

**Regional Inspector General for Audit  
Tegucigalpa, Honduras**

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**Audit of USAID/El Salvador's Projects  
Managed by the Salvadoran Foundation for  
Economic and Social Development  
April 1, 1989 to March 31, 1991**

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**Audit Report No. 1-519-92-29-N  
April 29, 1992**



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# AGENCY FOR INTERNATIONAL DEVELOPMENT

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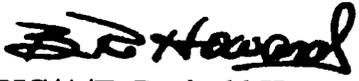
OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN EMBASSY  
TEGUCIGALPA - HONDURAS

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April 29, 1992

## MEMORANDUM

TO: D/USAID/El Salvador, John Sanbrailo



FROM: RIG/A/T, Reginald Howard

SUBJECT: Audit of USAID/El Salvador's Projects Managed by the Salvadoran Foundation for Economic and Social Development, April 1, 1989 to March 31, 1991

This report presents the results of a financial audit of six USAID/El Salvador Projects, managed by the Salvadoran Foundation for Economic and Social Development (Foundation), for the period April 1, 1989 to March 31, 1991. The accounting firm of Price Waterhouse prepared the report which is dated January 20, 1992.

Because of El Salvador's declining economic situation, USAID/El Salvador initiated Projects with the Government of El Salvador and private organizations to improve the country's economy. The Foundation received funding under several Projects with a combined budget of \$86.1 million to carry out its responsibilities under the program. The audit coverage included A.I.D. funds totaling \$39.8 million provided to the Foundation during the audit period under the following six USAID El/Salvador cooperative agreements:

- the Industrial Stabilization and Recovery Project No. 519-0287,
- Water Management Project No. 519-0303,
- Small and Micro-Enterprises Project No. 519-0304,
- Free Zone Development Project No. 519-0323,
- Agribusiness Development Project No. 519-0327, and
- Private Sector Initiatives Project No. 519-0336.

The objectives of the audit were to determine whether: (1) the Foundation's consolidated fund accountability statement presents fairly, in all material respects, the financial activities under the Projects during the period audited, (2) the Foundation's internal

control structure was adequate to ensure appropriate control over the Projects' activities, and (3) the Foundation had complied, in all material respects, with the terms of the Project Agreements and applicable laws and regulations. The audit scope included an examination of Foundation activities and transactions to the extent considered necessary to issue a report thereon for the period under audit.

Price Waterhouse found that the Foundation's consolidated fund accountability statement, with the exception of questionable costs of \$3,067,776, presents fairly, in all material respects, the Projects' financial activities for the period audited. These questionable costs included \$101,061 of questioned costs which had been identified by A.I.D. as ineligible and \$2,966,715 of unsupported costs related primarily to inadequate documentation and unreconciled items.

With respect to the Foundation's internal control structure, the auditors identified four material weaknesses. The auditors reported that the Foundation's accounting system, was inadequate, disbursements by its Miami office were not adequately documented, control procedures for credits granted were inadequate, and administrative and control procedures needed improvement.

In its review of the Foundation's compliance with Agreement terms and applicable laws and regulations, Price Waterhouse identified two instances of material noncompliance concerning inadequate evidence for required counterpart contributions and lack of separate bank accounts for managing Project funds.

Although not identified as a material weakness, the auditors reported that the Foundation does not properly account for funds generated by its experimental Projects. We believe, however, that since this matter could have a material impact on the planned negotiation of an overhead rate with the Foundation the amount of these funds and the appropriateness of their use should be determined.

Price Waterhouse reported that Foundation officials expressed general agreement with the report content and accepted the recommendations presented in the exit conference. In management's written comments, attached to the report as Appendix I, the Foundation offered explanations for the circumstances regarding a number of the unsupported costs.

We are including the following recommendations in the Office of the Inspector General's audit recommendation follow-up system:

**Recommendation No. 1**

**We recommend that USAID/El Salvador resolve the questionable costs of \$3,067,776 (\$101,061 questioned and \$2,966,715 unsupported) identified in the Price Waterhouse audit report dated January 20, 1992, and recover from the Salvadoran Foundation for Economic and Social Development all amounts determined to be unallowable.**

## **Recommendation No. 2**

**We recommend that USAID/El Salvador, in conjunction with the Salvadoran Foundation for Economic and Social Development, develop a plan, including a timetable for implementation, to establish procedures that: (a) assure accounting systems for USAID/El Salvador Projects properly record, control, and report Project operations, (b) assure disbursements by the Miami office are supported by adequate documentation, (c) provide adequate control procedures for credits granted, (d) provide improved administrative and control procedures, (e) assure that counterpart contributions are made to Projects requiring contributions, and (f) establish separate bank accounts for Project funds.**

## **Recommendation No. 3**

**We recommend that USAID/El Salvador, in conjunction with the Salvadoran Foundation for Economic and Social Development, develop a plan, including a timetable for implementation, for: (1) determining the amount of funds generated by experimental Projects and the appropriateness of the use of these funds, and (2) establishing procedures to properly record income generated by the experimental Projects.**

This final audit report is being transmitted to you for your action. Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.

**AUDIT OF THE USAID/EL SALVADOR PROJECTS  
MANAGED BY THE SALVADORAN FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991**

**AUDIT OF THE USAID/EL SALVADOR PROJECTS  
MANAGED BY THE SALVADORAN FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991**

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*Price Waterhouse*



January 20, 1992

Mr. Reginald Howard  
Regional Inspector General for Audit  
U. S. Agency for International Development  
Tegucigalpa, Honduras, C. A.

Dear Mr. Howard:

This report presents the results of our financial audit of the USAID/El Salvador Projects managed by the Salvadoran Foundation for Economic and Social Development (FUSADES) for the period April 1, 1989 to March 31, 1991.

#### **BACKGROUND**

El Salvador's economy has declined during the past decade as a result of civil unrest and depressed international prices for agricultural commodities. USAID/El Salvador initiated a number of projects aimed at improving the country's economic situation. Besides implementing projects through the Government of El Salvador, the Mission has also relied on the private sector to implement its projects. One private organization that the Mission has worked with to implement several projects is the Salvadoran Foundation for Economic and Social Development (commonly known by its Spanish acronym, FUSADES).

FUSADES was organized in 1983 by a group of approximately 100 Salvadoran business leaders to develop alternative solutions to governmental intervention in response to El Salvador's economic, political and social problems. It was legally established in August 1983 as a private non-profit organization and has received A.I.D. assistance since late 1983. Among the USAID/El Salvador projects implemented by FUSADES are the following:

1

A. Cooperative Agreement No.519-0336-A-00-7598 for \$4,700,000.

This agreement was signed on August 31, 1987. The purpose of this project was to have FUSADES provide technical and financial assistance to Salvadoran business associations; carry out economic and social studies; and develop the institutional capacity to manage and support these programs. The project assistance completion date (PACD) is December 31, 1991.

B. Cooperative Agreement No.519-0327-A-00-7575 for \$33,000,000.

This agreement was signed on September 29, 1987. The purpose of this project is to increase the production and export of nontraditional agricultural products. The project will fund activities grouped into two components: (1) assistance to nontraditional, export oriented agribusiness, and (2) FUSADES institutional support. It was agreed that FUSADES/other institutions would give a counterpart contribution of US\$11,000,000. PACD is September 30, 1994.

C. Cooperative Agreement No.519-0323-A-00-8872 for \$2,000,000.

This agreement was signed on August 31, 1988. The purpose of this project is to develop the private free zones in El Salvador through the creation of a revolving fund for private zone development, and to improve the administration and services offered by the Government of El Salvador's free zone at San Bartolo. PACD is September 1, 1993.

D. Cooperative Agreement No.519-0304-A-00-5506 for \$6,000,000.

This agreement was signed on August 29, 1985. The purpose of this project is to provide the beneficiaries of the program with the initial financial resources they need to expand operations and increase their profitability. All financial assistance activities will be accompanied by technical assistance. PACD is June 30, 1992.

E. Cooperative Agreement No.519-0303-G-00-5510 for \$13,450,900.

The agreement was signed on August 27, 1985. The purpose of this project is to promote diversified, irrigated farming in El Salvador through institution strengthening, technology transfer, training, and credit assistance. It was agreed that FUSADES would give a counterpart contribution of US\$3,450,900. The last PACD is September 30, 1991.

F. Cooperative Agreement No.519-0287-G-00-4387 for \$26,900,000.

The agreement was signed on September 24, 1984. The purpose of this project is to develop the capacity of the private and public sectors to provide policy support, technical assistance, technology transfer and training services to Salvadoran exporters of non-traditional products. It was agreed that FUSADES would give a counterpart contribution of US\$892,400. The last PACD is September 30, 1994.

**OBJECTIVES AND SCOPE OF WORK**

The objective of our current engagement was to conduct financial audits of the following projects managed by FUSADES: 519-0336-A-00-7598 - Private Sector Initiatives, 519-0327-A-00-7575 - Agribusiness Development, 519-0323-A-00-8872 - Free Zone Development, Private Sector Component, 519-0304-A-00-5506 - Small and Micro-Enterprise Program, 519-0303-G-00-5510 - Water Management Project and 519-0287-G-00-4387 - Industrial Stabilization and Recovery Project.

Our audits were performed in accordance with generally accepted auditing standards and the U. S. Comptroller General's "Government Auditing Standards" and accordingly included such tests of the accounting records and other auditing procedures considered by us necessary in the circumstances to determine whether:

- a. The consolidated fund accountability statement for the above-mentioned projects presents fairly, in all material respects, the financial situation of the projects managed by FUSADES from April 1, 1989 to March 31, 1991 and costs reported as incurred and reimbursed by USAID/El Salvador during the period were allowable, allocable, and reasonable in accordance with agreement terms, and applicable laws and regulations.
- b. The internal control structure of FUSADES was adequate to manage the projects.
- c. FUSADES complied with agreement terms, and applicable laws and regulations which could affect the projects' goals and incurred costs.

## RESULTS OF AUDIT

### A. Fund Accountability Statement -

Our tests and the application of auditing procedures considered by us appropriate in the circumstances lead us to believe that the consolidated cash receipts and disbursements of USAID/El Salvador projects Nos. 519-0287, 519-0303, 519-0304, 519-0323, 519-0327 and 519-0336 for the period from April 1, 1989 to March 31, 1991 are fairly stated, except for the effect of questionable costs amounting to ¢268,627 (equivalent to US\$53,725) and US\$47,336, as well as unsupported costs amounting to ¢5,571,618 (equivalent to US\$1,114,324), (¢107,219) (equivalent to US\$21,444) and US\$1,873,833.

### B. Internal Control Structure -

Our evaluation of the internal control structure applied by FUSADES in managing the projects disclosed the following reportable conditions:

1. Limitations in the accounting system to properly capture, register, control, summarize and report the operations of the USAID/El Salvador projects.
2. Disbursements in Dollars made from the operating fund managed by FUSADES in Miami, Florida which are not supported by adequate or competent documentation.
3. Control procedures applicable to credits granted by FUSADES require strengthening.
4. Administration and control procedures presently in force require improvement.
5. The defined organizational and administrative structures of FUSADES present some weaknesses which can be overcome in a short term.
6. Lack of adequate control over project execution and experimental productive activities.



C. Compliance with Agreement Terms and  
Applicable Laws and Regulations -

Our work revealed the following instances of noncompliance:

1. Project No. 519-0323 has not been previously audited in accordance with Government Auditing Standards.
2. Evidence regarding counterpart contributions is lacking.
3. FUSADES did not maintain separate bank accounts to more properly manage project funds.
4. FUSADES has not implemented adequate controls over vehicles and other assets acquired with A.I.D. supplied funds.
5. Travel advances are not liquidated on a timely basis.
6. FUSADES has not used Form W-245 to liquidate advances received from USAID/El Salvador and there is no evidence that the use of an alternative reporting form was approved by A.I.D..

MANAGEMENT COMMENTS:

In an exit conference held on January 17, 1992 with representatives of USAID/El Salvador, the Office of the Regional Inspector General for Audit (RIG/A/T) and Price Waterhouse, FUSADES officials expressed general agreement with the report contents and acceptance of the recommendations presented. Management comments, obtained in writing, are presented as Appendix I.

*Price Waterhouse*

*Price Waterhouse*



**AUDIT OF THE USAID/EL SALVADOR PROJECTS  
MANAGED BY THE SALVADORAN FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991**

**FUND ACCOUNTABILITY STATEMENT**

**INDEPENDENT AUDITOR'S REPORT**

We have examined the fund accountability statement which consolidates the following USAID/El Salvador projects managed by the Salvadoran Foundation for Economic and Social Development (FUSADES) for the period from April 1, 1989 to March 31, 1991: Industrial Stabilization and Recovery (No. 519-0287), Water Management (No. 519-0303), Small and Micro-Enterprises (No. 519-0304), Free Zone Development, Private Sector Component (No. 519-0323), Agribusiness Development (No. 519-0327), and Private Sector Initiatives (No. 519-0336). Both the consolidated and the projects fund accountability statements are the responsibility of FUSADES' management. Our responsibility is to express an opinion on the consolidated fund accountability statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the U. S. Controller General's Government Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, FUSADES maintains its accounting records and prepares its financial statements under the accrual basis of accounting, except for interest income and restricted funds received in donation which are accounted for on a cash basis. The

consolidated fund accountability statement examined by us for the period April 1, 1989 to March 31, 1991 has been prepared by FUSADES by taking information from its own accounting records and from the liquidations submitted to USAID/El Salvador.

Regarding projects execution for USAID/El Salvador purposes, our audit identified questionable costs for ¢268,627 (equivalent to US\$53,725) and \$47,336 and unsupported costs for ¢5,571,618 (equivalent to US\$1,114,324), (¢107,219) (equivalent to US\$21,444) and \$1,873,833 for different concepts more fully explained in Note 2 to the consolidated fund accountability statement. The unsupported costs with a credit balance result from a series of open items identified in the reconciliation of cash funds disbursed and available and other items not satisfactorily cleared by FUSADES.

In our opinion, except for the effects of the matters discussed in the fourth paragraph above, the consolidated fund accountability statement examined by us presents fairly the receipts and disbursements of the USAID/El Salvador projects referred to in the first paragraph and managed by FUSADES for the period from April 1, 1989 to March 31, 1991, in conformity with the basis of accounting described in Note 1.

This report is intended solely for the use and information of FUSADES and USAID. 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.



November 9, 1991

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 AUDIT OF THE USAID/EL SALVADOR PROJECTS  
 -----  
 MANAGED BY THE SALVADORAN FOUNDATION FOR ECONOMIC  
 -----  
 AND SOCIAL DEVELOPMENT (FUSADES)  
 -----  
 FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991  
 -----  
 CONSOLIDATED FUND ACCOUNTABILITY STATEMENT  
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Concept	D. A. Local Currency	Dollars	QUESTIONED COSTS (NOTE 2)				UNSUPPORTED COSTS (NOTE 2)			
			Local currency	Ref.	Dollars	Ref.	Local currency	Ref.	Dollars	Ref.
Accumulated cash receipts at the beginning of period	77,028,139	5,939,099								
Cash receipts for the period	105,501,648	16,101,975								
Building	10,552,511	643,571								
	116,054,159	16,745,546								
Accumulated disbursements at the beginning of period	68,740,592	4,260,585								
Period disbursements:										
Building	10,552,511	643,571					5,147,253	(b.3.4.9)		
Technical assistance	16,092,822	4,956,756					46,321	(b.8)	1,398	(b.7)
Personnel costs	20,142,073	207,673					168,708	(b.5)		
Equipment and supplies	1,269,262	47,800								
Travel and training	1,436,001	511,173					33,924	(b.8)	3,167	(b.7)
Logistical support	1,774,201	97,108					12,548	(b.8)		
Indirect costs	3,432,554	240,222								
Investment fund		6,226,121								
Operating expenses	930,060	4,926								
Courses seminars and training	659,792	51,846								
Field workers	638,600						5,250	(b.8)		
Loans granted	39,762,948	2,431,317								
Leases and services	2,516,990	5,557								
Furniture and fixtures	178,796						4,228	(b.8)		
Conferences and seminars	443,460	2,886								
Travel expenses	958,404	241,030					1,205	(b.8)		
Advertising	1,319,999	9,145								
EDP programs	1,850									
Technical assistance - Pridex	7,650	107,076								
Support to FUSADES	14,776,686	650,472					152,181	(b.8)	2,268	(b.7)
Not identified			268,627	(a.1)	47,336	(a.1)			1,264,266	(b.1.6)
Total period disbursements	116,894,659	16,434,679								
Accumulated excess of cash receipts over disbursements	7,447,047	1,989,381								
Reconciling items at beginning of period	(72,436)									
Reconciling items of the period	179,655	(602,734)					(107,219)	(b.2)	602,734	(b.2)
Cash availability	7,554,266	1,386,647								
Total debits			268,627		47,336		5,571,618		1,873,833	
Total credits							(107,219)			

**AUDIT OF THE USAID/EL SALVADOR PROJECTS MANAGED BY  
THE SALVADORAN FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991**

**NOTES TO THE CONSOLIDATED FUND  
ACCOUNTABILITY STATEMENT**

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY  
OF SIGNIFICANT ACCOUNTING POLICIES:**

The Salvadoran Foundation for Economic and Social Development (FUSADES) was organized in 1983 as a private non profit institution and its bylaws were approved by Decree No. 71 of August 23, 1983. Its main objective is to develop alternative solutions to governmental intervention in response to the country's economic, political and social problems.

For these purposes, FUSADES has managed the following projects under cooperative agreements with A.I.D.:

<u>Project number</u>	<u>Project name</u>
519-0287	Industrial Stabilization and Recovery
519-0303	Water Management
519-0304	Small and Micro-Enterprises
519-0323	Free Zone Development - Private Sector Component
519-0327	Agribusiness Development
519-0336	Private Sector Initiatives

A summary of the significant accounting policies adopted by FUSADES for its own purposes and those of USAID/El Salvador in connection with the above mentioned projects follows:

a. Basis of accounting -

The accounting records, and the financial statements are prepared in conformity with the accrual basis of accounting, except for interest income and restricted funds received in donation which are accounted for on a cash basis.

The fund accountability statements for the USAID/El Salvador financed projects have been prepared by taking financial data from FUSADES own accounting records and from liquidations submitted to USAID/El Salvador.

b. Founders contributions and other donations -

In accordance with the bylaws, contributions from founders or other donors not destined to cover operating costs are considered part of the entity's patrimony and thus they are not taken to receipts.

c. Property, furniture and equipment -

Property, furniture and equipment are carried at cost. Renewals and betterments, if significant, are capitalized and normal repairs and maintenance are charged to receipts. Commencing 1990 depreciation on long-lived assets is computed by the straight-line method and charged to patrimony.

d. Severance compensation -

Compensation accruing in favor of employees, in accordance with the provisions of the Salvadoran Labor Law, may be payable to them in the event of unjustified dismissal at the equivalent of one month's salary (with a ceiling of ¢1800) for each year of service. The expenses for this concept are recognized when payment is made.

e. Foreign currency transactions -

FUSADES has used, for recording all transactions denominated in foreign currency, the legal rate of exchange of ¢5.00 = \$1.00, at variance with generally accepted accounting principles. For USAID/El Salvador projects, all transactions effected in Dollars through the trust fund with Cititrust in Bahamas or through other Dollar accounts were recorded in local currency at a rate of ¢5.00 = \$1.00; however, Dollar loans handled through a Salvadoran bank (Banco Hipotecario) were recorded at the rate of exchange prevailing at the transaction date.

**NOTE 2 - QUESTIONED AND UNSUPPORTED COSTS:**

a. Questioned costs -

Costs not accepted by A.I.D. which FUSADES is still negotiating:

<u>Cooperative Agreement No.</u>	<u>Local currency</u>	<u>Dollars</u>
519-0287	Ø 50,409	\$38,055
519-0304	168,565	
519-0323	1,173	537
519-0327	27,266	7,711
519-0336	<u>21,214</u>	<u>1,033</u>
	<u>Ø268,627</u>	<u>\$47,336</u>

b. Unsupported costs -

Our audit disclosed the following costs which are considered as unsupported as explained below:

1. Funds transferred to the operating fund handled by the FUSADES Miami office amounting to US\$600,584. Sufficient supporting documentation for these disbursements was lacking. Original "paid" checks returned by the bank were not on hand for our review and the majority of the disbursements selected for examination were justified on the basis of photocopies of the original documents or were not supported by any document altogether.
2. Aggregate reconciling cash items from the projects inception through March 31, 1991 amounting to Ø107,219 and \$(602,734), as described in the following page and which FUSADES has been unable to explain or to provided appropriate analysis of individual items:

<u>Cooperative agreement</u>	<u>Beginning of period</u>	<u>During the period</u>	<u>Balance at end of period</u>	<u>Dollars during the period</u>
519-0287	¢ 75,087	¢(220,344)	¢(145,257)	\$(227,529)
519-0303	(20,493)	89,894	69,401	(25,438)
519-0304	167,066	(409,762)	(242,696)	(255)
519-0323	10,319	29,864	40,183	
519-0327	(284,734)	683,592	398,858	(357,364)
519-0336	<u>(19,681)</u>	<u>6,411</u>	<u>(13,270)</u>	<u>7,852</u>
Total debits	252,472	809,761	508,442	7,852
Total credits	<u>(324,908)</u>	<u>(630,106)</u>	<u>(401,223)</u>	<u>(610,586)</u>
Total net	<u>¢(72,436)</u>	<u>¢ 179,655</u>	<u>¢ 107,219</u>	<u>\$(602,734)</u>

3. Purchase of materials for the construction of the FUSADES building, charged to project No. 519-0287, for which no evidence regarding the application of open and competitive bidding procedures could be found, as follows:

<u>Check No.</u>	<u>Date</u>	<u>Supplier</u>	<u>Local currency</u>
1228	5-30-89	CORINCA, S. A.	¢ 56,424
1258	6-12-89	Siderúrgica Timetti	89,388
4549	8-09-89	Galvanisa	59,286
4586	9-06-89	Concreteira Salvadoreña	<u>64,066</u>
			<u>¢269,164</u>

4. Purchase of materials under project No. 519-0287 supported by photocopy of a summary of bids only, whereby awarding of the purchase to a different supplier is disclosed:

<u>Check No.</u>	<u>Date</u>	<u>Supplier</u>	<u>Local currency</u>
4588	09-07-89	Sisepo, S. A. de C. V.	¢ 84,211
4596	09-12-89	Sisepo, S. A. de C. V.	<u>59,789</u>
			<u>¢144,000</u>

5. Disbursements by checks drawn against Banco Cuscatlán, charged to project No. 519-0287, for which the corresponding documents do not satisfy legal formalities.

<u>Check No.</u>	<u>Date</u>	<u>Beneficiary</u>	<u>Local currency</u>
6792	12-12-90	Cone, S. A. de C. V.	¢ 33,267
6395	01-31-90	Cone, S. A. de C. V.	33,267
8343	01-31-91	Cone, S. A. de C. V.	33,266
6791	12-12-90	Alesco, S. A.	21,554
6397	01-31-90	Alesco, S. A.	21,554
8342	01-31-91	Alesco, S. A.	<u>25,800</u>
	<b>Total</b>		<b><u>¢168,708</u></b>

6. Checks drawn against the Project Dollars bank account with no appropriate supporting documentation, or in some cases lacking of the original invoice or other legitimate document, or with photocopy in support thereof. These checks are listed below:

<u>No. check</u>	<u>Date</u>	<u>US\$ Dollars</u>
2716	11-16-90	14,000.00
2737	11-28-90	4,398.00
2606	10-08-90	1,512.50
2614	10-10-90	765.00
2631	12-10-90	14,045.45
2633	10-15-90	7,979.94
2634	10-15-90	16,710.85
2635	10-15-90	68,272.62
2497	08-28-90	32,750.00
2498	08-28-90	<u>32,750.00</u>
Carried forward...		<b><u>US\$ 193,184.36</u></b>

<u>No.</u> <u>check</u>	<u>Date</u>	<u>US\$ Dollars</u>
Brought forward...		<u>US\$ 193,184.36</u>
2499	08-29-90	1,158.00
2511	09-03-90	3,400.00
2528	09-12-90	2,500.00
2459	08-14-90	7,384.64
2478	08-22-90	750.00
2422	07-27-90	2,880.00
2425	07-31-90	125.81
2426	07-31-90	1,353.00
2427	07-31-90	977.00
2433	08-02-90	13,200.00
2444	08-02-90	1,272.00
2445	08-13-90	4,481.00
2448	08-13-90	1,278.50
2350	06-27-90	6,500.00
2351	06-27-90	2,750.00
2357	07-02-90	12,000.00
2370	07-05-90	8,500.00
2376	07-09-90	634.50
2377	07-09-90	1,032.75
2329	06-19-90	500.00
2331	06-19-90	5,224.30
2138	04-19-90	11,360.00
2165	04-25-90	656.00
2173	05-04-90	165.00
2182	05-09-90	5,859.30
2071	03-19-90	800.00
1981	02-20-90	8,500.00
1922	01-11-90	1,160.00
1923	01-16-90	1,051.50
2102	03-29-90	5,954.00
2114	04-06-90	10,672.00
2206	05-17-90	6,500.00
2235	05-29-90	6,500.00
1994	02-25-90	1,288.50
1996	02-27-90	6,649.00
2006	03-05-90	1,260.00
2026	03-13-90	8,000.00
Carried forward...		<u>US\$ 347,461.16</u>

<u>No.</u> <u>check</u>	<u>Date</u>	<u>US\$ Dollars</u>
Brought forward...		<u>US\$ 347,461.16</u>
2077	03-13-90	3,710.00
2652	10-24-90	37,639.85
2673	10-30-90	1,646.70
2758	12-07-90	1,226.96
2767	12-11-90	1,195.00
2768	12-11-90	3,142.44
2769	12-11-90	392.31
2398	07-20-90	1,543.50
2401	07-20-90	498.91
2256	06-01-90	250.00
2268	06-07-90	413.88
2273	06-11-90	900.00
1754	10-25-89	10,420.00
1762	10-31-89	6,649.00
1771	10-31-89	1,400.00
1791	11-06-89	6,789.60
1833	12-11-89	1,527.75
1834	12-11-89	1,264.50
1850	12-14-89	11,970.36
1878	12-29-89	5,000.00
1702	09-25-89	25,000.00
1712	10-05-89	8,556.68
1719	10-05-89	1,410.00
1720	10-05-89	1,732.00
1729	10-12-89	1,000.00
1648	08-22-89	200.00
1685	09-13-89	1,377.00
1612	07-31-89	3,850.00
1630	08-10-89	400.00
1546	06-22-89	86,416.00
1557	06-29-89	3,528.25
1576	07-12-89	3,496.00
1577	07-12-89	1,768.00
1578	07-12-89	3,136.00
1431	04-25-89	3,000.00
1434	04-25-89	5,250.00
1437	04-25-89	5,803.00
1447	04-28-89	3,573.26
1460	05-08-89	1,157.00
2831	N/A	3,200.00
2837	01-09-91	<u>15,000.00</u>
Carried forward...		<u>US\$ 623,895.11</u>

<u>No. check</u>	<u>Date</u>	<u>US\$ Dollars</u>
Brought forward...		<u>US\$ 623,895.11</u>
2919	02-19-91	750.00
2537	09-18-90	850.00
2548	09-21-90	1,975.00
2575	10-01-90	1,158.00
2576	10-01-90	1,527.75
2577	10-01-90	1,732.00
2582	10-03-90	55.45
2872	01-28-91	9,000.00
2878	02-01-91	1,160.00
2898	02-11-91	2,765.00
2992	03-08-91	286.18
2994	03-08-91	5,600.00
2996	03-08-91	6,350.99
2970	03-01-91	1,077.08
2983	03-06-91	4,500.00
2984	03-07-91	1,000.00
		<u>US\$ 663,682.56</u>

7. Disbursements for \$6,833 made per Exhibit VII and not duly documented by FUSADES as summarized below:

<u>Component</u>	<u>519-0287</u>	<u>519-03-03</u>	<u>519-0327</u>	<u>Total</u>
Travel by Invitation	\$ 1,467			\$ 1,467
Technical Assistance	1,398			1,398
Training		\$ 1,700		1,700
Support to FUSADES			2,268	2,268
	<u>\$ 2,865</u>	<u>\$ 1,700</u>	<u>\$ 2,268</u>	<u>\$ 6,833</u>

8. Disbursements for \$284,904 made per Exhibit VIII and not duly documented by FUSADES as summarized in the following page:

<u>Component</u>	<u>519-0287</u>	<u>519-0303</u>	<u>519-0327</u>	<u>519-0336</u>	<u>Total</u>
Logistics	£ 11,520			£ 1,028	£ 12,548
Furniture and equipment	4,228				4,228
Technical assistance	33,016	£ 9,504	£ 3,801		46,321
Travel by invitation	6,101				6,101
Training		15,683			15,683
Field agents		5,250			5,250
Travel				1,205	1,205
Training			12,140		12,140
Support to FUSADES			152,181		152,181
	<u>£ 54,865</u>	<u>£ 30,437</u>	<u>£168,122</u>	<u>£ 2,233</u>	<u>£255,657</u>

9. Costs for £4,734,089 incurred for the construction of the FUSADES building under a contract entered into with Dada Silhi after best and final quotes were requested from this company and from "Salvadoreña de la Construcción". The bidding process was finally won by Dada Silhi, but FUSADES did not make available to the auditors the second quote of the company "Salvadoreña de la Construcción" to verify such evidence.

The above mentioned amount was funded by project No. 519-0287, No. 519-0323 and No. 519-0327.

**NOTE 3 - ADJUSTMENT OF BALANCES AS  
AT APRIL 1, 1989:**

Cash received under project No. 519-0323 for the period April 1, 1989 to March 31, 1991 includes \$189,260 which were deposited and recorded as such in February 1989. This balance has not been reclassified in the accompanying fund accountability statement.

**NOTE 4 - CONFLICTS OF INTEREST:**

The loan portfolio includes credits granted to members of the Board of Directors and members of different committees of FUSADES which could pose a conflicts of interest question. For USAID/El Salvador purposes, however, the LAC prohibition for granting insider loans became effective for FUSADES on February 25, 1988 and it is safe to explain that all credits using A.I.D. funds which could be considered in violation of such prohibition were either granted or committed prior to February 25, 1988.

**NOTE 5 - DETAILS OF CASH RECEIPTS AND  
DISBURSEMENTS BY PROJECT:**

Exhibits I through VI hereto present the detailed financial information by project whose accumulation account for the totals presented by FUSADES in its consolidated fund accountability statement for the period April 1, 1989 to March 31, 1991.

*Price Waterhouse*



**AUDIT OF THE USAID/EL SALVADOR PROJECTS  
MANAGED BY THE SALVADORAN FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991**

**INTERNAL CONTROL STRUCTURE**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the fund accountability statement which consolidates the following USAID/El Salvador projects managed by the Salvadoran Foundation for Economic and Social Development (FUSADES) for the period from April 1, 1989 to March 31, 1991: Industrial Stabilization and Recovery (No. 519-0287), Water Management (No. 519-0303), Small and Micro-Enterprises (No. 519-0304), Free Zone Development, Private Sector Component (No. 519-0323), Agribusiness Development (No. 519-0327) and Private Sector Initiatives (No. 519-0336) and have issued our report thereon dated November 9, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the USAID/El Salvador projects referred to above for the period from April 1, 1989 to March 31, 1991, we considered the internal control structure applied by FUSADES in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated fund accountability statement and not to provide assurance on the internal control structure.

The management of FUSADES is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an

internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: organizational structure, accounting and budgetary control system, procurement of goods and services, credits and collections, cash management, management information system and administrative control procedures.

For all of the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement. The conditions noted are described in more detail under findings Nos. 1 to 6 in the following pages and are summarized as follows:

1. The accounting system has limitations to properly capture, register, control, summarize and report the operations of the USAID/El Salvador projects.
2. Disbursements made in dollars from the operating fund managed by FUSADES in Miami, Florida are not supported by adequate or competent documentation.



3. Control procedures applicable to credits granted require strengthening.
4. Administrative and control procedures presently in force require improvement.
5. The defined organizational and administrative structures present some weaknesses which can be overcome in a short term.
6. Lack of adequate control over the execution of experimental productive activities.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described above as Nos. 1, 2, 3 and 4 are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we reported to the management of FUSADES in a separate communication dated November 8, 1991.

This report is intended solely for the use and information of FUSADES and USAID. 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.

November 9, 1991

**AUDIT OF THE USAID/EL SALVADOR PROJECTS  
MANAGED BY THE SALVADORAN FOUNDATION FOR  
ECONOMIC AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991**

**INTERNAL CONTROL STRUCTURE**

**FINDINGS**

1. The Accounting System in Place Showed Some Limitations to Properly Capture, Register, Control, Summarize and Report the Operations of the USAID/El Salvador Projects.

**Condition:**

Our evaluation disclosed the following reportable conditions:

- a. The balances receivable from the PROPEMI project were not reconciled to the listing of credits granted nor to the books of account as at March 31, 1991;
- b. The established accounting system was not followed to record as accounts receivable or accounts payable and to properly control the cash transfers among the different projects and the cash transfers between A.I.D. supplied funds and FUSADES's own funds. It is necessary to note, however, that cash transfers from one project to another is at variance with USAID prescribed procedures.
- c. The established accounting system was not followed to properly register and control separately the grant Dollar funds from other sources; and
- d. The control accounts within the accounting system do not coincide by caption with the budget line items defined in the cooperative agreements.

**Criteria:**

Annex 3 to the cooperative agreements (Standard Provisions) required FUSADES to properly identify, segregate, accumulate and record all project costs and to facilitate proper accountability over the budget execution for each project, with emphasis on the use of USAID/El Salvador provided funds.

**Cause:**

FUSADES elected to prepare from time to time details of different transactions and to prepare account reconciliations through the use of informal records, ignoring the control features associated with its formal and officially approved accounting system.

**Effect:**

The lack of reliable accounting procedures precludes the submission of timely and previously analyzed financial information. The control weaknesses associated with insufficient detailed and analytical information on certain transactions and the lack of timely reconciliation procedures resulted in cases of noncompliance with agreement terms and in questioned costs for 268,627 and US\$47,336 (Ref. a.1 of Note 2) and unsupported costs for (107,219) and US\$602,734 (see reference b.2 of Note 2 to the Fund Accountability Statement).

**Recommendation:**

FUSADES's management should take whatever action is necessary to analyze the origin of the differences noted and adjust the accounts as necessary. More important, however, management should update its accounting manual and demand that its provisions be invariably complied with.

2. Disbursements Made in Dollars from the Operating Fund Managed by FUSADES in Miami, Florida are not Supported by Adequate or Competent Documentation.

**Condition:**

Disbursements made in Dollars managed by the FUSADES's Miami Office are not documented with original documentation and the "paid" checks returned by the bank are not on hand.

**Criteria:**

Annex 3 to the cooperative agreements require FUSADES to maintain proper accountability over the budget execution for each project.

**Cause:**

Lack of supervision and follow-up over transactions entered and paid for by the office maintained by FUSADES in the city of Miami, Florida.

**Effect:**

Noncompliance with agreement terms and unsupported costs amounting to \$600,584 which are being questioned for lack of sufficient documentation (See Note 2 Ref.b.1 to the Fund Accountability Statement).

**Recommendation:**

FUSADES should integrate and make every effort to obtain, to the satisfaction of USAID/El Salvador, bona-fide documents for the disbursements made in Miami and for which original documentation in support thereof is missing. More important, however, is the need to implement proper accountability procedures at the Miami Office to provide proper assurances that A.I.D. funds are used only for authorized purposes and that disbursements are properly documented, accounted for and reported to A.I.D. on the basis of reliable and complete accounting records.

3. Control Procedures Applicable to Credits Granted by FUSADES Require Strengthening.

**Condition:**

The following reportable conditions were noted:

- a. At least in one case (Agropecuaria Las Delicias) funds were used for purposes other than those expressed for requesting the credit, situation that was revealed by work carried out by FUSADES' employees prior to our audit.
- b. Some of the files for irrigation loans lack the documents normally required for granting credit, such as the request for the loan, results of the analysis practiced, comments and observations of the credit analyst, copy of the charter of incorporation for juridical persons, certification of the minute authorizing the credit request, recent trial balance or financial statements, etc..

- c. In several cases the signature of the credit analyst making the loan evaluation is lacking as evidence thereof.

**Criteria:**

Policies and procedures designed and duly approved for granting credits should be consistently observed. Also, if circumstances are such that established procedures are no longer considered applicable, management should see that changes recommended are subject to review and approval by those charged with that responsibility.

**Cause:**

The findings under the condition are attributable to the limited scope of the existing monitoring and internal auditing functions at FUSADES.

**Effect:**

Possible noncompliance with agreement terms and other applicable regulations.

**Recommendation:**

FUSADES management should strengthen the internal support functions (financial monitoring over credits granted and internal auditing) for timely application of existing controls and to provide proper assurance that established procedures regarding credit approval and authorization are well documented and complied with at all times.

4. Administrative and Control Procedures Presently in Force Require Improvement.

**Condition:**

Our evaluation disclosed the following reportable conditions:

- a. The documents in support of acquisitions of goods and services are disorderly filed and at least in one case the approved geographic code was not used.

Locating all supporting documents for a given transaction is a difficult task and exceptions to established procedures have occurred.

- b. The filing system in the area of personnel administration is deficient, as:
- Documents in support of disbursements made at the FUSADES's Miami Office are not on file;
  - The salary history of officers and key employees is missing;
  - Salary increases in excess of 15% and insurance coverage payable in Dollars for some officers bear no evidence of approval by A.I.D.; and
  - Family ties and potential conflicts of interest by employees are not disclosed;
- c. Accounting and custody controls over fixed assets do not include auxiliary responsibility cards or maintenance records.
- d. Some disbursements are supported only by photocopies of the original documentation, and others lack support altogether and in some cases disbursements were made in excess of the amounts contracted and authorized, as more fully explained in Note 2 to the consolidated fund accountability statement.

**Criteria:**

For USAID/El Salvador projects, FUSADES was required to implement the policies and procedures contained in the administrative manuals that were at one time approved by A.I.D. and to observe the guidelines provided by the "Standard Provisions" annexed to each cooperative agreement.

**Cause:**

Lack of timely and sufficient follow-up by the support functions (i.e. internal auditing) has allowed the conditions noted. Regarding the conditions in the area of personnel, however, all actions taken have complied with FUSADES' internal policies.

**Effect:**

Some project transactions are not subject to the control procedures originally designed for FUSADES and approved by

A.I.D., which may eventually represent cases of noncompliance with agreement terms and applicable A.I.D. regulations, also unsupported costs for ₡5,571,618 and US\$670,515 (Ref. from b.3 to b.9 of Note 2 to the Fund Accountability Statement).

**Recommendation:**

FUSADES should make sure that its operating and administrative procedures manuals are brought up to date and adjusted to incorporate present policies and the requirements established by A.I.D. "Standard Provisions", project implementation letters and other project related documentation.

5. The Defined Organizational and Administrative Structures of FUSADES Present Some Weaknesses Which May be Overcome in the Short Term.

**Condition:**

Our work revealed the following reportable conditions regarding FUSADES organizational and administrative structures:

- a. Some job descriptions exist, although they are incomplete and have not been structured into an organizational manual;
- b. The accounting and administrative procedures manual has not been updated and the mechanism to incorporate changes or modifications to established procedures is not documented in writing;
- c. The minutes of the "Conflicts of Interest" committee are not signed by all its members as evidence of approval; and
- d. The policy on conflicts of interest which requires the use of a given form identified as Annex 2 applicable to the FIDEX program (Section F, numeral 2.b) of the applicable program regulations) has not been strictly adhered to.

**Criteria:**

The operating and functional manuals must be updated and the entity's policies and procedures must be approved at the appropriate levels of the organization and disseminated among all officers and employees for adherence thereto.

**Cause:**

Specific responsibility for overseeing that all instructions or manuals are kept current at all times were not enforced as noted weaknesses thereat had not been considered material by management.

**Effect:**

The lack of duly approved and current instructions and guidelines on the observance and application of the entity's policies and procedures on areas of significance to the projects may lead to errors or transactions that do not qualify as allowable for A.I.D. purposes.

**Recommendation:**

Management should see that the entity's and the projects' administration is supported by updated manuals or instructions that are coherent with established policies and procedures.

6. Lack of Adequate Accounting Control Over the Execution of Experimental Productive Activities.

**Condition:**

- a. Regarding the aquaculture project developed in the SINGÜIL FARM, as per the technical assistance contract No. 327/AT-259/89 amounting to Ø528,789 executed by FUSADES and Messrs. Armando Monedero and Manuel Vicente Hernández, we were not provided with procedures used to account for cash receipts pertaining to sales of products generated by the experimental productive activities, nor were we provided with evidence of final use of such funds.
- b. Regarding experimental agriculture lots managed by FUSADES we were not provided with evidence of final use of funds pertaining to produce sales. In addition operations expenses are effected by fund advances made to the employee in charge of procurement for which we observed the following deficiencies:
  - The liquidation of expenditures presented do not show evidence of review and approval by the technician responsible of the agriculture lots.

- Some supporting vouchers presented as part of liquidations are not in compliance with fiscal requirements, such as: vouchers were not issued on FUSADES name and do not show evidence of delivery of good and services to the lots.
- No evidence was provided that purchase orders were prepared nor that quotes were obtained.

**Criteria:**

As per clause 4-3.b of contract No.327/AT-259/89, funds belonging to the second crop would be used to cover 100% of cost incurred by FUSADES. It also requires an adequate internal control system for handling of funds generated and used in the productive activities developed by FUSADES.

**Cause:**

Funds generated by the projects are recorded as FUSADES own funds, which in turn overlooked the adequate implementation of minimum internal control procedures for handling cash receipts and disbursements for the experimental projects.

**Effect:**

- a. Lack of adequate internal control procedures on projects cash receipts could originate unauthorized uses of funds and non-compliances with AID regulations and the technical assistance contracts requirements. Due to the limitations described in the condition section, it was no possible to determine the amount that FUSADES should have credited to project costs.
- b. Lack of adequate control over disbursements could originate liquidation of unauthorized expenses, and expenses not applicable to the project or lacking adequate supporting documentation.

**Recommendation:**

FUSADES should determine the total amount of funds generated by the SINGÜIL FARM project and of all A.I.D. technical assistance contracts that have the fund reimbursement clause,

and transfer of such amounts should be made to the A.I.D. project bank account. On the other hand, FUSADES internal audit department should ensure that all demonstration tests expenditures are adequately supported, controlled and approved.

*Price Waterhouse*



**AUDIT OF THE USAID/EL SALVADOR PROJECTS  
MANAGED BY THE SALVADORAN FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991**

**COMPLIANCE WITH AGREEMENT TERMS AND  
APPLICABLE LAWS AND REGULATIONS**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the fund accountability statement which consolidates the following USAID/El Salvador projects managed by the Salvadoran Foundation for Economic and Social Development (FUSADES) for the period from April 1, 1989 to March 31, 1991: Industrial Stabilization and Recovery (No. 519-0287), Water Management (No. 519-0303), Small and Micro-Enterprises (No. 519-0304), Free Zone Development, Private Sector Component (No. 519-0323), Agribusiness Development (No. 519-0327), and Private Sector Initiatives (No. 519-0336) and have issued our report thereon dated November 9, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with laws, regulations, contracts, grants, and binding policies and procedures applicable to FUSADES is the responsibility of FUSADES' management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of FUSADES' compliance with certain provisions of laws, regulations, contracts, grants, and binding policies and procedures. However, our objective was not to provide an opinion on compliance with such provisions.

Material instances of noncompliance are violations of laws, regulations, contracts, grants, or binding policies and procedures that cause us to conclude that the aggregation of misstatements

resulting from those violations is material to the fund accountability statement. The results of our tests of compliance disclosed the instances of noncompliance that are described as findings Nos. 1 to 6 in the following pages, of which those identified as findings Nos. 2 and 3 are considered material.

We considered these material instances of noncompliance in forming our opinion on the fund accountability statement referred to in the first paragraph above, and this report does not affect our report dated November 9, 1991 on that financial statement.

Except as described above, the results of our tests of compliance indicate that with respect to the items tested FUSADES complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that FUSADES had not complied, in all material respects, with those provisions.

This report is intended solely for the use and information of FUSADES and USAID. 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.

A handwritten signature in cursive script, appearing to read "Price Waterhouse".

November 9, 1991

**AUDIT OF THE USAID/EL SALVADOR PROJECTS  
MANAGED BY THE SALVADORAN FOUNDATION FOR  
ECONOMIC AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991**

**COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE  
LAWS AND REGULATIONS**

**FINDINGS**

1. Project No. 519-0323 has not been Previously Audited in Accordance with Government Auditing Standards.

**Condition:**

The financial execution of Project No. 519-0323, which commenced in 1988, has not been examined in accordance with the Government Auditing Standards issued by the Comptroller General of the United States.

**Criteria:**

Section H of Annex I to Agreement No. 519-0323 requires that annual audits be performed in accordance with the applicable standards promulgated by the United States General Accounting Office (GAO).

**Cause:**

Unawareness on FUSADES regarding this requirement, as each year copy of the audit report on the institution has been delivered to USAID/El Salvador and no comments thereto have been received.

**Effect:**

Possibility that audit scope and approach in examining the entity's financial statements is not sufficient or specifically designed to provide proper assurances regarding the use of A.I.D. supplied funds for this project.

**Recommendation:**

FUSADES should require annual audits of this project practiced in accordance with Government Auditing Standards, as required by the cooperative agreement.

2. Evidence Regarding the Counterpart Contributions Required by the Agreements is Lacking.

**Condition:**

FUSADES accounting records do not provide proper evidence regarding the counterpart contributions called for in connection with cooperative agreements Nos. 519-0287, 519-0303 and 519-0327.

**Criteria:**

Section E of Amendment No. 3 to the cooperative agreements with A.I.D. called for counterpart contributions to be made by FUSADES/other institutions as follows:

Project No. 519-0287	\$ 892,400
Project No. 519-0303	\$ 3,450,900
Project No. 519-0327	\$11,000,000

**Cause:**

FUSADES has consistently reported its counterpart contributions to USAID/El Salvador in its monthly financial reports and has not consider it necessary to account for such contributions separately and segregated for each project.

**Effect:**

Failure to demonstrate to the satisfaction of A.I.D. the counterpart contributions made for each project may cause delays and other problems in achieving project goals and objectives.

**Recommendation:**

FUSADES should detail and integrate, for each project requiring counterpart contributions, the sums actually contributed with its own funds and by other institutions and the budget-line items to which such contributions were applied.

3. FUSADES did not Maintain Separate Bank Accounts to More Properly Manage Project Funds.

**Condition:**

FUSADES maintained only one account to deposit and control the Dollar funds of all six USAID/El Salvador projects. In addition, funds from this one account were transferred to the "Operating Fund" managed by the FUSADES Miami Office where they were commingled with other than USAID provided funds.

As to local currency (Colones) funds, FUSADES made numerous cash transfers among the bank accounts of the different USAID/El Salvador projects and such funds were also commingled with funds not provided by A.I.D..

**Criteria:**

According to OMB Circular A-110 FUSADES was required to maintain separate bank accounts for each project and to prevent the commingling of A.I.D. provided resources with funds of other origin.

**Cause:**

The commingling of funds responds to situations of illiquidity on certain projects which were solved by transferring cash from one project account to another and by depositing all the Dollars received from A.I.D. in just one account. It should be pointed out, however, that at the time only one account in a foreign bank was authorized by the Central Bank for FUSADES.

**Effect:**

The procedures followed by FUSADES have created considerable difficulties for the accounting department in coming up with a proper analysis of cash funds in hand in both Dollars and Colones for each USAID/El Salvador project, as a number of open items amounting to ¢107,219 and \$(602,734) had not been fully investigated and cleared at the time of the audit (See b.2 of Note 2 to the Fund Accountability Statement).

**Recommendation:**

FUSADES should instruct its controllers office, accounting and internal auditing to fully analyze the Dollar balances for each project and to investigate, and adjust if necessary, the cash balances based on the reconciliations prepared as at March 31, 1991. Also, FUSADES should either comply with the

requirements of maintaining separate accounts or agree with USAID/El Salvador on alternatives provided proper accountability of funds will be maintained at all times.

4. FUSADES has not Implemented Adequate Controls Over Vehicles and Other Assets Acquired with A.I.D. Supplied Funds.

**Condition:**

Three vehicles assigned to RPI - Hawaii Aquaculture had not been included by FUSADES in its inventory listings. Our review also disclosed that FUSADES (a) has not established individual asset responsibility cards, (b) lacked maintenance records over individual vehicles, and (c) two vehicles were not covered by insurance.

**Criteria:**

Section H of Annex I to the A.I.D./FUSADES cooperative agreements requires the grantee to implement an adequate maintenance program and control over all assets acquired with grant funds.

**Cause:**

Because FUSADES was not centralized in just one office building, the assignment of responsibilities over the physical custody and maintenance control over its fixed assets had not been properly integrated.

**Effect:**

The lack of appropriate record and control over the fixed assets make it possible that damages or losses be sustained without proper accountability.

**Recommendation:**

FUSADES should establish the responsibility and maintenance auxiliary cards necessary to comply in full with the control features required by its agreements with USAID/El Salvador.

5. Travel Advances are not Liquidated on a Timely Basis.

**Condition:**

Our review revealed twenty two instances of travel advances to officers, some of whom no longer work for FUSADES, and to other beneficiaries which had remained outstanding for more than six months.

**Criteria:**

FUSADES' Personnel Administration Manual, approved by A.I.D., establishes that travel advances should be liquidated within ten days after returning from the trip, which is also the requirement for each economic assistance contract for promotional travel.

**Cause:**

Lack of timely follow-up.

**Effect:**

Balances pending liquidation for over six months for a total of \$48,376.15 and possible uncollectible balances.

**Recommendation:**

FUSADES should comply with established procedures, in all cases. Also, responsibility for follow-up on all travel advances should be specifically assigned to the internal auditors.

6. FUSADES has not Used Form W-245 to Liquidate Advances Received from USAID/El Salvador and There is no Evidence that the Use of an Alternative Reporting Form was Approved by A.I.D..

**Condition:**

FUSADES has consistently used a form different from the W-245 to report for each project the monthly execution of advances received.

**Criteria:**

Section F 1) of Annex I to each and every agreement with A.I.D. requires the monthly presentation of Form W-245 to the accounting office of USAID/El Salvador.

**Cause:**

A.I.D. has not objected that FUSADES reports on different forms.

**Effect:**

The reporting form used by FUSADES does not include some of the detailed information required to be included in Form W-245.

**Recommendation:**

FUSADES should report using Form W-245 or alternatively obtain specific authorization from USAID/El Salvador to continue using its own reporting forms.

**AUDIT OF THE USAID/EL SALVADOR PROJECTS  
MANAGED BY THE SALVADORAN FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991**

**LIST OF REPORT RECOMMENDATIONS**

**Internal Control Structure**

**Recommendation 1:**

FUSADES's management should take whatever action is necessary to analyze the origin of the differences noted and adjust the accounts as necessary. More important, however, management should update its accounting manual and demand that its provisions be invariably complied with.

**Recommendation 2:**

FUSADES should integrate and make every effort to obtain, to the satisfaction of USAID/El Salvador, bona-fide documents for the disbursements made in Miami and for which original documentation in support thereof is missing. More important, however, is the need to implement proper accountability procedures at the Miami Office to provide proper assurances that A.I.D. funds are used only for authorized purposes and that disbursements are properly documented, accounted for and reported to A.I.D. on the basis of reliable and complete accounting records.

**Recommendation 3:**

FUSADES management should strengthen the internal support functions (financial monitoring over credits granted and internal auditing) for timely application of existing controls and to provide proper assurance that established procedures regarding credit approval and authorization are well documented and complied with at all times.

**Recommendation 4:**

FUSADES should make sure that its operating and administrative procedures manuals are brought up to date and adjusted to incorporate present policies and the requirements established by A.I.D. "Standard Provisions", project implementation letters and other project related documentation.

**Recommendation 5:**

Management should see that the entity's and the projects' administration is supported by updated manuals or instructions that are coherent with established policies and procedures.

**Recommendation 6:**

FUSADES should determine the total amount of funds generated by the SINGÜIL FARM project and of all A.I.D. technical assistance contracts that have the fund reimbursement clause, and transfer of such amounts should be made to the A.I.D. project bank account. On the other hand, FUSADES internal audit department should ensure that all demonstration tests expenditures are adequately supported, controlled and approved.

Compliance with agreement terms and applicable laws and regulations

**Recommendation 1:**

FUSADES should require annual audits of this project practiced in accordance with Government Auditing Standards, as required by the cooperative agreement.

**Recommendation 2:**

FUSADES should detail and integrate, for each project requiring counterpart contributions, the sums actually contributed with its own funds and by other institutions and the budget-line items to which such contributions were applied.

**Recommendation 3:**

FUSADES should instruct its controllers office, accounting and internal auditing to fully analyze the Dollar balances for each project and to investigate, and adjust if necessary, the cash balances based on the reconciliations prepared as at March 31, 1991. Also, FUSADES should either comply with the requirements of maintaining separate accounts or agree with USAID/El Salvador on alternatives provided proper accountability of funds will be maintained at all times.

**Recommendation 4:**

FUSADES should establish the responsibility and maintenance auxiliary cards necessary to comply in full with the control features required by its agreements with USAID/El Salvador.

**Recommendation 5:**

FUSADES should comply with established procedures, in all cases. Also, responsibility for follow-up on all travel advances should be specifically assigned to the internal auditors.

**Recommendation 6:**

FUSADES should report using Form W-245 or alternatively obtain specific authorization from USAID/El Salvador to continue using its own reporting forms.

## COOPERATIVE AGREEMENT No. 519 - 0287

## FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991

CONCEPT	LOCAL CURRENCY (COLONES)				U. S. DOLLARS			
	1989	1990	1991	TOTAL	1989	1990	1991	TOTAL
Accumulated cash receipts at beginning of period				28,275,036				2,377,209
Cash receipts for the period	6,523,411	9,297,115	3,359,500	19,180,026	2,579,853	5,616,166	950,000	9,146,019
Building	4,000,000			4,000,000				
	10,523,411	9,297,115	3,359,500	23,180,026	2,579,853	5,616,166	950,000	9,146,019
Accumulated disbursements at beginning of period				27,380,270				1,866,564
Period disbursements:								
Building	4,000,000			4,000,000				
Technical assistance	602,374	119,408	27,310	749,092	615,454	851,984	67,399	1,534,837
Personnel costs	3,544,249	5,824,776	1,587,691	10,956,716	82,597	99,310	15,411	197,318
Equipment and supplies	322,615	788,528	29,343	1,140,486	43,705	3,790	70	47,565
Travel and training	520,787	757,242	157,972	1,436,001	193,905	297,831	19,437	511,173
Logistical support	959,490	756,983	57,728	1,774,201	23,926	38,714	32,369	95,009
Indirect costs	1,217,423	1,874,007	341,124	3,432,554	67,627	162,317	10,278	240,222
Investment fund					2,168,851	4,057,270		6,226,121
Total period disbursements	11,166,938	10,120,944	2,201,168	23,489,050	3,196,065	5,511,216	144,964	8,852,245
Accumulated excess of cash receipts over disbursements				585,742				804,419
Reconciling items at beginning of period				75,087				
Reconciling items for the period				(220,344)				(227,530)
Cash availability				440,485				576,889

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COOPERATIVE AGREEMENT No. 519 - 0303  
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 FUND ACCOUNTABILITY STATEMENT  
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 FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991  
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CONCEPT	LOCAL CURRENCY (COLONES)				U. S. DOLLARS			
	1989	1990	1991	TOTAL	1989	1990	1991	TOTAL
Accumulated cash receipts at beginning of period				23,267,184				2,190,686
Cash receipts during the period	9,549,564	13,036,000	3,737,064	26,322,628	1,072,585	894,627	207,000	2,174,212
Accumulated disbursements at beginning of period				17,028,067				1,338,421
Period disbursements:								
Operating expenses	515,293	391,534	23,233	930,060	2,516	1,536	874	4,926
Technical assistance	938,854	1,187,036	12,514	2,138,404	273,745	220,114	55,942	549,801
Training	139,658	211,791	348	351,797	14,203	34,735	2,908	51,846
Personnel cost	461,362	482,043	105,688	1,049,093				
Field workers	326,700	311,900		638,600				
Loans granted	10,855,941	10,072,857	3,096,810	24,025,608	1,457,218	789,175		2,246,393
Total period disbursements	13,237,808	12,657,161	3,238,593	29,133,562	1,747,682	1,045,560	59,724	2,852,966
Accumulated excess of cash receipts over disbursements				3,428,183				173,511
Reconciling items at beginning of period				(20,493)				(25,438)
Reconciling items for the period				89,894				
Cash availability				3,497,584				148,073

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## COOPERATIVE AGREEMENT No. 519 - 0304

## FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991

CONCEPT	LOCAL CURRENCY (COLONES)				U. S. DOLLARS			
	1989	1990	1991	TOTAL	1989	1990	1991	TOTAL
Accumulated cash receipts at beginning of period				14,526,039				100,416
Cash receipts for the period	4,655,612	9,656,400	5,965,600	20,277,612		6,985	25,300	32,285
Accumulated disbursements at beginning of period				14,627,486				99,890
Period disbursements:								
Other	56			56				
Technical assistance	1,733	16,590	1,920	20,243				
Personnel costs	861,089	1,595,747	460,574	2,917,410	3,217	2,085	813	6,115
Leases and services	241,047	508,789	94,522	844,358		57		57
Furniture and fixtures	39,294	102,097	150	141,541				
Loans granted	2,620,401	8,393,485	3,438,610	14,452,496				
Seminars and conferences	6,877	13,936	2,105	22,918	873			873
Travel expenses		13,166	97	13,263		1,971		1,971
Advertising	105,175	125,388	19,374	249,937		115		115
Total period disbursements	3,875,672	10,769,198	4,017,352	18,662,222	4,090	4,228	813	9,131
Accumulated excess of cash receipts over disbursements				1,513,943				23,680
Reconciling items at beginning of period				167,066				
Reconciling items for the period				(409,762)				(255)
Cash availability				1,271,247				23,425

## COOPERATIVE AGREEMENT No. 519 - 0323

## FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991

CONCEPT	LOCAL CURRENCY (COLONES)				U. S. DOLLARS			
	1989	1990	1991	TOTAL	1989	1990	1991	TOTAL
Accumulated cash receipts at beginning of period				108,910				
Cash receipts for the period	100,777	407,303	598,200	1,106,280	189,260	46,300	8,800	244,360
Building		1,980,996	1,668,615	3,649,611				
	100,777	2,388,299	2,266,815	4,755,891	189,260	46,300	8,800	244,360
Accumulated disbursements at beginning of period				19,508				
Period disbursements:								
EDP programs			1,850	1,850				
Technical assistance - Pridex		3,650	4,000	7,650	88,452	18,624		107,076
Furniture and fixtures		37,255		37,255				
Advertising		186,711	1,324	188,035				
Building	132,227	2,774,040	743,344	3,649,611				
Technical assistance	3,425	110,385	4,000	117,810	84,905	19,400		104,305
Travel expenses	15,374	37,423		52,797	4,680	3,124		7,804
Seminars and conferences	4,399	2,508	1,300	8,207				
Personnel costs	106,203	161,031	39,814	307,048				
Leases and services	12,175	17,890	3,259	33,324		94		94
Total period disbursements	273,803	3,330,893	798,891	4,403,587	178,037	41,242		219,279
Accumulated excess of cash receipts over disbursements				441,706				25,081
Reconciling items at beginning of period				10,319				
Reconciling items for the period				29,864				
Cash availability				481,889				25,081

## COOPERATIVE AGREEMENT No. 519 - 0327

## FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991

CONCEPT	LOCAL CURRENCY (COLONES)				U. S. DOLLARS			
	1989	1990	1991	TOTAL	1989	1990	1991	TOTAL
Accumulated cash receipts at beginning of period				4,734,215				819,099
Cash receipts for the period	6,240,963	13,862,789	4,912,844	25,016,596	822,786	2,342,700	882,735	4,048,221
Building	3,084,661		(181,761)	2,902,900	643,571			643,571
	9,325,624	13,862,789	4,731,083	27,919,496	1,466,357	2,342,700	882,735	4,691,792
Accumulated disbursements at beginning of period				4,366,361				562,101
Period disbursements:								
Technical assistance	1,978,817	4,489,086	836,689	7,304,592	606,159	1,470,667	229,084	2,305,910
Support to FUSADES	4,289,251	8,233,000	2,254,379	14,776,630	233,541	338,952	77,979	650,472
Training	307,995			307,995				
Travel expenses		519,267	194,747	714,014	55,548	114,005	28,716	198,269
Seminars and conferences		152,860	4,898	157,758			1,712	1,712
Loans granted		584,844	700,000	1,284,844	14,500	65,900	104,524	184,924
Advertising		(850)	24,594	23,744			8,430	8,430
Building	2,282,145	620,755		2,902,900	300,871	342,700		643,571
Total period disbursements	8,858,208	14,598,962	4,015,307	27,472,477	1,210,619	2,332,224	450,445	3,993,288
Accumulated excess of cash receipts over disbursements				814,873				955,502
Reconciling items at beginning of period				(284,734)				(357,364)
Reconciling items for the period				683,592				
Cash availability				1,213,731				598,138

## COOPERATIVE AGREEMENT No. 519 - 0336

## FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991

CONCEPT	LOCAL CURRENCY (COLONES)				U. S. DOLLARS			
	1989	1990	1991	TOTAL	1989	1990	1991	TOTAL
Accumulated cash receipts at beginning of period				6,116,755				451,689
Cash receipts for the period	4,967,306	6,152,900	2,478,300	13,598,506	158,278	258,500	40,100	456,878
Accumulated disbursements at beginning of period				5,318,900				393,609
Period disbursements:								
Personnel costs	1,844,618	2,541,388	525,800	4,911,806	1,134	1,306	1,800	4,240
Leases and services	631,476	861,484	146,348	1,639,308	1,214	3,531	661	5,406
Equipment and supplies	111,587	15,949	1,240	128,776		235		235
Technical assistance	2,636,024	3,023,531	103,126	5,762,681	181,328	255,373	25,202	461,903
Travel expenses	45,557	129,703	3,070	178,330	11,769	20,240	977	32,986
Advertising	414,121	392,387	51,775	858,283	600			600
Seminars and conferences	56,675	170,104	27,798	254,577		301		301
Logistical support					2,099			2,099
Total period disbursements	5,740,058	7,134,546	859,157	13,733,761	198,144	280,986	28,640	507,770
Accumulated excess of cash receipts over disbursements				662,600				7,188
Reconciling items at beginning of period				(19,681)				
Reconciling items for the period				6,411				7,853
Cash availability				649,330				15,041

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AUDIT OF THE USAID/EL SALVADOR PROJECTS MANAGED BY  
THE SALVADORAN FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991

UNSUPPORTED COSTS

Cooperative agreement No. 519-0287

<u>Component</u>	<u>Explanation</u>	
Travel by invitation	Check No. 1562 (July 3, 1989) covering travel expenses supported by photocopies (airplane tickets, hotel bills, etc), where no USAID approval of the travel route was requested	\$ 1,088
	Check No. 1838 (December 12, 1989) covering travel expenses of an Acero, S. A. official, where no USAID approval of the travel route was requested	<u>379</u>
	Subtotal	<u>1,467</u>
Technical assistance	Check No. 1930 (January 26, 1990) covering reimbursement of travel expenses, where no USAID approval of the travel route was requested	98
	Check 2207 (May 17, 1990) covering travel expenses, where no USAID approval of the travel route was requested	<u>1,300</u>
	Subtotal	<u>1,398</u>
	Total	<u>\$ 2,865</u>

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AUDIT OF THE USAID/EL SALVADOR PROJECTS MANAGED BY  
THE SALVADORAN FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991

UNSUPPORTED COSTS

**Cooperative agreement No. 519-0287**

<u>Component</u>	<u>Explanation</u>	
Logistical support	Check No. 1274 for ¢11,520 (of June 20, 1989) lacking purchase supporting documentation (request to purchase, price quotations, awarding, purchase order and service receipt)	¢ 11,520
Furniture and equipment	Check No. 1906 (April 27, 1990) lacking evidence of receipt of goods and original invoice	4,228
Technical assistance	Check No. 0100 (April 10, 1990) lacking evidence of price quotations obtained	33,016
Travel and invitation	Check No. 2658 (October 1, 1990) lacking evidence of price quotations obtained	<u>6,101</u>
	Grand total	<u>¢ 54,865</u>

**Cooperative agreement No. 519-0303**

Training	Checks covering travel expenses where no USAID approval of the travel route was obtained and no certificate concerning unavailability of US flag air carrier was prepared:	
	464 (December 5, 1989) U-Travel Service	¢3,925
	1502 (November 23, 1990) VIP, S. A.	9,640
	Carried forward...	<u>¢ 13,565</u>
		<u>¢ 13,565</u>

AUDIT OF THE USAID/EL SALVADOR PROJECTS MANAGED BY  
THE SALVADORAN FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991

UNSUPPORTED COSTS

<u>Component</u>	<u>Explanation</u>		
	Brought forward...		¢ 13,565
	Checks where no evidence of purchase conditions and listing of participants in seminars was supplied:		
	1260 (May 31, 1990) AGAPE DE EL SALVADOR	¢ 900	
	1345 (July 3, 1990) Hotel Terraza	1,218	2,118
Field agents	Check No. 237 (July 14, 1989) where no written evidence concerning terms of reference, price quotations and evaluations thereon was furnished to us		5,250
Technical assistance	Checks where no written evidence concerning purchase conditions (see above) was furnished to us:		
	166 (December 29, 1989) Héctor Hernández	¢1,225	
	309 (September 8, 1989) Edgar Lazo	8,279	<u>9,504</u>
	Subtotal		<u>¢ 30,437</u>

AUDIT OF THE USAID/EL SALVADOR PROJECTS MANAGED BY  
THE SALVADORAN FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991

UNSUPPORTED COSTS

**Cooperative agreement No. 519-0327**

Training	Checks Nos. 2115 (April 11, 1990) and 2207 (May 17, 1990) covering travel expenses to Miami and Mexico, where no USAID approval of the travel route was requested	¢ 8,000
	Check No. 6350 (March 12, 1990) covering travel to Costa Rica, where no USAID approval of the travel route was requested and no certificate concerning unavailability of US flag air carrier was prepared	<u>4,140</u>
		<u>12,140</u>
Technical assistance	Check No. 9340 (February 25, 1991) covering lodging and meal expenses in Mexico, lacking lodging supporting documentation	3,801
Support to FUSADES	Check No. 8422 (August 16, 1990) covering acquisition of PSI, radios, PCs, etc., where no copy of the corresponding contract, required by USAID provisions, was furnished to us	117,470
	Check No. 5699 (September 25, 1989) covering seminars publicity and where no written evidence of price quotations obtained and copy of the related contract was furnished to us	<u>34,711</u>
	Subtotal	<u>152,181</u>
	Total	<u>¢ 168,122</u>

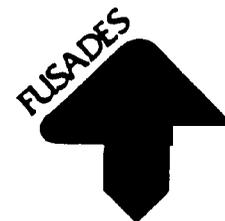
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AUDIT OF THE USAID/EL SALVADOR PROJECTS MANAGED BY  
THE SALVADORAN FOUNDATION FOR ECONOMIC  
AND SOCIAL DEVELOPMENT (FUSADES)  
FOR THE PERIOD APRIL 1, 1989 TO MARCH 31, 1991

UNSUPPORTED COSTS

<u>Component</u>	<u>Explanation</u>		
<b>Cooperative agreement No. 519-0336</b>			
Travel expenses	Checks covering travel expenses where no USAID approval of the travel route was requested and no certificate concerning unavailability of US flag air carrier was prepared:		
	1281 (June 14, 1990) U-Travel	¢ 765	
	533 (September 19, 1989) Lilian de Duarte	220	
	259 (June 12, 1989) Rosela Soien	220	¢ 1,205
Logistical support	Check No. 1559 (September 7, 1990) covering DHL courier services and lacking supporting documentation		<u>1,028</u>
	Subtotal		<u>2,233</u>
	Grand total		<u>¢ 255,657</u>

FUNDACION SALVADOREÑA  
PARA EL DESARROLLO ECONOMICO Y SOCIAL



San Salvador, January 17, 1992.

APPENDIX I

Mr. Oscar Cerdón  
PRICE WATERHOUSE

Dear Mr. Cerdón:

Referring to the draft sent to me dated January 2, 1992, concerning the recent Audit done by Price Waterhouse of FUSADES, I have the following general comments to make regarding the Audit results.

A. FUND ACCOUNTABILITY STATEMENT

The questionable cost amounting to ₡268.627 and US\$47.336, are items which have been disallowed (not paid by AID) and are in FUSADES books pending clarification with AID.

Regarding the unsupported expense items, since the list is long, let me just make the general comments that about ₡5.147.253 refers to the cost of the building, where US AID gave a flat amount of ₡14.866.888 and the total cost of the building was ₡21.402.588. The modus operandi in this case, was that amounts given by US AID were based on progress made and not by reimbursements, however, on the vouchers, supporting documents exist. The Auditors concern was that ₡269.164 were recurring purchases (documentation such as bids were in first purchase and not in recurring payments) and ₡4.734.089 is being questioned as a result of our misplacement of quote by "Salvadoreña de la Construcción" and not for lack of documentation in each payment itself. We are still looking for misplaced document. However in lack of the aforementioned quote, we enclose, construction commission meeting minutes No.21, dated March 14, 1989, which analyses and summarizes the quotes of "Arquitectos Dada-Silhy, S.A. de C.V." and "Salvadoreña de la Construcción, S.A. de C.V." this analysis clearly compares and unequivocally demonstrates why this licitacion was won by Dada-Silhy, S.A. de C.V.

Another US\$600.584 represent the funds handled throughout the period of the Audit (two years) by the Miami office. The supporting documentation found by them were either copies, faxes, photocopy, machine stub tickets, travel expense advance where no document exists until submission of expense statement, and originals, etc. Our accountants in the U.S. informed us that all these items are satisfactory to comply with IRS requirements. However, since September 1990 we have requested our overseas office to use originals as supporting documentation including canceled checks (even though microfilm copies of checks are available at the bank) whenever requested.

Another \$107,219 and US\$602,734 are reconciling items within FUSADES books. This represents items that are in reconciliation from prior periods and presently. Some of these reconciling items are:

1. Travel advances to employees and sub contractors which had not been liquidated (\$90,000), as of March 31, 1991. Amount which at time of audit had not been claimed from AID.
2. Others are advances for technical assistance to contractor also not liquidated (\$30,000), at time of audit March 31, 1991. These amounts are presented to AID when receiver of technical assistance presents legitimate documentation.
3. Cash balances not taken into consideration in our books for funds in Cititrust accounts (\$564,000). At March 31, 1991, time of audit, FUSADES had not received information from Cititrust in Bahamas. This information is due from them every 3 months, however frequently it is received beyond the three months agreed period.
4. Provisions made in our books, for which payments have not been effected, thus amount not claimed from AID (\$60,000).
5. Miscellaneous, which are presently being adjusted (\$57,000)
6. All the above have been adjusted since date of audit or will be adjusted as reconciling items are investigated, in the near future.

Other smaller items are: \$207,476.32 which refer to Imports (originals of invoice at "Corte de Cuentas" as required by law), \$103,342.69 which are cash advances (documented when trip is completed and liquidated), \$65,500 (Transfers between Banks), \$229,002.98 technical assistance where one time contracts exist, \$34,042.56 life insurance (invoice from insurance broker), and other small items such as magazine and book subscriptions US\$5,974.30, an advance later canceled US\$15,000.00, courier services US\$1,363.26, etc... most of these did not have original documents, and in case of Bank transfers none are needed. We have provided the auditors in a separate report an answer to each individual item, and documents are available for subsequent verification, should it be required.

#### B. INTERNAL CONTROL STRUCTURE

Every organization can always improve and strengthen its controls. However, it must also be realized that the accounting system, cost centers, etc... which FUSADES has for controlling its operations are for its own accounting control purposes. Therefore, the capture, registry and control of expenses are done first to satisfy this requirement, and later via reconciliation

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or grouping of items satisfy US/A.I.D. requirements. Thus, our accounting is not geared primarily to satisfy US/A.I.D., but we do both. In addition, since March 1991, with the centralization of FUSADES into one building we are now in a better position, and can easily satisfy both in a mechanized manner. As in the previous section a separate report was sent to the Auditors replying to each item. In addition FUSADES has already corrected starting late 1990 most of the items noticed by the Auditors and is in the process of improving further its internal controls.

### C. COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATION

Regarding the first item in the Auditors report; our Auditors are appointed by FUSADES General Board to give an independent opinion about the general position of the Financial Statements to the founding members of FUSADES and this opinion must be in accordance to Salvadorean law, and to generally accepted accounting principles. If the Auditors, further request that we complied with U.S. Government standards (which by the way only applies to program 323 and not to the rest of the Programs), any findings in one or the other auditing system could develop a conflicting position. We have not asked our Auditors to audit Program 323 per say, because this type of audit is generally done separately by US/A.I.D.. The second item as requested by US/A.I.D. is being reported in more detail since solicited by US/A.I.D. in early 1991. The third item refers to use of separate bank accounts, but only in Miami, where we only had one account. At the time of opening the account, it was prohibited in El Salvador to have accounts in foreign countries, and the Central Bank only approved one to FUSADES, after several requests and the good auspices of US A.I.D.. Since May 1991, we have opened separate accounts, however, we had at all times properly recorded the amounts of each agreement in our books. We recognize that by mistake, we had not properly recorded one vehicle being used by a consultant in one of the DIVAGRO Programs. However, all other assets including vehicles were mechanized in a computer System which has details of the asset itself, stating where the asset is located, including its actual book value, depreciation, etc. (mechanized property system). We also realize, that this system can be improved, specially in the section of asset maintenance, but I believe this system to be sound and in lieu of the cards mentioned by the Auditors.

Regarding travel expenses not liquidated on a timely basis, what we have in our books are some old items amounting to about \$40-50 thousand, which we are proceeding to collect via all means, and have not been claimed by us to US A.I.D. New employees did not have old balances pending at year 1991, good progress has been done in the last two years to have a clean advance travel account. Concerning different suggestions by Price Waterhouse

Auditors, we provided them with a separate report on an item by item basis, including the fact that of the suggestions many had or have been implemented, and or, are in the process of implementation, such as revisions of manuals, internal controls, etc.

Very Truly yours,

A handwritten signature in black ink, appearing to read 'G. de la Guardia', written in a cursive style.

GUILLERMO DE LA GUARDIA  
ADMINISTRATIVE DIRECTOR  
FUSADES.

c.c.: Pat Wexel  
Miguel Gasteazoro

## APPENDIX

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