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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
LATIN AMERICA
(Washington, D.C.)

PUBLIC SECTOR EMPLOYMENT
PROJECT NO. 519-0256
LOAN NOS. 519-T-024 & W-025
USAID/EL SALVADOR
AUDIT REPORT NO. 1-519-82-14
AUGUST 30, 1982

The Public Sector Employment Program totals about \$60.4 million; AID is financing \$40.6 million and the GOES about \$19.8 million. The program has a short-term purpose of increasing employment and income opportunities for laborers and a long-term purpose of setting the stage for future economic growth by supporting policies and programs aimed at both private and public employment sectors.

The short-term purpose of the program was being achieved. However, the GOES was not carrying out this program in the most efficient, effective or economical manner. Labor and material resources were, to some extent, being wasted, diverted for unauthorized purposes, and not efficiently used. Some funds may not be reaching the intended recipients. Administrative affairs of the program were in disarray. Program supervision and monitoring need extensive re-examination and modifications. No studies related to the second objective have been started and no opinion can be expressed.

The report includes 22 recommendations.

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ALPHABETICAL LISTING OF ACRONYMS

<u>Acronym</u>	<u>Organization or Activity</u>
AID	The Agency for International Development
ANDA	National Administration of Aqueducts and Sewers
CAESS	The Electric Light Company of El Salvador
Caminos	Directorate of Roads
DUA	Directorate of Urbanization and Architecture
Ganaderia	Directorate of Livestock
GOES	Government of El Salvador
INPEP	National Institute of Pensions for Public Employees
ISREN	Directorate of Renewable Natural Resources
ISSS	The Social Security Office
MOA	Ministry of Agriculture
MCH	Ministry of Health
MOP	Ministry of Public Works
OPOR	Directorate of Irrigation
ORE	The Special Resources Office
USAID/El Salvador	The Mission of USAID El Salvador

**PUBLIC SECTOR EMPLOYMENT
Project No. 519-0256
Loan Nos. 519-T-024 & 519-W-025
USAID/EL SALVADOR**

EXECUTIVE SUMMARY

Introduction

Traditionally, El Salvador has had high rates of un- and under-employment. The historical pattern of development has failed to provide sufficient job opportunities for a rapidly increasing population. In 1978, there was an economical active population of 1.4 million persons, or 33.4 percent of the entire population (4.3 million) of El El Salvador. Of the 1.4 million, 60 percent were fully employed and the remainder were under or un-employed.

A new coalition government took over the country in 1979 and requested the assistance from AID to relieve some pressures resulting from the chronic un- and under-employment. As a result, AID and the GOES signed Project No. 519-0256, on March 28, 1980, to initiate the assistance program. To date, funds have been made available under two loan agreements (519-T-024 and 519-W-025 A and B) and one grant (519-0256).

The project was initially designed to respond to an immediate need to stimulate economic activity and restore public confidence and order. The broad goals have always been to improve the socio-economic condition of El Salvador's unskilled labor force which faces a continuing shrinkage of job opportunities caused by decreased production in the private sector and widespread political violence. The primary purpose of the project is to increase employment and income opportunities for un- and under-employed laborers throughout El Salvador. The secondary purpose, as agreed to on January 26, 1982, is "to set the stage for long-term economic growth through the support of GOES policies and programs aimed at the recovery of employment in the private sector and the promotion and use of labor-intensive technologies in the public sector."

The bulk of project funds is being used to finance a variety of labor intensive public works, (water supply, sewerage, street improvements, roads, etc.), which are being implemented by seven different GOES organizations. One organization -- the Special Resources Organization -- has primary responsibility for coordination and administration of the program.

The initial agreement authorized a total of \$10.0 million in loan funds and \$125,000 in grant funds. Since 1980, there have been five amendatory agreements increasing the project ceiling to about \$60.4 million. As of April 30, 1982, USAID/El Salvador had disbursed \$27.1 million and the GOES had deposited the equivalent of US\$6.3 million into a special account. The funds were being used to support the project.

Purpose and Scope

The audit was requested by USAID/EI Salvador because a fourth tranche of the program was to be initiated in May 1982 and because there were indications of serious problems. The review covers the period from inception of the project through April 30, 1982, and was made (a) to determine if the program was being carried out in an efficient, effective, and economical manner; (b) to ensure that AID funds were being used for project purposes; (c) to assess financial and logistical support being provided by the GOES; and (d) to identify areas where improvements could result in more efficient implementation of the project.

Conclusions

From inception of the project to our cut-off date, USAID/EI Salvador reimbursements amounted to \$27.1 million. In turn, laborers had worked and were paid for about 4.5 million work-days. This labor effort was used on 81 subprojects financed through several implementing organizations

It is our opinion that the short-term purpose of increasing employment and opportunities for the un- and under-employed was being achieved. As stated in the introduction part of this summary, the long-term purpose of this project was recently changed (on January 26, 1982). The major studies and activities that are to be undertaken under the grant had not been initiated at the time of our review. For this reason, we cannot express an opinion on the achievements or prospects for achieving the longer-term objective of this project.

Although there was evidence that the project generated a great deal of employment and that the short-term objectives were being achieved, the program was having very serious implementation and administrative problems. Specifically, labor and material resources were, to some extent, being wasted, diverted to unauthorized purposes, and inefficiently used. Some internal controls over the payroll system were weak and some funds may not be reaching the intended recipients. The administrative affairs of the coordinating organization were in disarray. Reporting was inadequate. Program supervision by ORE, and program monitoring by USAID/EI Salvador, need extensive reexamination and modification. For these reasons, it is our opinion that this program was not being implemented in the most efficient, effective and economical manner. A brief synopsis of the areas in need of improvements follow:

- The Special Resources Organization (ORE) was performing a very complex task in coordinating all project activities. It has made a number of improvements in its operations since its creation. However, additional improvements were needed in many areas to eliminate some waste, diversion of resources, and inefficiency; and, to achieve more efficiency and economy in program administration and coordination. Areas in need of improvements included: (a) parts of the payroll system; (b) system of materials and tools; (c) the cost accounting system; (d) payment of debts; (e) transportation of personnel; (f) the filing system; (g) reporting by coordinators; (h)

requests for reimbursements from AID; and (i) reporting of project progress (pages 11 to 23).

- The largest implementing organization (DUA), was not using loan resources in the most efficient manner. Several problems were noted: (a) diversion of laborers for unauthorized purposes; (b) faulty scheduling and non-delivery of materials; (c) faulty planning; (d) coordination problems; and (e) work stoppages resulting from violence. We believe that DUA could do more beneficial work if it improved its manner of operations (page 7).
- The Directorate of Roads (Camino) subprojects account for 25 percent of all reimbursed loan funds. Although Camino needs to improve its budgeting process, it appears to be managing its resources in a better way than DUA. Camino invested close to \$947,000 in 99 roads, but suspended work on the roads before they were completed because of violence. A review should be made to determine whether these roads can now be completed (page 23).
- The Directorate of Renewable Natural Resources (ISREN) of the Ministry of Agriculture implemented 87 of the 811 subprojects and ranked third in program activities. Its subprojects were comprehensive and impressive. Often resources were used from other AID projects and several subprojects were implemented on the same plantation (hacienda). At the beginning, ISREN had problems developing accurate budgets and designing the subprojects. The more recent projects indicate that efforts are being made to resolve the problems. We found indications that some funds may not have gotten to the laborers listed on its payrolls. In addition, the ISREN subprojects will require maintenance in the future. However, no specific steps had been taken to ensure that this required maintenance will be provided (page 25).
- Staff members of USAID/EI Salvador were making honest efforts under very trying and dangerous conditions to fulfill program monitoring responsibilities. In fact, inspections during the construction and completion stages have been made of approximately 400 subprojects. Nevertheless, we believe that USAID/EI Salvador Office of Engineering must improve its monitoring efforts by (a) comparing actual and budgeted costs; (b) correlating physical progress with subprojects costs; and (c) revising trip reports to be more informative and descriptive of subproject activities (page 28).

Recommendations

We have included a total of 22 recommendations in the body of the report and in Appendix A. The findings and recommendations in this report were discussed with USAID/EI Salvador Officials during the progress of the audit. The findings involving the GOES were discussed with GOES officials (ORE, DUA, Court of Accounts, etc.). In addition, a draft report was submitted to the Mission for review and comments. Due to staffing limitations, the Mission was not able to furnish written comments on the draft report within a reasonable time. However, the comments made during the audit and at the exit conference were extensive and were considered in preparing the final version of this report.

BACKGROUND AND SCOPE

Background Information

Traditionally, El Salvador has had high rates of un and underemployment. The historical pattern of development has failed to provide sufficient job opportunities for a rapidly increasing population. In 1978, the last year for which official figures are available, the economical active population (EAP) was 33.4 percent, or 1,430,000 out of a population of 4,282,000. Of this EAP, only 60 percent were employed full-time and earned more than \$40 per month; 4 percent were openly unemployed; and 36 percent were considered underemployed, i.e., earning less than \$40 per month. Approximately 560,000 workers were either un or underemployed in 1978. The employment situation in El Salvador was further complicated by considerable variation in the seasonal demand for labor and the high degree of self-employment, especially in the informal service sector which is characterized by low productivity.

On October 15, 1979, a new coalition government took control in El Salvador. This government was headed by a Junta with a five-member military and civilian representation. Its basic thrust was progressive, and it was directed at planning significant political and economic reforms. The Junta's major long-term aims are to increase national production, employment, and income; provide basic goods and services to the entire population; and decentralize developmental resources and socio-economic opportunities. In the short-term, it focused on the immediate ways in which: (a) economic activity could be reactivated and employment stimulated; (b) the basic food and health needs of the poor could be met; and (c) basic reforms could be initiated.

To assist the Government of El Salvador (GOES) relieve some pressures resulting from the chronic un and underemployment, AID and the GOES signed Project No. 519-0256 Loan and Grant Agreement on March 28, 1980, making available loan funds under two loan agreements (519-T-024 and 519-W-025 A and B) and a grant.

The project was initially designed to respond to an immediate need to stimulate economic activity and restore public confidence and order. The broad goals have always been to improve the socio-economic condition of El Salvador's unskilled labor force which faces a continuing shrinkage of job opportunities caused by decreased production in the private sector and widespread political violence. The primary purpose of the project is to increase employment and income opportunities for un and underemployed laborers throughout El Salvador. The secondary purpose, as amended o/a January 26, 1982, is "to set the stage for long-term economic growth through the support of GOES policies and programs aimed at the recovery of employment in the private sector and the promotion of the use of labor-intensive technologies in the public sector."

In order to achieve these purposes, the project provided funds to establish an Emergency Employment Fund within the Central Reserve Bank of El

Salvador to finance a variety of small-scale public works subprojects which meet specific selection criteria. Since the major objective is to create jobs as quickly as possible, the most important criteria are labor content and readiness for implementation. Other criteria include development priority, non-duplication of other donor or AID programs, socio-economic benefits, environmental benefits, and revenue producing and/or maintenance saving potential.

The bulk of project funds is being used to finance a variety of labor intensive public works, including water supply and sewerage, street improvements, drainage structures, rural access roads, food storage facilities, reforestation, soil conservation, and rural water catchments. The allocation of loan funds are to be approximately 50-50 between rural and urban areas. Almost all urban infrastructure subprojects are to take place in marginal communities -- both because they have the greatest need and because they have a ready supply of un and underemployed laborers.

The remaining project funds are being used to finance (1) local engineering consultants who will help a special project office within the Ministry of Public Works (MOP) to implement the program; (2) spare parts to restore to operation a number of MOP and Ministry of Agriculture (MOA) vehicles; and (3) special consultants and training activities to help the GOES to define policies and programs in its long-term employment strategy and to evaluate project implementation.

The Special Resources Organization (SRO -- or ORE) has primary responsibility for coordination and administration of the program.

The subprojects are proposed and later implemented by the following GOES organizations:

- Directorate of Roads (Camino) under the Ministry of Public Works;
- Directorate of Urbanization and Architecture (DUA) under the Ministry of Public Works;
- The National Administration of Aqueducts and Sewers (ANDA), a semi-autonomous organization under the Ministry of Public Works;
- Directorate of Renewable Natural Resources (ISREN) under the Ministry of Agriculture;
- Directorate of Livestock (Ganaderia) of the Ministry of Agriculture;
- Directorate of Irrigation (OPOR);
- Ministry of Health (MH).

Three other GOES organizations play a role in the implementation of the project: The Central Bank of El Salvador, the Court of Accounts (Corte de Cuentas), and the Ministry of Finance.

The initial agreement authorized a total of \$10.0 million in loan funds and \$125,000 in grant funds. Since 1980, there have been five amandatory agreements increasing the project ceiling to about \$60.4 million in the following manner:

<u>Agreement Number</u>	<u>Date</u>	<u>Authorized in U.S. \$000</u>			<u>GOES</u>	
		<u>A.I.D.</u>		<u>Sub Total</u>	<u>Counter-Part</u>	<u>Total.</u>
		<u>Loan</u>	<u>Grant</u>			
Original Amount.	3/80	\$10,000	\$125	\$10,125	\$5,150	\$15,275
Amendment #1	9/80	4,000	-0-	4,000	-0-	4,000
#2	2/81	1,000	-0-	1,000	-0-	1,000
#3	3/81	7,930	-0-	7,930	2,650	10,580
#4	9/81	4,500	-0-	4,500	-0-	4,500
#5	3/82	<u>12,500</u>	<u>530</u>	<u>13,030</u>	<u>12,012</u>	<u>25,042</u>
Total for Program		<u>\$39,930</u> *****	<u>\$655</u> *****	<u>\$40,585</u> *****	<u>\$19,812</u> *****	<u>\$60,397</u> *****

Exhibit A shows a further breakdown of the financial plan.

As of April 30, 1982, three tranches of the loans had been essentially completed for all intents and purposes. The GOES requested, in local currency, the equivalent of \$27.2 million; the Mission disallowed about \$32,526; and reimbursed the GOES over \$27.1 million. Work was performed by the following organizations:

<u>GOES Organizations</u>	<u>Reimbursements in U.S. \$000</u>
DUA	\$12,65
Caminos	6,193
ISREN	5,757
ANDA	752
Ganaderia	331
OPOR	621
ORE	<u>214</u>
Total AID Reimbursement	<u>\$27,125</u> *****

Based on records of the USAID/EI Salvador Controller, we prepared some profiles of the AID reimbursements. These profiles are shown in Exhibit B. As of the same date, the GOES had deposited the equivalent of US\$6.3 million in local currency (Colones - $\text{¢}2.50$ equals U.S.\$1.00) into a special account. These funds were being used to support the project.

Scope of Audit

This is the first RIG/A/LA audit of the program. The review was requested by USAID/EI Salvador because a fourth tranche of the program was to be initiated in May 1982. Also, the Mission wanted further assurances as to the propriety and use of already disbursed funds.

The purposes of our review were: (a) to determine if the program was being carried out in an efficient, effective, and economical manner; (b) to ensure that AID funds were being used for project purposes; (c) to assess financial and logistical support being provided by the GOES; and (d) to identify areas where improvements could result in more efficient implementation of the project.

The audit covered the period from inception of the project on March 28, 1980, through April 30, 1982, and was made in accordance with generally accepted auditing standards and procedures adopted by the U.S. Government. We included such tests of records and documents, visits to different offices, discussion with officials, visits to project sites, and other procedures as we deemed necessary under the circumstances. El Salvador is divided into 14 geographic districts called departments. Because of the violence, visits to many parts of the country were not possible. For this reason, there were limitations on our review.

In the above connection, we reviewed the files and records of AID/W, USAID/EI Salvador, and the GOES Special Resources Office. To evaluate activities in the field, we reviewed procedures used on the many subprojects by the different implementing organizations as reflected by engineering reports maintained in the offices of ORE and the Mission. Additionally, we visited a total of 22 subprojects, 7 during this audit and 15 during the survey phase of our review.

The results of our audit were discussed with USAID/EI Salvador and ORE officials. When appropriate, specific aspects of our review were also discussed with the U.S. Ambassador, the Court of Accounts of the GOES, and the Director of DUA. Their comments, both written and verbal, were given consideration in the preparation of this report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

An Overall Assessment of Program Goals and Accomplishments

The Public Sector Employment Project has a broad goal of improving the socio-economic condition of El Salvador's unskilled labor force. It also has a short-term and long-term purpose. The primary short-term purpose of the project is to increase employment and income opportunities for the un- and underemployed laborers throughout El Salvador. Initially, the longer-term purpose was to institutionalize a system through which the GOES could make optimal use of labor intensive public works projects to absorb surplus labor and increase incomes of the poor. This secondary purpose was changed and is now "... to set the stage for long-term economic growth through the support of GOES policies and programs aimed at the recovery of employment in the private sector and the promotion of the use of labor-intensive technologies in the public sector."

The findings in our review present persuasive statistics which indicate that the short-term goals are being achieved. From inception of the project to our cut-off date, USAID/El Salvador reimbursed costs amounting to \$27.1 million. In turn, laborers had worked and were paid for about 4.5 million work-days. This labor effort was used on 811 subprojects financed through the following implementing organizations:

<u>GOES Organizations</u>	<u>Subprojects</u>	<u>Number of (In 000)</u>	
		<u>Work-Days</u>	<u>AID Reimbursement</u>
DUA	236	1,972	\$12,657
Caminos	386	1,254	6,793
ISREN	87	971	5,757
ANDA	75	143	752
Ganaderia	8	72	331
OPOR	19	113	621
ORE (Coordinating Unit)	-0-	-0-	214
	<u>811</u>	<u>4,525</u>	<u>\$27,125</u>
	***	*****	*****

In addition, a total of 162 warehouses for the MOH were completed (116) or in different stages of completion (46), generating an additional 25,020 work-days of effort. The costs for these activities are included in the reimbursements to DUA.

A review of files maintained on the different subprojects in ORE and the Rural Development Division office of USAID/El Salvador and Engineering, showed that they included street improvements, drainage structures, food storage facilities, reforestation, soil conservation, irrigation, water supply and sewerage systems. From our review of the files and our visits to the subproject sites, we got the impression that they were good activities which not only contribute to the generation of employment, but also help the

respective economic sector of the country. For instance, we were favorably impressed by our visits to five subprojects which showed the results of the labor efforts of the project on soil conservation, irrigation, road improvements and reforestation activities. We also visited a road project on the outskirts of San Salvador which joined two small villages which had previously been joined by a narrow trail.

During our field visits, we talked with a number of laborers. We learned that (a) many knew that the project was receiving financial assistance from the United States; (b) most worked 88 hours per pay period, but got paid -- in accordance with El Salvadorean law -- for 112 hours; (c) most were getting ¢1.50 (about \$.60) per hour or ¢168 (\$67) every pay period; (d) many claimed that from the ¢168, they had to pay about ¢60 for bus fare and between ¢30 and ¢80 for food; (e) some had been working in the program for the past two years; (f) all would like to see the project continued in the future.

As stated earlier, the initial long-term purpose of this project was to institutionalize a system through which the GOES could make optimal use of labor-intensive public works project to absorb surplus labor and increase incomes of the poor. However, this long-term purpose has now been changed. Our review showed indications that the groundwork had been laid towards accomplishing the original long-term purpose of the project. ORE has been established and is performing its coordinating role. Although we did find areas within ORE which can be improved and/or strengthened, we were favorably impressed with the number of operational improvements this organization has accomplished. There were also indications that some of the participating GOES organizations are making the necessary transition from a service organization to an implementing organization. The ISREN is a good example. We were told that it used to be a service oriented organization. With the Public Sector Employment Project, ISREN has become an implementing organization. They have made mistakes in planning, budgeting, and implementing of subprojects. But, lessons are being learned for the future. Although the framework now exists for continuing labor-intensive public works projects to absorb surplus labor, USAID/El Salvador believes that the system should only be used for the short-term and for a reasonable transition period. The continued use of such a mechanism would only perpetuate a system which has not worked in the past and which emphasizes short-term employment over the long-term income generating capacity.

It is for this latter reason that the secondary and long-term purpose of the project was changed o/a January 26, 1982. While the loan funds (\$39.9 million) emphasize the short-term aspect of the project, grant funds (\$655,000) will be used to finance activities which will help accumulate information on the employment situation in El Salvador. This information will also identify or define a more coherent and effective employment policy and planning in both the public and private sectors. Some activities which are to be financed from the grant include: (a) top priority national employment baseline study; (b) development of alternative employment policies and programs; (c) support of the preparation and execution of new employment

policies and programs; and (d) assistance to both private and public institutions to increase their capacity to develop and carry out a macro employment strategy.

As of May 31, 1982, only \$3,698 (of \$655,000) had been disbursed from the grant portion of the project. These funds had been used to finance some personal services contracts. However, the major studies and activities that are to be undertaken under the grant had not yet been initiated. In addition, at the time of our audit, USAID/EI Salvador was contemplating a thorough project evaluation, in the near future, to help determine the probabilities of achieving the long-term objectives. For this reason, we consider it premature to express an opinion on the achievements or prospects for achieving the longer-term objective of this project.

In sum, the program seems to be accomplishing its purpose over the short-run and appears to be attempting to address and find a solution to a very complicated and long standing employment situation of a troubled country. However, we found problem areas in operational, administrative, financial, and internal controls where improvements should be made to achieve more efficiency and economy in program implementation. Although such areas for improvement are discussed in more detail later in the report, a brief synopsis of them follows:

- DUA is not using the loan resources in the most efficient manner;
- To achieve more efficiency and economy of program administration and coordination, ORE needs to make additional improvements in the following areas: (a) the payroll system and labor charges; (b) the system of materials and tools; (c) the cost accounting system, (d) payment of debts, (e) transportation facilities; (f) filing system; (g) field visit reports of the coordinators, (h) refunds due AID; and (i) project reports;
- Caminos needs to improve its budgetary estimates and to investigate the possibility of resuming work on 99 roads that were stopped because of the violence;
- ISREN's subprojects are comprehensive and combine several sources of funds. However, they require maintenance and this factor needs to be studied;
- The USAID/EI Salvador needs to improve its monitoring functions of the project.

Costs of the Directorate of Urbanization and Architecture (DUA)

DUA has employed the greatest number of laborers and has bought the most materials under the program. However, it is not using the loan resources in the most efficient manner. We found several problems: (a) diversion of laborers for unauthorized purposes; (b) faulty scheduling and non-delivery

of materials; (c) faulty planning; (d) coordination problems; and (e) work stoppages resulting from the violence. We believe that DUA could do more beneficial work if it improved its manner of operations.

As shown elsewhere in this report, DUA worked on 236 subprojects and generated approximately 1,972,000 work-days of labor effort. It also received approximately \$12.7 million (or 46.7 percent) of all reimbursements, which included \$2.8 million for material. For this reason, we reviewed its activities with a special interest.

Our review showed that DUA consistently exceeded the budgets for its subprojects by significant amounts. For example, on 72 subprojects we selected for review we found overruns of:

	<u>In 000</u> <u>Equivalent</u>		<u>Percent</u>
	<u>Colones</u>	<u>U. S. \$.</u>	
Budgeted Costs	¢ 9,913	\$3,966	100
Actual Costs	<u>15,273</u>	<u>6,109</u>	<u>154</u>
Overruns	¢ 5,359 *****	\$2,143 *****	54 **

While the 72 subprojects showed an overall 54 percent overrun, it was not unusual to see overruns of 100 to 200 percent. Exhibit E shows several typical examples reflecting significant overruns on the subprojects implemented by DUA.

The records of ORE do not give a complete chronology of events or history of implementation problems of each subproject; therefore, it was difficult to determine the exact reason(s) for the budget overruns. Nevertheless by using interpretative analysis of facts shown in different sources -- plans, budgets, engineering reports on their visits, notation in the files, conversation with ORE Coordinators, and DUA operational engineers -- we believe there were five basic reasons for the overruns: (a) diversion of labor efforts; (b) faulty scheduling and nondelivery of materials; (c) faulty planning; (d) coordination problems; and (e) stoppages resulting from the violence.

(a) Diversion of Labor Efforts

We found that it was a common practice for DUA to borrow laborers for other activities and purposes, while continuing to charge their costs to the Public Sector Employment Project. Some examples:

- The records showed that when ORE engineers visited six different subprojects on different occasions, they found that 79 laborers had been loaned to work on DUA subprojects.

- When we visited one subproject ourselves, a total of 64 laborers were listed on the attendance sheets and were being charged to the subproject. However, we found that 12 laborers were not at the project site, and in fact, were being used on unauthorized activities.
- A GOES official in DUA told us that 40 laborers had been used during an emergency for unauthorized purposes for a period of one week.
- We also found several instances where technical or administrative personnel were being charged to the subproject.

(b) Faulty Scheduling and Non-Delivery of Materials

The ORE engineering reports showed that a consistent problem is the lack of materials and tools, specifically cement, at project sites. During our visits to subprojects, we saw the identical problem. As mentioned elsewhere in the report, the problem is not that the material (cement) has not been bought; the problem is that it is not being delivered to the respective subproject sites. In turn, there is an adverse effect causing inefficient use of labor efforts and an increase in costs. Time and time again, ORE engineers reports show that 30 or 40 people were sitting around for lack of materials. During our visits to the job sites, we were told consistently that the lack of cement frequently resulted in the same work being repeated several times. Frequently, the laborers would complete the base for a street on a given day. Since there was no cement, the base would be destroyed at night by the rains; and the cycle would be repeated the following day. The adverse effect on costs is obvious. (More specific details pertaining to this matter are contained in the section of the report entitled; "The System of Materials and Tools.")

(c) Faulty Planning

Our review showed three types of errors in past planning of subprojects. First, budgets were understated because they did not anticipate the payment of Christmas bonuses to laborers during the month of December. Second, subprojects were planned for implementation in a shorter time than it actually took. And, third, DUA did not purchase the right-of-way for some roads. Our visit to one road project showed that its plans called for a wide road to be built. However, a portion of the road ended in front of the backyard of a house because DUA had not bought the right-of-way (Exhibit C, Picture 4).

(d) Coordination Problems

Coordination between DUA and other GOES organizations such as the National Administration of Aqueducts and Sewers (ANDA) and the Electric Light Company of El Salvador (CAESS) has been another problem. Scheduling and timing of work by the different organizations often was not in the proper

sequence. For instance, our visit to one subproject showed that DUA could not complete a portion of the street because ANDA had not moved some water and drainage pipes. DUA also could not complete another portion of the street because CAESS had not moved electric posts from the center of the new street (Exhibit C, Pictures 1 and 2).

(e) Stoppages Resulting From the Violence

We were told that work in quite a few subprojects had been suspended as a result of either guerilla or military activities. When this happens, the laborers are loaned or moved to other job sites. However, DUA continues to charge costs to the suspended subproject.

DUA used most of the materials and generated most of the labor effort on the project. In the past, DUA did not make use of these resources in the most efficient manner. Although some inefficiency was due to factors beyond the control of DUA, we believe that most could have been controlled. If DUA is to maximize the use of the resources made available under this project, it needs to institute some changes in its style and manner of operations.

We believe that closer monitoring by all concerned is needed. The GOES adopted Instructivo No. 1127 dated June 12, 1980 and the amended instructivo thereto dated April 6, 1981, which established a financial management system for this project. Contained therein are explicit procedures for placing responsibility on the implementing agencies, ORE, and the Mission as to (a) the procurement and delivery of materials to the subproject sites; (b) certification for payment; (c) disbursement of payrolls; (d) requests for reimbursement from AID as well as reviewing and monitoring procedures. Unfortunately, these documents are silent as to the establishment of procedures to ensure that labor efforts charged to subprojects are accumulated and reflected in an accurate manner.

At the end of our fieldwork, we discussed our conclusions with the U.S. Ambassador, Officials of USAID/EI Salvador, ORE, DUA, and the Court of Accounts of the GOES. Immediately after our discussions, the U.S. Ambassador and the Mission Director discussed the matter of diversion with the Minister of Public Works and other high ranking GOES officials. In addition, ORE issued, on May 26, 1982, a "Directive" to DUA and the other implementing organizations which was designed to curb past abuses and misuse of labor. The Directive contains general procedures on: (a) the submission of budget and detailing of costs for labor, materials, transportation, and others; (b) the development of very accurate budgets, since overruns will not be authorized; (c) the notification of approved subprojects so labor and material costs can be charged; (d) the charging of labor costs for laborers assigned full-time on the job; (e) the charging of technical and administrative employees to the account of the GOES counterpart contribution; (f) the signing of collective contracts with laborers and other personnel; (g) the right of the ORE Coordinator to reject any costs not in line with authorizations; and (h) other specified procedures.

In our Report of Audit Findings (RAF) to the Mission we included a recommendation which had the above intent. In view of the actions taken by the Ambassador, the Mission Director and ORE, we believe only the following recommendations are still valid.

Recommendation No. 1

USAID/EI Salvador should obtain from ORE revised review procedures which will, at an early stage, identify subprojects which contain either poor plans or coordination problems.

Recommendation No. 2

USAID/EI Salvador should obtain from ORE procedures for the establishment of an account within its system which can be used to accumulate labor charges on work suspended, e.g., as a result of violence.

Administration and Coordination by The Special Resources Organization (ORE)

The Special Resources Organization (ORE) was created by the Ministry of Public Works (MOP) specifically to administer and coordinate the implementation phase of the Public Sector Employment Project. At our cut-off date, ORE had a staff of 89 personnel.

Because some procedures cut across several GOES organizations, ORE must manage according to the requirements and adhere to the needs of the different implementing organizations (DUA, ISREN, etc.). Thus, ORE is performing very complex tasks. We were favorably impressed with a number of operational improvements that the organization has had. For example, in August 1981, it was audited by a CPA firm who made a series of observations relative to different weaknesses in procedures and internal controls. By the time of our audit, ORE had implemented many of the recommendations resulting in marked improvement in those areas.

Nevertheless, we noted several areas where additional improvements are needed to achieve more efficiency and economy of program administration and coordination. These areas relate to: (a) labor charges; (b) cost of materials; (c) accounting; (d) Payment of debts; (e) transportation problems; (f) filing of documents; (g) preparation of required reports; (h) refunds due AID; (i) monitoring of budget and actual costs; (j) reporting of engineering visits to project sites; and (k) computerization of information system. Details of problem areas follow.

(a) The Payroll System-Labor Charges

Certain phases of ORE's payroll system and the procedures used to accumulate labor costs against specific subprojects need to be changed and/or more closely monitored. We found indications that some salary costs may

not have been paid to the laborers listed on the payroll and also that labor efforts are being diverted for unauthorized purposes. Since charges are made against the specific subprojects, the effects have been inflated costs, inefficient use of labor efforts and budget overruns.

The payroll system works in the following manner:

- (1) A "collective" contract is signed with the laborers who are to work on the subprojects;
- (2) They begin to work and their attendance is controlled by "Apuntadores" (Timekeepers);
- (3) Before each pay period, the employing organization (DUA, Caminos, ISREN, etc.) prepare a payroll listing which charge the costs to the subproject;
- (4) The payroll listing is sent to ORE, who checks the listing;
- (5) Together with the payroll listing is a "Boleta" (pay slip);
- (6) ORE prepares a check payable to "Pagador" (Paymaster);
- (7) One day before the end of the pay period, the pay slips are given to a "Delegado" (Delegate) from the employing organization;
- (8) The Paymaster and the Delegate proceed to the pay site and are joined there by the timekeepers of the various jobs;
- (9) The Timekeepers note on a portion of pay slip the number of days or time that the laborer was absent. The amount is then reduced from the laborer's pay.
- (10) The Timekeeper returns to the job site and tenders the pay slips to the laborers who usually get paid the next day;
- (11) The Laborer signs the pay slip and presents his "Cedula" (Identification Card) to the Delegate who is next to the Paymaster. The Delegate compares the signatures and picture of the laborer;
- (12) Once verification has been made, the laborer gets paid by the Paymaster.
- (13) If a laborer is on the payroll listing, but either no longer works or is not present at the job site, the Timekeeper returns the pay slip to the Delegate. Since the Paymaster also retains the money equivalent, the funds are - in theory - supposed to be deposited into a special account of ORE and retained there for six months;

(14) Once the paymaster reconciles his advance and accounts, the documentation is reviewed by ORE and the Court of Account;

(15) Request for reimbursement is made to USAID/EI Salvador.

In accordance with the GOES Labor Code, laborers on the subprojects work for 88 hours, but must be compensated for a total of 112 hours per two-week pay period; that is, paid for 8 hours a day for 14 days.

In our opinion, the basic design of the payroll system has, for the most part, the necessary internal controls to guarantee delivery of funds to the laborer. We believe, however, that two areas need closer monitoring in the future. These two areas are stated below.

Our review included a comparison of signatures of the same laborer at three different points in time. For this test, we selected 18 (of 811) subprojects which had employed laborers ranging in total numbers from over a thousand (1,002 for March 16-29/81 payroll) to over twelve hundred (1,212 for the May 1981 payrolls). Their signatures were compared for three different pay periods of 1981. Our review disclosed a number of instances where a laborer had used his thumb prints, to signify illiteracy, in one pay period while in another pay period, a signature appeared. We also noted a number of instances of signatures allegedly belonging to the same employee which appeared to have been written by two or more individuals. A total of 96 discrepancies were noted in the payrolls we reviewed for the following implementing organizations.

<u>Organizations</u>	<u>Number of Discrepancies</u>
DUA	26
Caminos	8
ISREN	<u>62</u>
Total	<u>96</u>

The 96 cases were turned over to the GOES Court of Accounts for further follow-up and investigation. What are the possible implications? We believe the above examples highlights a weakness in the internal control system, but it is difficult to identify the exact weakness until after the investigation is completed. However, based on past experiences, we believe the area that most lends itself for possible abuse is the following. In describing how the system works, we stated that if laborer is on the payroll listing, but either no longer works or is not present at the job site, the Timekeeper returns the pay slips to the Delegate. Normally, the Delegate and the Paymaster are together. In theory, the Delegate returns the pay slips to ORE and the Paymaster deposits the uncollected pay into a special escrow account where it is retained for six months. However, once the Timekeepers return the pay slips, only two people, working side by side, and in isolated places, know how many laborers failed to work and will not be collecting their pay. In other words, this area, in our opinion, lends itself to collusion by only

two people. We believe a further refinement to the system would be for the Timekeepers to send directly to the Court of Accounts copies of the names of the laborers that should not be paid. The Court of Accounts representative would then have a point of reference to measure the refunds made by the Paymaster and pay slips returned by the Delegate. This change should be coupled with periodic visits to the pay sites by ORE and the Court of Accounts.

Recommendation No. 3

USAID/EI Salvador should establish a plan to follow-up on the investigation by the Court of Accounts and keep the RIG/A/LA office informed.

Recommendation No. 4

USAID/EI Salvador should negotiate with ORE and the Court of Accounts, changes to the current payroll system which will improve the internal control and monitoring procedures related to employees who were absent or are no longer working.

The other area of the payroll system which needs improvement relates to the accumulation of the labor costs. As discussed elsewhere in this report, we found evidence of diversion of workers from certain subprojects to various other subprojects of the implementing organization and for other unauthorized purposes. The efforts being done by ORE to curb the past practices were also discussed previously. Procedures need to be adopted to ensure closer monitoring of the system.

Recommendation No. 5

USAID/EI Salvador should negotiate with ORE and the Court of Accounts the adoption of improved monitoring procedures to ensure more accuracy of the accumulation of labor charges.

Recommendation No. 6

USAID/EI Salvador should expand its monitoring practices to include procedures for effective monitoring of labor efforts charged to the subprojects.

(b) The System of Materials and Tools

The system of materials and tool handling needs to be studied, redesigned, and strengthened. The system used by the implementing organization sampled by us showed problems at every phase of the system. Specifically, we found evidence that material, particularly cement, is bought for

-- but not delivered to -- a specific subproject. In addition, laborers frequently do not have sufficient tools. The effects have been inflated costs of sub-projects and inefficient use of labor efforts.

The cycle for the system is as follows: (a) items (materials-cement, cement blocks, dirt, sand, tubes, tools, etc.) are bought; (b) items are delivered to central warehouses of the different organizations (DUA, ANDA, ISREN, etc.); (c) cost of the items are paid, accounted and billed to USAID/El Salvador; (d) items are delivered to the job site; (e) items and labor efforts are combined to produce the result. However, the system used by DUA showed problems at every phase. A brief synopsis of the problems follow:

- (1) Procurement Phase - Items were being bought for specific subprojects and in small quantities. The bureaucratic procedures require several administrative and approval layers, which makes the current procedure very costly. On the other hand, ORE told us at the exit meeting that volume procurement was not practical because of the effect such a procedure had on the financial resources of ORE and also because certain types of items were unusable after a given period of time, e.g., cement is unusable after 30 to 40 days.
- (2) Warehousing - When they are delivered to the warehouse, the items - especially cement - are commingled both physically and on the warehouse record. They lose identification both as to source of financing and end-use destination. For instance, our visit to the DUA warehouse showed that it was commingling cement and other items. A conversation with an ORE official also disclosed that DUA consistently borrowed cement for its own projects, but seldom repaid it.
- (3) Accounting - The cost of the items are recorded against the specific subproject without assurance of eventual use.
- (4) Reimbursement - The costs are billed and reimbursed by AID without assurance that the items will be used on the program.
- (5) Delivery - Our review showed that the items are not being delivered to the subproject sites either in a timely manner or in the proper amount.

(6) End-Use

- Since the items are often not delivered in a timely manner or in the proper amount, there has been inefficient use of labor.

Our field work included a review of how one implementing organization (DUA) handled the procurement of 1,500 bags of cement for a subproject in Calle el Volcan (Subproject No. AP-1-1-SS041), and 1,000 bags of cement for Calle Jose Simeon Cana subproject (No. AP 1-3-SS005). The costs were charged to the subproject and eventually reimbursed from loan funds. Our visit to the warehouse showed that the cement had been received. Since it had been commingled, there was no easy way to determine the distribution. Our visit to the two subprojects showed the following:

- The subproject at Calle Volcan had only received 1,220 (of 1,500) bags. However, 420 bags had been transferred to other subprojects. A total of 800 bags had been used by the subproject. This subproject started in 1980 and has been plagued with problems because of the lack of cement, tools and a properly authorized right-of-way.
- The subproject at Calle Jose Simeon Cana had only received 827 (of 1,000) bags of cement. It had transferred 300 bags to other activities and only 527 had been used on the subproject.

We believe the above examples show a clear picture that materials are not reaching the subprojects in the amounts that were ordered and needed by the subprojects. The material is also not reaching the subprojects in a timely manner. Therefore, the results are that the costs of the subprojects have increased and the utilization of resources is less than efficient. The following recommendation is made as a stop gap measure:

Recommendation No. 7

USAID/EI Salvador should request ORE to instruct the implementing organizations to segregate items bought with program funds to ensure their use solely for the intended subprojects.

However, the problems relating to material and tools handling system are very complex. These problems relate to the different phases of the system, such as: scheduling, ordering, procurement, warehousing, logistics, transportation, billings, and costs. The scope of our review was not meant to address such a multitude of difficult problems. We believe a specialized study should be undertaken and the results implemented immediately.

Recommendation No. 8

USAID/EI Salvador should obtain the services of the proper supply specialist(s) to study and help implement a better material and tool handling system.

(c) Cost Accounting System

At the present time, ORE does not have in operation a cost accounting system which:

- Accumulates costs by individual subprojects and/or other manners;
- Is properly monitored by ORE and the Court of Accounts to ensure accuracy of labor, material and other charges;
- Compares budgeted against actual costs and serves as information system that alerts ORE and USAID/El Salvador for further investigative actions on overruns and other problems.

Consequently, it is difficult at the present time to determine the costs of the subprojects, whether budgets are being overrun, or even the overall financial picture of the Public Sector Employment Project. For instance, as of April 30, 1982, the first three tranches of the project were essentially complete for all intents and purposes. However, the exact costs - and the estimated costs to complete - of the many subprojects initiated during this period had not yet been established. USAID/El Salvador had two different financial pictures of the project; one presented by the records of the USAID/Controller and the other represented the figures of the ORE coordinators as given to the USAID Office of Engineering. The two pictures of costs follow:

<u>Organization</u>	<u>Per Controller</u>	<u>In \$000</u> <u>Per ORE and Engineering</u>	<u>Difference</u>
DUA	\$12,657	\$13,910	\$1,253
CAMINOS	6,793	7,871	1,078
ISREN	5,757	6,486	729
ANDA	752	1,233	481
OPOR	621	717	96
GANADERIA	331	460	129
ORE	214	-	(214)
	<u>\$27,125</u>	<u>\$30,677</u>	<u>\$3,552</u>
	*****	*****	*****

In our opinion, neither of the two figures present an accurate picture of the financial aspects of the project for the following reasons:

- The Controller's figures represent the reimbursed costs submitted by ORE. However, we were told that ORE billings are based on cash disbursements; they do not include accrued expenditures or unpaid costs. An example of unpaid costs include amounts (about \$1.4 million) due to the Social Security Office (ISSS) and National Institute of Pensions for Public Employees (INPEP).

- The USAID/EI Salvador Engineering Office obtained their financial information on the numerous subprojects from the Coordinators of ORE. The effort by this office is commendable and represents the first time it has been done in this manner. However, these costs do not include any costs incurred on 38 subprojects that are still in the implementation stage. On the other hand, the costs provided are inflated by labor charges not paid to the laborers and transfers of materials not adjusted in the records. Moreover, the costs do not include the cost of constructing a total of 162 warehouses for the Ministry of Health.

By the time of our arrival in the country, USAID/EI Salvador had recognized that the complete financial picture of the project was not clear. On April 19, 1982, the MOP was asked to develop the financial information on completed projects and work-in-process. But as of the date of our departure, May 28, 1982, the information had not yet been developed.

Another problem noted was that ORE did not have an established procedure whereby actual costs of the individual subprojects were compared with their respective budgeted costs, and overruns accordingly investigated. Because we have discussed budget overruns and their effects on efficient utilization of resources; no further elaboration is needed at this point.

For the above reasons, the establishment of a cost accounting system by ORE is urgently needed. At the time of our review, ORE had contracted the services of an engineering firm to develop such a system.

They expect this system to be operational by mid-July. We believe that for the system to be accurate, it must be closely monitored by ORE and USAID/EI Salvador to ensure that labor, material, and other costs are being charged correctly. In addition, the design of the system should be such that comparisons are made between budgeted and actual costs; and where appropriate, "exception reports" are prepared and are sent to USAID/EI Salvador for further evaluation and follow-up.

Recommendation No. 9

USAID/EI Salvador should obtain from ORE and the Court of Accounts a plan of action to monitor and make end-use checks to ensure the accuracy of all charges to be introduced into the new cost accounting system of ORE.

Recommendation No. 10

USAID/EI Salvador should amend its procedures to require ORE to submit periodic (a) "Exceptions Reports" showing subprojects that have or are beginning to have budget overruns; and (b) reports highlighting patterns of problems being encountered.

(d) Payment of Debts

On September 11, 1981, an El Salvadorean audit firm, contracted by the USAID/El Salvador, reported that withholdings made by ORE for social security were not being paid. At that time, the debt to the (ISSS) was in arrears for nearly nine months. Our examination showed that ORE has not improved this procedure. For instance, as of December 31, 1981, the Balance Sheet showed that ORE owed \$1,593,370 (\$637,349) to the ISSS and \$1,884,853 (\$753,941) to the INPEP. During our field trip to a subproject, we were told by the laborers that, although eligible, they had not received their health and hospitalization cards. The reason could be that ORE has not paid the amounts due into these respective funds. These debts should be paid by ORE immediately. In the future ORE needs to establish the practice of paying such debts in a timely and systematic manner.

Recommendation No. 11

USAID/El Salvador should obtain a copy of the payment document from ORE certifying that debts to the ISSS and the INPEP have been paid.

Recommendation No. 12

USAID/El Salvador should obtain written assurances from ORE that a procedure has been established to pay ISSS and INPEP debts in a systematic and timely manner in the future.

(e) Transportation Problems

ORE has some very serious transportation problems which need to be addressed in an urgent manner. Because it does not have vehicles to fulfill its responsibilities, ORE must rent cars; such practice is not economical. In addition, Paymasters must use public transportation and are therefore exposed to danger.

At the time the project started, it was contemplated that the MOP and DUA would be able to provide ORE with the required number of vehicles to fulfill its coordinating and payrolling responsibilities. However, due to the persistent violence, many vehicles of the MOP were burned or otherwise damaged and destroyed. Consequently, neither the MOP nor DUA have been able to give ORE adequate transportation equipment.

Since it did not have vehicles of its own, ORE rented eight vehicles at a cumulative cost of \$145,000 (\$58,000). These rental costs are being covered from loan funds. In our opinion, this is an uneconomical use of loan funds. In addition, we found that since ORE does not have vehicles, the paymasters often use public transportation (crowded buses) to take bags of money to pay sites. The danger of such practice is obvious.

When the Project Implementation Paper was prepared, \$200,000 was allocated for the purchase of vehicles spare parts from the U.S. However, according to ORE officials, most of the MOP transportation equipment is either European or Japanese manufactured. Therefore, only about \$50,000 of the loan funds have been used for the specified purpose.

ORE would like AID to consider granting a waiver in order to use the \$200,000 to purchase transportation equipment for the benefit of ORE. We believe this request is valid and that the procurement of some vehicles for ORE would not only alleviate its transportation problems and help improve efficiency of program implementation but would also be more economical than the current rental arrangement.

Recommendation No. 13

USAID/EI Salvador should determine the appropriate means of solving ORE's transportation problems and request waivers where necessary.

(f) Filing System

The filing system of ORE is antiquated, disorganized, and uncoordinated and does not meet the needs of the different departments of the organization.

Because of the volume of subprojects, the administration requirements of AID and the different GOES implementing and controlling organizations, the project generates a great volume of documentation (payrolls, pay slips, material requisitions, purchase orders, field visit reports, etc.). We found the filing system, antiquated, disorganized, and uncoordinated. Some examples follow:

- The Controller's and the Administrative files are mostly in cardboard boxes; the payrolls are filed by pay periods; the documentation supporting material purchases are filed by dates; and there is no attempt to set up a file which would contain a history of all costs for each subproject;
- The materials section files seem well organized by subprojects; but this section has the history of only material costs;
- The ORE coordinators have their own individual subproject files. However, we noted several problems with these files: (1) the labor costs are not adjusted for absences and laborers who otherwise did not work; (2) material costs have not been adjusted for transfers; (3) reports of field visits are often not included in the files; (4) the files do not contain complete histories nor reflect the problems of the subprojects; and (5) each of the coordinators is utilizing their own personnel system of filing.

At the time of our exit conference with ORE, we discussed this deficiency at length and the need to simplify and standardize some of the functions. ORE agreed with our observations and agreed to prepare a flow-chart for the documentation to facilitate the elimination of possible duplications. Also, we explored the possibility of using either "Microfilm" or "Microfiche" to simplify their filing. ORE indicated they would be looking into these options. For this reason, the recommendation contained in our RAF -- for USAID/EI Salvador to obtain the services of a records specialist -- is modified as follows:

Recommendation No. 14

USAID/EI Salvador should obtain from ORE the results of the flow chart and its work plans to streamline, simplify, and coordinate its filing system.

(g) Field Visit Reports of Coordinators

The field visit reports of ORE coordinators are not designed to cover the subprojects in a thorough manner or in a uniform way.

The Coordinator's Report currently contain the following information: (1) Zone; (2) Subproject code; (3) Name of subproject; (4) Subproject budget; (5) Date subproject was initiated; (6) Number of laborers budgeted and number on the job; (7) Physical progress of job; and (8) Observations.

A review of a number of reports showed that coverage is not uniform. Some reports contained extensive discussion of certain problems that were observed. But others merely limited themselves to short statements like "no tools," "no cement," etc. In addition, we found no evidence of pattern type of problems, like shortage of cement or tools, were being reported to the ORE Director for urgent discussion with the appropriate high officials of the other organizations. Another problem which we discussed previously was that the files did not contain complete histories of implementation, or reflect the problems encountered on the subprojects.

Recommendation No. 15

USAID/EI Salvador should obtain from ORE the required plans (a) to revise its field visit reports to be more descriptive and standardized; (b) to establish a filing system which records the complete history of the subproject; and (c) to establish a procedure of reporting to the ORE Director and MCP recurrent problems.

(h) Refunds Due AID

ORE bills USAID/EI Salvador for labor costs on the basis of the payroll listing before any adjustments for workers who did not work or workers who did not work a full day. These funds are returned to ORE and placed in the special escrow account. Since these funds were not paid to laborers, ORE was not eligible to receive them as reimbursement, and thus, should be refunded to USAID/EI Salvador. We were told by ORE officials that these funds amounted to the equivalent of \$200,000 as of April 30, 1982.

Recommendation No. 16

USAID/EI Salvador should (a) determine the amount of funds not paid or refunded by laborers, and (b) reduce this amount from a subsequent Request for Reimbursement.

(i) Project Reports

In line with the agreement and implementation letters, ORE is required to submit two types of reports on the project: (a) a monthly report; and (b) a quarterly report. We believe the format of the two reports can be improved to better illustrate the progress of the project. In addition, ORE needs to submit the quarterly reports in a more timely manner. For instance, ORE had failed to submit reports for the last two calendar quarters.

ORE was current in submitting the monthly reports. However, we did not find in the Mission files quarterly reports covering the periods of October to December 1981, and January to March 1982. ORE needs to submit these two reports in an urgent manner and submit future ones on a timely basis.

Our review also showed that the format of the monthly report is fair and the one for the quarterly report is good. We believe these reports can be improved for the future. Suggestions for these improvements are discussed below:

The Monthly Report contains information on (a) the implementation organizations; (b) subprojects being implemented; (c) subprojects that were completed during the month; (d) number of workers by organizations; and (e) investments by AID and GOES.

The report needs to provide some information on the basis of a formula, common demoninator or needed data. For example:

- the formula on subproject could be (a) the work-in-process at the first of the month; (b) new subproject started during the month; (c) subprojects completed or stopped; and (d) work-in-process at the end of the month, i.e., $A + B - C = D$;

- The number of workers should be on the basis of both number of workers and a common denominator - perhaps man-days - converted at a standard rate. At present, the report does not show how long the workers actually worked;
- The investment of AID and GOES could show the monthly reconciliations of the different accounts.

The Quarterly Reports. These reports are divided into (a) general information; (b) financial section; (c) several financial tables; (d) technical section; and (e) problems and solutions.

We believe that the format of the quarterly report is good, but it can be improved: For example:

- The financial section should provide more complete information on the different accounts, such as (a) the quarterly and cumulative financial picture of the project; (b) the status of and reconciliation of advances; (c) deposits and balances made to such accounts as "Fondos Ajenos a ORE" (No. 132-316, 231-172-57, etc.); (d) various financial projects; and (e) others.
- The technical section should contain (a) statistical information that is based on a formula as discussed in the monthly report portion; and (b) the geographic dispersion of the projects.

In sum, the formats of the monthly and quarterly reports being submitted by ORE can be improved. In addition, the quarterly reports need to be submitted in a more timely manner.

Recommendation No. 17

USAID/El Salvador should obtain from ORE the quarterly reports covering the periods from October 1981 through the most current 1982 quarter.

Recommendation No. 18

USAID/El Salvador should obtain from ORE agreed upon modifications of the formats for the monthly and quarterly reports so that the information generated provides for better management of the project.

Suspended Subprojects of the Directorate of Roads

Camino subprojects accounts for 25 percent of all reimbursed loan funds. Although Camino needs to improve its budgeting process, it appears to be managing its resources in a better way than DUA. However, after investing close to \$947,000 in 99 roads, Camino suspended them because of the violence. A review needs to be made to determine the possibility of completing these roads.

As shown previously, Caminos has been reimbursed \$6.8 million for its subprojects. With these funds, Caminos has worked on 386 subprojects and has generated about 1,254,000 work-days of labor effort. We sampled 15 of its subprojects and compared the budgeted costs versus actual costs. The results of our comparison was:

	In 000 Equivalent		Percent
	Colones	U. S. \$.	
Budgeted Costs	¢1,395	\$558	100
Actual Costs	<u>957</u>	<u>383</u>	<u>69</u>
Underrun	¢438 =====	\$175 =====	31 ==

The review showed that 9 of the 15 subprojects had significant underruns while the budgets on the remaining 6 subprojects had overruns. On this basis, Caminos should establish more realistic budget figures for its subprojects.

Our examination also showed that because of the violence, Caminos suspended work on 99 roads after having invested about ¢2.4 million (about \$946,793) in them. Three profiles on the suspended roads follow:

- The roads were located throughout the 14 departments of El Salvador;
- The investment in 31 roads (Exhibit D) averaged the equivalent of \$20,418. The average for all 99 was \$9,564;
- The range of investment was the equivalent of between \$925 to \$56,398.

In our opinion, Caminos made a significant investment in at least the 31 roads where the average cost exceeds the equivalent of \$20,418. A current reading should be made to determine if any of these 31 roads can now be completed.

Recommendation No. 19

USAID/El Salvador should obtain a report from ORE and Caminos which shows that an assessment has been made on the possibility of completing some of the 31 roads shown on Exhibit D.

Subproject Activities Implemented by Renewable Natural Resources (ISREN) of MOA

Ranking third in number and amount of activity participation among the GOES implementing organizations, ISREN has received about 21 percent of all the funds reimbursed by USAID/El Salvador, while at the same time generating over 21 percent of the total employment effort.

ISREN's subprojects are comprehensive, often combining the resources of other AID projects and also implementing several subprojects within the same plantation (hacienda). At the beginning, ISREN had problems developing accurate budgets and designing the subprojects. But it seems to have learned and profited from the experience. As noted in the Payroll System section of the report, there was evidence that some funds may not have gotten to the laborer listed on the payroll. Regarding the subprojects of ISREN, they will require continued maintenance in the future. However, no specific steps have been taken to ensure that this required maintenance will take place.

ISREN has received almost \$5.8 million of the \$27.1 million which USAID/El Salvador has reimbursed in financing this project. Although it implemented only 87 of the 811 subprojects, ISREN's subprojects generated approximately 971,000 (of the 4.5 million) work-days since inception of the program.

We analyzed some initial plans and budgets, the information reflected in the field trip reports prepared by RDD of USAID/El Salvador and conducted our own field trip visits to three of the haciendas.

We noted that the initial plans were not always well developed and the budgets were significantly overstated or understated. For instance, in one subproject, the budget estimated that \$3.3 million would be needed, but actual costs were only \$1.5 million. However, ISREN seems to have learned and profited from its experience. A review of more current subproject plans shows a marked improvement when compared to the initial plans.

ISREN also has had its share of disruptions due to the violence. In fact, many subprojects implemented on haciendas located in 10 of the 14 geographic areas of the country cannot be visited due to violence. Furthermore, such activities has resulted in some of the subprojects being prematurely terminated and a substantial number of workers released. For example, documentation shows that 8 foremen and 160 laborers of one hacienda received early termination as a result of such violent activities.

According to the available field trip reports, during the 12-month period, May 28, 1981 through May 17, 1982, the RDD staff visited 26 of the haciendas located in four of the more eastern departments of El Salvador. At several of these haciendas, ISREN had implemented more than a single subproject. These reports showed that the RDD staff had conducted their inspections in a very satisfactory manner. In general, they appeared to

have made thorough reviews of the subproject activities at each hacienda. They detailed their activities in such a manner to provide a satisfactory description of each activity, to identify any potential or existing problems observed and accordingly, they offered their assistance and made recommendations for corrective actions. During our field trip visits to three haciendas, we were accompanied by eight officials from ORE, ISREN, and USAID/El Salvador, who had been much involved in the implementation and execution of the five subprojects discussed in the following three sub-sections.

(a) Hacienda Nuevo Mexico - Department of Sonsonate

Originally, only a soil conservation activity consisting of soil-type terraces and rockwall structures had been implemented. These structures spread over approximately 70 hectares and were designed to benefit over 200 hectares of cultivated land.

When the rainy season came, much difficulty was experienced in traveling, particularly via vehicles around the hacienda. Therefore, a second subproject was implemented to improve over two kilometers of the most traveled roads. These improvements consisted of crowning the roads, filling small potholes, lining the larger gully-type holes with gravel and stones to ensure sufficient drainage off the road so that vehicles may safely travel during any season.

During the life of these two subprojects, approximately 135 laborers were utilized. After their completion, crops were being raised on a substantial portion of the land which had been idle prior to the implementation of these two subprojects. In fact, it is believed that the production potential has at least doubled and can support a larger number of families at the hacienda.

(b) Hacienda Hoja de Sal - Department of Ahuachapan

At this hacienda, we observed soil conservation subproject activities, which consisted of small bench terraces covering a 40-hectare area. In another area, there had been a combination of soil-type terraces and rockwalls constructed, which spread over approximately 50 hectares. It is anticipated that between 200 to 250 hectares of cultivated land should benefit from this soil conservation effort. Over 140 laborers were utilized during the life of this subproject. Because of the implementation of this subproject, idle land has been put into production and the number of families that the hacienda can support has been significantly increased.

(c) Hacienda Cara Sucia - Department of Ahuachapan

On this hacienda, there are approximately 80 hectares of irrigable land. Prior to the implementation of this subproject, the land had been idle. At the time of our visit, harvesting of the horticultural crops had been completed.

Retail marketing is available in the nearby village of Cara Sucia. The irrigation system runs for about four kilometers, providing irrigation to an estimated 1,700 hectares. During the four to five months life of the subproject, approximately 250 laborers were employed.

Another subproject implemented on this hacienda is a tree nursery which is being watered from a nearby canal that was part of the irrigation subproject. When transplanted at the rate of 1,600 per hectare, this nursery will not only be providing trees for this hacienda, but also for many soil conservation subprojects at other haciendas.

ISREN has implemented a variety of agriculture-type subprojects, which include the construction of irrigation systems, soil conservation structures, development of tree nurseries and reforestation activities. Overall, we believe that ISREN has satisfactorily designed and implemented such subprojects. Moreover, it appears that generally, the workers were adequately trained and used on the subprojects. Also, we are of the opinion that in general, adequate coordination was provided by ORE and that satisfactory assistance and monitoring was provided by USAID/EI Salvador.

One problem that requires the attention of USAID/EI Salvador and the GOES is the continued maintenance of these complex subprojects. We made inquiries as to the planned procedures for maintaining and preserving those discrete subprojects such as the ones we had visited once the AID assistance is terminated.

We were told that discussions and even meetings had been held among ORE, ISREN, as well as USAID/EI Salvador pertaining to this matter. But to date, no one has offered any definite plan to deal with this problem. In fact, with the exception of the tree nurseries and some planned future reforestation, no procedures had been devised to even finance the continued maintenance of these subprojects, e.g., raising of irrigation crops, weeding and cropping in conjunction with reforestation, upkeep of soil conservation and irrigation structures, etc., once the AID assistance has terminated.

Recommendation No. 20

USAID/EI Salvador should promptly obtain in writing from ORE, procedures which are to be implemented to ensure the continued maintenance and preservation of the various discrete subprojects implemented by ISREN.

Recommendation No. 21

USAID/EI Salvador should negotiate through ORE an agreement with the MOA to provide the funds needed to ensure the continued maintenance of the various discrete subprojects implemented by ISREN, once the funding through the Public Sector Employment Project has been terminated.

Program Monitoring

Staff members of USAID/EI Salvador are making honest efforts under very trying and dangerous conditions to fulfill the monitoring responsibilities that are inherent to the Mission. In fact, inspections during the construction as well as through the completion stages have been made of approximately 400 subprojects. Nevertheless, we believe that the USAID Office of Engineering needs to improve in areas related to the methodology of financial controls, the field inspections to projects, and the preparation of reports for Mission Management.

The following offices of the Mission share in the monitoring responsibility of this project:

- The General Development Office (GDO) has primary coordinating responsibility for the different aspects of the project.
- The Rural Development Division (RDD) plans and assists in monitoring subprojects that are related to agriculture, irrigation, and renewable resources.
- The Office of Engineering reviews plans of subprojects and make field inspections to subprojects.
- The Office of the Controller is responsible for reviewing requests for reimbursements, disbursing of funds, determining compliance with agreement terms, and all other related financial functions. But it relies on the visits made by the Engineering Office to ensure that costs of the subprojects are reasonable and proper.

We believe that the monitoring functions are being satisfactorily fulfilled by the Rural Development Division and the Office of the Controller. On the other hand, we found no instance where the General Development Office had made any site visits to the subproject areas, including the various ones that are located within San Salvador. This observation was confirmed by the GDO staff who said that they relied mostly on the visits made by the Office of Engineering. The GDO expects to do some site visits in the future.

According to available documentation in the files, the Office of Engineering has actually made inspection visits to 399 of the 811 subprojects being implemented by the following organizations:

<u>Organizations</u>	<u>Number of Subprojects</u>		<u>Total</u>
	<u>Not Inspected</u>	<u>Inspected</u>	
DUA	57	179	236
CAMINOS	258	128	386
ISREN	60	27	87
ANDA	23	52	75
OPOR	7	12	19
GANADERIA	7	1	8
Total	412	399	811
	***	***	***

The coverage by the Office of Engineering is commendable under the circumstances. However, our review showed several areas where its monitoring responsibilities and responsiveness to the needs of other Mission offices and particularly to the Office of the Controller, needs to be strengthened. These areas include: (a) the need to compare actual versus budgeted costs; (b) the need for field inspections to correlate physical progress with sub-projects costs; (c) the need for trip reports to be more informative and descriptive of subprojects accomplishments. More details are provided below.

Budgeted and Actual Costs. The Mission does not have a record and/or does not receive a report from ORE which compares budgeted with actual costs. Our review showed significant and unexplained variances between these costs. Several typical examples are reflected in Exhibit E. As discussed in detail earlier in this report, we found that many of the overruns were due to five basic reasons: diversion of labor efforts, faulty scheduling and non-delivery of materials, faulty planning, coordination problems, and stoppages due to the perpetrating of violent activities.

Physical Progress Versus Project Costs. The field trip reports of the USAID/El Salvador's Engineering Office show that no effort was made in the past to correlate physical progress reports and with reported costs of the subproject. Such a correlation would support certifications by the Controller's Office as to the reasonableness and propriety of costs. Despite the significant differences between budgeted and actual costs on various subprojects (as illustrated in Exhibit E) the engineering reports made no effort to explain such differences.

Contents of Reports. At the present time, the engineering report provides the following information: (a) date of inspection; (b) progress; (c) name of subproject; (d) number of subproject; (e) budgeted costs; and (f) general observation.

An analysis of the engineering reports pertaining to visits to 57 sub-projects showed four types of deficiencies in the reports:

- (a) There were no explanations describing the criteria used to measure the progress and costs of the jobs;
- (b) There were no comments to address the matter of budgeted versus actual costs, nor do they provide pertinent explanations on significant variances;
- (c) The general observations frequently describe the subproject. Such descriptions could be developed from merely reading the description and location of the subproject;
- (d) There were no photographs of the subprojects taken by the Engineering Office.

We believe the monitoring responsibilities of the Mission could be more efficient and effective if the approach and reporting methodologies used by the Office of Engineering were to be changed. In addition, the GDO needs to be more involved in the actual implementation phase of the program.

During the audit, we had several meetings with the Mission Director, the Engineering Office and other officials and members involved in this project. We believe these meetings were most constructive and that a clearer idea has evolved as to the extent of responsibilities of the different offices with the Mission.

Recommendation No. 22

USAID/EI Salvador monitoring efforts should be reexamined and an action plan established to assure (a) the accumulation and/ or reporting by ORE of budgeted and actual costs by subprojects; (b) the correlation during the field visits of physical progress versus project costs; and (c) the preparation of more meaningful inspection reports.

EXHIBIT A

USAID/EL Salvador
The Public Sector Employment Project
Agreed Financial Plans of the Project
As of April 30, 1982

	<u>A.I.D.</u>		<u>In \$000</u>	<u>GOES</u>	
	<u>Loan</u>	<u>Grant</u>	<u>Sub-Total</u>	<u>GOES CTP</u>	<u>Total</u>
<u>Emergency Funds for Projects</u>					
Infrastructure Projects in Urban Areas	\$20,156	-0-	\$20,156	\$4,810	\$24,966
Infrastructure Project in Rural	12,847	-0-	12,847	3,149	15,996
Conservation of Natural Resources	6,247	-0-	6,247	7,561	13,808
Sub-Total	<u>\$39,250</u>	<u>-0-</u>	<u>\$39,250</u>	<u>\$15,520</u>	<u>\$54,770</u>
<u>Administrative Improvements</u>					
Special Resources Office	\$480	-0-	\$480	\$750	\$1,230
Implementing Agencies	200	-0-	200	3,474	3,674
Sub-Total	<u>\$680</u>	<u>-0-</u>	<u>\$680</u>	<u>\$4,224</u>	<u>\$4,904</u>
<u>Strengthening Employment Sector</u>					
Evaluation & Audits	-0-	\$75	\$75	-0-	\$75
Technical Assistance	-0-	580	580	68	648
Sub-Total	<u>-0-</u>	<u>\$655</u>	<u>\$655</u>	<u>\$68</u>	<u>\$723</u>
Program Total	<u>\$39,930</u>	<u>\$655</u>	<u>\$40,505</u>	<u>\$19,812</u>	<u>\$60,397</u>

USAID/EI Salvador
The Public Sector Employment Project
Several Profiles of Reimbursed Costs
As of April 30, 1982

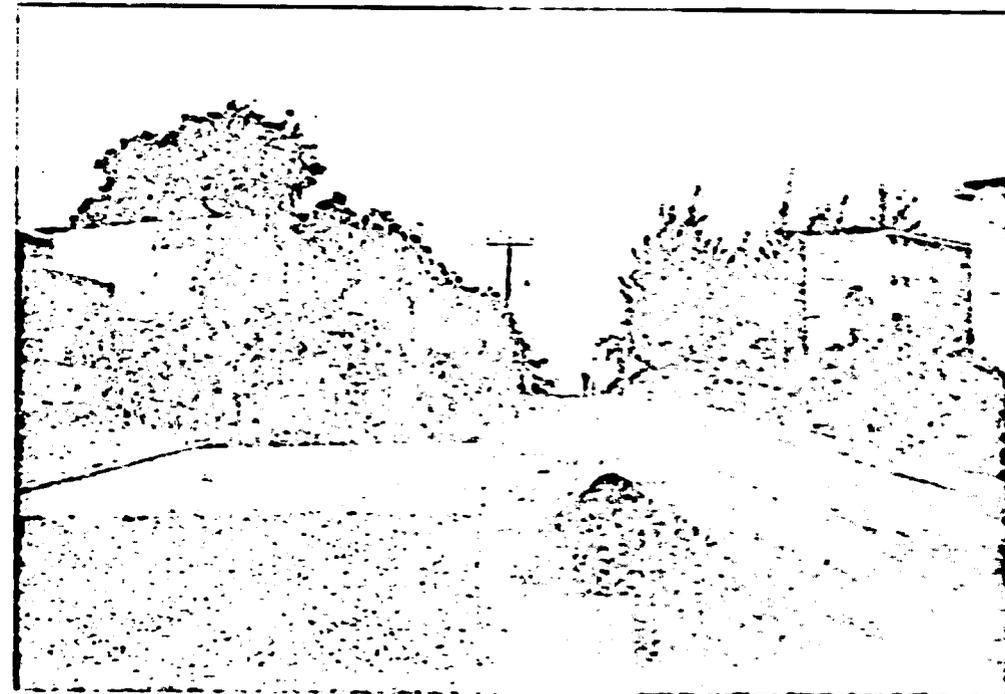
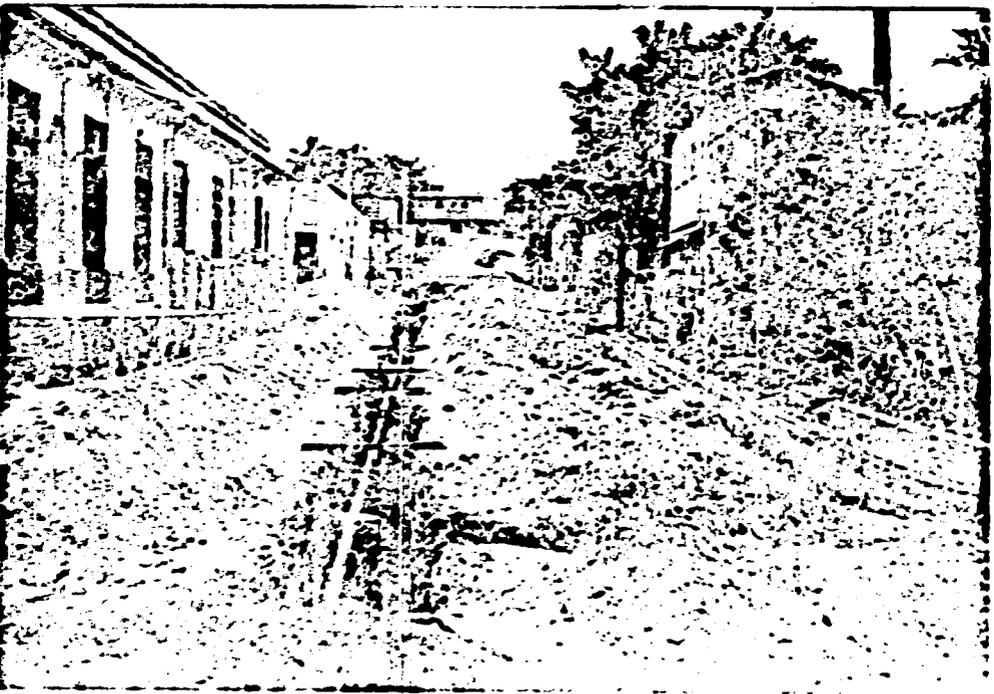
<u>1.0 By Organizations</u>	<u>U.S. Dollars</u> <u>(In 000)</u>	<u>Percent</u>
1.1 Directorate of Urbanization (DUA)	\$12,657	46.7
1.2 Directorate of Roads (CAMINOS)	6,793	25.0
1.3 Directorate of Renewable Natural Resources (ISREN)	5,757	21.2
1.4 National Administration of Aqueducts and Sewers (ANDA)	752	2.8
1.5 Directorate of Irrigation (OPOR)	621	2.3
1.6 Directorate of Livestock (GANADERIA)	331	1.2
1.7 Special Resources Organization (ORE)	214	.8
TOTAL	<u>\$27,125</u> *****	<u>100.0</u> *****
<u>2.0 By Categories of Costs</u>		
2.1 Labor Costs	\$24,173	89.1
2.2 Materials	2,878	10.6
2.3 Spare Parts	50	.2
2.4 Others	24	.1
TOTAL	<u>\$27,125</u> *****	<u>100.0</u> *****
<u>3.0 By Organizations and Categories</u>		
3.1.0 Directorate of Urbanization		
3.1.1 Labor Costs	\$10,915	40.3
3.1.2 Materials	1,710	6.3
3.1.3 Spare Parts	32	.1
3.1.4 Others	-0-	-0-
SUB-TOTAL	<u>\$12,657</u> *****	<u>46.7</u> ****
3.2.0 Directorate of Roads		
3.2.1 Labor Costs	\$6,165	22.7
3.2.2 Materials	622	2.2
3.2.3 Spare Parts	6	.1
3.2.4 Others	-0-	-0-
SUB-TOTAL	<u>\$6,793</u> *****	<u>25.0</u> *****

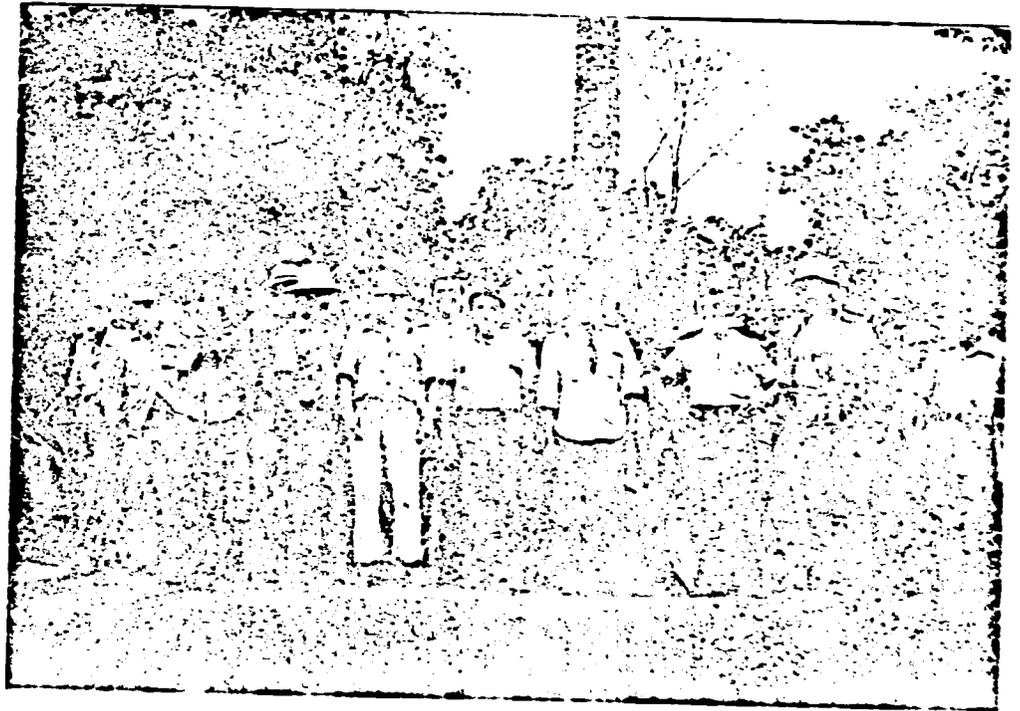
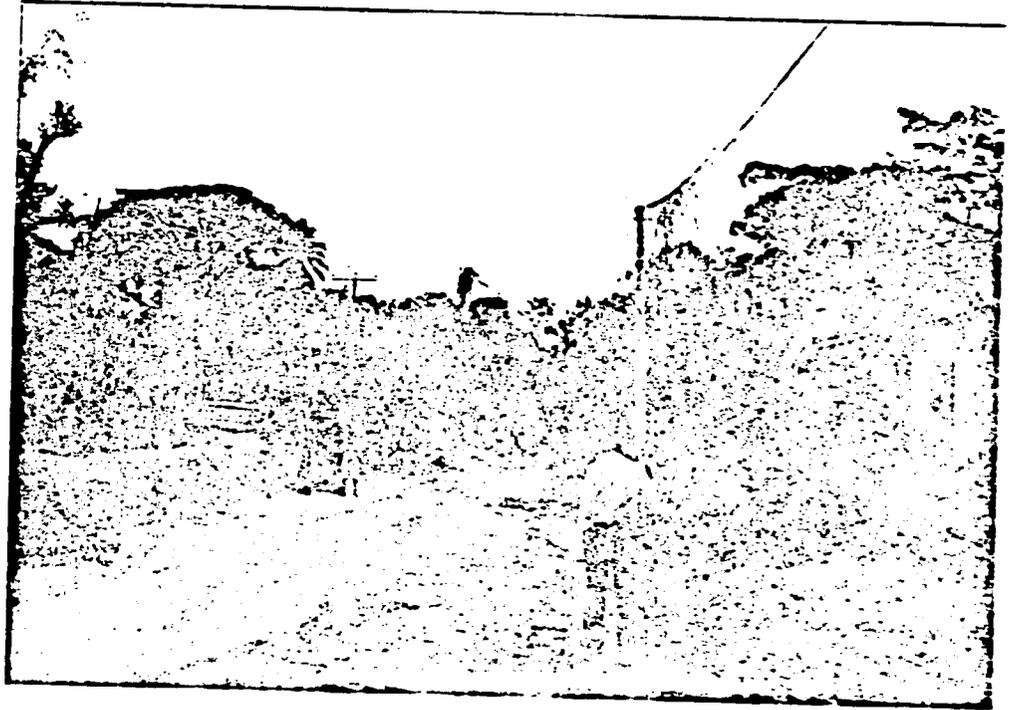
	<u>U.S. Dollars (In 000)</u>	<u>Percent</u>
3.3.0 Directorate of Renewable Resources		
3.3.1 Labor Costs	\$5,280	19.5
3.3.2 Materials	468	1.6
3.3.3 Spare Parts	9	.1
3.3.4 Others	-0-	-0-
SUB-TOTAL	<u>\$5,757</u> *****	<u>21.2</u> *****
3.4.0 National Administration of Aqueducts & Sewers		
3.4.1 Labor Costs	\$690	2.5
3.4.2 Materials	62	.3
3.4.3 Spare Parts	-0-	-0-
3.4.4 Others	-0-	-0-
SUB-TOTAL	<u>\$752</u> ****	<u>2.8</u> ****
3.5.0 Directorate of Irrigation		
3.5.1 Labor Costs	\$616	2.2
3.5.2 Materials	3	.1
3.5.3 Spare Parts	2	-
3.5.4 Others	-	-
SUB-TOTAL	<u>\$621</u> ****	<u>2.3</u> ***
3.6.0 Directorate of Livestock		
3.6.1 Labor Costs	\$318	1.1
3.6.2 Materials	13	.1
3.6.3 Spare Parts	-0-	-0-
3.6.4 Others	-0-	-0-
SUB-TOTAL	<u>\$331</u> ****	<u>1.2</u> ****
3.7.0 Special Resources Organization		
3.7.1 Labor Costs	\$190	.7
3.7.2 Materials	1	-0-
3.7.3 Spare Parts	-0-	-0-
3.7.4 Others	<u>23</u>	<u>.1</u>
SUB-TOTAL	<u>\$214</u>	<u>.8</u>
3.0 GRAND TOTAL	<u>\$27,125</u> *****	<u>100.0</u> *****

USAID/EL SALVADOR
The Public Sector Employment Project:
Pictures of Some Projects

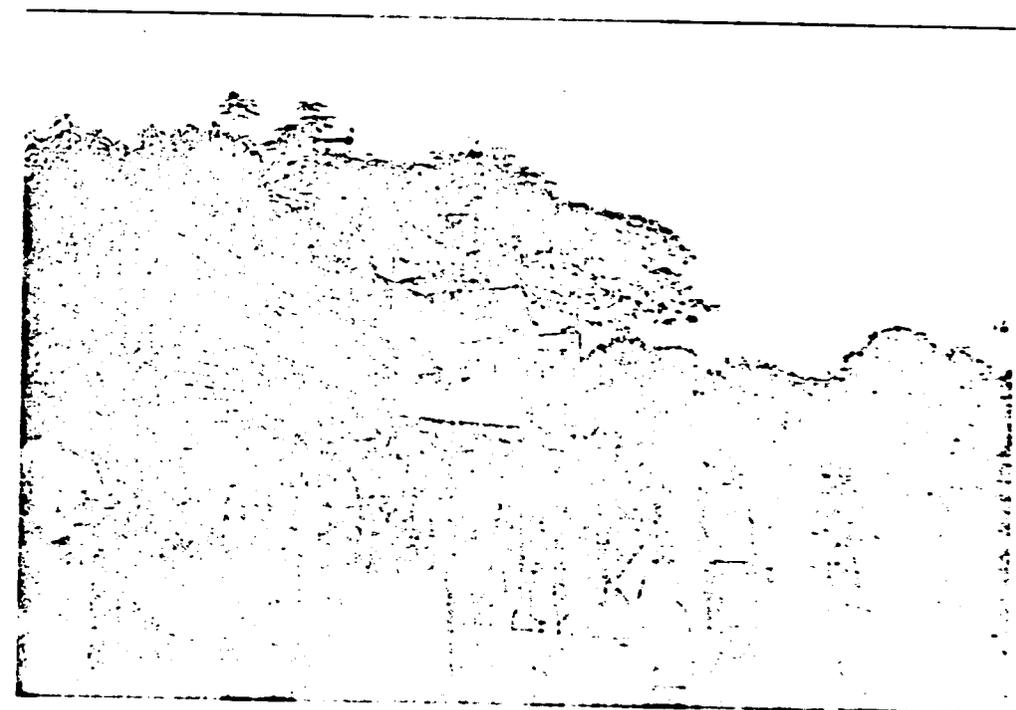
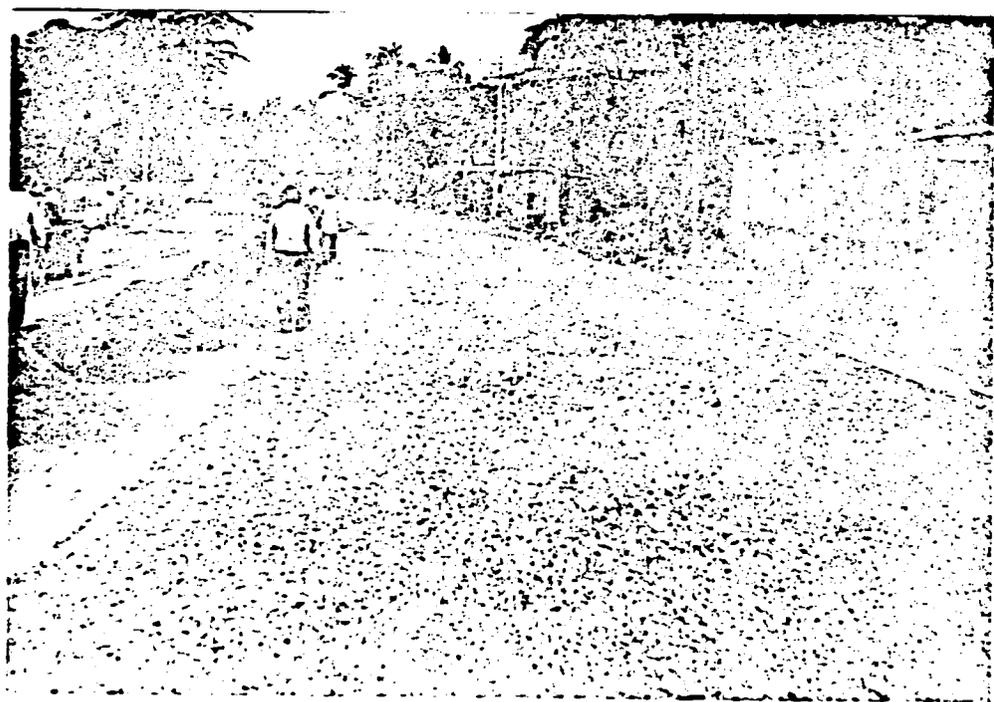
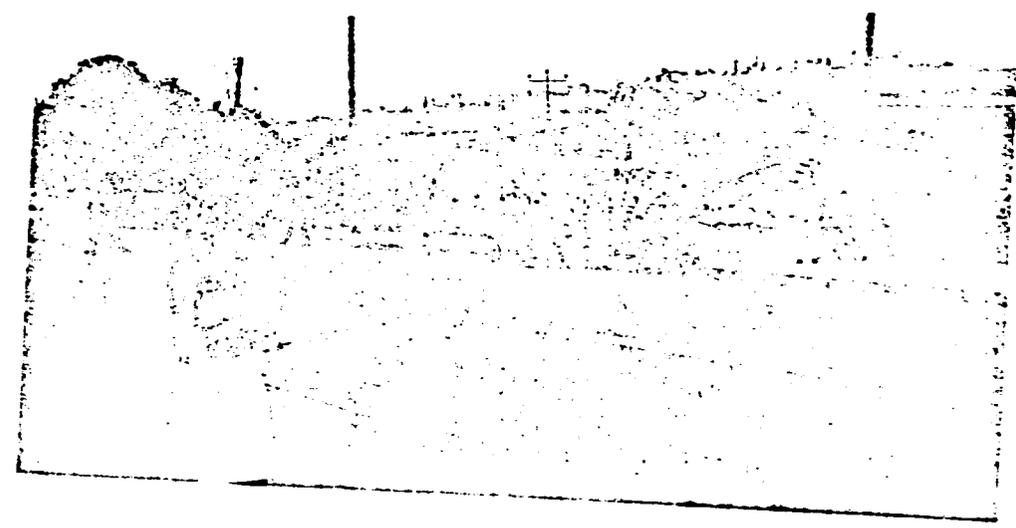
<u>Picture No.</u>	<u>Description</u>
1.	Project No. 9292. Pavement of a street in San Salvador located at 80 Lourdes, 2A East Street between 20A and 30A South Avenue. Picture shows that street could not be worked on because the electrical company (CAESS) had not removed an electrical post from the middle of the street.
2.	Same project. Picture shows that street could not be worked on either because the sewerage company (ANDA) had not lowered the drainage or water pipe.
3.	Project No. 9266. Pavement of a street located in Central Street of San Antonio de Abad. We were told by the engineers of this street that cement was not received in a timely manner. The base seen here many times is destroyed at night with rains and the cycle has to be repeated time and time again.
4.	Project 9284. Street in Volcan Street, between Avenue 29 and Ayutuxtepec of Mexicanos. Picture shows that a portion of the road leads to nowhere and ends on private property. The reason was that DUA had not obtained the Right-Of-Way to complete the road.
5.	The construction of many suburban street resemble this road, which is built with cement and cement blocks. They are well constructed streets and roads.
6.	Picture shows the use of a tractor to help build the road. The workers can be seen in the background.
7.	These workers were assigned to build an isolated road/street (Picture No. 8) in Mejicanos (Castro Mor., Col. S. Matilde). The day before our visit, 11 bodies had been found on the road leading to this area.
8.	Castro Mor. Col. S. Matilde, Road in Mejicanos.
9.	A nice road is being built in San Salvador.
10.) 11.)	A typical payday for the laborers. These laborers had been trucked from their place of work to the DUA warehouse in San Salvador where they got paid.

BEST AVAILABLE DOCUMENT





BEST AVAILABLE DOCUMENT



USAID/El Salvador
The Public Sector Employment Project
List of Suspended Roads Which Exceed \$10,000
As of April 30, 1982

<u>Code</u>	<u>Name of Road</u>	<u>Amount of Investment</u>	
		<u>Colones</u>	<u>U.S. Dollars</u>
50-5	San Julian - Palo Verde	C25,867	\$10,347
50-33	Plan Amayo - Caluco	50,574	20,230
50-37	Nahuilingo - Hacienda Tazulat	57,822	23,129
50-41	Acajutla - Canton Solano	25,117	10,046
LL3	Jicapala - La Pedrera - Teotepeque	25,303	10,121
CH -2	Guajibila - Los Llanitos - San Jeronimo	37,230	14,892
CH-11	San Miguel de Mercedes - Piedras Gordas	96,318	38,527
CH-14	Chorrosco - La Cuchilla - Candelaria Pacaya	50,760	20,304
CH-15	San Miguel de Mercedes - Canton Salitre	73,562	29,425
CH-21	Comalapa - Canton El Mono - Guachilipin	33,288	13,315
CU -1	R (San Martin - Suchitoto - Canton Utalco	29,946	11,978
CA-13	Ilobasco - cola de Pava - San Francisco de Mate	26,022	10,409
LP-7	San Juan Honualco Hda. La Veranera	42,367	16,947
SV-1	Guadalupe - Canton Agua Fria	25,278	10,111
SV-5	Verapaz - San Jose Buena Vista	30,188	12,075
SV-8	San Cayetano Istepeque - Candelaria Arriva	44,218	17,687
SV-19	Santa Clara - Juan Merino	39,812	15,925
SV-34	San Ildefonso - Los Ahogados	32,589	13,036
SV-36	Aan Idelfonso - El Limon	66,757	26,703
SV-39	Apastepeque - Calderas	37,219	14,888
SV-40	San Sebastian - Santa Teresa - San Franciso	79,108	31,643
SM-20	Santa Inez - San Jacinto - Concepcion Corazal - Altomira - El Divisadero	140,994	56,398
SM-22	Chapelteque - Cerco de Piedra	52,747	21,099
SI-23	Mazatepeque - El Coyol - San Jorge El Jocotillo	46,106	18,442
SM-26	Canton del Brazo - Rio Las Iguanas	52,418	20,967
SM-28	San Carlos - La Puerta	59,288	23,715
MO-23	Guatatajiagua - La Cruz - LD	76,021	30,408
MO-25	Guatajiagua - Manguera Elcutal	64,619	25,848
MO-27	Yamabol - San Bartulo - LD	58,797	23,519
MO-28	Yamabol - La Isleta	48,878	19,551
MO-30	Sesembra - La Angostura - Piedra Parada	53,206	21,282
	Total	C1,582,419 *****	\$632,967 *****

a/Investment in 31 roads equal 66.9% of the C2,366,982 invested in 99 roads.

USAID/El Salvador
The Public Sector Employment Project
List of Selected Projects Reflecting Significant
Variances Between Budgeted Costs and Actual Costs
As of April 30, 1982

Costs (In Colones)

<u>Organization</u>	<u>Subproject No.</u>	<u>Budgeted</u>	<u>Actuals</u>	<u>Over (Under)</u>	<u>Percentage Over (Under)</u>
DUA	ZOC-33	\$56,500	\$145,868	\$89,368	158
	ZOC-5	84,750	131,741	46,991	055
	ZOC-6	81,000	140,036	59,036	073
	ZOC-8A	106,305	169,370	63,065	059
	ZOC-10	87,500	130,657	43,157	049
	ZOC-11	59,000	215,685	156,685	265
	ZOC-12A	113,000	172,704	59,704	053
	ZOC-14	56,500	158,597	102,097	181
	ZI1-9	147,360	331,569	184,209	125
	ZI1-24	281,132	470,336	189,204	067
	ANDA	753/80	175,000	36,106	(138,894)
787/81		98,000	72,075	(25,925)	(040)

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/EI Salvador should obtain from ORE revised review procedures which will, at an early stage, identify subprojects which contain either poor plans or coordination problems (page 11).

Recommendation No. 2

USAID/EI Salvador should obtain from ORE procedures for the establishment of an account within its system which can be used to accumulate labor charges on work suspended, e.g., as a result of violence (page 11).

Recommendation No. 3

USAID/EI Salvador should establish a plan to follow-up on the investigation by the Court of Accounts and keep the RIG/A/LA office informed (page 14).

Recommendation No. 4

USAID/EI Salvador should negotiate with ORE and the Court of Accounts, changes to the current payroll system which will improve the internal control and monitoring procedures related to employees who were absent or are no longer working (page 14).

Recommendation No. 5

USAID/EI Salvador should negotiate with ORE and the Court of Accounts the adoption of improved monitoring procedures to ensure more accuracy of the accumulation of labor charges (page 14).

Recommendation No. 6

USAID/EI Salvador should expand its monitoring practices to include procedures for effective monitoring of labor efforts charged to the subprojects (page 14).

Recommendation No. 7

USAID/EI Salvador should request ORE to instruct the implementing organizations to segregate items bought with program funds to ensure their use solely for the intended subprojects (page 16).

Recommendation No. 8

USAID/EI Salvador should obtain the services of the proper supply specialist(s) to study and help implement a better material and tool handling system (page 16).

Recommendation No. 9

USAID/EI Salvador should obtain from ORE and the Court of Accounts a plan of action to monitor and make end-use checks to ensure the accuracy of all charges to be introduced into the new cost accounting system of ORE (page 18).

Recommendation No. 10

USAID/EI Salvador should amend its procedures to require ORE to submit periodic (a) "Exceptions Reports" showing subprojects that have or are beginning to have budget overruns; and (b) reports highlighting patterns of problems being encountered (page 18).

Recommendation No. 11

USAID/EI Salvador should obtain a copy of the payment document from ORE certifying that debts to the ISSS and the INPEP have been paid (page 19).

Recommendation No. 12

USAID/EI Salvador should obtain written assurances from ORE that a procedure has been established to pay ISSS and INPEP debts in a systematic and timely manner in the future (page 19).

Recommendation No. 13

USAID/EI Salvador should determine the appropriate means of solving ORE's transportation problems and request waivers where necessary (page 20).

Recommendation No. 14

USAID/EI Salvador should obtain from ORE the results of the flow chart and its work plans to streamline, simplify, and coordinate its filing system (page 21).

Recommendation No. 15

USAID/EI Salvador should obtain from ORE the required plans (a) to revise its field visit reports to be more descriptive and standardized; (b) to establish a filing system which records the complete history of the subproject; and (c) to establish a procedure of reporting to the ORE Director and MOP recurrent problems (page 21).

Recommendation No. 16

USAID/EI Salvador should (a) determine the amount of funds not paid or refunded by laborers, and (b) reduce this amount from a subsequent Request for Reimbursement (page 22).

Recommendation No. 17

USAID/EI Salvador should obtain from ORE the quarterly reports covering the periods from October 1981 through the most current 1982 quarter (page 23).

Recommendation No. 18

USAID/EI Salvador should obtain from ORE agreed upon modifications of the formats for the monthly and quarterly reports so that the information generated provides for better management of the project (page 23).

Recommendation No. 19

USAID/EI Salvador should obtain a report from ORE and Caminos which shows that an assessment has been made on the possibility of completing some of the 31 roads shown on Exhibit D (page 24).

Recommendation No. 20

USAID/EI Salvador should promptly obtain in writing from ORE, procedures which are to be implemented to ensure the continued maintenance and preservation of the various discrete subprojects implemented by ISREN (page 27).

Recommendation No. 21

USAID/EI Salvador should negotiate through ORE an agreement with the MOA to provide the funds needed to ensure the continued maintenance of the various discrete subprojects implemented by ISREN, once the funding through the Public Sector Employment Project has been terminated (page 27).

Recommendation No. 22

USAID/EI Salvador monitoring efforts should be reexamined and an action plan established to assure (a) the accumulation and/ or reporting by ORE of budgeted and actual costs by subprojects; (b) the correlation during the field visits of physical progress versus project costs; and (c) the preparation of more meaningful inspection reports (page 30).

APPENDIX B

LIST OF RECIPIENTS

	<u>No. of Copies</u>
Deputy Administrator	1
Assistant Administrator (AA/LAC)	1
Director, Bureau for Latin America and the Caribbean (LAC/CAR)	5
Senior Assistant Administrator - Bureau for Science and Technology S&T)	1
Mission Director, USAID/El Salvador	5
Director, Office of Legislative Affairs (LEG)	1
Deputy Assistant - Directorate for Program and Management Services (M/SER)	1
Office of Financial Management (M/FM/ASD)	3
General Counsel (GC)	1
Office of Development Programs (LAC/DP)	3
Director - Office of Public Affairs (OPA)	1
Development Information Utilization Service (S&T/DIU)	4
Bureau for Program and Policy Coordination (PPC)	4
Office of the Inspector General (IG)	1
Office of Policy, Plans and Programs (IG/PPP)	1
Director - Office of the Inspector General (IG/EMS)	12
Director - Office of Investigations and Inspections (IG/II)	1
Regional Inspector General for Audit/Washington (IG/RIG/A/W)	1
RIG/A/Abidgjan	1
RIG/A/Cairo	1
RIG/A/Manila	1
RIG/A/Karachi	1
RIG/A/Nairobi	1
RIG/A/NE, New Delhi Residency	1
RIG/A/L, Panama Residency	1
RIG/A/LA, La Paz Residency	1
GAO, Latin America Branch, Panama	1