistance for the period from January 1, 1988 to May 31, 1989 on which we have disclaimed an opinion because of significant audit scope limitations.

The Ministry of Public Health and Social Assistance (the Ministry) is responsible for compliance with the terms of its agreement with A.I.D. and with applicable laws and regulations. For purposes of this report we selected and tested transactions and records to determine the Ministry's compliance 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 evaluation disclosed the instance of noncompliance with agreement terms, explained under finding No. 1 in the following page and finding No. 1 described in the commodities statements section of this report. Except for these instances of noncompliance, the results of our tests of compliance indicate that with respect to the items tested, the Ministry complied in all material respects with the terms of the agreement and with applicable laws and regulations, and with respect to items not tested, nothing came to our attention that caused us to believe that the Ministry had not complied, in all material respects, with those provisions.

This report is intended solely for the use of the Ministry of Public Health and Social Assistance and the U.S. Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse

October 5, 1989

AUDIT OF THE HEALTH SYSTEMS SUPPORT PROJECT
USAID/EL SALVADOR PROJECT No. 519-0308
WITH THE MINISTRY OF PUBLIC HEALTH AND SOCIAL ASSISTANCE

REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS

FINDING

1. An External Audit of the Project Had not Been Performed

Condition:

The Ministry of Public Health and Social Assistance had not ordered a complete financial audit of the project.

Criteria:

Section B.5 of project implementation letter No. 1 of November 17, 1986 requires annual audits of the project.

Cause:

Apparently this situation results from an oversight.

Effect:

The agreement requirement was not complied with. Also, errors and irregularities in project execution could occur and not be detected for lack of appropriate and timely supervision of project activities.

Recommendation:

USAID/El Salvador should require the Ministry of Public Health and Social Assistance to contract certified public accountants to perform annual audits of the project in accordance with the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision).

AUDIT OF THE HEALTH SYSTEMS SUPPORT PROJECT
USAID/EL SALVADOR PROJECT No. 519-0308
WITH THE MINISTRY OF PUBLIC HEALTH AND SOCIAL ASSISTANCE

LIST OF REPORT RECOMMENDATIONS

Report on the Commodities Statements

Recommendation 1:

USAID/El Salvador should require the Ministry of Public Health and Social Assistance to maintain a general ledger type control over all the project inventory classes or groupings so as to keep track of the value of inventory receipts, shipments and remaining balance for each accounting period. Inventory records from the beginning of the project through the present should be reconstructed to permit the implementation of this control. Unreconcilable differences between the computed inventory balance and our physical inventory as of May 31, 1989 should be considered to be questionable costs.

Report on Internal Control Structure

Recommendation 1:

USAID/El Salvador should require the Ministry of Public Health and Social Assistance to maintain an increased guard force at the Matazano Complex, especially during weekend and holiday periods, so as to be better able to detect and deter break-ins and thefts of project commodities.

Recommendation 2:

USAID/El Salvador should require the Ministry of Public Health to implement adequate controls and procedures for all the entities handling project inventories. Such controls and procedures should include:

- a) using receipt, requisition, and shipment documents and forms which are preprinted and prenumbered at the point of printing to assure the accountability of all transactions;
- b) having the Office of the Comptroller General's Court of Accounts control all inventory transactions for the project through the use of the preprinted and numerically controlled kardex cards, which it provides to government entities, with the originals of such kardex cards and supporting documentation being returned to the Court of Accounts semiannually;
- c) performing complete physical inventories of project commodities annually and selective counts periodically, with reconciliation of the amounts reflected on kardex cards with the physical inventory counts and investigation of any differences;

- d) evidencing that each shipment from stock was properly approved by cross-referencing inventory shipment documentation to the related requisition;
- e) requiring that kardex cards on project inventories be maintained in an up-to-date status; and
- f) requiring that a single storekeeper be assigned full responsibility for acceptance, safeguarding and issuing of project stocks at each storage location.

Recommendation 3:

USAID/El Salvador should require the Ministry of Public Health and Social Assistance to investigate shortages noted when receiving commodities under the project and to initiate action for recovery.

Recommendation 4:

The Ministry of Public Health and Social Assistance should confirm and enforce written procedures for warehouse control in order to keep track of the shelf life status of its medicines to maximize the use of these items before they expire and to assure replacement of needed stocks on a timely basis.

Report on Compliance with Agreement Terms and Applicable Laws and Regulations

Recommendation 1:

USAID/El Salvador should require the Ministry of Public Health and Social Assistance to contract certified public accountants to perform annual audits of the project in accordance with the U.S. Comptroller General's "Government Auditing Standards" (1988 Revision).

EXAMPLES OF DIFFERENCES DETECTED DURING THE AUDIT
BETWEEN THE SUPPLIERS INVOICES AND THE RECEIPT DOCUMENTS (ACTA DE INSPECCION)

		<u>Quantities</u> <u>Per Invoice</u>	<u>Quantities</u> <u>per receipt</u> <u>document</u>	<u>Difference</u>	
				<u>Units</u>	<u>Value</u>
Supplier:	Bristol Myers				
Product:	Ampicillin Sodium, sterile	90,000	82,951	7,049	
Presentation:	Vials with 1000 MA powder				
Price:	\$0.497 each				\$3,504
Supplier:	Towne, Paulsen & Co. Inc./Whiteworth				
Product:	Ferrous Sulf				
Presentation:	100 Tabs. of 300 Mg. each	200,040	185,508	14,532	
Price:	\$0.5880 each				\$8,545

ANNEX I

MINISTERIO DE SALUD PUBLICA Y ASISTENCIA SOCIAL
DEPARTAMENTO DE CORRESPONDENCIA Y ARCHIVO

MEMORANDUM

NUMERO: 90-7400-51

FECHA: Enero, 29

DE: DIRECTOR ADMINISTRATIVO

PARA: COMPAÑIA LOPEZ SALGADO.

Por este medio remitimos a usted, las Observaciones a Recomendaciones Efectuadas a la Auditoria del Proyecto de Apoyo a los Sistemas de Salud, Proyecto USAID/El Salvador No. 519-0308 con el Ministerio de Salud Pública y Asistencia Social, para sean entregadas al Señor Corzo

Atentamente.



Judith Zarate de Lopez
LIC. JUDITH ZARATE DE LOPEZ

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(NOTE: THIS IS A FREE TRANSLATION)

OBSERVATIONS TO THE RECOMMENDATIONS MADE AS PART
OF THE AUDIT OF THE HEALTH SYSTEMS SUPPORT PROJECT
WITH THE MINISTRY OF PUBLIC HEALTH AND SOCIAL ASSISTANCE
USAID/EL SALVADOR PROJECT No. 519-0308

ON THE REPORT ON INTERNAL CONTROL -

RECOMMENDATION 1:

The Ministry has coordinated with the appropriate institutions the assignment of the necessary personnel to deter break-ins and thefts of project commodities. In addition, the guard force received training and more adequate equipment to protect the warehouses. Based on the actions already taken, it is felt that the auditors' recommendation has already been implemented.

RECOMMENDATION 2 -

- a) Although the Ministry has in place the accounting controls and procedures required by the Court of Accounts for all government entities, it will determine what additional actions are necessary to establish more appropriate and reliable controls.
- b) An inventory listing is prepared every six months and delivered to the Court of Accounts.
- c) The procedures established by the Court of Accounts require a complete physical inventory every six months; however, the Ministry will implement selective and periodical physical inventories of project commodities.
- d) The suggested control procedure has long been established. Additional supervision will be exercised to assure that deviations to this established procedure do not occur.
- e) The Ministry is in the process of taking actions to provide assurance that inventory registers are kept and maintained up-to-date. Efforts made include the design of a computerized inventory control system in process of implementation. The auditors' recommendation will be implemented in the near future.
- f) Due to volume considerations, the Ministry deemed appropriate to register before the Court of Accounts two persons as responsible storekeepers. Also, the Ministry considers that control over project commodities is better maintained by therapeutical groups rather than by total inventories.

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RECOMMENDATION 3:

Action has been taken to investigate all reported shortages and determine responsibilities thereon.

RECOMMENDATION 4:

The auditors' recommendation has already been implemented. Additional control measures will be taken on the short run.

ON THE REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS -

RECOMMENDATION 1:

The contracting of an annual audit of the project had not been made. Action in this respect will be taken shortly and the audit will be contracted soon thereafter.

ON THE REPORT ON THE COMMODITIES STATEMENTS -

RECOMMENDATION 1:

The Ministry considers that the design of its accounting system is adequate to satisfy the project requirements. It needs, however, to incorporate accounts which were not originally contemplated, like equipment. The reconstruction of inventory records from the beginning of the project will commence soon; however, its completion is subject to obtaining additional resources for the project, mainly personnel.

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OBSERVACIONES A RECOMENDACIONES EFECTUADAS A LA AUDITORIA DEL PROYECTO DE APOYO A LOS SISTEMAS DE SALUD, PROYECTO USAID/EL SALVADOR No. 519-0308 CON EL MINISTERIO DE SALUD PUBLICA Y ASISTENCIA SOCIAL.

Recomendación No. 1

USAID/El Salvador debe requerir que el Ministerio de Salud Pública y Asistencia Social, aumente el número de guardianes en el Complejo El Matazano, en especial durante los fines de semana y los feriados, con el fin de detectar y disminuir en mejor forma forzamientos y robos de productos del Proyecto.

Recomendación No. 2

USAID/El Salvador debe requerir que el Ministerio de Salud Pública y Asistencia Social, ponga en práctica controles y procedimientos adecuados para todas las dependencias que manejan existencias del Proyecto. Estos controles y procedimientos - deben incluir:

- a) Utilización de documentos y formularios preimpresos de entrada, requisición y salida que - se numeren al ser impresos, con el fin de deslindar la responsabilidad sobre todas las transacciones;

Observaciones:

El Ministerio de Salud Pública y Asistencia Social coordinó con Instituciones de Seguridad Pública, Policía de Hacienda, el refuerzo de personal de seguridad con el objeto de que los forzamientos y pérdidas finalizaran.

Como refuerzo adicional se capacitó al personal de vigilancia del MSPAS sobre medidas de seguridad y se proporcionó el equipo adecuado para la defensa de lugar.

Consecuentemente dicha recomendación está superada.

- a) El MSPAS cuenta con controles establecidos por la Corte de Cuentas de la República, Institución Gubernamental rectora de supervisar el buen uso y administración de bienes estatales, no obstante se procederá a determinar las acciones necesarias para proceder a implementar dicho control.

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- b) Control por parte de la Corte de Cuentas de todas las transacciones de inventarios para el proyecto, mediante la utilización de las tarjetas de Kárdex preimpresas y numéricamente controladas que entrega a las dependencias del Gobierno, debiendo los originales de tales tarjetas y la documentación de respaldo ser devueltas a la Corte cada seis meses.
- c) Realización de inventarios físicos completos anuales de las existencias y conteos físicos selectivos en forma periódica, debiendo las cantidades del kárdex ser conciliadas con los resultados de los inventarios físicos, después de investigarse las diferencias resultantes.
- d) Demostración de que todas las salidas de inventario están debidamente aprobadas, mediante referencia cruzada de los vales de salida con la requisición del caso.

- b) Se procede a un inventario cada seis meses, resultado que es enviado a la Corte de Cuentas.
- c) Por norma establecida por la Corte de Cuentas se procede a levantar un inventario físico cada seis meses, cuyo resultado es enviado a ésta, sin embargo se procederá a efectuar conteos físicos selectivos en forma periódica.
- d) Dicho procedimiento está establecido dentro los controles de los Almacenes; se verificará a través de supervisiones para que esta medida se cumpla.

e) Exigencia de que las tarjetas del Kárdex de inventarios sean llevadas al día; y

f) Exigencia de que la responsabilidad total de las entradas y salidas de inventarios en cada bodega sea asignada a un solo bodeguero.

Recomendación No. 3

USAID/El Salvador debe requerir que el Ministerio de Salud Pública y Asistencia Social, investiga los faltantes observados al ser recibidos los productos, con el fin de determinar no sólo las responsabilidades del caso sino iniciar acciones para su recuperación. Además los faltantes observados hasta la fecha deben ser investigados y tomadas las acciones necesarias para deducir responsabilidades.

e) Se están tomando las acciones necesarias para que el registro sea llevado al día, incluso se ha procedido a la instalación de proceso computarizado de registro cuya base es imprescindible, las tarjetas del kárdex al día. Esta recomendación será superada a corto plazo.

f) Se procedió por el volumen de medicamentos a responsabilizar a dos guardalmacenes ante la Corte de Cuentas, los cuales rinden una Fianza debido a que para el MSPAS facilita el control por grupos terapéuticos en forma parcial y no forma global.

Se han tomado las medidas necesarias para investigar dichas acciones y proceder a deducir responsabilidades.

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Recomendación No. 4

El Ministerio de Salud Pública y Asistencia Social debe confirmar y poner en práctica procedimientos escritos para control de las bodegas, con el fin de seguirle la pista a la vida de las medicinas en los estantes, para maximizar su uso antes de que venzan y garantizar el reemplazo de las medicinas que se necesiten, en forma oportuna.

Otras Consideraciones

Informe sobre cumplimiento de las condiciones del Convenio, Leyes y Reglamentos aplicables.

Reconstrucción de registros contables en cuanto a saldos de inventarios al 31 de Mayo de 1989.

Dicha recomendación ya fue superada, se implantarán medidas a corto plazo.

No se había efectuado, se procederá a su realización y se efectuaron las gestiones pertinentes para concretizarla.

Actualmente se cuenta con el diseño de un Sistema de Registro Contable adecuado a los requerimientos del Proyecto.

Sin embargo, se requiere de incorporar algunas cuentas que no estaban contempladas, sobre todo en lo referente a maquinaria y equipo, se procederá a iniciar dicha actividad cuyo período de finalización está sujeto a incorporación de recursos adicionales al proyecto sobre todo en lo relativo a Recursos Humanos.

APPENDIX II

REPORT DISTRIBUTION

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