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FOLLOW-UP REVIEW
OF RECOMMENDATIONS NO. 6 AND NO. 4 B),
AUDIT REPORT NO. 1-519-85-13,
USAID/EL SALVADOR PRIVATE SECTOR
SUPPORT PROGRAM AND PUBLIC LAW 480
LOCAL CURRENCY GENERATIONS,
DATED SEPTEMBER 26, 1985

Audit Report No. 1-519-89-08
January 30, 1989

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AMERICAN EMBASSY
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January 30, 1989

MEMORANDUM

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

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

SUBJECT: Draft Audit Report No. 1-519-89-08, Follow-up Review of Recommendations No. 6 and No. 4 b), Audit Report No. 1-519-85-13, USAID/El Salvador Private Sector Support Program and Public Law 480 Local Currency Generations, dated September 26, 1985

The Regional Inspector General for Audit/Tegucigalpa (RIG/A/T) reviewed the status of the subject audit recommendations. The Central Bank had not taken appropriate actions to fully satisfy those recommendations. Therefore, we formally reopen recommendation No. 6 of Audit Report No. 1-519-85-13, but the recommendation has been changed to make it consistent, under present circumstances, with the intent of the recommendation. Recommendation No. 6 is unresolved. We have not reopened recommendation No. 4 b) because the underlying issue is addressed in reopened recommendation No. 6. Please provide your written response on actions taken to close the recommendation within the next 30 days. Any recommendation still unresolved after the 30-day period will be referred to the Deputy Administrator.

Recommendation No. 6

Audit finding No. 6 disclosed that many ineligible transactions were selected for attribution to A.I.D. disbursements because the Central Bank's procedures for selection were too limited to ensure the accurate selection of eligible transactions. It noted that the Central Bank's Data Processing Department had designed and incorporated into the A.I.D.

data base most of the elements needed to establish a computerized selection system. Furthermore, the change from a manual to a computerized selection system could be made without a big investment in time and resources. The finding concluded that changing systems should greatly reduce the number of ineligible transactions selected for attribution.

Recommendation No. 6

We recommend that USAID/El Salvador verify that the Central Bank has installed a computerized selection system for attribution of import transactions to AID financing.

This recommendation was closed upon issuance of the report because the Mission had contracted a consultant to provide technical assistance to the Central Bank to correct this and other deficiencies identified in the audit report. The following was stated in the original audit report:

Action Taken by USAID/El Salvador on Audit Recommendation

Recommendation No. 6 is to be considered resolved on the publication of this report because Arthur Young & Co. under a contract with USAID/El Salvador are providing technical assistance to the Central Bank to develop, among other things, a computerized selection system by August 1985. We plan to perform a follow-up review in the not-too-distant future to verify that this system is operating effectively.

In July 1986 the Mission provided RIG/A/T with a set of documents prepared by Arthur Young and Co. The documents included a "Report of Requirements and Conceptual Design for the Control and Follow-up of Imports" which described the computerized selection system the Central Bank was supposedly going to use to identify transactions eligible for attribution to Economic Support Fund (ESF) resources. However, USAID/El Salvador did not provide evidence that it had requested the Central Bank to implement the system.

In July 1988, during a follow-up review of the ESF program, the RIG/A/T determined that the Central Bank had not implemented the computerized selection system as previously recommended. According to an official of the Central Bank, its building was damaged by the earthquake of October 10, 1986, and certain units of the bank were moved to different locations thereby limiting access to its central computer system. This delayed the planned implementation of the computerized selection system.

Our review determined that the Central Bank had improved its transaction selection system in relation to what was reported in September 1985. However, the Central Bank was somewhat dependent on USAID/El Salvador contractors for determining eligibility of certain transactions.

Furthermore, the Central Bank did not prepare and submit a final report of import transactions paid with ESF dollars as required by the "Separate Account Operating Procedures" to USAID/El Salvador for its eligibility review. Instead, A.I.D. contractors, who were hired to review the transactions, prepared the reports from data accumulated in its computer system from source documents provided by the Central Bank. This happened because the Central Bank had not implemented the proposed changes to its computer system.

In conclusion, although the Central Bank had improved its ability to select transactions to be attributed to ESF resources, it had not assumed full responsibility for selecting and reporting such transactions to USAID/El Salvador as originally intended by the program agreements. Compliance with our recommendation to computerize the selection system should provide the Central Bank with the capability to independently prepare the required eligibility reports for USAID/El Salvador which were being prepared by A.I.D.-financed contractors (see Audit of USAID/El Salvador Balance of Payments Program). It should also improve the efficiency of the procedures used by the Central Bank in selecting eligible transactions.

Management Comments

USAID/El Salvador did not believe that a computerized selection system was justified because the Central Bank has established a manual system that accurately selects transactions based on well-defined criteria. USAID/El Salvador also took exception to our suggestion that the Central Bank personnel were not solely responsible for determining eligibility. They stated that the selection decision is made exclusively by Central Bank personnel and not by an A.I.D. contractor. USAID/El Salvador also stated they plan to contract technical assistance to perform the independent eligibility review and that any modifications to the system or the contracting of technical assistance will be the decision of the Central Bank, in cooperation with the Mission, as would be considered beneficial and cost effective to the program. USAID/El Salvador's complete comments are contained in appendix 1.

Office of Inspector General Comments

In our opinion, the current manual system has not been adequately tested to determine whether the system can accurately select transactions without assistance provided by A.I.D. contractors. Between July 1985 and May 1988, USAID/El Salvador secured the services of the same principal consultant under two contracts at a cost of $1,652,194 to review the eligibility of import transactions selected by the Central Bank. According to the contractors, they developed and maintained a computerized data base for the transactions selected by the Central Bank because the Central Bank did not have one. The data base developed by the contractors added to contract costs. The contractors stated they used this data base to identify duplicate and other ineligible transactions and prepare their final reports to A.I.D. According to

Central Bank and contractors' personnel, the Central Bank consulted with the A.I.D. contractors concerning the eligibility of some transactions before the Central Bank selected the transactions.

USAID/El Salvador management originally supported our 1985 recommendations to establish a computerized selection system but it was not implemented for the reasons stated in this report. As indicated in USAID/El Salvador comments to our draft report, current Mission management prefers to use a manual rather than a computerized selection system. The original intent of our 1985 recommendation was to ensure that the Central Bank had established an adequate system to accurately select eligibility import transactions. Thus it is not important whether the Central Bank uses a computerized or a manual selection system but only that the system accurately selects the eligible transactions, and it does so without costly A.I.D. technical assistance.

We formally reopen recommendation No. 6, but because circumstances have changed the recommendation has been restated as follows in order to make it consistent with the intent of the original recommendation.

Recommendation No. 6

USAID/El Salvador should obtain evidence that the Central Bank system for selecting eligible import transactions is accurately selecting transactions without assistance from A.I.D.-financed contractors.

Recommendation No. 4 b)

Audit finding No. 4 disclosed among other things that ineligible import transactions were attributed to A.I.D. financing because the criteria used for identifying eligible commodities and industrial subsectors was too general. It noted that in order to maintain the integrity of the Economic Support Fund, better controls should be established to identify the commodities and industries that would be eligible for attribution to AID financing. It concluded that the commodity and industrial subsector criteria should be refined and that those refinements should be used to classify the transaction on a source document such as the Import Permit Application "Form 10".

Recommendation No. 4

We recommend that USAID/El Salvador:

[In this report Part a) of the recommendation has been deleted because it is not pertinent.]

b) define the criteria for eligible commodities and industrial subsectors and obtain from the Central Bank evidence that it has implemented procedures

to use those definitions to record the commodity and industrial subsector classification on a source document such as the Import Permit Application "Form 10".

Section b) was closed because the computerized selection system that was to be installed by the Central Bank (see Recommendation No. 6 above) would address the commodity and industrial subsector problem. The following appeared in the audit report:

> Action Taken by USAID/El Salvador to Close Recommendation No. 4
>
> All parts of this recommendation, (a) through (f), are closed upon the publication of this report because of corrective actions taken by USAID/El Salvador on our audit findings and the draft audit report.
>
> [In this report Part a) of the recommendation has been deleted because it is not pertinent.]
>
> Part (b) - The implementation of the computerized selection system which will use the Tariff Codes (NAUCA) and Industrial Use Codes (CIIU) to select eligible transactions by commodity and private sub-sectors should help to correct this problem.

USAID/El Salvador provided us with evidence that it had defined the criteria for eligible commodities and industrial subsectors. Since the Central Bank has continued to perform a manual selection of transactions to be financed with ESF resources, such guidance was needed to minimize differences of opinion on how to classify commodities and industrial subsectors. We consider that the Mission has complied with the part of the recommendation that reads: "...define the criteria for eligible commodities and industrial subsectors..."

The Mission did not provide evidence that the Central Bank had implemented procedures to use the definitions to record the commodity and industrial subsector classification on a source document such as the import permit application "Form 10". Our current review showed that neither of the two source documents used by the Central Bank, "Form 10" for approving the import transaction or "Form 15" for requesting foreign exchange, included adequate information on commodity and industrial subsector classifications. For example, even though "Form 15" requires information about the economic sector to be benefited, only five of the eight industrial subsectors considered eligible for ESF financing are listed (e.g. commercial, agricultural, construction and transportation). Neither "Form 10" nor "Form 15" included commodity category data. As a result, the Central Bank cannot readily collect information on commodity categories and industrial subsectors for the selection of import transactions using either a manual or a computerized selection system.

We believe that USAID/El Salvador should take appropriate steps to ensure that the Central Bank has established procedures to properly classify transactions by commodity and industrial subsector criteria. The resulting data should be used for input into the computerized selection system recommended in audit recommendation No. 6. Until this is done (or appropriate comparable actions are taken), we consider that the Mission has not satisfied the second part of recommendation No. 4 b).

Management Comments

USAID/El Salvador stated that a requirement to change the location of the tariff codes (NAUCA) and Industrial Use Codes (CIIU) is arbitrary and is not supported by an analysis of the added benefit or accuracy to the selection process. USAID/El Salvador requested deletion of the recommendation from the report. Complete Mission comments are contained in appendix 1.

Office of Inspector General Comments

We have not reopened recommendation No. 4 b) because circumstances have changed and the underlying issue is addressed in reopened recommendation No. 6.

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DATED SEPTEMBER 26, 1985

APPENDICES

-1

UNITED STATES GOVERNMENT

memorandum

DATE: January 18, 1989

REPLY TO ATTN OF: Mr. Richard K. Archi, D/DIR

SUBJECT: Mission Response to the Draft Audit Report Reopening two 1985 Recommendations

TO: Mr. Coinage Gothard, RIG/A/T

RIG OFFICE

The subject draft audit report reopens two 1985 recommendations related to the Private Sector Support Program and PL-480 Local Currency Generations. These recommendations were originally issued as Recommendations No. 6 and 4 (b) in Audit Report No. 1-519-85-13 dated September 26, 1985.

Recommendation No. 6:

In 1985 the RIG found that many ineligible transactions were selected for attribution to the program. Based upon these findings Recommendation No. 6 was proposed to computerize the selection process. During the September 30, 1988 Exit Conference the RIG stated that during 1988 they had tested approximately three hundred transactions and had not disclosed any which were ineligible. These results demonstrate that the eligibility selection process is currently functioning very well. In fact, there is now an accurate manual selection system operating at the BCR which is based upon well-defined criteria. As such, the basis for the recommendation no longer exists.

On pages 3 and 4 of the draft report the RIG suggests that the BCR is not solely responsible for determining eligibility. This suggestion is incorrect. The selection decision is made manually, exclusively by BCR personnel, and not by an AID contractor. None of the Grant Agreements or separate account procedures in bilateral agreements or MOUs require or suggest a computerized system. The desirability and extent of computerization of any system should be based upon weighing the expected cost to be incurred vs. the benefit to be derived. The RIG has not demonstrated what benefit will be derived from

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114

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incurring the costs of further computerizing a selection and reporting process which is currently functioning very well. Currently, transactions are selected for eligibility and then batched on a PC by the total amount of each transfer of funds from the separate account. AID's requirements can be met by simply totalling these batches until they equal the total reimbursements from the Separate Account for the period.

The Mission is currently drafting an RFP to contract technical assistance to perform the independent eligibility review of all transactions, as well as, to conduct price verification on selected transactions as required by section VIII.6. of the Operating Procedures for the Separate Account. Any additional modifications to the system or contracting of technical assistance will be the decision of the BCR, in cooperation with the Mission, as would be considered beneficial and cost effective to the program.

In summary, the RIG has not demonstrated by appropriate technical (computerization) analysis the program's deficiency in the current selection process. The process, which by its very nature is temporary is currently functioning very well. Therefore, the Mission requests deletion of this recommendation from the draft report.

Recommendation No. 4(b):

On page 6 of the draft report the RIG notes that the Mission provided evidence that the program has adequately "defined the criteria for eligible commodities and industrial subsectors...". The selection system currently used by the BCR utilizes the tariff codes (NAUCA) and Industrial Use Codes (CIIU). The system need not be computerized to use these codes.

The second part of the recommendation requires that these codes be entered on "Form 10". These codes already appear on the "Form 15", the "Poliza de Importación" and the "FID" reprint-all of which are located elsewhere in the transaction file. As such, they are readily available to BCR personnel, who make the eligibility determinations, as well as, independent reviewers. The requirement to change

the location of these codes to the "Form 10" (the application form) is arbitrary and is not supported by an analysis of added benefit or accuracy to the selection process. The BCR personnel interviewed by the Mission could see no benefit to the change. The Mission requests the deletion of the recommendation from the draft report.

Other

Eligibility criteria are well-defined in the Operating Procedures for the Separate Account, Section V.

RO:of

APPENDIX 2

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