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AUDIT OF THE TEMPORARY SHELTERS
SUB-COMPONENT OF THE
EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT NO. 519-0331

AUDIT REPORT NO. 1-519-89-27-N
February 2, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT

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February 2, 1989

MEMORANDUM

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

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

SUBJECT: Audit Report No. 1-519-89-27-N, "Audit of the Temporary Shelters Sub-component of the El Salvador Earthquake Recovery Program"

This report presents the results of a non-Federal financial and compliance audit of the Temporary Shelters Sub-component of the El Salvador Earthquake Recovery Program, USAID/El Salvador Project No. 519-0331, administered by the Ministry of Planning's (MIPLAN) Technical Secretariat for Foreign Financing (SIFEFE) and supervised and coordinated by the Metropolitan Emergency Reconstruction Committee (CREM) in conjunction with the Urban Housing Institute (IVU), the National Program for Popular Housing (PRONAVIPO), and the Social Fund for Housing (FSV). This is part of the Office of the Inspector General's requirement to provide to the Congressional Committees on Appropriations a detailed financial audit of the Earthquake Recovery Program, in accordance with the omnibus Continuing Resolution for fiscal year 1988. The certified public accounting firm of Price Waterhouse prepared the report, which is dated January 12, 1989.

The purpose of this audit was to report on (1) the fairness of the fund accountability statement of the Program for the period November 24, 1986 to January 20, 1988; (2) the system of internal control, including procurement practices; and (3) compliance with applicable laws, regulations, and agreement terms.

In the opinion of Price Waterhouse, the fund accountability statement presents fairly the costs incurred in performing the activities of the Temporary Shelters Sub-component. Price Waterhouse's study and evaluation of internal accounting control revealed the following weakness: inadequate supervision of the accounting process. In the opinion of Price Waterhouse, there was compliance with applicable laws, regulations, and agreement terms. Nothing came to their attention to indicate non-compliance with items not tested.

The Price Waterhouse report contains one recommendation to improve internal controls. Since the Metropolitan Emergency Reconstruction Committee (CREM) is no longer in existence, the recommendation cannot be applied specifically to that organization. However, we believe that the recommendation is applicable to MIPLAN and SETEFE in regard to their relationships with the implementing institutions involved in the follow-on non-credit activities of the Earthquake Reconstruction Project. 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/El Salvador assure that the recommendation on internal control contained in the Price Waterhouse report dated January 12, 1989 is implemented in relation to the non-credit activities of the follow-on Earthquake Reconstruction Project.

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

FINANCIAL AND COMPLIANCE AUDIT OF
THE TEMPORARY SHELTERS SUB-COMPONENT OF
THE EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT No. 519-0331

* * *

JANUARY 12, 1989

AUDIT OF THE TEMPORARY SHELTERS SUB-COMPONENT
OF THE EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT No. 519-0331

AUDITOR'S REPORT

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Price Waterhouse



January 12, 1989

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

Dear Mr. Gothard:

This report presents the results of our financial and compliance audit of the fund accountability statement for the period November 24, 1986 to January 20, 1988, of the Temporary Shelters sub-component of the El Salvador Earthquake Recovery Program, USAID/El Salvador Project No. 519-0331, signed on November 21, 1986 by the Government of El Salvador (GOES) and the United States Agency for International Development in El Salvador (USAID/El Salvador).

BACKGROUND

Temporary Shelters is part of the US\$50,000,000 El Salvador Earthquake Recovery Program, USAID/El Salvador Project No. 519-0331, administered by the Ministry of Planning and Coordination of Economic and Social Development (Ministerio de Planificación y Coordinación del Desarrollo Económico y Social - MIPLAN) through its Technical Secretariat for Foreign Financing (Secretaría Técnica del Financiamiento Externo - SETEFE). This sub-component had a budgeted amount of US\$3,940,690 (¢19,703,450), and was supervised and coordinated by the Metropolitan Emergency Reconstruction Committee (Comité de Reconstrucción de Emergencia Metropolitana - CREM) and implemented by the Urban Housing Institute (Instituto de Vivienda Urbana - IVU), the National Program for Popular Housing (Programa Nacional de la Vivienda Popular - PRONAVIPO) and the Social Fund for Housing (Fondo Social para la Vivienda - FSV) in liason with the Municipality of San Salvador and other municipalities comprising the metropolitan area of San Salvador, which identified the needs in each subzone neighborhood and presented those needs to CREM.

The funds for the activities of the program were provided by USAID/El Salvador to SETEFE and from SETEFE to the CREM, which was the entity responsible for administering all financial resources and inventories. MIPLAN, including SETEFE and CREM are legally entitled to conduct the program's operations.

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The specific objectives of this sub-component were to assist approximately 32,000 families living in slums by providing them packages of materials consisting of wood, galvanized roofing sheets and nails to erect temporary shelters, while plans for reconstruction of their houses could be developed.

AUDIT OBJECTIVES AND SCOPE:

We were engaged to perform a financial and compliance audit of the fund accountability statement of the Temporary Shelters sub-component of the El Salvador Earthquake Recovery Program, USAID/El Salvador Project No. 519-0331, conducted by the Government of El Salvador (GOES) through the CREM for the period from November 24, 1986 to January 20, 1988.

Before our appointment as auditors we were engaged by USAID/El Salvador to supervise and monitor the program's implementation activities during the period from December 15, 1986 to January 20, 1988. In this monitoring period we performed the following procedures:

- 1) reviewed the documentation and procurement procedures for purchases of building materials;
- 2) performed physical counts of inventories of materials in warehouses;
- 3) performed physical inspections of work in process and temporary shelters built by the institutions responsible for such work; and
- 4) reviewed documentary support for expenses related with the sub-component's activities, such as salaries, equipment rentals, transportation of materials and other costs incurred in the distribution process.

The findings and recommendations resulting from the monitoring work were timely reported to USAID/El Salvador.

Our work 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 considered necessary to determine whether:

1. the procurement procedures used to purchase the materials to be distributed were adequate;
2. the beneficiaries receiving the materials were entitled to them;
3. the distribution of materials was made in accordance with U.S. established policies of "Equal Opportunity";

4. the recipient had distributed the materials in accordance with project purposes;
5. the warehousing procedures and inventory controls over materials were adequate;
6. physical counts of the materials in existence were taken and the results compared with the inventory subsidiary records; and
7. agreement terms and applicable laws and regulations were adequately complied with.

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

During our work we reviewed the following categories of significant controls in order to meet the stated audit objectives:

1. Procurement - We performed specific tests to validate the results of our monitoring work to ascertain that procurement procedures for purchasing materials were adequate and in accordance with the procurement provisions of the agreement. Additionally, on a selective basis we tested purchases made by CREM and directly by USAID/El Salvador.
2. Receipt and distribution of materials - Our monitoring work included on-site observations of the procedures used for receipt, handling and distribution of materials. In this regard, we reviewed our monitoring workpapers in order to determine if proper procedures were followed for receipts from vendors and other sources, transfers to the distribution centers and the final distribution to the beneficiaries, taking into consideration the "Equal Opportunity" policy.

RESULTS OF AUDIT

Fund Accountability Statement

Based in the work performed, as summarized in the previous section, we are of the opinion that costs incurred for Temporary Shelters were allowable, allocable and reasonable in accordance with the agreement terms and regulations.

At the date of this report, SETEFE had presented to USAID/El Salvador liquidation requests for US\$195,128 from a total of US\$573,788 in expenditures directly administered by SETEFE. USAID/El Salvador had not yet issued its final acceptance of these costs. The remaining balance of US\$378,660 is still pending requests for liquidation.

Internal Accounting Control
and Procurement Practices

During the monitoring phase of our work we reviewed and evaluated the internal accounting control and procurement systems for administering the operations of the Temporary Shelters sub-component, established by MIPLAN through SETEFE and supervised by the CREM. The CREM's significant internal accounting controls related to the project were as follows:

1. Management system.
2. Accounting system, including receipts and disbursements.
3. Procedures for selecting, hiring and controlling employees and payroll preparation and payments.
4. Procurement procedures and inventory controls.

Because of the control structure prevailing during the sub-component activities was no longer in effect at the date of the audit, our study and evaluation of CREM's significant internal accounting control and procurement systems during this audit was limited to a preliminary review to obtain an understanding of the control environment and the flow of transactions through the accounting system. We performed substantive tests and did not become aware of any weakness in the systems, which would be material to the fund accountability statement. However, we found a lack of adequate supervision of the accounting process. (Finding 1 in the internal accounting control section of this report).

Compliance with Agreement Terms
and Applicable Laws and Regulations

During our review we performed specific tests to evaluate SETEFE and CREM's compliance with agreement terms and applicable laws and regulations. We are of the opinion that items tested were in compliance with agreement terms and applicable laws and regulations. Also, as a result of such examination nothing came to our attention that caused us to believe that untested items were not in compliance with agreement terms and applicable laws and regulations.

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO EL SALVADOR COMMENTS

A draft of this report was submitted to the USAID mission to El Salvador for its written comments thereon, if any. At the date of this report the mission did not offer any comment on the draft.

Pricewaterhouse

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Price Waterhouse



TEMPORARY SHELTERS SUB-COMPONENT OF THE
EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT No. 519-0331
FUND ACCOUNTABILITY STATEMENT

AUDITOR'S OPINION

We have performed a financial and compliance audit of the fund accountability statement of the Temporary Shelters sub-component of the El Salvador Earthquake Recovery Program, USAID/El Salvador Project No. 519-0331, for the period from November 24, 1986 to January 20, 1988. Our examination 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 of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the fund accountability statement examined by us presents fairly the costs incurred in performing the activities of the Temporary Shelters sub-component of the El Salvador Earthquake Recovery Program, USAID/El Salvador Project No. 519-0331, in accordance with the agreement terms and applicable laws and regulations for the period November 24, 1986 to January 20, 1988.

Price Waterhouse
June 13, 1988

TEMPORARY SHELTERS SUB-COMPONENT OF THE
EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT No. 519-0331
FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD NOVEMBER 24, 1986 TO JANUARY 20, 1988
(expressed in U. S. dollars - Note 2)

<u>Cost items:</u>	<u>Costs incurred</u>
USAID/El Salvador direct purchases:	
Wood	\$1,985,996
Galvanized roofing sheets	1,278,340
Nails	9,314
Transportation and supervision	<u>42,750</u>
Total USAID/El Salvador direct purchases	<u>3,316,400</u>
CREM disbursements:	
Wood	61,500
Galvanized roofing sheets	472,287
Transportation and other	<u>40,000</u>
Total CREM's disbursements (Note 3)	<u>573,787</u>
Total costs incurred	<u>3,890,187</u>
Funds not disbursed:	
By USAID/El Salvador	41,266
By SETEFE	<u>9,237</u>
	<u>50,503</u>
Amount budgeted	<u>\$3,940,690</u>

TEMPORARY SHELTERS SUB-COMPONENT OF THE
EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT No. 519-0331
NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD NOVEMBER 24, 1985 TO JANUARY 20, 1988

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF ACCOUNTING
POLICIES

The purpose of the Temporary Shelters sub-component was to assist approximately 32,000 families who were living in slums by providing them packages of materials consisting of wood, galvanized roofing sheets and nails to erect temporary shelters, while plans for reconstruction of their houses could be developed.

The significant accounting practices and policies followed by MIPLAN and SETEFE, to comply with the sub-component's purpose do not necessarily reflect the application of accounting principles generally accepted in the United States of America. Income and assets are recognized when received, rather than when earned and expenditures are recognized when paid, rather than when the obligation is incurred.

NOTE 2 - EXCHANGE AND EXCHANGE CONTROL REGULATION

The legal currency of the country is the colon represented by the symbol ¢. Since January 22, 1986, the official rate of exchange has been ¢5.00 to US\$1.00. The accompanying fund accountability statement has been translated into US dollars using this rate of exchange.

NOTE 3 - LIQUIDATION OF SUB-COMPONENT'S EXPENDITURES

At the date of this report SETEFE had presented to USAID/El Salvador liquidation requests for US\$195,128 from a total of US\$573,787 directly administered by SETEFE. USAID/El Salvador had not yet issued its final acceptance of these costs. The remaining balance of US\$378,660 is still pending requests for liquidation.

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TEMPORARY SHELTERS SUB-COMPONENT OF THE
EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT No. 519-0331
REPORT ON INTERNAL ACCOUNTING CONTROL
AND PROCUREMENT PRACTICES
AUDITOR'S OPINION

We have performed a financial and compliance audit of the fund accountability statement of the Temporary Shelters sub-component of the El Salvador Earthquake Recovery Program, USAID/El Salvador Project No. 519-0331, for the period from November 24, 1986 to January 20, 1988, and have issued our report thereon dated June 13, 1988.

Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision). Solely to assist us in planning and performing our examination, we made a study and evaluation of the internal accounting control and procurement practices adopted by MIPLAN for the sub-component. That study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Because the control structure prevailing during the sub-component activities was no longer in effect at the date of our work and due to the fact that we were engaged in the monitoring work phase of the sub-component, our study and evaluation of the internal accounting control and procurement practices during the financial and compliance audit did not extend beyond this preliminary review phase. Accordingly, we do not express an opinion on the system of internal accounting control and procurement practices, taken as a whole. Also, our examination, made in accordance with the standards mentioned above, would not necessarily disclose all material weaknesses in the systems. However, our work revealed a lack of adequate supervision of the accounting process discussed under finding 1.

This report is intended solely for the use of Comité de Reconstrucción de Emergencia Metropolitana (CREM), Secretaría Técnica del Financiamiento Externo (SETEFE), Ministerio de Planificación y Coordinación del Desarrollo Económico y Social (MIPLAN) and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance of the Office of the Inspector General, is a matter of public record.

Price Waterhouse
June 13, 1988

TEMPORARY SHELTERS SUB-COMPONENT OF THE
EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT No. 519-0331
REPORT ON INTERNAL ACCOUNTING CONTROL
AND PROCUREMENT PRACTICES
AUDIT FINDINGS

1. LACK OF ADEQUATE SUPERVISION OF THE ACCOUNTING PROCESS

Condition:

SETEFE established accounting records for controlling transactions related with the receipt of funds from USAID/El Salvador and disbursements to CREM and other implementing units for the Earthquake Recovery Program. However, transactions were recorded directly from source documents, without using journal entry vouchers. Additionally, a lack of adequate supervision of the recording process caused some transactions, such as reprogramming of funds between components, not to have been recorded in the accounting records.

Criteria:

Section B.5.b of the Standard Provisions (Annex II) of the agreement, establishes the recipient's obligation to maintain or cause to be maintained, in accordance with generally accepted accounting principles, books and records relating to the program and to the agreement, which are adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant. In addition, the accounting procedures and reporting arrangements adopted by MIPLAN and approved by USAID/El Salvador specifically require establishing and maintaining adequate accounting records to control advances and disbursements of funds by activity and component.

Cause:

There was a lack of adequate and continuous supervision of the process of recording transactions in order to ensure that the accounting records were appropriately and timely documented.

Effect:

Due to the lack of formal journal entries and adequate and continuous supervision of the recording process, the following situations were observed:

- a) Direct purchases for approximately US\$3,316,400 made by USAID/El Salvador were erroneously recorded as disbursements made by SETEFE. This transaction was subsequently corrected.

b) Transactions related with the reprogramming of funds between components were not opportunely recorded.

Recommendation:

USAID/E1 Salvador should require SETEFE's management to adequately supervise the accounting process, in order to obtain reliable, accurate and timely accounting information.

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TEMPORARY SHELTERS SUB-COMPONENT OF THE
EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT No. 519-0331
REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND
APPLICABLE LAWS AND REGULATIONS
AUDITOR'S OPINION

We have performed a financial and compliance audit of the fund accountability statement of the Temporary Shelters sub-component of the El Salvador Earthquake Recovery Program, USAID/El Salvador Project NO. 519-0331, for the period November 24, 1986 to January 20, 1988, and have issued our report thereon dated June 13, 1988. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision). The management of MIPLAN is responsible for compliance with agreement terms and laws and regulations applicable to the above mentioned sub-component.

The results of our work indicate that for items tested, MIPLAN and the sub-component's implementing units were in compliance with agreement terms and applicable laws and regulations. Nothing came to our attention that caused us to believe that untested items were not in compliance with agreement terms and applicable laws and regulations.

This report is intended solely for the use of Comité de Reconstrucción de Emergencia Metropolitana (CREM), Secretaría Técnica del Financiamiento Externo (SETEFE), Ministerio de Planificación y Coordinación del Desarrollo Económico y Social (MIPLAN) and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse
June 13, 1988

APPENDIX I

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