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AUDIT OF
SELECTED LOCAL CURRENCY-FINANCED
ACTIVITIES OF THE NATIONAL COMMISSION FOR
ASSISTING DISPLACED POPULATION IN
EL SALVADOR

Audit Report No. 1-519-89-11
March 16, 1989

U S. MAILING ADDRESS
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AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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March 16, 1989

MEMORANDUM

TO: Director, USAID/El Salvador, Henry Bassford

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

SUBJECT: Audit of Selected Local Currency-Financed Activities of the National Commission for Assisting Displaced Population in El Salvador

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of the Local Currency-Financed Activities of the National Commission for Assisting Displaced Population in El Salvador. Five copies of the audit report are enclosed for action.

The draft audit report was submitted to you for comment and your comments are attached to this report as appendix 1. The report contains three recommendations. The three recommendations are resolved but open pending Mission action. Please advise me within 30 days of any actions taken to implement these recommendations.

I appreciate the cooperation and courtesy extended to my staff during the audit.

EXECUTIVE SUMMARY

In 1980 many Salvadoran families abandoned their homes in areas affected by armed conflict and sought refuge in other parts of the country. In 1981 the Government of El Salvador established the National Commission for Assisting Displaced Population within the Ministry of Interior. In coordination with national and international agencies, the National Commission has helped displaced persons to return to their original hometowns and introduced them back into the country's social, political, and economic processes. The National Commission for Assisting Displaced Population provided food, clothing, housing, and medical care to encourage this hometown repatriation for 400,000 displaced persons.

The Regional Inspector General for Audit in Tegucigalpa (RIG/A/T) performed a limited scope program results and compliance audit of the National Commission for Assisting Displaced Population's activities for 1986 and 1987. The specific objectives were to determine whether the National Commission (1) provided housing to displaced persons as planned and (2) complied with selected GOES laws, regulations, action plan requirements, and sound management principles.

In 1986 and 1987, the National Commission did not provide new or improved housing to displaced persons as planned. Furthermore, the National Commission did not always comply with Government of El Salvador laws, regulations, approved action plans, and sound management principles. Except as stated in the reported findings, the audit tests disclosed that the National Commission used the funds for eligible purposes.

This audit identified several problems in the National Commission's operations that were largely caused by deficiencies in the Technical Secretariat for External Financing's regulations for the extraordinary budget. These findings along with examples from other projects funded by Secretariat for External Financing are presented in our Audit of the USAID/El Salvador Local Currency Program.

This report contains three findings: (1) the National Commission largely mismanaged the procurement, receipt, storage, distribution, and assembly of prefabricated housing and other facilities, (2) the National Commission did not use project vehicles as intended, and (3) the National Commission paid value added taxes on purchases contrary to its creation law.

According to its 1986 and 1987 action plans, the National Commission was to provide housing to 1800 displaced families. However, the National Commission only provided housing to 70 families because it poorly managed the project housing component. As a result, the National Commission largely wasted the \$665,484 in extraordinary budget funds expended on this component of the project and the funding did not reach the intended displaced persons. The report recommends that the Government of El Salvador reimburse the extraordinary budget for funds not properly managed. USAID/El Salvador agreed with this finding. (Management comments are attached to this report as appendix 1.)

The National Commission's 1985 and 1986 action plans budgeted the purchase of vehicles for project use. The Minister of Interior and Vice Minister of Interior for Social Development were using three National Commission project vehicles. The National Commission had relinquished control of these vehicles because the officials had directed that the National Commission assign them the vehicles. As a result, these officials used project vehicles for purposes that did not benefit the project. The report recommends that the Government of El Salvador reimburse the extraordinary budget for cost of vehicles not properly used or return the three vehicles to the project and pay an appropriate usage cost for the time misused. USAID/El Salvador agreed with this finding.

The National Commission paid a value added tax of \$26,400 for the purchase of prefabricated housing, schools and medical units. The law that created the National Commission exempted it from paying all taxes. According to the National Commission, it paid the tax because the Court of Accounts has not issued clear instructions on how an agency could obtain an exemption. However, the National Commission did not obtain a legal opinion from the Government of El Salvador Attorney General on its tax exemption status. By using project funds to pay the tax, the National Commission bought less units and benefitted fewer displaced persons. The report recommends that the Government of El Salvador determine the tax free status of the National Commission. USAID/El Salvador agreed with this finding.

Office of the Inspector General

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SELECTED LOCAL CURRENCY-FINANCED
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ASSISTING DISPLACED POPULATION
IN EL SALVADOR

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PART I - INTRODUCTION

A. Background

In 1980 many Salvadoran families abandoned their homes in areas affected by armed conflict and sought refuge in other parts of the country. In 1981 the Government of El Salvador (GOES) established the National Commission for Assisting Displaced Population (the National Commission) within the Ministry of Interior. In coordination with national and international agencies, the National Commission has helped displaced persons to return to their original hometowns and introduced them back into the country's social, political, and economic processes. The National Commission provided food, clothing, housing, and medical care to encourage this hometown repatriation for 400,000 displaced persons.

The GOES financed some of the National Commission activities with local currencies made available under A.I.D.'s Economic Support Fund (ESF) and Public Law 480 Title I programs. These local currencies are provided as a condition for receiving ESF and PL 480 grants and loans, and they form part of the GOES extraordinary 1/ budget; the GOES and USAID/El Salvador jointly program their use. The Ministry of Coordination and Planning of the Social and Economic Development is responsible for managing the extraordinary budget through its Technical Secretariat for External Financing (the Secretariat). The Ministry requires all GOES agencies receiving extraordinary budget support to prepare action plans to show how they will use the funds. The Secretariat is responsible for approving and monitoring the implementation of these action plans.

In 1986 and 1987, the Secretariat approved action plans for the National Commission covering \$3.2 million of local currency equivalent. The National Commission planned to use these funds for salaries, procurement of houses, transportation expenses, food, vehicle, and construction material purchases.

1/ Extraordinary budget resources include local currencies generated as a result of foreign agreements. This report only covers the administration and use of extraordinary budget resources associated with agreements between the United States and the GOES.

USAID/El Salvador's Office of Development Planning and Programming Office is responsible for the Mission's overall management of the local currency program. USAID's Community Development Division of the Infrastructure, Integrated Regional Development and Earthquake Reconstruction Office has been responsible for monitoring the National Commission project.

B. Audit Objectives and Scope

The Regional Inspector General for Audit in Tegucigalpa (RIG/A/T) performed a limited scope program results and compliance audit of National Commission activities for 1986 and 1987. The specific objectives were to determine whether the National Commission (1) provided housing to displaced persons as planned and (2) complied with selected GOES laws, regulations, action plan requirements, and sound management principles.

The audit covered \$3.2 million in local currency that the National Commission had expended from the extraordinary budget to finance selected project activities. The audit tested almost \$2 million of these funds (see exhibit 1). RIG/A/T selected the National Commission for audit, in particular the housing component, because of USAID/El Salvador and Secretariat concerns that the project was not achieving its objectives and significant problems were said to exist. USAID/El Salvador financed and contracted the local auditing firm of Price Waterhouse to assist in this audit. Price Waterhouse auditors worked under the direct supervision of the RIG/A/T auditors.

To accomplish the audit objectives, RIG/A/T and Price Waterhouse personnel interviewed officials and reviewed records at USAID/El Salvador, the National Commission, the Court of Accounts, and the Secretariat. Price Waterhouse visited two project sites to inspect prefabricated housing distributed under the program and a supplier's warehouse to do an inventory. Audit field work was conducted from May 2 to November 7, 1988. We limited review of internal controls and compliance to the findings in this report and performed the audit in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

In 1986 and 1987, the National Commission for Assisting Displaced Population (the National Commission) did not provide new or improved housing to displaced persons as planned. Furthermore, the National Commission did not always comply with Government of El Salvador laws, regulations, approved action plans, and sound management principles. Except as stated in the reported findings, the audit tests disclosed that the National Commission used the funds for eligible purposes.

This report contains three findings: (1) the National Commission largely mismanaged the procurement, receipt, storage, distribution, and assembly of prefabricated housing and other facilities (see finding No. 1), (2) the National Commission did not use project vehicles as intended (see finding No. 2), and (3) the National Commission paid value added taxes on purchases contrary to its creation law (see finding 3).

The report recommends that USAID/El Salvador not approve any more funding for the National Commission until the GOES has reimbursed the extraordinary budget for the equivalent of \$665,484 spent on housing and \$44,280 spent on vehicles. It also recommends that the GOES Attorney General determine the tax free status of the National Commission.

The "Other Pertinent Matters" section of this report identifies several problems in the National Commission's operations that were largely caused by deficiencies in the Secretariat's regulations for the extraordinary budget. These findings along with examples from other Secretariat financed projects are presented in our Audit of the USAID/El Salvador Local Currency Program.

A. Findings and Recommendations

1. The National Commission Mismanaged the Project Housing Component

According to its 1986 and 1987 action plans, the National Commission for Assisting Displaced Population (the National Commission) was to provide housing to 1800 displaced families. However, the National Commission only provided housing to 70 families because it poorly managed the project's housing component. As a result, the National Commission largely wasted the \$665,481 in extraordinary budget funds expended on this component of the project and the funding did not reach the intended displaced persons.

Recommendation No. 1

We recommend that USAID/El Salvador not approve the financing of any new action plans for the National Commission for Assisting Displaced Population until the Government of El Salvador reimburses the extraordinary budget for the equivalent of \$665,484 that the National Commission spent on prefabricated houses, schools, and medical units.

Discussion

According to the 1986 and 1987 action plans, the National Commission was to provide housing to 1800 displaced families. However, the National Commission only provided housing to 70 families because it poorly managed the procurement, receipt, storage, distribution, and assembly of prefabricated housing, schools, and medical units for the following reasons. First, the National Commission purchased expensive prefabricated houses instead of less costly adobe or temporary houses as originally planned. As a result, the National Commission could only purchase 480 houses and other facilities from available funds (equivalent to \$665,484 from the extraordinary budget and \$87,126 from the ordinary budget). It made these purchases even though USAID/El Salvador had not agreed to the purchases in the jointly programmed memorandums of understanding (MOUs) and had objected in writing to the General Manager of the National Commission and the Minister of Planning to the last purchase funded from the 1987 action plan. Second, many of the components for the prefabricated units were missing because of inadequate receiving and inventory control procedures. Third, the National Commission distributed only 140 of the 480 prefabricated houses and none of the other facilities because the Salvadoran Institute for Agrarian Transformation had not provided sufficient land for them. USAID/El Salvador stated that the National Commission could have used the houses in a number of other sites where displaced persons were living in poor conditions, such as in some of the displaced persons' camps. Of the 140 houses delivered, it only used 70 because housing requirements were over estimated. Finally, many of the 70 houses distributed were not properly assembled and were occupied by persons (41 houses in total) not registered as displaced persons. This report has presented a detailed explanation of these management deficiencies in appendix 2.

As a result, the National Commission has largely wasted the extraordinary budget funds expended on this component of the project. For this reason and because USAID/El Salvador did not agree with the purchase of the prefabricated housing, we believe the GOES should reimburse the extraordinary budget for the \$665,484 that the National Commission spent on prefabricated housing and other facilities.

Management Comments

USAID/El Salvador agreed with the finding and stated it would request the reimbursement of monies referred to in this recommendation. They also stated they had written the Ministry of Planning indicating they would not support further funding of the National Commission by the Secretariat unless certain measures were taken to improve the control of funds at the National Commission to ensure compliance with agreed upon objectives and guidelines. A complete text of USAID/El Salvador comments can be found in appendix I.

Office of Inspector General Comments

The recommendation is resolved based on management comments, and it can be closed when USAID/El Salvador provides evidence that the recommendation has been implemented.

2. Government Officials Used Project Vehicles for Unauthorized Purposes

The National Commission for Assisting Displaced Population (the National Commission) 1985 and 1986 action plans budgeted the purchase of vehicles for project use. The Minister of Interior and Vice Minister of Interior for Social Development were using three National Commission project vehicles. The National Commission had relinquished control of these vehicles because these officials had directed that the National Commission assign them the vehicles. As a result, these officials used project vehicles for purposes that did not benefit the project.

Recommendation No. 2

We recommend that USAID/El Salvador not approve the financing of any new action plans for the National Commission for Assisting Displaced Population until:

- a. the Government of El Salvador has reimbursed the extraordinary budget for the equivalent of \$44,280 that was spent to buy the three vehicles in 1985 and 1986; or
- b. the Ministry of Interior has returned the three vehicles to the project and an appropriate usage cost levied and collected.

Discussion

The National Commission planned to purchase 14 vehicles for project use under its 1985 and 1986 action plans. The action plans budgeted the vehicles for use directly on the displaced persons project. The assistant general manager of the National Commission stated that the purpose of these vehicles was to transport project personnel, to deliver food and clothing, and return displaced persons to various project locations for resettlement. The General Budget Law of El Salvador prohibited the use of government owned vehicles for the direct personal use of Government of El Salvador (GOES) employees.

The Minister of the Interior used a 1986 Daihatsu Rocky F-70 LVR (purchase price \$15,160). The Vice Minister of the Interior for Social Development used a 1986 Micro bus Subaru KJ6 LH1GH 4 wheel drive vehicle (purchase price \$10,800) and a 1985 Suzuki SJ413 Jeep (purchase price \$18,320). Expenditures for these three project vehicles from the 1985 and 1986 action plans totaled \$44,280.

The Minister of Interior and Vice Minister of Interior for Social Development have no direct day-to-day implementation responsibilities and have only the limited oversight role of: establishing policies and guidelines for the National Commission; approving the budget and the salaries of National Commission officials; serving as the legal representative for the National Commission; approving plans, programs, and projects submitted by the National Commission; and coordinating actions of other organizational entities involved in the displaced persons project.

The assistant general manager of the National Commission stated that these vehicles are no longer assigned to the project because the Minister of Interior and Vice Minister of Interior for Social Development directed that they be assigned to them. The Minister of Interior and Vice Minister of the Interior for Social Development have not complied with General Budget Law requirements that GOES officials not use government vehicles for inter urban transportation to and from work.

Also, the National Commission did not have any form of control over the use of vehicles. Two other vehicles had been wrecked by National Commission personnel allegedly while on personal business. We believe vehicle usage log books could help to prevent National Commission employees from using project vehicles for personal use.

Since the National Commission did not have possession of its vehicles, it could not use them to meet its program objectives to return and resettle displaced persons. We concluded that a refund of \$44,280 be sought from the GOES because the project vehicles located in the Ministry of the Interior were not used for project benefit.

Management Comments

USAID/EI Salvador suggested the recommendation be worded so that the Ministry either reimburse the National Commission for the original cost of the vehicles or return them and pay a usage cost.

Office of Inspector General Comments

We have modified the wording of the recommendation as suggested by the USAID/EI Salvador. The recommendation is resolved based on management comments, and it can be closed when USAID/EI Salvador provides evidence that the recommendation has been implemented.

3. The National Commission Paid Value Added Taxes Contrary to Its Creation Law

The National Commission for Assisting Displaced Population (the National Commission) paid a value added tax of \$26,460 for the purchase of prefabricated housing, schools and medical units. The law that created the National Commission exempted it from paying taxes. According to the National Commission, it paid the tax because the Court of Accounts has not issued clear instructions on how an agency could obtain an exemption. However, the National Commission apparently did not obtain a legal opinion from the GOES Attorney General on its tax exemption status. By using project funds to pay the tax, the National Commission bought less units and benefitted less displaced persons.

Recommendation No. 3

We recommend that USAID/El Salvador obtain evidence from the Technical Secretariat for External Financing that the National Commission for Assisting Displaced Population:

- a. has obtained a legal opinion from the Government of El Salvador Attorney General regarding its proposed tax free status; and
- b. based on the legal opinion, (i) has recovered the value added tax from the supplier if the Attorney General approves the exemption or (ii) has verified that the supplier has paid the tax to the appropriate government taxing agency if the Attorney General denies the exemption.

Discussion

On May 9, 1988, the National Commission paid \$529,210 to purchase 280 prefabricated houses, five schools and six medical units without exempting itself from the five percent value added tax totaling \$26,460.

According to chapter 7, articles 14 and 15 of the law creating the National Commission, this agency is exempt from paying taxes, customs duties, port authority charges, etc. Also, according to article 41 of the Stamps and Sealed Paper Law dated November 1987, all Government of El Salvador (GOES) institutions, when transacting official government business, are exempt from paying the five percent value added tax normally required on all purchases.

The National Commission apparently paid the tax because the exemption instructions issued by the Court of Accounts confused National Commission officials. Also, no one at the Secretariat or the Court of Accounts reviewed documentation at the National Commission to ascertain if it was paying this tax. However, the National Commission apparently did not obtain a legal opinion from the GOES Attorney General on its tax exemption status.

The National Commission paid an excess of \$26,460 to the supplier and as a result had to forego the opportunity to purchase about 15 more houses at \$1,712 each. Also there was inadequate assurance that the supplier had remitted the \$26,460 to the GOES because government purchases were exempt from the value added tax.

We concluded that USAID/EI Salvador should obtain evidence from the Secretariat that the National Commission has obtained a legal opinion from the GOES Attorney General regarding its proposed tax free status and take appropriate corrective action based on the opinion.

Management Comments

USAID/EI Salvador concurred with the recommendation.

Office of Inspector General Comments

The recommendation is resolved based on management comments, and it can be closed when USAID/EI Salvador provides evidence that the recommendation has been implemented.

B. Compliance and Internal Control

1. Compliance

The review of compliance was limited to the findings presented in this report. The audit disclosed the following six compliance deficiencies.

First, the National Commission for Assisting Displaced Population (the National Commission) purchased prefabricated houses although the 1986 and 1987 action plans did not authorize this purchase. As a result, project shelter goals for displaced families fell far short of plans (see finding No. 1).

Second, persons not registered as displaced families occupied 41 of the new houses (see finding No. 1).

Third, the National Commission delivered 140 new houses to project sites not identified in action plans as being high priority areas for the placement of housing. High level Government of El Salvador (GOES) officials directed that houses be placed on these sites (see finding No. 1, and appendix 2 for details).

Fourth, the Minister of Interior and Vice Minister of the Interior for Social Development diverted three project vehicles from the project to supply their interurban transportation needs. As a result, project implementation activities have suffered and the officials did not comply with GOES laws regarding vehicle usage (see finding No. 2).

Fifth, National Commission officials paid value added tax on its housing procurements contrary to its creation law. As a result, the project lost \$26,460, reducing the number of new houses that it could purchase (see finding No. 3).

Sixth, contrary to applicable ESF agreements and good management procedures, the National Commission did not maintain documents related to project expenditures for three years after the date of the last disbursement (see Other Pertinent Matters).

2. Internal Control

We limited the review of internal controls to the findings presented in this report. The audit disclosed the following six internal control deficiencies.

First, various coordinating elements of the National Commission, such as the purchasing committee and the social promotion office, did not adequately coordinate their activities. As a result, the National Commission purchased houses before obtaining sufficient land (see finding No. 1, and appendix 2 for details).

Second, the National Commission did not follow adequate physical verification procedures to ensure that it received goods and services prior to payment (see finding No. 1, and appendix 2 for details).

Third, prior to delivery, the National Commission did not verify the number of houses needed at Hacienda Esquintla. As a result, it delivered more houses to the site than needed and left the unused houses in open areas subject to theft and weather damage (see finding No. 1).

Fourth, the National Commission did not adequately control the use of government vehicles. GOES officials diverted three vehicles from project use, and National Commission personnel wrecked two while allegedly using them for personal use (see finding No. 2).

Fifth, the National Commission procured houses on an emergency basis even though it could not use houses purchased a year earlier because of insufficient land. Therefore, it made a needless and expensive procurement with no possibility of using the houses in response to an emergency (see Other Pertinent Matters).

Sixth, the National Commission made some procurements that the action plans had not authorized. Sound standards of internal control would require that significant changes to approved plans be documented and approved in advance by appropriate authorities (see Other Pertinent Matters).

C. Other Pertinent Matters

During the audit, the following additional matters were noted.

First, in May 1988 the National Commission procured, with the approval of the Committee Rector (the National Commission oversight body of seven GOES Ministers), 280 prefabricated houses on an emergency basis that was neither prudent, cost-effective nor warranted by the circumstances. Instructive 1204 authorized the foregoing of competitive procurement when adequately justified and approved by the Secretariat. This happened partly because Instructive 1204 was too general concerning the circumstances needed to justify an emergency procurement. As a result, the National Commission used funds for purposes contrary to the original action plan. This greatly reduced the number of houses that it could provide to displaced persons. We have presented this issue along with examples from other Secretariat financed projects as a finding in our Audit of the USAID/EI Salvador Local Currency Program.

Second, implementing agencies have sometimes used funds for purposes not authorized in the action plans because the Secretariat did not establish appropriate procedures to authorize changes in plans. Action plans approved by the Secretariat established how the agency was to use project funds. Sound standards of internal control would require that significant changes to approved plans be documented and approved in advance by appropriate authorities. USAID/EI Salvador approval was also needed because the Secretariat cannot always control decisions made by high level GOES officials. Many of these changes have adversely affected the accomplishment of project objectives. This issue along with examples from other Secretariat financed projects was presented as a finding in our Audit of the USAID/EI Salvador Local Currency Program.

Finally, the Economic Support Fund (ESF) agreements and good management procedures required implementing agencies to maintain documents relating to project expenditures for three years after the date of the last disbursement. The National Commission did not comply with this requirement for many transactions financed under the project because the Secretariat did not include it in its Instructive 1204. As a result, we could not verify whether the National Commission has complied with GOES laws and regulations governing the use of extraordinary budget funds. This issue along with examples from other Secretariat financed projects was presented as a finding in our Audit of the USAID/EI Salvador Local Currency Program.

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PART III - EXHIBITS AND APPENDICES

Exhibit 1

THE NATIONAL COMMISSION FOR
ASSISTING DISPLACED POPULATION IN EL SALVADOR
ACTION PLAN EXPENDITURES
REVIEWED AND NOT REVIEWED 1/

<u>Action Plans</u>	<u>EXPENDITURES</u>			
	<u>Budgeted</u>	<u>Total</u>	<u>Reviewed</u>	<u>Not Reviewed</u>
<u>1986 (April 86-March 87)</u>				
OTHER PERSONAL SERVICES	\$ 332,977	\$ 332,244	\$ -	\$ 332,244
NON-PERSONAL SERVICES				
- Transportation	354,012	344,971	89,133	255,838
- Rent Warehouse Space	44,627	44,627	43,363	1,264
- Other	24,251	24,116	-	24,116
MATERIALS AND SUPPLIES				
- Construction Materials	213,273	242,147	242,147	-
- Purchase Food and Lime	324,808	324,808	261,420	63,388
- Other	100,497	100,382	-	100,382
MACHINERY AND EQUIPMENT				
- Vehicles	151,555	148,905	148,905	-
- Other	24,000	12,701	-	12,701
Total 1986	\$1,600,000	\$1,574,901	\$ 784,968	\$ 789,933
<u>1987 (April 87-April 88)</u>				
GENERAL SERVICES				
- Professional Salaries	\$ 228,244	\$ 226,939	\$ 226,939	\$ -
- Workers' Salaries	99,278	101,115	101,115	-
- Other	46,262	43,918	-	43,918
MATERIALS AND SUPPLIES				
- Procurement Houses	529,305	529,210	529,210	-
- Construction materials	112,000	112,095	107,560	4,535
- Productive Projects	174,518	174,518	164,911	9,607
- Other	68,537	68,314	-	68,314
- NON-PERSONAL SERVICES				
- Transportation	267,143	269,542	69,552	199,990
- Other	74,713	61,963	-	61,963
Total 1987	\$1,600,000	\$1,587,614	\$1,199,287	\$ 388,327
Grand Total	\$3,200,000	\$3,162,515	\$1,984,255	\$1,178,260

1/ Rate of exchange used to convert colones to dollars was ₡5.00 to U.S.\$1.00.

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SUMMARY OF SELECTED CONSTRUCTION MATERIALS PURCHASED
UNDER 1986 ACTION PLAN

<u>Date</u>	<u>Description</u>	<u>Quantity</u>	<u>Unit Cost</u>	<u>Total</u>
6/23/86	Pine Joist, beams	123	¢ 9.75	¢ 1,199.25
7/11/86	Pine Joist, beams	123	9.76	1,200.48
7/11/86	Pine Joist, beams	2,000	9.80	19,600.00
9/26/86	Pine Joist, beams	700	12.76	8,932.00
10/15/86	Pine Joist, beams	1,162	12.70	14,757.40
10/17/86	Pine Joist, beams	300	12.76	3,828.00
11/25/86	Pine Joist, beams	1,000	16.00	16,000.00
7/11/86	Pine Joist, beams	150	12.95	1,942.50
6/23/86	Pine Joist, beams	150	12.95	1,942.50
	Total	<u>5,708</u>	<u>1/</u>	<u>¢ 69,402.13</u> <u>\$ 13,880.43</u>
6/23/86	Rafters	312	¢ 9.00	¢ 2,808.00
6/23/86	Rafters	1,296	7.20	9,331.20
7/11/86	Rafters	1,296	7.20	9,331.20
7/11/86	Rafters	312	9.00	2,808.00
7/11/86	Rafters	2,000	5.20	10,400.00
9/26/86	Rafters	1,000	7.00	7,000.00
10/15/86	Rafters	1,600	6.68	10,688.00
10/17/86	Rafters	300	7.00	2,100.00
11/25/86	Rafters	800	8.00	6,400.00
7/11/86	Rafters	75	5.20	390.00
	Total	<u>8,991</u>	<u>2/</u>	<u>¢ 61,256.40</u> <u>\$ 12,251.28</u>
6/24/86	Laminated Roofing Sheets 3x1 #28	550	¢ 44.61	¢ 24,535.50
7/11/86	Laminated Roofing Sheets 3x1 #28	120	44.61	5,353.20
7/30/86	Laminated Roofing Sheets 3x1 #35	485	24.80	12,028.00
7/17/86	Laminated Roofing Sheets 2x1 #28	579	29.74	17,219.46
7/17/86	Laminated Roofing Sheets 3x1 #28	146	44.61	6,513.06
7/28/86	Laminated Roofing Sheets 3x1 #35	540	28.00	15,120.00
7/11/86	Laminated Roofing Sheets 3x1 #30	1,000	34.60	34,600.00
8/20/86	Laminated Roofing Sheets 3x1 #30	1,000	33.00	33,000.00
8/28/86	Laminated Roofing Sheets 3x1 #30	608	33.00	20,064.00
9/13/86	Laminated Roofing Sheets 3x1 #30	1,000	33.00	33,000.00
10/27/86	Laminated Roofing Sheets 3x1 #28	1,330	36.00	47,880.00
11/6/86	Laminated Roofing Sheets 3x1 #28	1,400	34.00	47,600.00
6/17/86	Laminated Roofing Sheets 3x1 #30	500	33.00	16,750.00
9/26/86	Laminated Roofing Sheets 3x1 #28	1,000	36.00	36,000.00
	Total	<u>10,258</u>	<u>3/</u>	<u>¢349,663.22</u> <u>\$ 69,932.64</u> =====

-
- 1/ A CONADES official told the auditors that they used an estimate of 15 joists to repair each house. Since 5708 joists were purchased, an estimated 380 houses could be repaired.
 - 2/ A CONADES official told the auditors that they used an estimate of 20 rafters to repair each house. Since 8991 rafters were purchased, an estimated 449 houses could be repaired.
 - 3/ A CONADES official told the auditors that they used an estimate of 18 laminated roofing sheets to repair each house. Since 10,258 sheets were purchased, an estimated 570 houses could be repaired.

SUMMARY OF SELECTED CONSTRUCTION MATERIALS PURCHASED
UNDER 1987 ACTION PLAN

<u>Date</u>	<u>Description</u>		<u>Quantity</u>	<u>Unit Cost</u>	<u>Total</u>
11/30/87	Pine Joists, beams	Total	<u>7,500</u>	<u>1/</u> ₡ 12.00	₡ 90,000.00 <u>\$ 18,000.00</u>
11/30/87	Rafters		8,000	₡ 6.60	₡ 52,800.00
5/13/88	Rafters		<u>1,457</u>	₡ 6.25	<u>9,106.25</u>
		Total	<u>9,457</u>	<u>2/</u>	₡ 61,906.25 <u>\$ 12,381.25</u>
1/18/88	Laminated Roofing Sheets		6,116	₡ 28.24	₡ 172,715.84
5/13/88	Laminated Roofing Sheets		<u>7,390</u>	₡ 28.24	<u>208,693.60</u>
		Total	<u>13,506</u>	<u>3/</u>	₡ 381,409.44 <u>\$ 76,281.89</u> =====

1/ A CONADES official told the auditors that they used an estimate of 15 joists to repair each house. Since 7,500 joists were purchased, CONADES estimated that the joists supporting the walls of 500 houses could be repaired.

2/ A CONADES official told the auditors that they used an estimate of 20 rafters to repair each house. Since 9,457 rafters were purchased, CONADES estimated that the rafters of 472 houses could be repaired.

3/ A CONADES official told the auditors that they used an estimate of 18 laminated roofing sheets to repair each house. Since 13,506 sheets were purchased, CONADES estimated 750 houses could be repaired.

INVENTORY OF 340 HOUSES AND ASSOCIATED COMPONENTS
IN THE SUPPLIER'S WAREHOUSE
AS OF JUNE 30, 1988

Description of Components	Parts Per House	Total Parts that should be in Warehouse 1/	Physical Inventory	Parts (Under) Over	No. Houses Affected
Floor Anchor	4	1,360	1,360	-	-
Roof Anchor	31	10,540	10,540	-	-
Foundation Piece (length)	2	680	613	(67)	34
Foundation Piece (width)	2	680	613	(67)	34
Bottle	1	340	370	30	-
Door Frame (Horizontal)	1	340	95	(245)	245
Door Frame (Vertical)	2	680	126	(554)	277
Corner Piece	4	1,360	1,369	9	-
11mm 2.14x.515 fiber board	24	8,160	546	(7,614)	318
11mm 1.065x.515 fiber board	4	1,360	92	(1,268)	317
11mm .455x.982 fiber board	1	340	26	(314)	314
Wrench (Nut size 3/8"x1/4")	1	340	250	(90)	90
Wrench (Nut size 1/4")	1	340	35	(305)	305
Window Frame	16	5,440	597	(4,843)	303
Patio Joist	3	1,020	451	(569)	190
Bolt	40	13,600	-	(13,600)	340
Threading Bolt	8	2,720	-	(2,720)	340
Floor Support	1	340	60	(280)	280
Exterior Support	3	1,020	180	(840)	280
2.77 mts. Interior Support	1	340	58	(282)	282
6.0 mts. Interior Support	1	340	50	(290)	290
Door	1	340	281	(59)	59
1/4" Nut	71	24,140	-	(24,140)	340
3/8" Nut	12	4,080	-	(4,080)	340
7" Galvanized tin roofing sheets	7	2,380	4,420	2,040	-
10" Galvanized tin roofing sheets	7	2,380	4,170	1,790	-
Window	4	1,360	242	(1,118)	280
Beam	1	340	341	1	-
Roofing Bolt	26	8,840	4,372	(4,468)	172
Horizontal Wall Cap	1	340	60	(280)	280
Vertical Wall Cap	2	680	717	37	-

1/ This number was calculated as follows:

Total houses purchased by CONADES of 480, less 140 delivered to Cojutepeque and Escuintla equals 340 houses which should be in the supplier's warehouse.- Total parts equals parts per house times 340 houses

INVENTORY OF SIX HOSPITAL UNITS AND ASSOCIATED COMPONENTS
IN THE SUPPLIER'S WAREHOUSE
AS OF JUNE 30, 1988

<u>Description of Components</u>	<u>Total Parts Per Unit</u>	<u>Total Parts should be in Warehouse</u>	<u>Physical Inventory</u>	<u>Parts (Under) Over</u>	<u>No. Hospitals Affected</u>
Zinc Roofing Sheets	36	216	216	-	-
4"x4"x96" Support Joist	16	96	60	(36)	3
Joist Connectors 2"x4"x1.5 mts	4	24	24	-	-
Joist Connectors 2"x2"x2.25 mts	4	24	24	-	-
Joist Connectors 4"x2"x49 1/2"	8	48	48	-	-
4"x4"x120" Joist	2	12	12	-	-
7.5 mts. Foundation Piece	2	12	12	-	-
3 mts. Foundation Piece	2	12	12	-	-
Front Wall 3 mts x 2.44 mts	1	6	6	-	-
Secondary Front Wall					
1.5 mtsx2.44 mts	1	6	6	-	-
Iron Siding 1.5x3 mts	2	12	12	-	-
Metal Door	1	6	6	-	-
Iron Siding 1.80x4.5 mts	2	12	12	-	-
Iron Siding 2.44 mts	2	12	12	-	-
Iron Truss	6	36	36	-	-
1.8 mts Splash Board	3	18	18	-	-
1.0 mts Splash Board	3	18	18	-	-
4.25 mts Support	12	72	72	-	-
Metal Door	2	12	12	-	-
Sink	1	6	-	(6)	6
Toilet	1	6	-	(6)	6
Shower	1	6	-	(6)	6
Desk	1	6	6	-	-
Teacher's Chair	3	18	18	-	-
Examination Table	1	6	6	-	-

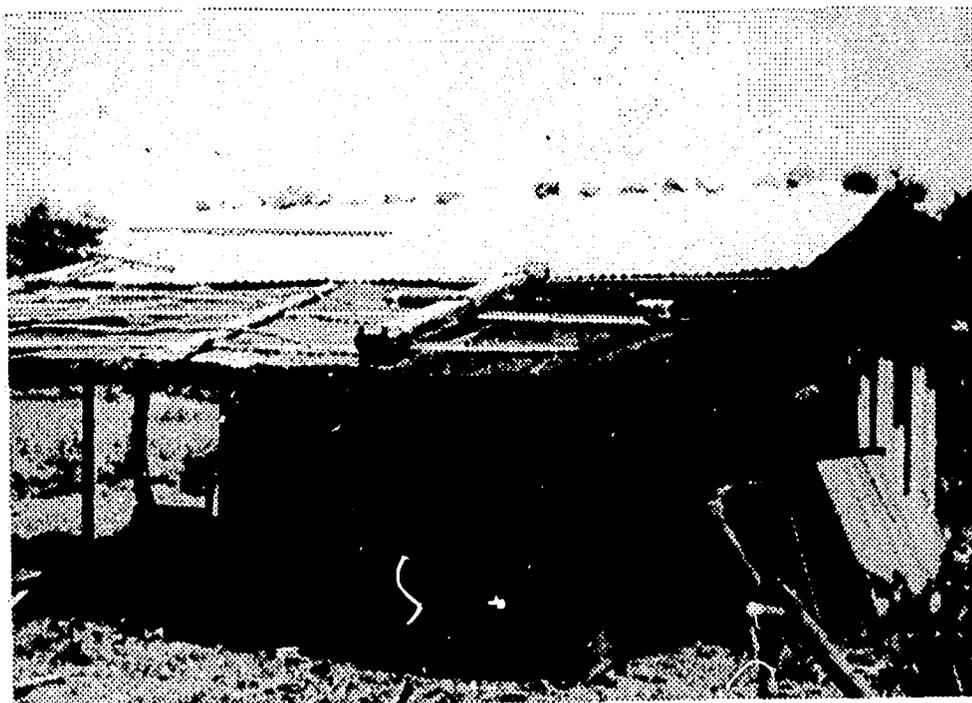
19

INVENTORY OF FIVE SCHOOL UNITS AND ASSOCIATED COMPONENTS
IN THE SUPPLIER'S WAREHOUSE
AS OF JUNE 30, 1988

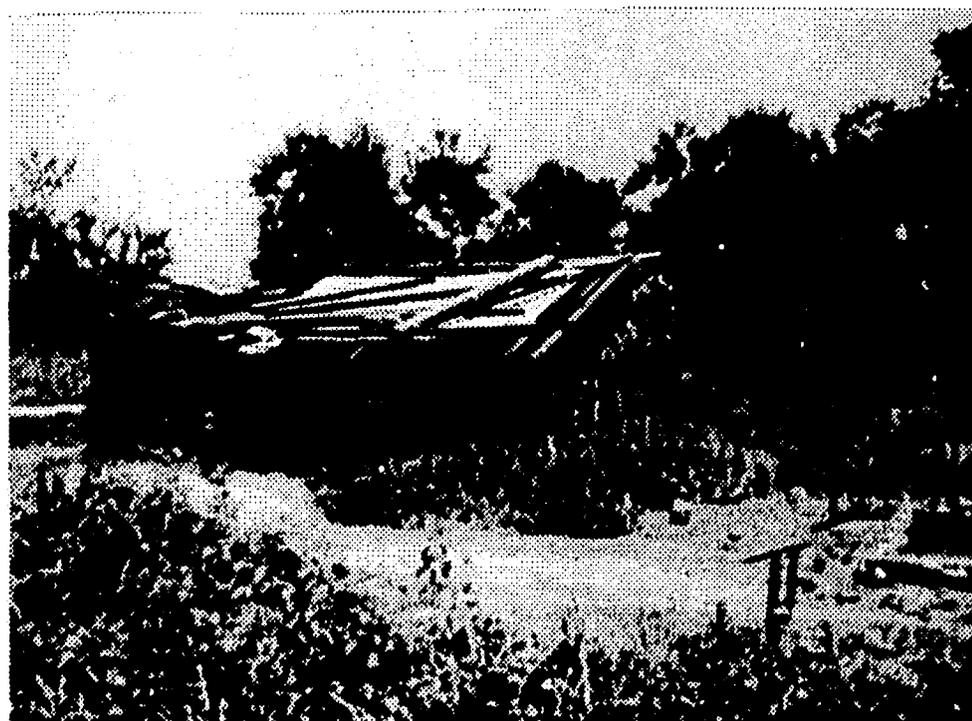
<u>Description of Components</u>	<u>Total Parts Per Unit</u>	<u>Total Parts should be in Warehouse</u>	<u>Physical Inventory</u>	<u>Parts (Under) Over</u>	<u>No. Schools Affected</u>
7.5 mts Foundation Piece (length)	2	10	10	-	-
6.0 mts Foundation Piece (width)	2	10	10	-	-
4"x4"x2.44 Joist	11	55	55	-	-
Joint Connectors (4"x2"x150)	4	20	20	-	-
Joint Connectors (1"x2"x2.4 mts)	8	40	40	-	-
Iron Truss	6	30	32	2	-
Splash Board	6	30	30	-	-
Roof Support	10	50	50	-	-
Spacer (3.50 mtsx3/8")	4	20	-	(20)	5
3.75 mts lateral wall	4	20	-	(20)	5
Joist 4x4	1	5	5	-	-
Joist Connectors	4	20	20	-	-
Laminated Wall	1	5	5	-	-
Blackboard (1.20 mts/2.44 mts)	1	5	1	(4)	4
Teacher's Desk	1	5	5	-	-
Student's Desk	40	200	200	-	-
Teacher's Chair	1	5	5	-	-
Zinc roofing sheets	36	180	180	-	-

20-

PHOTOGRAPHS OF PREFABRICATED HOUSES OR
ASSOCIATED COMPONENTS IN
COJUTEPEQUE AND HACIENDA ESQUINTLA



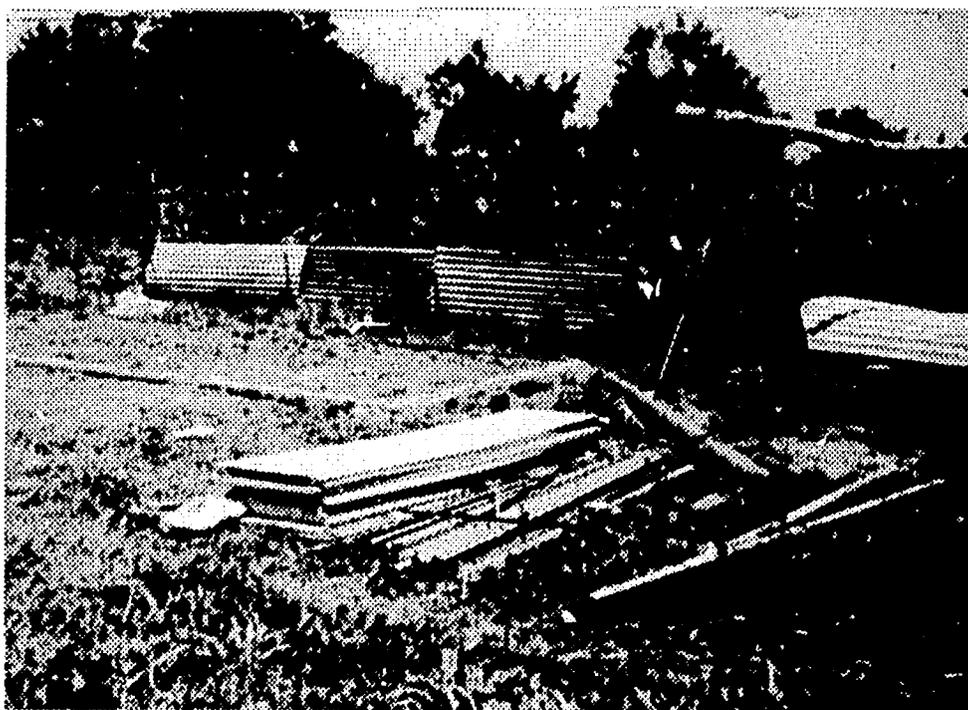
Improper assembly and use of component materials for prefabricated houses located at Hacienda Esquintla.



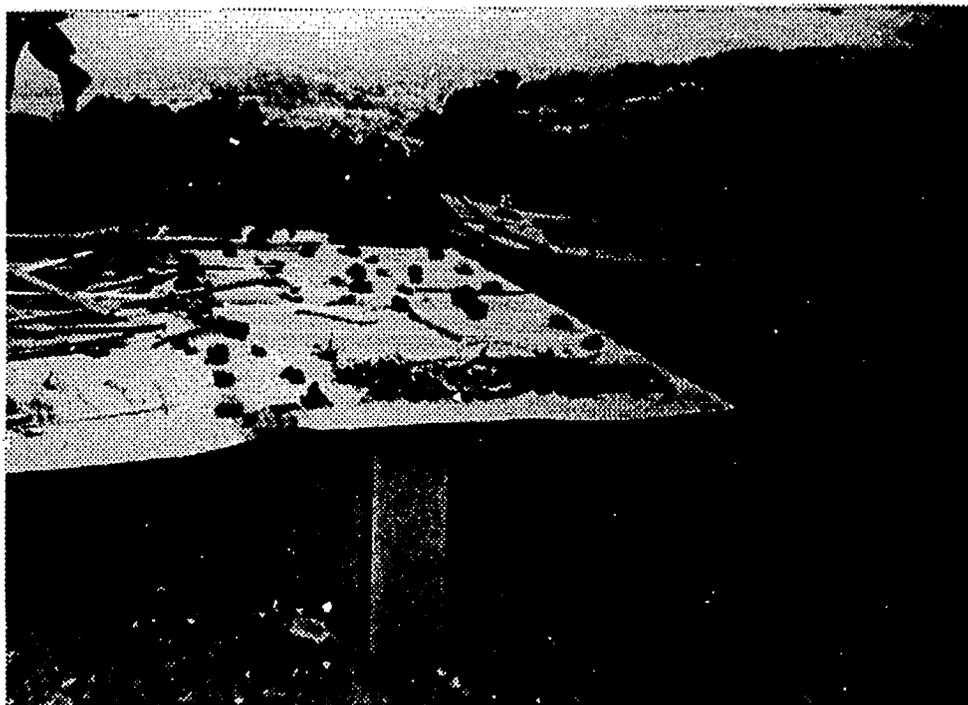
Improper assembly and inappropriate use of wall panelling and assorted components lying on the roof of house at Hacienda Esquintla.



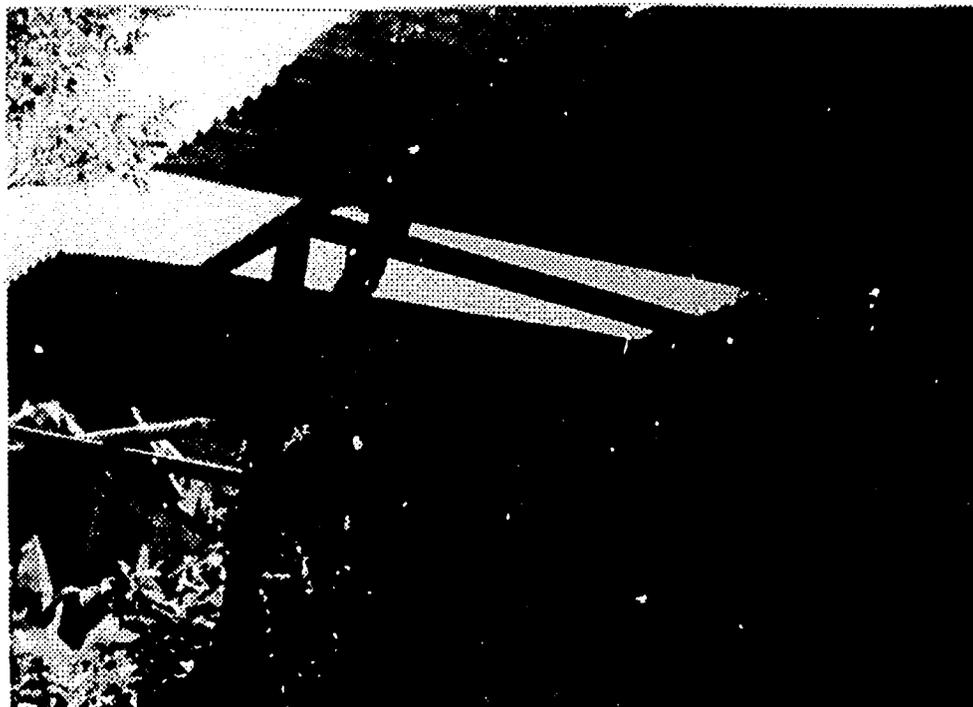
Assorted components of, and an assembled prefabricated house located on property of supplier.

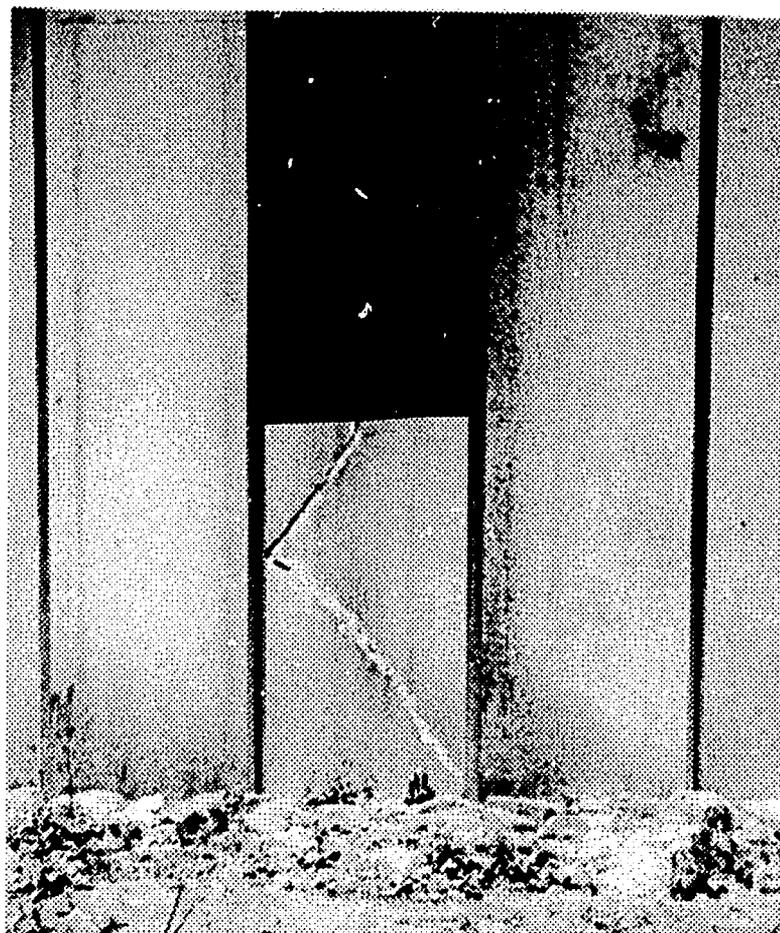


Components of prefabricated houses left improperly stored and unguarded at Hacienda Esquintla.



Roofing bolts not used as evidenced by rocks placed on roof to hold down roof; house in Cojutepeque.





Damaged wall panelling used in prefabricated house located at Cojutepeque.

INVENTORY OF COMPONENTS FOR
90 HOUSES REPORTED AS DELIVERED TO HACIENDA ESCUINTLA
AS OF JUNE 30, 1988

<u>Description of Components</u>	<u>Parts Per Unit</u>	<u>Total Parts Should Be Delivered</u>	<u>Parts Delivered/ Supplier Kardex and Documents</u>	<u>Parts (Under) Over Delivered</u>	<u>No. of Houses Affected</u>
Floor Anchor	4	360	360	-	-
Roof Anchor	31	2790	2790	-	-
Foundation Piece (length)	2	180	180	-	-
Foundation Piece (width)	2	180	180	-	-
Bottle	1	90	100	10	-
Door Frame (horizontal)	1	90	270	180	-
Door Frame (vertical)	2	180	-	(180)	90
Corner Piece	4	360	360	-	-
11 mm 2.44x.545 fiber board	24	2160	1440	(720)	30
11 mm 1.065x.545 fiber board	4	360	240	(120)	30
11 mm .455x.932 fiber board	1	90	60	(30)	30
Wrench (Nut size 3/8"x1/4")	1	90	90	-	-
Wrench (Nut size 1/4")	1	90	100	10	-
Window Frame	16	1440	1600	160	-
Patio Joist	3	270	270	-	-
Bolt	40	3600	3200	(400)	10
Threading Bolt	8	720	800	80	-
Floor Support	1	90	90	-	-
Exterior Support	3	270	270	-	-
2.77 mts Interior Support	1	90	90	-	-
6.0 mts Interior Support	1	90	90	-	-
Door	1	90	90	-	-
1/4" Nut	71	6390	6390	-	-
3/8" Nut	12	1080	968	(112)	10
7" Galvanized roofing sheets	7	630	700	70	-
10" Galvanized roofing sheets	7	630	630	-	-
Window	4	360	360	-	-
Beam	1	90	90	-	-
Roofing Bolt	26	2340	2160	(180)	7
Horizontal Wall Cap	1	90	90	-	-
Vertical Wall Cap	2	180	180	-	-

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INVENTORY OF COMPONENTS FOR
50 HOUSES REPORTED AS DELIVERED TO COJUTEPEQUE
AS OF JUNE 30, 1988

<u>Description of Components</u>	<u>Parts Per House</u>	<u>Total Parts Should Be Delivered</u>	<u>Parts Delivered/ Supplier Kardex and Documents</u>	<u>Parts (Under) Over Delivered</u>	<u>No. of Houses Affected</u>
Floor Anchor	4	200	120	(80)	20
Roof Anchor	31	1550	1790	240	-
Foundation Piece (length)	2	100	100	-	-
Foundation Piece (width)	2	100	100	-	-
Bottle	1	50	50	-	-
Door Frame (horizontal)	1	50	150	100	-
Door Frame (vertical)	2	100	-	(100)	50
Corner Piece	4	200	200	-	-
11 mm 2.44x.545 fiber board	24	1200	1200	-	-
11 mm 1.065x.545 fiber board	4	200	200	-	-
11 mm .455x.982 fiber board	1	50	50	-	-
Wrench (Nut size 3/8"x1/1")	1	50	50	-	-
Wrench (Nut size 1/4")	1	50	30	(20)	20
Window Frame	16	800	720	(80)	5
Patio Joist	3	150	150	-	-
Bolt	40	2000	1200	(800)	20
Threading Bolt	8	400	320	(80)	10
Floor Support	1	50	50	-	-
Exterior Support	3	150	150	-	-
2.77 mts Interior Support	1	50	50	-	-
6.0 mts Interior Support	1	50	50	-	-
Door	1	50	50	-	-
1/1" Nut	71	3550	2130	1420	20
3/8" Nut	12	600	440	(160)	14
7" Galvanized roofing sheets	7	350	400	50	-
10" Galvanized roofing sheets	7	350	400	50	-
Window	4	200	200	-	-
Beam	1	50	50	-	-
Roofing Bolt	26	1300	1200	(100)	4
Horizontal Wall Cap	1	50	50	-	-
Vertical Wall Cap	2	100	100	-	-

LIST OF BENEFICIARIES LIVING IN PROJECT HOUSING
LOCATED AT COJUTEPEQUE
AS OF JULY 5, 1988

<u>Name</u>	<u>Place of Origin</u> <u>3/</u>	<u>Displaced Code</u>
1. Martha Miranda	Tenancingo	2/
2. Efraim Delgado	San Jose Concasa	2/
3. Martha Menjivar	1/	930108601
4. Emilia de Alfaro	Canton San Felipe	2/
5. Candelaria Perez	San Francisco Chamaco	930125301
6. Tomasa Palacio	San Esteban	930128501
7. Eulalia Cruz Hernandez	Canton Guiliquisque	930100201
8. Nely Saravia Pinela	Jucuapa	930132901
9. Luz Maria Cruz Hidalgo	Canton Guiliquisque	930123101
10. Pilar del Carmen Aleman	Suchitoto	930129401
11. Augustina Aldana Reyes	1/	930127801
12. Rosa Esther Rosales	San Esteban Catarina	930118001
13. Maria Julia Rosales	San Esteban Catarina	930107501
14. Juana de Henriquez	Tenancingo	2/
15. Adelia Henriquez	San Luis de Reina	930124101
16. Higinia Dorotea Escobar	Canton Chomorro	2/
17. Martha Zavaleta	Tenancingo	2/
18. Maria Julia Miranda	Tenancingo	930118901
19. Maria Virginia Umazor	San Jose, La Union	930122401
20. Juliana Martir Merino	1/	930114001
21. Amalia Alvarado	1/	930111401
22. Felipa Villalta	1/	930104701
23. Dora N. Alvarenga	Tenancingo	930123001
24. Maria Dolores Flores	San Esteban Catarina	930126701
25. Jesus Gochez	1/	2/
26. Graciela de Ayala	San Sebastian	930709301
27. Anibelis de Portillo	Santo Domingo	930118101
28. Aracely Navarrette	Tenancingo	2/
29. Marcos Pineda	San Esteban Catarina	930119601
30. Mercedes Pinela	San Esteban Catarina	2/

1/ During field visit to Cojutepeque, these persons were not interviewed.

2/ These 21 beneficiaries were not shown in CONADES' records as displaced people.

3/ These beneficiaries were interviewed unless otherwise noted.

<u>Name</u>	<u>Place of Origin</u> <u>3/</u>	<u>Displaced Code</u>
31. Elba Aragon	Tenancingo	2/
32. Herminia Coreas	Jucuaran	93010201
33. Maria Nicolasa Mejia	San Sebastian	2/
34. Rosa Mabel Bonetla	1/	2/
35. Juana Arteaga	1/	930104201
36. Teodolinda Lopez	Oratorio	930116901
37. Maria Santos Cornejo	San Esteban	2/
38. Maria Luisa de Martinez	1/	2/
39. Alicia Portillo	1/	930112901
40. Maria Mercedes de Romero	1/	2/
41. Blanca Lidia Portillo	1/	930715001
42. Felipe de Jesus Rodriguez	Guatalupe	2/
43. Juan Carrillo	San Jose	2/
44. Escolastico Majano	1/	930114701
45. Ana Maria Duran	San Esteban	930102201
46. Gloria Navarrete	San Esteban	2/
47. Maria Elena Rivera	1/	930101901
48. Maria Eugenia Villeda	1/	2/
49. Blanca R. Cordova	1/	2/
50. Ana Guadalupe Avalos	Tenancingo	2/

1/ During field visit to Cojutepeque, these persons were not interviewed.

2/ These 21 beneficiaries were not shown in CONADES' records as displaced people.

3/ These beneficiaries were interviewed unless otherwise noted.

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LIST OF BENEFICIARIES LIVING IN PROJECT HOUSING
LOCATED AT HACIENDA ESQUINTLA
AS OF JULY 27, 1988

<u>Name</u>	<u>Place of Origin</u> 3/	<u>Displaced Code</u>
1. Elba Ramirez	Canton Matazano	I/
2. Jose Leoncio Ramirez Ramos	Canton Matazano	I/
3. Angel Joel	Canton Matazano	I/
4. Cruz Renderos Molina	Canton Matazano	I/
5. Graciela Moscona	Canton Matazano	I/
6. Leonidas Gomez	Canton Matazano	I/
7. Otilio Gomez	Canton San Jose	I/
8. Misael Gomez	Canton San Jose	I/
9. Catarino Gomez	Canton San Jose	I/
10. Rogelio Salinas	Canton San Jose	I/
11. Alfredo Ramirez	Canton Matazano	I/
12. Antonio Ibanez	Canton Matazano	I/
13. Antonio Mejia	Canton Matazano	I/
14. Antonio Ramirez	Canton Matazano	I/
15. Jose Santos Lopez	San Jose Las Flores	I/
16. Aquilino Ramirez Jiminez	Canton Matazano	I/
17. Elio Guardado	Canton Matazano	I/
18. Manuel Calles	Canton Matazano	I/
19. Eradio Salinas	Canton Matazono	I/
20. Transito Lemus	Berlin	I/

1/ These 20 beneficiaries were not shown in CONADES' records as displaced people. We interviewed all of these persons during our field visit.

memorandum

DATE: March 1, 1989

REPLY TO
ATTN OF: Henry H. Bassford, DIR, USAID/ESAPPENDIX 1
Page 1 of 3SUBJECT: Mission Response to the Draft Audit Report on Selected
Activities of CONADES

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

The subject draft audit report presents three recommendations. The Mission's detailed response to the recommendations is presented below.

General Comments:

The draft report should adequately state why only the housing component of the CONADES project was selected for audit. The Mission and SEFEFE highlighted CONADES, and the housing component in particular, to the RIG as an area where significant problems were known to exist. Page 3 of the draft report makes a passing reference to the Mission's identification of problems at CONADES but does not adequately dispel the implication that CONADES was selected at random or could be considered as a representative activity in the El Salvador Local Currency Program.

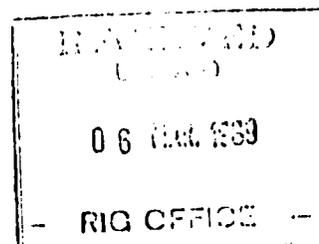
Finding No. 1:

The National Commission mismanaged the project's housing component.

Recommendation No. 1:

"We recommend that USAID/El Salvador not approve the financing of any new action plans for the National Commission for Assisting Displaced Population until the Government of El Salvador reimburses the extraordinary budget for the equivalent of \$665,484 that the National Commission spent on prefabricated houses, schools, and medical units".

The Mission agrees with the recommendation and would like to make the following observations for the record:



1. The Mission has written to the Minister of Planning and stated that the Mission does not support further funding of CONADES by SETEPE unless certain measures are taken to improve the control of funds at CONADES and their performance in compliance with agreed objectives and guidelines. The Mission will request the reimbursement of the monies referred to in this recommendation.
2. Page 7 of the draft report makes reference to AID's objection to the purchase of the prefabricated houses. It should be mentioned that this was done in writing to the General Manager of CONADES and the Minister of Planning prior to the second procurement of prefabricated houses.
3. Also on Page 7 it is important to note that the blame placed on ISTA by CONADES for not supplying enough land for the distribution of houses is not totally valid. CONADES could have used these houses in a number of other sites where displaced persons were living in poor conditions, such as in some of the displaced persons' camps.

Finding No. 2:

Government officials used project vehicles for unauthorized purposes.

Recommendation No. 2:

"We recommend that USAID/El Salvador not approve the financing of any new action plans for CONADES until:

- a. the GOES has reimbursed the extraordinary budget for the equivalent of \$44,280 that was spent to buy the three vehicles in 1985 and 1986; and
- b. the Ministry of Interior has returned the three vehicles to the project".

The Mission concurs with the intent of the recommendation (to reimburse CONADES for the personal usage of vehicles) but believes that the Ministry either should reimburse CONADES for the original cost of the vehicles or return them, charging a usage cost. To request both the reimbursement of the original cost and the vehicles themselves seems to charge the Ministry twice.

Page 10 of the draft report mentions that increased control over vehicle usage is needed. Would usage log books be an adequate control? If not, please specify the extent of controls recommended.

Finding No. 3:

The National Commission paid value added taxes contrary to its creation law.

Recommendation No. 3:

"We recommend that USAID/El Salvador obtain evidence from the Technical Secretariat for External Financing that the National Commission for Assisting Displaced Population:

- a. has obtained a legal opinion from the Government of El Salvador Attorney General regarding its proposed tax free status; and
- b. based on the legal opinion, i) has recovered the value added tax from the supplier if the Attorney General approves the exemption or ii) has verified that the supplier has paid the tax to the appropriate government taxing agency if the Attorney General denies the exemption".

The Mission concurs with this recommendation.

Other Comments:

1. Page 14 of the draft report states that "the 1986 and 1987 action plans did not authorize" the purchase of prefabricated houses. A more accurate statement would be that these action plans were vague as to the type of housing authorized.
2. Appendix 1 page 7 of 9 of the draft report states that "technical assistance was supposed to be provided at the field locations where houses were to be erected". According to your audit work papers, who was supposed to give that field assistance, the manufacturer? Please specify in the final report.
3. The Mission has attached a copy of the following pages (1,2,6,7,8,10,11,14,16 and 7 of 9 of Appendix 1) of the draft report with minor corrections and comments. These pages do not constitute part of this response for the purposes of the final report.

RO:of

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REASONS FOR MISMANAGEMENT
OF PROJECT HOUSING COMPONENT

A detailed explanation is presented below for the mismanagement of the project housing component of the National Commission for Assisting Displaced Population's (National Commission) action plans:

Procurement and Distribution of Housing was Mismanaged -- The 1986 and 1987 Action Plans established that the National Commission would provide 1,800 new houses for displaced persons (1,000 in 1986 and 800 in 1987). However, the National Commission only provided 70 new houses. To accomplish its objective the National Commission purchased 480 prefabricated houses (200 in 1987 and 280 in 1988). Of the 480 houses purchased, 140 were delivered to project sites (50 houses to Cojutepeque and 90 houses to Hacienda Esquintla). Our field inspections made in July 1988 disclosed that all of the 50 houses delivered to Cojutepeque were assembled but that only 20 of the 90 houses delivered to Hacienda Esquintla were installed. The 70 houses not installed at Hacienda Esquintla were stacked in open unsheltered sites where they were being damaged by rain and subject to pilferage and unauthorized use.

There were several reasons why the National Commission was unable to provide 1,800 new houses to displaced persons as planned. First, the National Commission purchased more expensive prefabricated houses rather than less costly adobe or other temporary houses as originally authorized in the action plans. As a result, only 480 houses and other facilities were purchased from available funds (\$665,484 of extraordinary budget funds were used to purchase 402 prefabricated houses, six medical and five school units and \$87,126 of ordinary budget funds ^{1/} were used to purchase 78 prefabricated houses). These purchases were made even though USAID/El Salvador had not agreed to the purchases in the jointly programmed memorandum of understandings. Also, the purchase of the 280 prefabricated houses in 1988 was made despite objections from USAID/El Salvador, the Technical Secretariat for External Financing and Court of Accounts personnel. The purchase was ordered and approved by high level Government of El Salvador (GOES) officials. Second, only 140 of the 480 houses were delivered to project sites because the Salvadoran Institute for Agrarian Transformation was unable to provide sufficient land for these houses as agreed. The Assistant General Manager of the National Commission stated this problem was magnified by a lack of coordination and planning between the Purchases Committee and the Social Promotion Office of the National Commission responsible for executing agreements

^{1/} Funds the GOES receives through taxes, customs duties, and other revenue measures.

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with other GOES institutions. USAID/El Salvador stated the National Commission could have used these houses in a number of other sites where displaced persons were living in poor conditions, such as in some of the displaced persons camps. Third, only 20 of the 90 houses delivered to Hacienda Esquintla were installed because according to a National Commission official the Cooperative President at Hacienda Esquintla overestimated the number of families living at the project site. The President of the Cooperative reported that 110 families lived there but the National Commission stated that only 40 families were actually living there. As a result, 70 of the houses delivered to Hacienda Esquintla were never installed and were left lying on the ground.

The 1987 Action Plan established that materials would be purchased to repair 3,200 houses, but we concluded that only an estimated 852 houses could have been completely repaired (380 in 1986 and 472 in 1987) (see exhibits 2 and 3). This happened because some of the funds allocated for repair of houses were used to buy new houses; also, based on our review of material purchases, insufficient funds were allocated to reach the established repair targets. Since the housing objectives were not achieved, far fewer persons were benefited with improved or new housing than intended by the action plans.

Many Components for Prefabricated Houses, Schools and Medical Units were Missing -- Sound internal control standards require that goods not be paid for until their receipt has been physically verified and that adequate physical custody has been established over received goods. The National Commission did not observe these principles for the purchase of 180 prefabricated houses, five schools and six medical units.

The National Commission purchased 200 prefabricated houses in 1987 and 280 in 1988. Additionally, they purchased six medical and five school units in 1988. The individual components making up these orders were stored at the supplier's warehouse located approximately 15 kilometers east of San Salvador on the Pan American highway. It was determined that 140 prefabricated housing units and their associated components had been withdrawn from the warehouse and sent to two project locations, Cojutepeque - 50 units, and Hacienda Esquintla - 90 units, leaving 340 units and their associated subcomponents to be accounted for in the warehouse. None of the school or medical units were reportedly withdrawn and delivered to these sites.

On June 30, 1988, the auditors took a physical inventory of the National Commission order located at the supplier's warehouse in the presence of the supplier's employee managing the warehouse. The housing units were composed of 31 different subcomponents, the medical units 25 different subcomponents and the school units 18 different subcomponents. The supplier's warehouse employee identified the parts pertaining to the National Commission and jointly counted the parts with the auditors. These parts were stacked up in different locations on the supplier's

property, not solely in the warehouse, and were not specifically segregated as belonging to the National Commission. Some of the parts appeared to be in a semi-finished state; they were not painted and not all of the required assembly holes had been drilled.

Only about 33 percent of the order could be positively identified as pertaining to the order. Another 46 percent of the order, as identified by a supplier's employee, was commingled with the supplier's unsold inventory, making it difficult to determine if these items belonged to the National Commission. Finally, about 21 percent of the order was apparently missing, not in the warehouse nor on the property of the supplier.

Many subcomponents were missing from the prefabricated houses, medical and school units. For example, there were no walls (fiberlite boards) for 311 houses. Doors for 59 houses and windows for 280 houses were missing. No walls for any of the five school units were found. Also blackboards for four of the five school units were missing. There were no supporting joists for three of the six medical units and no sinks, toilets or showers for any of these units. This inventory is detailed in exhibits 4, 5, and 6.

The causes of the problem are numerous. The National Commission's treasurer stated he paid the supplier for the first order of 122 houses on March 31, 1987 before deliveries were made because he was under the (erroneous) impression that no disbursement from the 1986 action plan could be made after this date (the action plan pertaining to this disbursement was for the period April 1, 1986, to March 31, 1987). He therefore made the disbursement before the goods were physically delivered. The rest of the orders for houses, schools and medical units were paid because a National Commission official signed receiving reports indicating that 100 percent of required items had been received. A National Commission official admitted that they had not taken proper physical control measures over the items at the warehouse and that the supplier may have removed some of these items from the warehouse for resale.

This results in paying for goods and services not actually received. In this case, apparently 21 percent of the goods paid for were missing. Also, 46 percent of the order was commingled with the supplier's unsold inventory subjecting it to possible resale to other buyers. The National Commission paid for goods and services that either were not received, received in a semi-finished state, or which were possibly subsequently removed for resale by the supplier. The National Commission, by paying the supplier before delivery, forfeited its leverage for contractor's compliance with other terms of the contract. As a result, it may be more costly and time-consuming for the National Commission and the GOES to recover or obtain reimbursement for the missing items.

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Prefabricated Housing Units Were Not Properly Assembled -- At least 9 of 50 houses constructed at Cojutepeque were improperly assembled as evidenced by gaps in roofs, doors, and walls. Ten of 20 houses in Hacienda Esquintla were improperly assembled as evidenced by gaps in roofs, doors, and windows (see photographs in exhibit 7).

Prefabricated houses consisting of 31 components were to be delivered to field locations. Additionally these houses were to be installed on and connected to concrete pads. Technical assistance was supposed to be provided by the manufacturer at the field locations where houses were to be erected.

Many of these houses were improperly installed because the required parts and subcomponents were not all delivered. Warehouse withdrawals indicated significant shortfalls in various components as follows: no vertical door frames for any of the houses; no fiber board walls for 30 houses; no floor anchors for 20 houses (See exhibits 8 and 9 for a complete list of inventory shortages relating to these two field deliveries).

In addition, there wasn't any cement at project sites to prepare concrete pads on which to install the houses. According to the Assistant General Manager of the National Commission, cement was not delivered to the sites because it was too costly. This official stated that the National Commission is required by law to purchase its cement through a government procurement agency. This agency buys its cement from a government-owned company in Metapan, El Salvador. The Assistant General Manager of the National Commission stated it was cheaper to buy cement close to the construction sites rather than pay the transportation costs of delivering cement from Metapan to the project sites. He stated he did not want to buy cement from the government procurement agency and is trying to get a waiver in order to reduce the overall cost of the cement. Therefore, no cement was delivered as this cost issue was not resolved.

The Assistant General Manager also stated that technical assistance had not been provided to beneficiaries by the supplier to help assemble the houses. He thought one or two beneficiaries had gone to the supplier's warehouse and had witnessed a house being assembled. This type of training or technical assistance did not appear to be very effective when combined with shortages of required components and non-deliveries of cement.

As a result of these deficiencies, housing for displaced persons had not been improved as intended and may not last very long and provide a satisfactory solution to the housing needs of displaced persons.

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Prefabricated Houses Were Not Occupied by Displaced Persons and Located in Low Priority Areas -- Prefabricated project housing was occupied by persons not listed on the displaced persons register. Physical inspections of houses and 54 interviews with the occupants showed that 41 houses were occupied by persons not listed on the displaced person's register (see exhibits 10 and 11). The National Commission Assistant General Manager stated that unregistered persons were allowed to have these houses because they were ordered by higher level GOES officials to permit this. This National Commission official further stated this is no longer a problem because since April 30, 1988 the National Commission is allowed to provide its services to persons not listed on the displaced person's register. This practice does not meet the project objective of providing adequate housing to the displaced population of El Salvador as specified in the 1986 action plan.

Prefabricated houses were not located in any of the high priority areas identified in the 1986 action plan as needing houses. Neither of the sites where houses were installed (Cojutepeque and Hacienda Esquintla) were on the list of the 54 priority areas designated to receive the installation of houses. The houses were placed in Cojutepeque and Hacienda Esquintla by the Assistant General Manager of the National Commission at the direction of the Minister of the Interior. Placing houses in sites other than the 54 high priority areas is not likely to satisfy the basic shelter needs of displaced families.

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