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AUDIT OF THE NATIONAL
PLAN FOR AREA RESTORATION MANAGED
BY THE NATIONAL COMMISSION FOR AREA
RESTORATION IN EL SALVADOR

Audit Report No. 1-519-88-15-N
July 18, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT

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July, 18, 1988

MEMORANDUM

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

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

SUBJECT: Audit Report No. 1-519-88-15-N, "Audit of El Salvador's National Plan for Area Restoration Managed by the National Commission for Area Restoration (CONARA) in El Salvador"

This report presents the results of a non-Federal financial and compliance audit requested by your mission of El Salvador's National Plan for Area Restoration managed by the National Commission for Area Restoration (CONARA). The certified public accounting firm of Price Waterhouse prepared the report, which is dated June 30, 1988.

The purpose of this audit was to report on (1) the fairness of the fund accountability statement for the period from January 1, 1985 to September 30, 1987; (2) the systems of internal accounting control and procurement; (3) project selection and approval procedures; (4) control of vehicles; and (5) compliance by CONARA with applicable laws, regulations, and agreement terms.

Price Waterhouse disclaimed an opinion on the fund accountability statement due to scope limitations caused by the unavailability of supporting documentation, inadequate records, and indications of irregular accounting procedures. Also, CONARA did not provide the auditors with written representations in accordance with generally accepted auditing standards. Price Waterhouse's study and evaluation of CONARA's internal accounting control and procurement practices revealed conditions which they believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement may occur and not be detected within a timely period. The weaknesses observed were (1) a lack of segregation of duties in the procurement department; (2) unapproved

disbursements over budget; (3) inadequate controls over payroll, with indications of possible improper or illegal payments of wages and salaries; (4) unaccountability for A.I.D. advances pending liquidation; (5) inadequate controls over the revolving fund bank account; and (6) a bank account not recorded in CONARA's accounting records. Price Waterhouse disclaimed an opinion on the control of vehicles due to a lack of supporting documentation for vehicle use. Price Waterhouse disclaimed an opinion on those items tested for compliance as well as on untested items due to the scope limitations mentioned previously related to the fund accountability statement. However, they determined that there was non-compliance with certain agreement terms and applicable laws and regulations requiring (1) approval by the Salvadoran Government's Foreign Financing Technical Secretariat (SETEFE) of transfers of funds between CONARA's different programs, (2) approval by SETEFE of CONARA's books of account, (3) SETEFE's approval for the opening of bank accounts by CONARA, (4) obtaining of public bids for purchases exceeding \$20,000, and (5) approval by the Salvadoran Government's Comptroller General of contracts exceeding \$20,000. In the opinion of Price Waterhouse, project selection and approval procedures were adequate to perform the activities related to the National Plan for Area Restoration. Price Waterhouse identified \$1,329,904 in questionable costs included in the fund accountability statement.

The Price Waterhouse report contains eight recommendations to improve CONARA's internal control and procurement practices and five recommendations on compliance with agreement terms and applicable laws and regulations. We believe that the findings included in the report are so significant that A.I.D. should suspend all funding to this organization until the deficiencies are corrected. As a result, the following recommendation will be included in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/EI Salvador:

- a. suspend funding to the National Commission for Area Restoration (CONARA) until a subsequent audit demonstrates that the organization has instituted adequate internal controls to account for A.I.D. funds and has complied with applicable laws, regulations, and agreement terms; and
- b. negotiate a settlement with the National Commission for Area Restoration (CONARA) concerning the disposition of the \$1,329,904 in costs questioned by the Price Waterhouse Report, dated June 30, 1988.

Please advise this office within 30 days of actions planned or taken to implement this recommendation.

**FINANCIAL AND COMPLIANCE AUDIT OF EL SALVADOR'S
NATIONAL PLAN FOR AREA RESTORATION
MANAGED BY THE NATIONAL COMMISSION FOR
AREA RESTORATION (CONARA)
FROM JANUARY 1, 1985 TO SEPTEMBER 30, 1987**

**FINANCIAL AND COMPLIANCE AUDIT OF
EL SALVADOR'S NATIONAL PLAN
FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR
AREA RESTORATION**

FROM JANUARY 1, 1985 TO SEPTEMBER 30, 1987

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Price Waterhouse



June 30, 1988

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

Dear Mr. Gothard:

This report presents the results of our audit of El Salvador's National Plan for Area Restoration managed by the National Commission for Area Restoration (Comisión Nacional de Restauración de Areas-CONARA) for the period from January 1, 1985 to September 30, 1987.

BACKGROUND -

CONARA is a branch of the Ministry of Planning and Coordination of Economic and Social Development (Ministerio de Planificación y Coordinación del Desarrollo Económico y Social - MIPLAN). CONARA was created in March 1983 by Decree No. 54 and is responsible for coordinating and monitoring the National Plan for Area Restoration established by the Government of El Salvador. The plan is aimed at developing and implementing restoration and rehabilitation projects in areas of national priority and for carrying out civic action activities in coordination with other government agencies.

The funds for the program are jointly programmed by the U.S. Agency for International Development in El Salvador (USAID/ES) and the Government of El Salvador (GOES), from local currency generations of the PL-480, Title I and counterpart deposits of local currency pursuant to Economic Support Fund (ESF) agreements. The PL-480, Title I and the ESF agreements were, respectively, signed on December 20, 1985 and January 29, 1986. The PL-480, Title I agreements provide preferential loans to finance the purchase of agricultural commodities from the United States. The commodities are then sold by the GOES to

raise funds in local currency. The Economic Support Funds (ESF) are dollar grants which require matching deposits in local currency by the GOES to support the economic stabilization of the country.

CONARA developed some procedures to identify the geographic areas and the economic, social and political matters which, as a result of guerrilla violence, natural disasters and other causes, have been considerably damaged. CONARA planned to create CODERAS, COMURAS and COCARAS, which respectively stand for Departmental, Municipal and Cantonal Commissions for Area Restoration. The purpose of these units was to identify the needs of the Salvadoran communities and to coordinate on-site development of and execution of projects. However, these units were never fully and formally implemented and the responsibilities for identification of need were transferred as deemed appropriate to the ministries, the municipalities and other GOES institutions as implementing units.

CONARA is funded by the Foreign Financing Technical Secretariat (Secretaría Técnica del Financiamiento Externo, SETEFE) which receives the related funds per the agreements (and amendments) between the GOES and the U.S. Government (USAID/ES). Budgeted amounts by SETEFE for CONARA by source and year were:

	(in 000's Salvadoran Colones and US Dollars)		
	1985	1986	1987
PL-480 Title I		¢ 17,085	
ESF	<u>¢ 1,800</u>	<u>27,422</u>	<u>¢ 50,962</u>
	<u>¢ 1,800</u>	<u>¢ 44,507</u>	<u>¢ 50,962</u>
	<u>US\$ 360</u>	<u>US\$ 8,901.4</u>	<u>US\$ 10,192.4</u>

Release of the above funds rested with SETEFE, which authorized use on the basis of Plans of Action and any amendments thereto, jointly or separately approved in advance by SETEFE and USAID/ES.

AUDIT OBJECTIVES AND SCOPE --

We were engaged to conduct a financial and compliance audit of CONARA for the period from January 1, 1985 to September 30, 1987 related to the local currency program,

as described above. Our audit work included the review of documentation, accounting records, original source documents supporting expenditures, internal accounting controls and procedures of the general coordinating and implementing units managing local currency funding related to the program. Our determination of the results thereof is reflected in the accompanying Fund Accountability Statement.

Our audit was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision) and accordingly included such tests as deemed necessary to determine whether:

- a) the program's incurred costs were allowable, allocable and reasonable per memoranda of understanding and agreement terms;
- b) the system of internal accounting control over the local currency funds was adequate;
- c) CONARA's project selection and approval procedures were adequate;
- d) the procurement procedures and practices used by CONARA provided for the application of sound commercial criteria; and
- e) CONARA and the other participating entities complied with applicable laws, regulations, memoranda of understanding and the terms and conditions of approved local currency Plans of Action.

We were also alert to situations or transactions that could be indicative of fraud, abuse, and illegal expenditures or acts.

The following major audit components were addressed during our work in order to attempt to meet the stated audit objectives:

Salaries, Wages and Administrative Costs -

We tried to assess the adequacy of employee salaries and wages and administrative costs, to assure that they were genuine, were properly calculated and valued, and were properly recorded and accumulated. Our work regarding

salaries was to determine that: (a) compensation paid was reasonable and only for services rendered by bona - fide employees assigned to each program; (b) costs were allowable per the agreements in force and had been correctly calculated in accordance with the nature and terms of employment and applicable accounting principles, and (c) costs were properly recorded and accumulated in the underlying accounting records pertaining to the proper periods.

For administrative costs, we tried to obtain assurance that they were properly incurred and that they were allocable to the respective projects.

Materials and Supplies -

With respect to materials and supplies, we attempted to assure ourselves that: (a) purchased goods were received and properly authorized; (b) purchases, discounts, and adjustments were correctly calculated at their appropriate transaction amounts, and (c) purchases had been properly recorded. We also tried to find out whether materials and supplies reached their final, intended destinations at the project sites.

Machinery and Equipment -

We audited acquisitions of machinery and equipment separately from purchases of goods and services, since the former are more significant in amount and are subject to a different system of controls. In this regard, we tried to determine that acquisitions of machinery and equipment physically existed and were properly authorized and recorded. We also attempted to determine that machinery and equipment were allocated to the proper projects in accordance with approved budgets and corresponding Plans of Action.

Transfers Between Programs -

In regard to transfers between programs, we looked for proper authorizations, adherence to budgetary reasons, and proof that transfers were not made for offsetting presumptive imbalances in certain programs, if any.

Restoration -

Restoration is the main goal of the program (Plans of Action) and involves all of the components mentioned above. Our audit objective was to examine all of these

components and to obtain further assurance that restoration was being carried out by performing on-site visits to see physical evidence of end results of the related plans. Our visits, of course, were supported by data supplied by the concerned technical departments, in addition to that obtained from the underlying documentation reviewed by us.

As discussed in more detail elsewhere in this report, there were some scope limitations encountered during our work, which prevented us from performing the audit in accordance with the audit guidelines previously described.

AUDIT RESULTS -

Fund Accountability Statement -

The Fund Accountability Statement for the period January 1, 1985 through September 30, 1987, includes more than 45 million disbursed during the period. We were unable to examine to our satisfaction the underlying documentation selected for testing within the scope of our planned work to meet the stated audit objectives, since we were able to examine only approximately 6.9 million (US\$1.4 million) in costs from a universe of 11 million (US\$2.2 million) selected for examination. Consequently, the scope limitation does not permit us to express, and we do not express, an opinion on the Fund Accountability Statement identified above. However, we identified costs aggregating 6,649,520 (US\$1,329,904) which could be considered questionable, as explained in Note 3 to the Statement.

Project Selection and Approval Procedures -

Project selection and the related approval procedures appeared adequate, in accordance with the standards set forth and followed by SETEFE.

Procurement System -

The procurement system lacked a proper segregation of duties and responsibilities. The number of key procurement functions controlled by the head of the Procurement Department prevented the application of sound commercial criteria in the acquisition of materials and supplies for CONARA. The head of the Procurement Department is also chief of both the Personnel and the General Services Departments. These multiple functions, in our opinion, impair that person's ability to discharge duties properly and as expected.

Internal Accounting Controls -

Due to the generally poor condition of the system of internal accounting controls, we could not rely on that system in determining the nature, timing and extent of the audit tests and procedures considered by us necessary for expressing an opinion on CONARA's Fund Accountability Statement for the period January 1, 1985 to September 30, 1987. Our study and evaluation identified conditions that we believe result in more than a relatively low risk that errors or irregularities that would be material in relation to the fund accountability statement may occur and not be detected within a timely period.

Control of Vehicles -

Other than a listing periodically prepared for unit identification purposes, no functional data was kept as evidence of control over the use of vehicles.

Compliance with Applicable Laws,
Regulations and Agreement Terms -

The results of our study show that for certain of the items tested, CONARA did not comply with agreement terms and applicable laws and regulations, as described in this report. We also found certain situations which could be indicative of irregular accounting procedures, and which are included in a separate report addressed to RIG/A/T.

Management Comments:

We discussed this report with Mrs. Dinora Arias, General Manager of CONARA, and the USAID/ES officers in charge of the Project. They agreed with the content and suggested some minor changes which were incorporated into this report. Mrs. Arias indicated that corrective action had already been taken with respect to several of the recommendations presented in this report.



THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
(CONARA)

FUND ACCOUNTABILITY STATEMENT
JANUARY 1, 1985 TO SEPTEMBER 30, 1987
AUDITOR'S OPINION

We have performed a financial and compliance examination of the Fund Accountability Statement of the National Plan for Area Restoration managed by the National Commission for Area Restoration (CONARA) for the period January 1, 1985 to September 30, 1987. Except as explained in the following paragraphs, our examination was made in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

1. The internal control system does not provide for an adequate segregation of functions, resulting in some material weaknesses which affect the reliability of the Fund Accountability Statement. Other weaknesses although not significantly affecting the reliability of the above mentioned Statement, affect management's control of operations.
2. Access to documentation supporting the transactions under review was restricted because documentation supporting disbursements of \$1,734,388 made during 1984 and 1985 was either partially missing or was in the custody of the General Comptroller's Office (Corte de Cuentas) of the GOES awaiting eligibility tests for legal purposes. Documentation covering transactions for 1986 and 1987 did not, in some cases, meet legal requirements for acceptance as prima facie evidential matter.
3. Our audit tests disclosed some situations or transactions that could be indicative of irregular accounting procedures which, because of their materiality in relation to the planned audit tests and procedures, impaired to a certain degree our ability to complete our work.

4. Management elected not to furnish us with written representations related to the Fund Accountability Statement under examination.
5. Accounting records for vehicles donated by A.I.D. were inadequate, and responsibility for their custody had not been established. We were unable to satisfy ourselves by other means regarding their location.
6. We were unable to satisfy ourselves as to the reasonableness of balances of outstanding advances pending liquidation in the amount of Q8,845,394 either by review of subsequent events or otherwise because: a) no financial statements were prepared after September 30, 1987, as the related accounting records remained unposted as of the date of this report; b) liquidations of outstanding balances, if any, were not available, since access to the supporting documentation was restricted to us, due to the fact that the Corte de Cuentas was keeping such documentation under its custody; and c) except for the Restoration program, there was no breakdown of the outstanding balances by individual items pertaining to the programs.

Because we were unable to apply adequate auditing procedures regarding the National Plan for Area Restoration managed by the National Commission for Area Restoration (CONARA), as noted in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying Fund Accountability Statement for the period from January 1, 1985 to September 30, 1987. Nevertheless, we identified certain costs, described in Note 3, that in our opinion could be considered questionable.



February 18, 1988

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
(CONARA)

FUND ACCOUNTABILITY STATEMENT
(expressed in Salvadoran Colones)
JANUARY 1, 1985 THROUGH SEPTEMBER 30, 1987

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>QUESTIONABLE COSTS</u>
	(EXHIBIT I)	(EXHIBIT II) (EXHIBIT III)	<u>NOTE 3</u>
Receipts:			
Restoration	¢78,283,508	¢35,320,322	
Administration	6,985,000	4,319,388	
Combined Civic Actions	7,000,000	4,000,000	
Emergency	<u>5,000,000</u>	<u>2,000,000</u>	
	<u>¢97,268,508</u>	<u>45,639,710</u>	
Disbursements:			
Restoration	¢35,320,322	26,462,784	¢6,429,520
Administration	4,319,388	4,797,411	
Combined Civic Actions	4,000,000	3,823,332	220,000
Emergency	<u>2,000,000</u>	<u>2,133,460</u>	
	<u>¢45,639,710</u>	<u>37,216,987</u>	<u>¢6,649,520</u>
Excess of receipts over disbursements		<u>8,422,723</u>	
Add - Working capital advance from SETEFE for 1987 (EXHIBIT II- Note 2)		3,206,780	
- Payables		221,347	
- Net transfers between programs		<u>15,685</u>	
		<u>3,443,812</u>	
		11,866,535	
Deduct - Advances pending liquidation (EXHIBIT IV)		<u>8,845,394</u>	
Fund balance, end of period - Cash in banks and on hand (EXHIBIT V)		<u>¢ 3,021,141</u>	

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
(CONARA)

NOTES TO THE FUND ACCOUNTABILITY STATEMENT
JANUARY 1, 1985 TO SEPTEMBER 30, 1987

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES -

The significant accounting policies adopted by CONARA are summarized below and do not necessarily reflect the application of generally accepted accounting principles in the United States of America.

Basis of accounting -

The accrual basis of accounting is followed for recording expenses, but receipts are generally recorded as collected.

Inventories -

Inventories consist of expendable supplies held for consumption. Purchases of inventory are recognized as expenditures at the time of purchase.

Fixed assets -

Fixed asset acquisitions are charged at cost directly to the projects and no depreciation is taken.

NOTE 2 - HISTORY AND OPERATIONS OF CONARA -

The National Commission for Area Restoration (CONARA) was created in March 1983, as an agency of the Ministry of Planning and Coordination for Economic and Social Development (MIPLAN) of the Government of El Salvador, for the purpose of restoring those areas ravaged by violence and other reasons. In this connection, CONARA has instituted the programs described below:

Restoration - to address the immediate restoration of areas identified as damaged by violence or natural causes.

Administration - to manage and administer the Restoration, Combined Civic Action, and Emergency programs.

Combined Civic Action - to provide humanitarian help to the areas, jointly with the E.S. Army and auxiliar GOES organizations.

Emergency - to cover situations demanding immediate action, further supported by the above programs.

Funding for the programs is provided by SETEFE, an agency of the Government of El Salvador, with local currency funds generated by PL-480, Title I and ESF funds.

NOTE 3 - QUESTIONABLE COSTS -

According to the regulations governing disbursements, all projects must be approved in advance by SETEFE, and they should be part of the overall Plan of Action submitted in detail by CONARA. In this respect, any excess over budget must also be approved in advance (although such approval can be obtained retroactively but only in exceptional cases of an emergency nature, and this condition should not be repetitive). The related excesses should also be reprogrammed to be valid as an additional component of the projects in question. This reprogramming together with the initial programming should be authorized by SETEFE, and absent such authorization the related amounts become questionable, as SETEFE is prevented by law from providing additional monies to reimburse these amounts.

Costs are also questionable for: (a) checks cashed in an irregular manner; (b) items not provided for by the Plans of Action; (c) projects that although executed by CONARA were not programmed by SETEFE, (d) costs incurred in non-existent projects and (e) non-compliance with applicable laws.

Following is a summary of questionable costs, as determined in accordance with all or part of the above criteria. The amounts reflect only the results of the project tests and examinations performed by us. The criteria are identified by their respective initials as follows (a report on the practices involved has been issued separately):

Projects not programmed and
authorized by SETEFE (PNP)

Excess not reprogrammed or
authorized by SETEFE (ENR)

Checks cashed in an irregular manner (CCI)
 Disbursements not provided by Plans of Action (DNP)
 Non - compliance with laws (NCL)
 Costs for non - existent projects (CNP)
 Projects not executed under the original Plan of Action (PNE)

<u>PROGRAM</u>	<u>DEPARTMENT</u>	<u>PROJECT</u>	<u>REASON</u>	<u>AMOUNT</u>	
Restoration	Cabañas	Road improvement - El Centro and El Calvario			
		- Materials and freight	PNP	61,221	
			- Labor	PNP	49,747
	Chalatenango	Road improvement - Concepción Quetzaltepeque			
		- Materials and freight	PNP	89,552	
			- Labor	PNP	43,928
	Cuscatlán	Road improvement - San José Guayabal			
			- Materials and freight	ENR	14,049
	La Paz	Road improvement - San Pedro Nahualco			
		- Materials and freight	PNP	218,772	
		- Labor	PNP	172,937	
		Road improvement - San Miguel Tepezontes			
			- Materials and freight	PNP	139,566
			- Labor	PNP	152,427
La Unión	Street repairs - El Sauce - Concepción				
	- Materials and freight	PNP	24,575		
	- Labor	PNP	311,763		
	Road repairs - Agua Caliente - Anamares				
	- Materials, freight and ballast	PNP CCI	454,635		
	- Labor	PNP	220,103		
Morazán	Road improvement - Jicaro				
	- Materials and freight	PNP	97,419		
	- Labor	PNP	116,473		

<u>PROGRAM</u>	<u>DEPARTMENT</u>	<u>PROJECT</u>	<u>REASON</u>	<u>AMOUNT</u>
	San Miguel	Road improvement - Las Champas - Ciudad Barrios		
		- Materials and freight	PNP	135,923
		- Labor	PNP	209,711
		Road improvement - 8.1 Kms. Champas - Ciudad Barrios		
		- Materials and freight	PNP	147,211
		- Labor	PNP	181,024
		Road improvement - Los Ranchos Las Tablas		
		- Freight	CCI	138,000
	San Vicente	Road improvement - Verapaz - Jerusalen		
		- Materials and freight	PNP	45,360
		- Labor	PNP	84,045
	San Salvador	Several projects		
		- Materials and freight	PNP	399,993
	Usulután	Road improvement - Espino - Moropala		
		- Materials and freight	PNP	230,256
		- Labor	PNP	116,374
		Road improvement 9 kms. San Francisco		
		- Materials and freight	PNP	229,264
		- Labor	PNP	132,508
				<u>4,216,836</u>
		School desks	PNP and NCL	1,637,595
		Text books	NCL	<u>120,000</u>
				<u>5,977,803</u>
(Sub-program - Basic Municipal Infrastructure - IBM)	San Salvador	Street - bricks laying 6a. calle Pte.		
		- Materials and freight	ENR	529
		- Labor	ENR	2,843

PROGRAM	DEPARTMENT	PROJECT	REASON	AMOUNT
	Chalatenango	Ballast spreading Calle Presa 5 de Noviembre		
		- Materials and supplies	PNP	18,560
		- Labor	PNP	7,306
	La Libertad	Ballast spreading - Villa Comasagua		
		- Labor	ENR	8,139
	Cuscatlán	Comunal house construction Oratorio Concepción		
		- Materials and supplies	PNP	23,437
		- Labor	PNP	26,583
	San Miguel	Municipal Park Construction		
		- Materials and supplies	PNP NCL	
			CNP	76,278
		- Labor	PNP CNP	23,305
	La Paz	Improvement of Municipal slaughterhouse - San Pedro Masahyat		
		- Materials and supplies	PNP	9,468
(Sub-program - Municipalities in Action - MEA)	Cuscatlán	School repairs - Suchitoto		
		- Materials and supplies	PNP	82,547
		- Labor	PNP	21,110
	Morazán	National Kinder Construction San Francisco Gotera		
		- Materials and supplies	PNE	57,469
		- Labor	PNE	19,641
	San Miguel	Improvement of Municipal slaughterhouse - Santiago de María		
		- Materials and supplies	PNP	45,446
		- Labor	PNP	32,428
	TOTAL RESTORATION			<u>26,429,520</u>
Combined Civic Actions	Sundry	Transportation of clothing, medicines, food and toys	CCI DNP NCL	<u>220,000</u>
	TOTAL COMBINED CIVIC ACTIONS			<u>220,000</u>
	TOTAL QUESTIONABLE COSTS			<u>26,649,520</u>

Summary per attribute:

PNP	03,877,037
PNP and NCL	1,637,593
PNP - CCI	454,635
PNP, NCL, and CNP	76,278
PNP and CNP	23,305
ENR	25,560
CCI	138,000
CCI, DNP and NCL	220,000
NCL	120,000
PNE	77,110
	<u>06,649,520</u>

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
 (CONARA)

FUND ACCOUNTABILITY STATEMENT
 (expressed in Salvadoran Colones)

JANUARY 1, 1985 TO SEPTEMBER 30, 1987

FUNDS ASSIGNED TO THE PROJECT PER BUDGET

	SOURCE				<u>TOTAL</u>
	<u>1984-1985</u> <u>ESF</u>	<u>1986</u> <u>PL-480</u>	<u>1987</u> <u>ESF</u>	<u>ESF</u>	
PROGRAM:					
Restoration		¢12,500,000	¢23,500,000	¢42,400,000	¢78,400,000
Deduct - Assigned to a Local Human Rights Committee			(77,977)	(38,515)	(116,492)
Subtotal		12,500,000	23,422,023	42,361,485	78,283,508
Administration	1,800,000	2,585,000		2,600,000	6,985,000
Combined Civic Actions			4,000,000	3,000,000	7,000,000
Emergency		2,000,000		3,060,000	5,000,000
Total funds assigned	<u>¢1,800,000</u>	<u>¢17,085,000</u>	<u>¢27,422,023</u>	<u>¢50,961,485</u>	<u>¢97,268,508</u>

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
 (CONARA)

FUND ACCOUNTABILITY STATEMENT
 (expressed in Salvadoran Colones)

JANUARY 1, 1985 TO SEPTEMBER 30, 1987

ACTUAL FUNDS SUPPLIED TO CONARA BY SETEPE (1)

	SOURCE				1987 (2)
	1984-1985	1986		TOTAL	
	ESF	PL-480	ESF		ESF
PROGRAM:					
Restoration		Q12,325,322	Q22,995,000	Q35,320,322	Q14,654,061
Administration	Q1,734,388	2,585,000		4,319,388	
Combined Civic Actions			4,000,000	4,000,000	1,083,464
Emergency		2,000,000		2,000,000	1,500,000
Total funds supplied	Q1,734,388	Q16,910,322	Q26,995,000	Q45,639,710	Q17,237,525

- (1) Secretariat for Foreign Financing (Secretaria Técnica del Financiamiento Externo).
- (2) Other than an advance of Q3,206,780 for working capital provided on September 4, 1987, no draw-downs against these funds had been made by September 30, 1987. An additional Q1,000,000 was advanced on November 12, 1987 and actual supply of monies began on December 3, 1987. The balance of Q34 million out of Q51 million budgeted for 1987 was pending disbursement by SETEPE as of February 18, 1988.

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
 (CONARA)

FUND ACCOUNTABILITY STATEMENT
 (expressed in Salvadoran Colones)

JANUARY 1, 1985 TO SEPTEMBER 30, 1987

DISBURSEMENTS PER COMPONENT (BY PROGRAM)

	PROGRAM				<u>TOTAL</u>
	<u>RESTORATION</u>	<u>ADMINIS TRATION</u>	<u>COMBINED CIVIC ACTIONS</u>	<u>EMERGENCY</u>	
<u>COMPONENT:</u>					
Emergency (1984)				¢ 264,005	¢ 264,005
Emergency (1985)				1,470,383	1,470,383
Personal services	¢ 9,999,773	¢ 2,281,418	¢ 685,801	119,726	13,086,718
Non-personal services	891,717	1,005,971	682,659	5,190	2,585,537
Materials and supplies	13,426,031	746,332	1,407,117	274,156	15,853,636
Machinery and equipment	1,885,037	763,690	1,047,755		3,696,482
Current transfers	260,226				260,226
	<u>¢ 26,462,784</u>	<u>¢ 4,797,411</u>	<u>¢ 3,823,332</u>	<u>¢ 2,133,460</u>	<u>¢ 37,216,987</u>

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
 (CONARA)

FUND ACCOUNTABILITY STATEMENT
 (expressed in Salvadoran Colones)

JANUARY 1, 1985 TO SEPTEMBER 30, 1987

ADVANCES (RECEIVABLES) PENDING LIQUIDATION

RESTORATION -

- Projects in progress under the Municipalities in Action (MEA) subprogram	Q3,507,265	
- Projects unfinished during 1985 carried forward to 1986	815,063	
- Miguel Antonio Deras (settled in December 1987)	400,500	
- Loan to L. Mejia M. (CONARA's coordinator)	<u>13,500</u>	Q4,736,328
- Basic Municipal infrastruc- ture (IBM) - Subprogram		2,043,833
<u>EMERGENCY</u>		1,632,699

COMBINED CIVIC ACTION --

Advances given to A. Morales Erlich, former mayor of San Salvador to cover labor and transportation reportedly settled after September 30, 1987, (the related documen- tation was not available for our review because it was under the custody of Corte de Cuentas)	400,000	
Minor items	<u>3,918</u>	403,918

ADMINISTRATION

28,616
Q8,845,394

NOTE: Except for the balance owed by M.A. Deras, for Q400,500, the documentation supporting the above balances was not reviewed by us nor were we able to satisfy ourselves by other means regarding the reasonableness of such balances or whether they represent sums actually disbursed.

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
(CONARA)

FUND ACCOUNTABILITY STATEMENT
(expressed in Salvadoran Colones)

JANUARY 1, 1985 TO SEPTEMBER 30, 1987

FUND BALANCE, AT END OF PERIOD - CASH IN BANKS AND ON HAND

Banco Central de Reserva (Central bank)		¢ 593,121
Commercial banks:		
Banco de Comercio - Adminis- tration	¢ 976,241	
Banco de Fomento Agropecuario- Payrolls	953,464	
Banco de Comercio - Combined Civic Actions	484,720	
Other banks	<u>10,895</u>	<u>2,425,320</u>
Total cash in banks		3,018,441
Petty cash fund		<u>3,000</u>
		<u>¢3,021,441</u>

THE NATIONAL PLAN AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
(CONARA)

REPORT ON PROJECT SELECTION AND APPROVAL PROCEDURES
AUDITOR'S OPINION

We have performed a financial and compliance audit of the National Plan for Area Restoration managed by the National Commission for Area Restoration (Comisión Nacional de Reconstrucción de Areas CONARA) for the period January 1, 1985 to September 30, 1987, and have issued our report dated February 18, 1988, on the Fund Accountability Statement, in which we disclaimed our opinion due to limitations in the scope of our work. As required by the terms of our engagement, we evaluated the procedures applied by CONARA and other participating implementing institutions in the selection and approval of projects. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

CONARA has instituted the Restoration, Combined Civic Actions and Emergency Programs pursuant to the objectives stated by its creation. These programs are governed by the standards set forth by SETEFE which approves their funding in accordance with the Action Plans submitted by CONARA. CONARA identifies the geographic areas needing assistance and evaluates the studies prepared by each community in cooperation with other GOES institutions. The Projects are executed by implementing units under CONARA's supervision.

In our opinion, the project selection and approval procedures used by CONARA during the period from January 1, 1985 to September 30, 1987, were adequate to perform the activities related with the National Plan for Area Restoration. This opinion does not affect our reports on accountability of funds and other areas of administration of the National Plan for Area Restoration managed by CONARA.

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



February 18, 1988

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
(CONARA).

REPORT ON PROCUREMENT AND INTERNAL
ACCOUNTING CONTROL SYSTEMS
AUDITOR'S OPINION

We have performed a financial and compliance audit of the National Plan for Area Restoration managed by the National Commission for Area Restoration (Comisión Nacional de Reconstrucción de Areas, CONARA) for the period January 1, 1985 to September 30, 1987, and have issued our report dated February 18, 1988, on the Fund Accountability Statement, in which we disclaimed our opinion due to limitations in the scope of our work. As part of our examination, we made a study and evaluation of the CONARA's procurement and internal accounting control systems to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision). For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- Salaries, wages and administrative costs
- Materials and supplies
- Machinery and equipment
- Bank transfers between programs

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the National Plan's fund accountability statement. Our study and evaluation was more limited than would be necessary to express an opinion on the CONARA's procurement and internal accounting control systems taken as a whole or on any of the categories of controls identified above.

The management of CONARA is responsible for establishing and maintaining the procurement and internal accounting control systems. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance

that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of appropriate financial information. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the CONARA's procurement and internal accounting control systems taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed the conditions identified as findings 1 to 8 in the following pages, that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement of the National Plan for Area Restoration may occur and not be detected within a timely period.

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



February 18, 1988

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
(CONARA)

REPORT ON PROCUREMENT AND INTERNAL ACCOUNTING
CONTROL SYSTEMS FINDINGS

1. THERE WAS LACK OF ADEQUATE SEGREGATION
OF FUNCTIONS IN THE PROCUREMENT DEPARTMENT -

Condition -

CONARA's procurement Department is headed by a clerk who is also a preparer of private bidding documents, a member of the bids awarding Committee and a warehousekeeper for medicines and other items destined to the projects. She is also head of the Human Resources Department (personnel) and of the General Services Department (vested with daily administrative routines).

Criteria -

Segregation of incompatible duties is fundamental to the reliability of an entity's control system and of individual controls within this system. The underlying concept is that no one person should be in a position to control all phases of processing a transaction in a way that permits errors of omission or commission to go undetected. The flow of activities should be designed so that the work of one individual is either independent of, or serves as a check on, the work of another.

Cause -

CONARA has not had accurate and reliable systems and procedures and does not have sufficient management capability to design and implement an adequate procurement system.

Effect -

Costs incurred for which adequate procurement practices do not exist could be considered questionable since there is no assurance that all purchases are based on valid, approved requests and are properly executed as to price, quantity, quality and vendor.

Recommendation -

USAID/El Salvador should require SETEFE to assure that CONARA divests the present procurement clerk of some duties that are incompatible with sound procurement practices, so that the following functions are segregated:

- initiating transactions (e.g. ordering goods)
- recording transactions (e.g. maintaining inventory records)
- custody over assets (e.g. supervising inventory storage)
- ultimate control of purchases (e.g. awarding bid contracts)

It is believed that CONARA's staff is sufficiently large to permit assignment of some of the above functions to different individuals with no harm to the timely discharge of their present duties.

2. EXCESS DISBURSEMENTS OVER BUDGET WERE NOT APPROVED IN ADVANCE BY SETEFE (SECRETARIAT FOR FOREIGN FINANCING OR SECRETARIA TECNICA DE FINANCIAMIENTO EXTERNO), THE ULTIMATE AUTHORITY IN THIS RESPECT -

Condition -

Several disbursements in excess of the approved budget occurred contrary to instructions that the excesses were required to be approved in advance by SETEFE.

Criteria -

Generally, excess disbursements over budget occur because of initial underestimates or changing conditions, which cannot be foreseen. Consequently, since these excesses cannot be attributable to intentional errors, approval should be requested prior to incurring the expenses.

Cause -

Requests for approval of excess expenses over budget were not sent to SETEFE. Instead, the matter was handled internally and excess expenditures were made without SETEFE's approval.

Effect -

Unapproved expenditures could affect the estimated project completion dates, and there is a risk that the related disbursements might not be accepted for legal purposes.

Recommendation -

USAID/El Salvador should require SETEFE to assure that CONARA fully documents all expected excess disbursements over budget and to request approval from SETEFE prior to actual expenditures and well in advance of project completion dates.

3. SIGNATURES EVIDENCING RECEIPT OF WAGES WERE DIFFERENT FROM THOSE APPEARING IN PRIOR OR SUBSEQUENT PAYROLLS -

Condition -

Upon our comparison of salary payment slips pertaining to payrolls for different time periods, we found several instances where the required signatures evidencing receipt of wages appeared to be completely different for supposedly the same individuals.

Criteria -

All signatures of a worker should be similar for all purposes and should be corroborated by the application of sound internal accounting control procedures.

Cause -

There was a lack of independent control over payments of wages and salaries.

Effect -

There was a risk that wage payments were made to or collected by individuals other than those originally intended to receive the wages.

Recommendation -

USAID/El Salvador should require SETEFE to assure that CONARA makes all payments through a regular paymaster, who should ensure that payments are only made to the actual individuals intended to receive the wages.

4. REPETITIVE CASES WHERE WAGES OF LABORERS WERE COLLECTED ON BEHALF OF INDIVIDUALS WERE AT VARIANCE WITH NORMAL CUSTOMS -

Condition -

Wages pertaining to some payrolls at Chalatenango and Cuscatlán were paid to one single individual on behalf of approximately forty percent of the labor force (in some cases to the town mayor), with no reasonable explanations therefor.

Criteria -

It is not customary for workers to be absent on paydays, at least in great numbers. Consequently, wage payments made on behalf of another individual should be the exception rather than the rule, and should be authorized only in justified cases.

Cause -

There were inadequate control procedures in the payroll department.

Effect -

There was a possibility that the actual workers did not collect their wages or that the payrolls were loaded with straw men (employees that did not exist).

Recommendation -

USAID/El Salvador should require SETEFE to assure that CONARA makes payments for employee compensation to only bona-fide employees for services performed as authorized by management. Payments made to another person on-behalf of an employee should be made only on an exception basis and authorized only in justified cases.

5. THE ACCOUNTING RECORDS OF CONARA FOR ADVANCES PENDING LIQUIDATION (RECEIVABLES) DID NOT PROVIDE FOR ACCURATE SUPPORTING DATA -

Condition -

We were neither able to trace balances (or individual entries thereof) pertaining to advances pending liquidation to original source documentation as at September 30, 1987, nor were we able to satisfy ourselves as to those balances by a review of subsequent events.

Criteria -

Balances of advances pending liquidation (receivables) should be adequately recorded and the related individual entries supported by documentation, so that the corresponding amount can be traced to the original source documents.

Cause -

The accounting department personnel did not seem to be aware of simple controls over receivables (and other accounts), as they tended to pass responsibility therefor to each other.

Effect -

The possibility exists that the balances may never be liquidated or collected, and management may be prevented from adopting corrective measures absent the required accounting controls.

Recommendation -

USAID/El Salvador should require SETEFE to assure that CONARA's management establishes better controls over advances pending liquidation. In this regard, individual ledger cards should be opened for each advance given, with references to the original source documentation as to dates and amounts. Each transaction should be individually posted to these cards in order to clearly identify any open entries forming part of the month-end balances. The aggregate of these ledger card balances should be reconciled monthly to the general ledger control account and any discrepancies should be immediately investigated.

6. SOME WAGES HAVE NEVER BEEN COLLECTED BY WORKERS FROM A BANK ACCOUNT WHICH HAS BEEN OPENED FOR CONTROLLING PAYROLL PAYMENTS -

Condition -

An account has been opened with Banco de Fomento Agropecuario for controlling payroll payments. Some of the January 1987 payroll supported by wage pay slips in the amount of ¢40,770 has not been collected by workers. The applicable law requires that uncollected wages be deposited with the Comptroller's office (Corte de Cuentas) for their subsequent payment.

Criteria -

Payrolls are supposed to be paid (collected) promptly, because of the nature of the transactions.

Cause -

No reasonable explanations were furnished to us for the probable cause of the above situation.

Effect -

It is possible that the payroll slips supporting the debit memos issued to the bank for payment are not real or that duplicate payments may have been inadvertently avoided.

Recommendation -

USAID/El Salvador should require SETEFE to assure follow-up by someone in CONARA's accounting department of payments of payroll by the bank. Any uncollected wages at the end of the month should be transferred to the Corte de Cuentas as provided for by the law.

7. THERE WAS CONCENTRATION OF INCOMPATIBLE FUNCTIONS ON THE REVOLVING FUND CLERK -

Condition -

The clerk in charge of the revolving fund bank account from which most normal expenditures are made is also a cosigner for checks. The clerk also prepares bank reconciliations, submits disbursement reports, and prepares some journal entries.

Criteria -

Operating functions should be segregated from accounting functions.

Cause -

There was generally a lack of management concern for segregation of duties as a fundamental basis for internal control.

Effect -

There was a risk that errors or irregularities might be undetected and that corresponding figures might be incorrect.

Recommendation -

USAID/El Salvador should require SETEFE to assure that CONARA revises the present duties of the revolving fund clerk in order to assure that incompatible functions are reassigned to employees independent of cash transactions. Segregation of incompatible duties should be incorporated by CONARA for purposes of sound internal controls.

8. A BANK ACCOUNT IN THE BANCO CENTRAL DE RESERVA
IN THE NAME OF THE REVOLVING FUND CLERK WAS
NOT RECORDED IN CONARA'S ACCOUNTING RECORDS -

Condition -

We found that the checking account No.1-34-130 in the Banco Central de Reserva was not recorded in the CONARA's accounting records as of September 30, 1987. This bank account was opened in the name of Noe Ramirez Ramos, CONARA's revolving fund clerk prior to February 14, 1986 when formal accounting control of CONARA was initiated. The account balance as of September 30, 1987 was Q31,267.43.

Criteria -

All bank accounts where CONARA's funds are managed should be accounted for in its accounting records.

Cause -

It was explained to us that the exclusion of the bank account was due to the lack of formal accounting records for CONARA prior to February 1986. No further reasons for the existence of such bank account was found by us.

Effect -

There was a risk that CONARA's funds could be diverted for unauthorized purposes.

Recommendation -

USAID/El Salvador should ascertain that SETEFE requires CONARA's management that: a) bank account No.1-34-130 in Banco Central de Reserva be immediately closed; b) the related ending balance be recorded in the CONARA's books; c) all transactions made with these funds be reviewed and carefully accounted for in the CONARA's accounting records; and d) such practices should not be authorized in the future.

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
(CONARA)

EL SALVADOR, C. A.

REPORT ON CONTROL OF VEHICLES

JANUARY 1, 1985 TO SEPTEMBER 30 1987

AUDITOR'S OPINION

During the period January 1, 1985 to September 30, 1987 the National Commission for Area Restoration (CONARA) acquired a number of vehicles for official use, either by donations or by purchases. In connection with the financial and compliance audit of CONARA for the above mentioned period, we attempted to determine (a) whether the vehicles were used only for official purposes and (b) whether adequate records were maintained on each vehicle showing the identification number, location, to whom assigned, mileage driven, gas consumption, record of maintenance, etc.

Since no records were made available to us, and after further inquiries it was represented to us in writing that no records existed for control of the vehicles other than a listing of the vehicles and some documentation supporting vehicle purchases, we are unable to express, and we do not express, an opinion on whether CONARA complied with steps (a) and (b) mentioned above.

The accompanying Annex A is a listing of the vehicles in question.



February 18, 1988

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
(CONARA)

EL SALVADOR, C. A.
CONTROL OF VEHICLES

LISTING OF VEHICLES AS AT SEPTEMBER 30, 1987

No.	RESPONSIBLE OFFICER	OFFICE	PLATE No.	TYPE	MAKE	KIND	CHASSIS No.	MOTOR No.	COLOR		YEAR	CAPACITY (PERSON)	LOCATION
									HOOD	BODY			
1	José Remberto Girón Flores	(A) Enlace Deptal.	P-7299	JEEP	WILLYS	CJS	JOMB4ECC067811	006005	BEIGE	ROJO	1980	5	USulután
2	Oficina Regional	(A) Santa Ana	P-7558	JEEP	WILLYS	CJS	JOMB430067794	006010	NEGRO	CELESTE	1980	5	SANTA ANA
3	Jorge Alberto López Muñoz	(A) Enlace Deptal.	P-7350	JEEP	WILLYS	CJS	JOMB4ECC067810	006002	BEIGE	BEIGE	1980	5	SANTA ANA
4	Carlos Cabrera Portillo	(A) Enlace Deptal.	P-7184	JEEP	WILLYS	CJS	JOMB4ECC067807	006004	BEIGE	BEIGE	1980	5	SONSONATE
5	Alfredo Armando Hernández	(A) Enlace Deptal.	P-5596	JEEP	WILLYS	CJS	JOMB4ECC067806	004014	BEIGE	BEIGE	1980	5	CHALATENANGO
6	Mario Roberto Martínez	(A) Enlace Deptal.	P-5538	JEEP	WILLYS	CJS	JOMB4ECC067801	011558408	BEIGE	CELESTE	1980	5	SAN MIGUEL
7	Oficina Regional	(A) San Miguel	P-7714	JEEP	WILLYS	CJS	JOMB4ECC067793	000002	BEIGE	ROJO	1980	5	REPARACION
8	Oficina Regional	(A) Cojutepeque	P-5800	JEEP	WILLYS	CJS	JMB4ECC067809	004002	NO TIENE	BEIGE	1980	5	OFICINA
9	Oficina Regional	(B) Santa Ana	P-27904	PICKUP	JEEP	COMANCHE	1JTWL651XGT162814	T0228UCA	GRIS	GRIS	1980	5	SANTA ANA
10	Carlos Humberto Rodríguez	(B) Gerencia Operaciones	P-20859	PICKUP	JEEP	COMANCHE	1JTWL6513GT079289	T0508UCA	ROJO	ROJO	1986	2	SAN SALVADOR
11	USAID/El Salvador	(B) Asesoría AID	P-9700	PICKUP	JEEP	COMANCHE	1JTWL6514GT193407	1JTWL6514GT1934	AZUL	AZUL	1986	2	SAN SALVADOR
12	Oscar Aleman	(B) Gerencia Administrativa	P-186930	PICKUP	JEEP	COMANCHE	1JTHL6571GT045107	50SH12	AZUL	AZUL	1986	2	SAN SALVADOR
13	Oficina Regional	(B) Cojutepeque	P-29809	PICKUP	JEEP	COMANCHE	1JTHL65114GT182275	T0405UCA	PLATEADO	PLATEADO	1986	2	SAN SALVADOR
14	Oficina Regional	(B) San Miguel	P-31082	PICKUP	JEEP	COMANCHE	1JTHL651XGT161302	602H05	CREMA	CREMA	1986	2	SAN MIGUEL
15	Coordinación General	(B) San Salvador	P-28208	PICKUP	JEEP	COMANCHE	1JTHL6579GT053810	50SH18	BLANCO	BLANCO	1986	2	COORDINADOR C
16	Oficina Regional	(B) San Salvador	P-23760	PICKUP	JEEP	COMANCHE	1JTHA6578GT161304	602H10	CAFE	CAFE	1986	2	SAN SALVADOR
17	René Roberto Soto	(C) Enlace Deptal.	P-35205	JEEP	SUZUKI	SJ413	SJ50119347	613A281103	ROJO	ROJO	1987	4	CUSCATLÁN
18	Edmundo Adán Villacorta	(C) Jefe de Supervisión	P-35253	JEEP	SUZUKI	SJ413	SJ50120109	613A303657	AZUL	AZUL	1987	4	SAN SALVADOR
19	Santos Orlando Lazo Berganza	(C) Enlace Deptal.	P-35234	JEEP	SUZUKI	SJ413	SJ50120202	613A303653	AZUL	AZUL	1987	4	SAN SALVADOR
20	Juan Antonio Segovia	(C) Enlace Deptal.	P-35209	JEEP	SUZUKI	SJ413	SJ50119196	613A-276784	BLANCO	BLANCO	1987	4	SAN VICENTE
21	Luis Roberto Hernández Q.	(C) Jefe Depto. de EN. y D.	P-35231	JEEP	SUZUKI	SJ413	SJ50119945	GL13A302010	GRIS	GRIS	1987	4	MORAZÁN
22	Samuel Edgardo Rivas Ayala M.	(C) Enlace Deptal.	P-35237	JEEP	SUZUKI	SJ410	SJ40182266	F10A788621	AZUL	AZUL	1987	4	SAN SALVADOR
23	Nery Escalante Gochez	(C) Enlace Deptal.	P-35239	JEEP	SUZUKI	SJ410	SJ40-182403	F10A789968	NEGRO	NEGRO	1987	4	LA FAZ
24	Gonzalo Lopez Fisher	(C) Enlace Deptal.	P-35263	JEEP	SUZUKI	SJ413	SJ50120002	613A-308546	PLATEADO	PLATEADO	1987	4	AGUACHAPAN
25	Mario de Jesús Miranda	(C) Enlace Deptal.	P-35269	JEEP	SUZUKI	SJ413	SJ50119920	613A-302413	PLATEADO	PLATEADO	1987	4	SAN SALVADOR
26	Luis Mejía Miranda	(C) Coordinador General	P-35248	JEEP	SUZUKI	SJ413	SJ50119924	G13A280351	VERDE	VERDE	1987	4	SAN SALVADOR
27	Ing. Miguel Ángel Montalvo	(C) Gerente Regional	P-35230	JEEP	SUZUKI	SJ413	SJ40-182356	F10A789515	ROJO	ROJO	1987	4	SAN MIGUEL
28	Carlos Rivas Mejía	(C) Cabañas	P-35243	JEEP	SUZUKI	SJ410	SJ40-182356	F10A789515	ROJO	ROJO	1987	4	CABAÑAS
29	Servicios Generales*	(B) Servicios Generales	N-6315	AUTO	HONDA	CIVIC	SEA1011950	EC1341554	CAFE	CAFE	1976	5	SAN SALVADOR
30	Luis Mejía Miranda	(B) Coordinador General	P-40208	CAMIONETA	JEEP	CHEVROLET	1JEGM18J9DT055281	304C11	CAFE	CAFE	1980	5	COORDINACION
31	Cnel. Manuel Antonio Muñoz	(B) Coordinador Defensa	P-84300	CAMIONETA	JEEP	WAGONNER	JBA15H066652	BLINDADA	CELESTE	CELESTE	1978	5	COORDINAC. DEF
32	Oscar Gómez Abrego	(C) Acción Cívica Coeb.	P-6538	BUS	TOYOTA	COASTER							

Motorcycles:

1	Oficina Regional	(C) Santa Ana	M-17665	MOTO	KAWASAKI		K1107190	KLE11530	VERDE	VERDE	1986	2	ASS.	SANTA ANA
2	Oficina Regional	(C) Cuscatlán	M-17666	MOTO	KAWASAKI		K1107193	KLE115418	VERDE	VERDE	1986	2	ASS.	CUSCATLÁN
3	Oficina Regional	(C) San Miguel	M-17667	MOTO	KAWASAKI		K1108335	KLE117651	VERDE	VERDE	1986	2	ASS.	SAN MIGUEL
4	Carlos Edgardo Rivera	(C) Mensajero	M-17668	MOTO	KAWASAKI		K1107196	KLE115420	VERDE	VERDE	1986	2	ASS.	REVISION
5	Servicios Generales	(C) Oficina	M-17669	MOTO	KAWASAKI		K1107194	KLE115428	VERDE	VERDE	1986	2	ASS.	SAN SALVADOR
6	Carlos Armando Torres H.	(C) Promotor	M-17670	MOTO	KAWASAKI		K1107191	KLE115443	VERDE	VERDE	1986	2	ASS.	CUSCATLÁN

* Unassigned vehicles

PREPARED BY: ANTONIO MARTINEZ

NOTE - (A) Transfers from a USAID/ES assisted PUO upon termination of an activity
(B) Donations received from AID
(C) Purchased by CONARA

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
(CONARA)

REPORT ON COMPLIANCE WITH APPLICABLE LAWS,
REGULATIONS AND AGREEMENT TERMS
AUDITOR'S OPINION

We have performed a financial and compliance audit of the National Commission for Area Restoration managed by the National Commission for Area Restoration (Comisión Nacional de Restauración de Areas, CONARA) for the period January 1, 1985 to September 30, 1987, and have issued our report dated February 18, 1988 on the Fund Accountability Statement in which we disclaimed our opinion due to limitations in the scope of our work. As a part of our examination we selected and attempted to test transactions and records to determine CONARA's compliance with agreement terms and applicable laws and regulations. Except for the limitations mentioned in the third paragraph below, our study and evaluation was made in accordance with the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

The management of CONARA is responsible for compliance with the terms governing disbursement of funds by the Secretariat for Foreign Financing (Secretaría Técnica del Financiamiento Externo, SETEFE) from funds provided by the PL-480, Title I and ESF agreements signed between the Government of El Salvador (GOES) and USAID/El Salvador. Such responsibility also extends to compliance with the laws and regulations of El Salvador, as they may be applicable to the covenants of the agreements.

Due to the poor condition of the accounting records and supporting documentation, unavailability of documentation, and lack of adequate internal accounting controls, it was not possible for us to determine whether the selected transactions were in compliance with covenant terms and applicable laws and regulations. Accordingly, we do not express an opinion as to positive assurance on compliance with tested items and negative assurance on compliance with untested items of covenant terms and applicable laws and regulations for the period January 1, 1985 to September 30, 1987. However, the results of our study

determined that for certain of the items tested CONARA did not comply with covenant terms and applicable laws and regulations as described in findings Nos. 1 through 5. We also found certain situations which may be indicative of irregular accounting procedures and have issued a separate report to the attention of RIG/A/T.

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



February 18, 1988

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
(CONARA)

REPORT ON COMPLIANCE WITH APPLICABLE LAWS,
REGULATIONS AND AGREEMENT TERMS FINDINGS

1. INTER-PROGRAM BANK TRANSFERS WERE
MADE WITHOUT PROPER AUTHORIZATION -

Condition -

Bank transfers between the different programs (Restoration, Administration, Emergency and Combined Civic Actions) were made without prior approval from SETEFE and were required by USAID/El Salvador.

Criteria -

The applicable agreement covenants require approvals for transfers of funds between different programs.

Cause -

There were emergency situations in which particular programs lacked sufficient funding due to a lack of close controls over the related disbursements.

Effect -

Funds budgeted for particular programs could be short of funds when needed, thus causing delays or costs in excess of budget.

Recommendation -

USAID/El Salvador should require SETEFE to assure that CONARA anticipates all fund needs well in advance, so that prior approval for any inter-program transfers can be obtained from SETEFE and, if applicable, USAID/El Salvador.

2. ACCOUNTING RECORDS WERE NOT AUTHORIZED
OR APPROVED BY SETEFE AS REQUIRED -

Condition -

The cash subsidiary record and the general ledger cards were not authorized by SETEFE, as required by Ministry of Finance/SETEFE instructions 1204.

Criteria -

Authorization should be obtained in order to fully comply with the applicable GOES regulations.

Cause -

There was a lack of initiative by the chief accounting clerk of CONARA.

Effect -

There was non-compliance with the GOES regulations a risk that the related transactions, as recorded, would be rejected by the Comptroller's Office (Corte de Cuentas).

Recommendation -

USAID/El Salvador should inform SETEFE of the situation and require CONARA to take immediate corrective measures to get its books of account authorized by SETEFE.

3. BANK ACCOUNTS WERE OPENED WITH THE COMMERCIAL BANKING SYSTEM WITHOUT PROPER AUTHORIZATION -

Condition -

CONARA opened fifteen bank accounts with a number of local commercial banks during the period without prior approvals from SETEFE. Some of those accounts have subsequently been closed.

Criteria -

Instruction 1204, jointly issued by the Ministries of Finance and Planning, prohibits opening accounts in commercial banks with Government funds, without prior approvals.

Cause -

Flexibility for handling GOES funds in the countryside was being sought.

Effect -

There was non-compliance with legal regulations of the GOES.

Recommendation -

USAID/El Salvador should require SETEFE to request CONARA to close all bank accounts opened without its prior approval. The opening of new accounts in the future should only be made upon prior approval from SETEFE.

4. PUBLIC BIDS WERE NOT OBTAINED FOR ACQUISITIONS EXCEEDING Q100,000 WHICH DID NOT COMPLY WITH INSTRUCTION 1204 -

Condition -

Several instances were found where public bids were not obtained for acquisitions exceeding Q100,000. Acquisitions of school desks and transportation of ballast are two examples.

Criteria -

Public bids are required to assure obtaining the best terms of purchase (lower prices, better delivery terms, etc.)

Cause -

The acquisition of the school desks was described by CONARA's management as an urgent matter, as a reason for circumventing the bid requirement.

Effect -

Better terms of purchase (lower unit school desk prices than the ones offered by the awardee) were lost for CONARA.

Recommendation -

USAID/El Salvador should require SETEFE to assure that CONARA obtains public bids for acquisitions in all cases required by Instruction 1204.

5. CONTRACTS EXCEEDING Q100,000 WERE NOT APPROVED BY THE CORTE DE CUENTAS AS REQUIRED -

Condition -

Two contracts (one for acquisition of school desks and another for text books) were executed with suppliers without approvals by the Corte de Cuentas.

Criteria -

The above approval is required by law.

Cause -

No cause was found per discussions with CONARA officials.

Effect -

There was circumvention of legal requirements and a risk that ineligibility for legal purposes could be expressed by the Corte de Cuentas.

Recommendation -

USAID/El Salvador should require SETEFE to assure that all contracts exceeding ¢100,000 are submitted by CONARA to the Corte de Cuentas for prior approval.

THE NATIONAL PLAN FOR AREA RESTORATION MANAGED BY
THE NATIONAL COMMISSION FOR AREA RESTORATION
(CONARA)

LIST OF REPORT RECOMMENDATIONS

REPORT ON PROCUREMENT AND INTERNAL ACCOUNTING
CONTROL SYSTEMS

Recommendation No. 1 -

USAID/El Salvador should require SETEFE to assure that CONARA divests the present procurement clerk of some duties that are incompatible with sound procurement practices, so that the following functions are segregated:

- initiating transactions (e.g. ordering goods)
- recording transactions (e.g. maintaining inventory records)
- custody over assets (e.g. supervising inventory storage)
- ultimate control of purchases (e.g. awarding bid contracts)

It is believed that CONARA's staff is sufficiently large to permit assignment of some of the above functions to different individuals with no harm to the timely discharge of their present duties.

Recommendation No. 2 -

USAID/El Salvador should require SETEFE to assure that CONARA fully documents all expected excess disbursements over budget and to request approval from SETEFE prior to actual expenditures and well in advance of project completion dates.

Recommendation No. 3 -

USAID/El Salvador should require SETEFE to assure that CONARA makes all payments through a regular paymaster, who should ensure that payments are only made to the actual individuals intended to receive the wages.

Recommendation No. 4 -

USAID/El Salvador should require SETEFE to assure that CONARA makes payments for employee compensation to only bona-fide employees for services performed as authorized by management. Payments made to another person on-behalf of an employee should be made only on an exception basis and authorized only in justified cases.

Recommendation No. 5 -

USAID/El Salvador should require SETEFE to assure that CONARA's management establishes better controls over advances pending liquidation. In this regard, individual ledger cards should be opened for each advance given, with references to the original source documentation as to dates and amounts. Each transaction should be individually posted to these cards in order to clearly identify any open entries forming part of the month-end balances. The aggregate of these ledger card balances should be reconciled monthly to the general ledger control account and any discrepancies should be immediately investigated.

Recommendation No. 6 -

USAID/El Salvador should require SETEFE to assure follow-up by someone in CONARA's accounting department of payments of payroll by the bank. Any uncollected wages at the end of the month should be transferred to the Corte de Cuentas as provided for by the law.

Recommendation No. 7 -

USAID/El Salvador should require SETEFE to assure that CONARA revises the present duties of the revolving fund clerk in order to assure that incompatible functions are reassigned to employees independent of cash transactions. Segregation of incompatible duties should be incorporated by CONARA for purposes of sound internal controls.

Recommendation No. 8 -

USAID/El Salvador should ascertain that SETEFE requires CONARA's management that: a) bank account No.1-34-130 in Banco Central de Reserva be immediately closed; b) the related ending balance be recorded in the CONARA's books; c) all transactions made with these funds be reviewed and carefully accounted for in the CONARA's accounting records; and d) such practices should not be authorized in the future.

REPORT ON COMPLIANCE WITH APPLICABLE LAWS,
REGULATIONS AND AGREEMENT TERMS

Recommendation No. 1 -

USAID/El Salvador should require SETEFE to assure that CONARA anticipates all fund needs well in advance, so that prior approval for any inter-program transfers can be obtained from SETEFE and, if applicable, USAID/El Salvador.

Recommendation No. 2 -

USAID/El Salvador should inform SETEFE of the situation and require CONARA to take immediate corrective measures to get its books of account authorized by SETEFE.

Recommendation No. 3 -

USAID/El Salvador should require SETEFE to request CONARA to close all bank accounts opened without its prior approval. The opening of new accounts in the future should only be made upon prior approval from SETEFE.

Recommendation No. 4 -

USAID/El Salvador should require SETEFE to assure that CONARA obtains public bids for acquisitions in all cases required by Instruction 1204.

Recommendation No. 5 -

USAID/El Salvador should require SETEFE to assure that all contracts exceeding \$100,000 are submitted by CONARA to the Corte de Cuentas for prior approval.

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