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AUDIT OF THE EMPLOYMENT GENERATION
AND RUBBLE REMOVAL COMPONENT OF THE
EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT NO. 519-0331

AUDIT REPORT NO. 1-519-89-24-N
February 2, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
RIG/T
APO MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES:
32-9987
also 32-3120 EXT. 2701-2703

February 2, 1989

MEMORANDUM

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

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

SUBJECT: Audit Report No. 1-519-89-24-N, "Audit of the Employment Generation and Rubble Removal Component of the El Salvador Earthquake Recovery Program"

This report presents the results of a non-Federal financial and compliance audit of the Employment Generation and Rubble Removal 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 (SETEFE) and supervised and coordinated by the Metropolitan Emergency Reconstruction Committee (CREM). 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, except for \$5,869 in questionable costs related to salaries paid in excess of the approved budget. Price Waterhouse's study and evaluation of internal accounting control revealed the following weaknesses: (1) inadequate supervision of the accounting process, (2) inadequate payroll payment procedures, and (3) lack of separate bank accounts for proper control of Program funds. In the opinion of Price Waterhouse, there was compliance with applicable laws, regulations, and agreement terms, except for salaries in the amount of \$5,869 paid in excess of budgeted amounts without prior approval. Nothing came to their attention to indicate non-compliance with items not tested.

The Price Waterhouse report contains four recommendations to improve internal controls and compliance. Since the Metropolitan Emergency Reconstruction Committee (CREM) is no longer in existence, the recommendations cannot be applied specifically to that organization. However, we believe that the recommendations are 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:

- a. assure that the recommendations on internal control and compliance contained in the Price Waterhouse report are implemented in relation to the non-credit activities of the follow-on Earthquake Reconstruction Project; and
- b. negotiate a settlement concerning the disposition of the \$5,869 in costs questioned by the Price Waterhouse report dated January 12, 1989.

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

FINANCIAL AND COMPLIANCE AUDIT OF THE
EMPLOYMENT GENERATION AND RUBBLE REMOVAL COMPONENT
OF THE EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT No. 519-0331

* * *

JANUARY 12, 1989

AUDIT OF THE EMPLOYMENT GENERATION AND RUBBLE REMOVAL
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. Gotnard
Regional Inspector
General for Audit
U. S. Agency for
International Development
Tegucigalpa, Honduras

Dear Mr. Gotnard:

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 Employment Generation and Rubble Removal 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

Employment Generation and Rubble Removal is one of the four components comprising 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 External Financing (Secretaría Técnica del Financiamiento Externo - SETEFE). This component had a budgeted amount of US\$2,186,338 (¢10,931,690), and was supervised and coordinated by the Metropolitan Emergency Reconstruction Committee (Comité de Reconstrucción de Emergencia Metropolitana - CREM). The supervision and physical execution of works were the responsibility of the Municipality of San Salvador in liason with other municipalities comprising the metropolitan area of San Salvador, and the Ministry of Public Works (Ministerio de Obras Pública - MOP).

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.

The specific objectives of this component were to employ 20,000 persons in the regions damaged by the earthquake of October 10, 1986 to remove rubble to areas adjacent to streets. Picks, shovels, wheelbarrows and related tools necessary for the work were purchased; trucks and loaders were rented to the MOP and paid for on a per unit basis.

AUDIT OBJECTIVES AND SCOPE:

We were engaged to perform a financial and compliance audit of the fund accountability statement of the Employment Generation and Rubble Removal component under the El Salvador Earthquake Recovery Program, USAID/El Salvador Project No. 519-0331, conducted by the 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, performing the following procedures:

1. review payroll and procurement procedures adopted by CEM;
2. review documentation supporting payroll payments and perform on-site inspections of payroll payments; and
3. review procurement transactions and distribution procedures related with hand tools.

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 we considered necessary in the circumstances. The audit objectives and scope were to:

1. Review salary charges to determine whether: (1) salary rates were in accordance with those approved by USAID/El Salvador; (2) salary rates for consultants and management officers were equal to or less than those for an FS-1 A.I.D. employee and were reasonable for that position in El Salvador; (3) salaries were supported by appropriate time controls and attendance records; and (4) overtime charged to the program was allowable under the terms of the agreement.
2. Conduct sample testing of salaries paid including on-site observations of payroll payments, when considered appropriate.
3. Conduct selective examination of the documentation supporting the procedures used to hire employees and whether the "Equal Opportunity Policy", as described in USAID manuals, was used.
4. Determine whether appropriate and competitive procurement procedures were used to purchase the tools and to procure the services from third parties, when appropriate.

5. Review inventories of tools including their condition, location and planned use.

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

During our work we considered the following items in order to meet the audit objectives:

1. Salaries and wages - We performed specific tests to validate that the work carried out during the monitoring phase was sufficient to ascertain that salary rates were in accordance with those approved by USAID/El Salvador, and through the on-site observations of payroll payments, that they were actually paid to persons working for the component. In addition, as part of the audit, we carried out selective examination of documentation supporting the procedures to prepare and pay the administrative payrolls and to ascertain that payments were reasonable and exclusively for services rendered by employees assigned to the component.
2. Tools - We reviewed the monitoring working papers related with procurement, distribution and usage of tools to assess the adequacy of the monitoring procedures carried out during the period of rubble removal. During the audit, we also performed additional selective tests of documentation supporting procurement of tools to confirm their receipt and subsequent distribution to the municipalities.

RESULTS OF AUDIT

Fund accountability statement

Based in the work performed, as summarized above, we are of the opinion that costs incurred for the Employment Generation and Rubble Removal component are allowable, allocable and reasonable for USAID/El Salvador purposes. Nevertheless, we identified certain transactions amounting to US\$5,869 as described in Note 5 to the fund accountability statement that, in our opinion, are questionable costs.

At the date of this report, SETEFE had presented to USAID/El Salvador liquidation requests for US\$2,019,602 for which USAID/El Salvador had not issued final acceptance. The remaining balance of US\$166,736 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 Employment Generation and

Rubble Removal component established by MIPLAN through SETEFE and supervised by the CREM. CREM's significant internal accounting controls related to the program 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 the control structure prevailing during the component activities was no longer in effect at the date of our work, our study and evaluation of CREM's significant internal accounting control and procurement systems during the 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 weaknesses in the systems which would be material to the fund accountability statement. However, our evaluation revealed the following internal accounting control weaknesses:

1. Lack of adequate supervision of the accounting process.
2. Inadequate payroll payment procedures.
3. Lack of separate controls over program funds.

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, except for salaries of \$5,869 paid in excess of budgeted amounts without prior approval. Also, 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.

Price Waterhouse

* * *

Price Waterhouse



EMPLOYMENT GENERATION AND RUBBLE REMOVAL COMPONENT
OF THE FUND ACCOUNTABILITY STATEMENT
EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT No. 519-0331
AUDITOR'S OPINION

We have performed a financial and compliance audit of the fund accountability statement of the Employment Generation and Rubble Removal 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, except for identified questionable costs of \$5,869 as described in Note 5, the fund accountability statement of the Employment Generation and Rubble Removal component of the El Salvador Earthquake Recovery Program, USAID/El Salvador Project No. 519-0331, presents fairly the costs incurred in the component in accordance with the agreement terms and applicable laws and regulations.

Price Waterhouse
June 13, 1988

EMPLOYMENT GENERATION AND RUBBLE REMOVAL 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>Costs incurred</u>	<u>Question- able costs</u> (Note 5)
Salaries and wages:		
Municipalities (Note 3)	\$1,800,066	\$5,869
Ministry of Public Works	23,432	
National Directorate of Roads	70,668	
Administration and supervision	<u>16,849</u>	
Total salaries and wages	1,911,015	
Tools and other supplies (Note 4)	191,332	
Fuel and spare parts	46,145	
Services and other	<u>28,526</u>	
Total costs incurred	2,177,018	<u>\$5,869</u>
Funds not disbursed by SETEFE	<u>9,320</u>	
Budgeted amount	<u>\$2,186,338</u>	

EMPLOYMENT GENERATION AND RUBBLE REMOVAL 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, 1986 TO JANUARY 20, 1988

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY
OF ACCOUNTING POLICIES

The purpose of the Employment Generation and Rubble Removal component was to employ persons living in the zones devastated by the October 10, 1986 earthquake to remove the rubble to areas adjacent to streets. Picks, shovels, wheelbarrows and related tools necessary for the work were provided and trucks and loaders for the removal and transportation of rubble were rented to the Ministry of Public Works (Ministerio de Obras Públicas - MOP).

The significant accounting practices and policies followed by MIPLAN and SETEFE to comply with the 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 is ¢5.00 to US\$1.00. The accompanying fund accountability statement has been translated into US Dollars using this rate of exchange.

NOTE 3 - SALARIES AND WAGES

Salaries and wages paid by different municipalities in connection with the component are summarized as follows:

<u>Municipality</u>	<u>Amount</u>
San Salvador	US\$1,245,066
Ciudad Delgado	47,513
Antiguo Cuscatlán	7,856
Soyapango	98,461
Ilopango	29,543
Cuscatancingo	92,629
Ayutuxtepeque	58,766
Mejicanos	141,722
San Marcos	78,510
	<u>US\$1,800,066</u>

NOTE 4 - TOOLS AND OTHER SUPPLIES:

Tools acquired were as follows:

Wheelbarrows	US\$121,834
Shovels	21,239
Picks and other	<u>48,259</u>
	<u>US\$191,332</u>

NOTE 5 - QUESTIONABLE COSTS

A summary of questionable program costs follows:

<u>Component</u>	<u>Explanation</u>	<u>Amount</u>
Salaries and wages municipalities:	- Salaries paid to administrative personnel not included in the budget approved by USAID/El Salvador	\$5,419
	- Salaries paid to payroll clerks, storekeepers and truck drivers in excess of those approved by USAID/El Salvador	<u>450</u>
		<u>\$5,869</u>

NOTE 6 - LIQUIDATION OF COMPONENT'S EXPENDITURES

At the date of this report, SETEFE had presented to USAID/El Salvador liquidation requests for US\$2,019,602 for which USAID/El Salvador has not issued final acceptance. The remaining balance of US\$166,736 is still pending requests for liquidation.



EMPLOYMENT GENERATION AND RUBBLE REMOVAL 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 Employment Generation and Rubble Removal 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 in which we qualified our opinion because of certain questionable costs.

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 systems adopted by MIPLAN for the 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 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 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 internal accounting control and procurement systems 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 the weaknesses discussed under findings 1 to 3 in the following pages.

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

EMPLOYMENT GENERATION AND RUBBLE REMOVAL COMPONENT OF THE
EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT No. 519-0331
REPORT ON INTERNAL ACCOUNTING CONTROL AND
PROCUREMENT PRACTICES

FINDINGS

1. LACK OF ADEQUATE SUPERVISION OF THE
ACCOUNTING PROCESS

Condition:

Some transactions, such as the transfer of funds between components, had not 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 books and records relating to the program and to the agreement in accordance with generally accepted accounting principles. 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 by component.

Cause:

There was a lack of continuous supervision over the recording of transactions.

Effect:

The lack of adequate and continuous supervision over the accounting function permitted the transfer of funds between components of the program which were not been opportunely recorded.

Recommendation:

USAID/El Salvador should require both MIPLAN and SETEFE to provide assurance of adequate supervision of the accounting process in order to obtain reliable, accurate and timely accounting information.

2. INADEQUATE PAYROLL PAYMENT PROCEDURES

Condition:

Payroll payment practices were at variance with established procedures.

- a) Some salary payments lacked evidence of having actually been made.
- b) There was a lack of controls to prevent duplicate salary payments.

Criteria:

CREM established the minimum procedures that should be followed in connection with payroll payments. These procedures should be observed in all cases.

Cause:

The deviations noted were due to a lack of supervision.

Effect:

Salaries paid amounting to US\$5,869 are considered questionable costs and may have to be reimbursed to USAID/El Salvador.

Recommendation:

USAID/El Salvador should require CREM to adhere to established payroll payment procedures.

3. LACK OF SEPARATE CONTROLS OVER PROGRAM FUNDS

Condition:

Funds provided by SETEFE to the Employment Generation and Rubble Removal component managed by CREM were commingled with other MIPLAN funds deposited in the Central Bank. Therefore, bank reconciliation procedures and other administrative controls over such USAID/El Salvador funds were lacking.

Criteria:

The control procedures adopted by MIPLAN for CREM and other implementing institutions, with the approval of USAID/El Salvador, require separate bank accounts to be maintained for each program component in order to provide proper accountability over USAID/El Salvador funds.

Cause:

Because the funds necessary for conducting the activities of the component were provided at CREM's specific request, MIPLAN did not consider it necessary to maintain separate bank accounts.

Effect:

Monthly bank reconciliations were not prepared and fund balances for each component were not periodically obtained during the life of the Project. Control over USAID/El Salvador funds was lost.

Recommendation:

USAID/El Salvador should require MIPLAN to provide assurance that implementing institutions establish separate bank accounts for each component to properly manage and control the use of USAID/El Salvador funds.



EMPLOYMENT GENERATION AND RUBBLE REMOVAL 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 Employment Generation and Rubble Removal 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 in which we qualified our opinion because of certain questionable costs. 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). MIPLAN is responsible for the implementing entities' compliance with agreement terms and laws and regulations applicable to the above mentioned component. The results of our work indicate that for items reviewed and/or tested, MIPLAN and the component's implementing institutions were in compliance with agreement terms and applicable laws and regulations, except as described in the accompanying finding No. 1. Also, 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 of the Office of the Inspector General, is a matter of public record.

Price Waterhouse
June 13, 1988

EMPLOYMENT GENERATION AND RUBBLE REMOVAL 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

FINDINGS

1. SALARIES NOT BUDGETED WERE PAID TO
ADMINISTRATIVE PERSONNEL

Condition:

Certain salary payments to administrative personnel were either not budgeted or were budgeted for lower sums.

Criteria:

Salary limitations included in budgets should be adhered to. Payments in excess of budget should be the exception and should require prior approval.

Cause:

These situations resulted from lack of appropriate supervision.

Effect:

Salaries of \$5,869 in excess of budget were incurred and paid without obtaining prior approval from USAID/El Salvador and are, therefore, considered questionable.

Recommendation:

USAID/El Salvador should require MIPLAN to obtain prior approval for salary payments in excess of budget.

AUDIT OF THE EMPLOYMENT GENERATION AND
RUBBLE REMOVAL COMPONENT OF THE
EL SALVADOR EARTHQUAKE RECOVERY PROGRAM
USAID/EL SALVADOR PROJECT No. 519-0331
LIST OF REPORT RECOMMENDATIONS

INTERNAL ACCOUNTING CONTROL AND
PROCUREMENT PRACTICES

Recommendation No. 1

USAID/El Salvador should require both MIPLAN and SETEFE to provide assurance of adequate supervision of the accounting process in order to obtain reliable, accurate and timely accounting information.

Recommendation No. 2

USAID/El Salvador should require CREM to adhere to established payroll payment procedures.

Recommendation No. 3

USAID/El Salvador should require MIPLAN to provide assurance that implementing institutions establish separate bank accounts for each component to properly manage and control the use of USAID/El Salvador funds.

COMPLIANCE WITH AGREEMENTS TERMS AND
APPLICABLE LAWS AND REGULATIONS

Recommendation No. 1

USAID/El Salvador should require MIPLAN to obtain prior approval for salary payments in excess of budget.

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