



Office of Inspector General

December 31, 2012

MEMORANDUM

TO: USAID/EI Salvador Mission Director, Kirk Dalhgren

FROM: Regional Inspector General/San Salvador, Jon Chasson /s/

SUBJECT: Stage 2 Risk Assessment of El Salvador's Ministry of Environment and Natural Resources (Report No. 1-519-13-001-S)

This memorandum transmits our final report on the subject risk assessment and includes risk-mitigating measures for your review

This risk assessment is not an audit but contains risk mitigation measures to assist in mitigating risk for USAID/EI Salvador and to strengthen the host-country systems of the Ministry of Environment and Natural Resources of El Salvador and other applicable government institutions.

Because we request no management comments on the risk mitigation measures suggested, the Audit Performance and Compliance Division will not track final action.

I appreciate the cooperation and courtesy extended to us throughout the review.

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Abbreviations

The following abbreviations appear in this report:

- ADS Automated Directives System
- IPR Implementation and Procurement Reform
- IT Information Technology
- LACAP Law on Acquisition and Contracts
(Ley de Adquisiciones y Contrataciones de la Administración Pública)
- MARN Ministry of Environment and Natural Resources
(Ministerio de Medio Ambiente y Recursos Naturales)
- PFM Public Financial Management
- SAI Supreme Audit Institution

SUMMARY

Under the USAID Forward initiative, missions are encouraged to deliver foreign assistance through host-country systems to improve aid effectiveness and sustainability. As noted in Agency guidance, Automated Directives System 220, USAID's assistance is most effective when it can work through partner-country public financial management (PFM) systems, rather than around them, to ensure that the aid reinforces the accountability of a government to its people. This use of host nation systems is central to the USAID Forward Implementation and Procurement Reform (IPR) effort.

Currently, USAID/EI Salvador is developing a Country Development Cooperation Strategy that recognizes the importance of promoting IPR in El Salvador. El Salvador's Ministry of Environment and Natural Resources (MARN) showed interest in directly participating in IPR through a project to restore ecosystems. The project seeks to enhance ecosystems' resilience through biodiversity conservation in forests and wetlands.

In accordance with ADS Chapter 220, before initiating this program USAID/EI Salvador used the Public Financial Management Risk Assessment Framework to assess MARN's systems, evaluate risk, and develop necessary risk mitigation measures. The Stage 1 assessment, completed in November 2011, concluded that the fiduciary risk should not prevent the mission from incorporating public sector implementation strategies in the new Country Development Cooperation Strategy.

At the request of USAID/EI Salvador, the Regional Inspector General/San Salvador initiated a Stage 2 risk assessment of MARN. The purpose of this risk assessment was to (1) test MARN's PFM systems¹ and validate their operations, internal controls, and day-to-day practices; (2) identify potential vulnerabilities in the systems; and (3) recommend appropriate risk-mitigating measures.

The risk assessment evaluated 23 areas of operations and internal controls of MARN and government institutions providing direct accounting and auditing services to MARN and determined a risk rating based on (1) the probability of negative incidents (such as control failures) in PFM systems and (2) the potential impact on program integrity. Although some vulnerabilities were outside MARN's control, such as when processes are controlled by other government institutions, a high risk rating was assessed because the vulnerabilities directly affected MARN's operations and programs. The risk assessment also identified institutional strengthening actions that MARN and stakeholders might adopt to address the vulnerabilities.

During the planning phase, the mission did not define the scope of the ecosystem restoration project. Therefore, our assessment included tests of MARN as an institution and all areas potentially having an effect on the proposed project. The results of the testing are summarized in the following table.

¹ The risk assessment also reviewed PFM systems used by MARN but maintained by other Salvadoran Government entities, such as the Ministry of Finance, the Ministry of Customs, and SAI.

Testing Results

AREA EVALUATED	RISK RATING*
Management Control – Institutional Risk Management	Critical
Management Control - Management Ethics	High
Human Resources – Resources Management	High
Budgeting – Budget Formulation and Use of Funds	Critical
Budgeting – Reporting and Recording	High
Accounting and Reporting – Journal Entries	Low
Accounting and Reporting – Financial Reporting	Critical
Cash – Use of Funds	Critical
Cash – Recording and Reporting	Low
Procurement – Budget Formulation and Use of Funds	Low
Procurement – Recording and Tracking of Disbursements	Critical
Assets Management – Use of Assets	High
Assets Management – Recording and Reporting	Critical
Payroll – Use of Funds	Low
Payroll – Recording and Reporting	Low
Systems – (MARN) Backups, Business Continuity, Physical Controls and Passwords	Critical
Systems – (Ministry of Finance) – Reporting and Recording	Critical
Systems – (Ministry of Finance) – Backups, Business Continuity, Physical Controls and Passwords	Critical
Audit – Internal Audit Function at MARN	High
Audit – Financial Audit Function	High
Compliance With Local Procurement Law	Critical
Compliance With Local Laws	Critical
Compliance With Donor Agreements	High

* Risk ratings are determined based on (1) the probability of negative incidents and (2) the potential impact on program integrity. Please refer to the methodology described in Appendix I of the report for a description of the various risk ratings.

The scope and methodology for this risk assessment are described in Appendix I. Flow charts showing the reimbursement process under the two possible types of agreements that the mission may sign with MARN appear in Appendix II. Appendix III contains the mission's technical capacity assessment. The Public Financial Management Risk Assessment Framework questionnaire is in Appendix IV.

RISK ASSESSMENT RESULTS

Area Evaluated	Risk Rating		
Management Control – Institutional risk management	Probability:	Probable	Critical
Potential Impact			
Program objectives not achieved	Impact:	Significant	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Institutional risk assessment and risk mitigation process • Annual evaluations of progress toward goals <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • MARN has not established a process for assessing, monitoring, mitigating, or managing organizational risks and potential impact. • MARN does not have a process for capturing lessons learned, which is an integral part of every project and serves as a valuable tool for similar projects/programs. • Government institutions use line-item budgeting rather than programmatic budgeting. Consequently, resource allocations do not align with targeted outputs or long-term goals. Through its Fiscal Policy Technical Assistance Project, USAID is supporting the implementation of the Medium-Term Expenditure Framework, programmatic budgeting, and other activities to prepare the Salvadoran Government to implement a results-oriented budget system. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Establish an annual process to assess, mitigate, monitor, and manage its organizational risks and potential impact. • Establish a process for capturing lessons learned that emerge during program evaluations, and ensure that these lessons are applied to future programs. • Continue with the implementation of a performance-oriented budget approach, clearly linking the funding of programs to outputs and outcomes. 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help MARN implement the actions noted above to strengthen the PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require the Supreme Audit Institution (SAI) to perform a yearly audit in accordance with guidelines. 			

Area Evaluated	Risk Rating		
Management Control - Management ethics	Probability:	Probable	High
Potential Impact			
Misuse or misappropriation of funds	Impact:	Marginal	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Organizational structure • Local ethical standards and regulations • Segregation of duties • Process for evaluating complaints and allegations of potential fraud, waste, or abuse <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • MARN's policies allow the Minister to bypass the competitive hiring selection process to authorize the direct hiring of employees or supervisors of his choice. • We were unable to confirm that all senior ministry staff had submitted a financial disclosure or declaration of interest statement as required by local transparency laws. • Local transparency and ethics laws were revised in January 2012; however, MARN has not developed its own policies and procedures to guide employees on the application of these laws to ensure compliance. • As required by the local transparency and ethics laws, MARN has established an institutional ethics committee. However, the committee has not established a process to log and track complaints of fraud and abuse and report them to the Government of El Salvador Ethics Tribunal for further investigation if required. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Designate in advance all ministerial positions that are deemed politically sensitive and thus eligible for direct appointment by a minister; disallow direct appointment of all other positions. • Obtain the missing confidential financial disclosures and declaration of interest statements. • Develop policies and procedures to guide employees on the application of the local transparency and ethics laws. • Direct the ethics committee to develop a process to log and track complaints and allegations of fraud and abuse and document the review and reporting process. 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Designate all positions that are deemed politically sensitive and thus eligible for direct appointment by a minister; disallow direct appointment of all other positions. 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help the Government of El Salvador and MARN implement the actions noted above to strengthen the PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. 			

Area Evaluated	Risk Rating		
Human Resources: Resources management	Probability:	Probable	
Potential Impact			High
Mismanagement of human resources	Impact:	Significant	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Policies and procedures to manage the human resources process • Monitoring tools to evaluate the efficiency and effectiveness of resources • Hiring practices • Training and capacity development <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • MARN or the Government of El Salvador does not have a policy on salaries. However, MARN employees told us that the Government of El Salvador has contracted a consulting firm to work on a salary policy for all public employees (completion expected in December 2012). • MARN does not allocate funds in its budget for any training except that available in-house, even though outside training may be critical to an employee's job. • MARN does not use tools to monitor employee performance or employee turnover. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Provide training that is applicable and necessary for employees to carry out their duties. • Establish a process for managing and monitoring its human capital. 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Complete the development of the salary evaluation and establish a salary policy. 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help the Government of El Salvador and MARN implement the actions noted above to strengthen the PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. 			

Area Evaluated	Risk Rating		
Budgeting: Budget formulation and use of funds	Probability:	Probable	
Potential Impact			Critical
Misappropriation or misuse of funds	Impact:	Material	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Policies and procedures affecting budget creation and tracking • Management controls over the budgeting process • Restrictions on transfer of funds • Budget deviations • Use of special accounts • Budget transparency and access to information <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • At the end of the year, the Government of El Salvador has the authority to redirect the unspent donor funds placed in the general budget for purposes other than those stipulated by the donor unless the funds are designated in special accounts. • No level of government formally solicits public opinion on budget formation, although informal discussions are held with think tanks, other nongovernmental organizations, and business associations. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Create a process for soliciting public opinion on the budget. 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help the Government of El Salvador implement the actions noted above to strengthen the PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. 			

Area Evaluated		Risk Rating		
Budgeting: Reporting and recording		Probability:	Probable	High
Potential Impact				
Inaccurate reporting and recording		Impact:	Marginal	
Factors Evaluated/ Vulnerabilities				
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Controls over accounting, recording, and reporting of budgetary items • Controls over approvals of budgets and deviations from budgets • Recording and reporting of budgetary items • Budget tracking • Segregation of duties <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • The Institutional Financial Unit at MARN reallocated and reprogrammed some general budget line items without the required levels of approval. 				
MARN Institutional Strengthening Actions				
<ul style="list-style-type: none"> • Implement policies and procedures requiring appropriate approvals before the reprogramming or reallocation of funds. 				
Government of El Salvador Institutional Strengthening Actions				
<ul style="list-style-type: none"> • None 				
USAID Risk Mitigation Measures				
<ul style="list-style-type: none"> • Help MARN implement the actions noted above to strengthen the PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. 				

Area Evaluated		Risk Rating		
Accounting and Reporting – Recording of journal entries		Probability:	Occasional	Low
Potential Impact				
Inaccurate reporting and recording		Impact:	Negligible	
Factors Evaluated/ Vulnerabilities				
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • System and manual controls over journal entries • Segregation of duties <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • None noted 				
MARN Institutional Strengthening Actions				
<ul style="list-style-type: none"> • None 				
Government of El Salvador Institutional Strengthening Actions				
<ul style="list-style-type: none"> • None 				
USAID Risk Mitigation Measures				
<ul style="list-style-type: none"> • None 				

Area Evaluated	Risk Rating		
Accounting and Reporting: Financial reporting	Probability:	Frequent	
Potential Impact			Critical
Inaccurate reporting and recording	Impact:	Material	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Controls over the accounting and reporting process • Segregation of duties <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • SAI, responsible for conducting annual financial audits of government institutions, does not perform systems audits of the SAFI accounting system to ensure accurate and reliable reporting. In the absence of system audits, the SAI should conduct alternative manual tests of data to validate its completeness, accuracy, and timeliness (whether transactions were processed during the proper period). Because the accounting system was developed by the Government of El Salvador, information technology (IT) audit testing should be thorough and frequent but has been done only twice: by MCC for an audit in 2006 and by SAI in 2007 as a follow-up to the MCC audit. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
Government of El Salvador Institutional Strengthening Actions			
<p>One of the following:</p> <ul style="list-style-type: none"> • SAI: Develop the capacity to perform audits of the SAFI accounting system or at a minimum perform alternative manual tests to validate the system's data for completeness, accuracy, and timeliness as part of its annual audit. • Ministry of Finance: Direct internal audit group to perform annual testing of the accounting system. 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help the Government of El Salvador implement the actions noted above to strengthen the PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit that includes alternative manual tests to validate the completeness, accuracy, and timeliness of the reports in accordance with guidelines. 			

Area Evaluated	Risk Rating		
Operations - Cash: Use of funds	Probability:	Probable	Critical
Potential Impact			
Misappropriation or inefficient use of funds	Impact:	Significant	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Policies and procedures over the management of financial resources • Segregation of duties • Cash management • Controls over financial resources and bank accounts <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • The Government of El Salvador utilizes an excessive number of accounts (over 1,000), and MARN manages 55 bank accounts, creating inefficiencies and increasing the likelihood of errors, misappropriation, fraud, and abuse. Currently, USAID through its Fiscal Policy Technical Assistance Project is supporting the implementation of a Treasury Single Account. • MARN requires two signatures on all checks; however, it does not require that a high-ranking official sign particularly large checks or that the two signatures be those of an employee and his or her supervisor to serve as a form of control to mitigate the risk of misappropriation or fraud. • Background checks of employees managing bank accounts are not periodically updated. • MARN's insurance coverage for potential losses caused by employee embezzlement from bank accounts is limited to only \$11,000 per employee although bank account balances may exceed \$1 million. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Reduce the number of bank accounts by implementing of a Treasury Single Account. • Establish a control requiring that checks above a certain amount require a second signature from a supervisor or a control requiring special approval from officials for all high-dollar payments above a certain threshold. • Conduct periodic background updates on employees who manage bank accounts. • Increase the insurance coverage for losses due to employee embezzlement from bank accounts to match at least the balance in the bank accounts. 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Reduce the number of bank accounts by implementing a Treasury Single Account. 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help the Government of El Salvador and MARN implement the actions noted above to strengthen the PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. 			

Area Evaluated	Risk Rating		
Operations - Cash: Recording and reporting	Probability:	Remote	
Potential Impact			Low
Inaccurate recording	Impact:	Negligible	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Policies and procedures over bank accounts • Controls over bank accounts and the accounting system • Bank reconciliations • Recording of bank activity <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • None 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • None 			

Area Evaluated	Risk Rating		
Operations - Procurement: Use of funds	Probability:	Occasional	Low
Potential Impact			
Misappropriation or misuse of funds	Impact:	Negligible	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Policies and procedures over the procurement cycle • Controls over purchases and disbursements • Segregation of duties <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • For some selections tested, MARN violated the segregation of duties principle by having the same person involved in preparing requisitions, selecting vendors and paying vendors. Risks were somewhat mitigated by having more than one individual involved in the procurement process. For example, checks to pay vendors required two signatures. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Ensure proper segregation of duties in procurement roles such as preparing a requisition, selecting vendors, and paying vendors. 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help MARN implement the actions noted above to strengthen the PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. 			

Area Evaluated	Risk Rating		
Procurement: Recording and tracking of disbursements	Probability:	Probable	Critical
Potential Impact			
Inaccurate recording and reporting of disbursements	Impact:	Significant	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Systems and manual controls over the procurement cycle • Integration of systems <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • MARN records some purchase requisitions in the SIAF system (purchasing system) and others in Microsoft Excel; however, all purchases are recorded in the SAFI accounting system. MARN does not reconcile the data processed in the purchasing system and Microsoft Excel to the data processed in the accounting system to ensure accuracy and completeness. • Because not all purchase requisitions are recorded in the purchasing system, MARN is unable to track or monitor its purchasing and payables processes, making it impossible to review their efficiency or effectiveness. For one sample item tested, we noted that MARN made one vendor payment 3.5 months late. Furthermore, the Stage 1 risk assessment noted that, in general, the government's procurement process mandated by the Law on Acquisitions and Contracts (LACAP) was lengthy and cumbersome. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Use the purchasing system for all purchase requisitions. • Monitor the purchasing cycle for efficiency and effectiveness. 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help MARN implement the actions noted above to strengthen its PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. 			

Area Evaluated	Risk Rating		
Asset Management: Use of assets	Probability:	Occasional	High
Potential Impact			
Inefficient use of assets	Impact:	Significant	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Management and monitoring of assets • Physical controls over assets <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • The annual physical inventory of assets does not include all assets in the field, especially those located in remote areas of the country that may be of high value, due to a lack of sufficient staff. • MARN does not insure any assets other than vehicles. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Conduct physical inventories of all assets annually, including those in remote locations. • Perform a cost-benefit analysis to determine what assets should be insured, and insure them. 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help MARN implement the actions noted above to strengthen its PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. • For project assets, include insurance requirements in the agreement and monitor MARN compliance. 			

Area Evaluated	Risk Rating		
Asset Management: Recording and reporting	Probability:	Probable	Critical
Potential Impact			
Inaccurate reporting and recording	Impact:	Significant	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Controls over purchases of assets • Assets recording in the registry and the general ledger <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • MARN implemented an assets registry in the SIAF system in 2011, but data from the old COAFI system is being manually rekeyed into the fixed-assets module rather than being uploaded directly. As of July 2012, only 70 percent of the data from the old system had been transferred to the new system. • MARN did not document the results of the annual physical inventory count done in 2010; thus, neither inventory count sheets nor other supporting documentation was available for our review. • We found no evidence of supervisory review of the reconciliation of the fixed-assets register and the general ledger for 2010. • The 2010 reconciliation of the fixed-assets register and the general ledger revealed a difference of approximately \$354,000 without any explanation or documentation of the resolution. • A reconciliation of the general ledger and the fixed-assets register for 2011 had not been prepared as of the date of the review (June 29, 2012). 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Establish and enforce timelines to complete the transfer of data from the old to the new purchasing system. • Document the results of the annual physical inventory with count sheets. • Ensure that supervisory reviews are performed and documented for the reconciliation of the fixed-assets register and the general ledger. • Ensure that all differences between the fixed-assets register and general ledger are resolved or explained with supporting documentation. • Establish a policy requiring that reconciliations of the general ledger and the fixed-assets register be conducted in the proper accounting period(s). 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help MARN implement the actions noted above to strengthen its PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. 			

Area Evaluated	Risk Rating		
Payroll: Use of funds	Probability:	Remote	Low
Potential Impact			
Misappropriation or misuse of funds	Impact:	Negligible	
Factors Evaluated/ Vulnerabilities			
Factors Evaluated: <ul style="list-style-type: none"> • Payroll policies and procedures • Segregation of duties • Controls over time and attendance and payroll • Controls to prevent fraud, waste, and abuse 			
Vulnerabilities: <ul style="list-style-type: none"> • None noted 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • None 			

Area Evaluated	Risk Rating		
Payroll: recording and reporting	Probability:	Remote	Low
Potential Impact			
Inaccurate recording and reporting	Impact:	Negligible	
Factors Evaluated/ Vulnerabilities			
Factors Evaluated: <ul style="list-style-type: none"> • Testing of payroll samples to test accuracy and timeliness • Segregation of duties • Accounting and recording of payroll 			
Vulnerabilities: <ul style="list-style-type: none"> • None noted 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • None 			

Area Evaluated	Risk Rating		
Information Systems – MARN: Backups, contingency plans, physical controls, and passwords	Probability:	Frequent	Critical
Potential Impact			
Inaccurate reporting/recording and loss of data	Impact:	Material	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Policies and procedures for information systems • Physical safeguards for information systems • Contingency planning • Password controls • Backups <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • Systems audits provide assurance that the systems are adequately protected, that they provide reliable information to users, and that they are properly managed to achieve their intended benefits. However, MARN’s internal audit group does not perform systems audits. • MARN does not have a fully developed disaster recovery plan. The current plan only lists the elements that the plan should have, without providing details. • Backups are stored in a computer room located at MARN rather than off-site, placing them at risk if a disaster destroys MARN’s facilities. • The public relies on MARN to provide pertinent information in case of disasters, but MARN does not maintain a running mirror server at an off-site location to protect its information in case of disaster at its main site. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Ensure that information systems audits are conducted. • Fully develop and test a disaster recovery plan. • Maintain backups of its server offsite. • Implement the use of an off-site mirror server or cloud storage of IT systems so that the Ministry can continue functioning in the wake of a disaster. 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help MARN implement the actions noted above to strengthen its PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. 			

Area Evaluated	Risk Rating		
Information Systems – Ministry of Finance: Reporting and recording	Probability:	Frequent	Critical
Potential Impact			
Inaccurate reporting/recording and loss of data	Impact:	Material	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Systems integration • Segregation of duties • Application control related to the processing of data for sample selections <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • Most government institutions use the SAFI accounting system maintained by the Ministry of Finance. Because the accounting system does not have modules for asset management or purchasing, each government institution maintains its own manual or automated system for assets or purchases. For instance, MARN uses the SIAF system to maintain assets and purchases, but this system is not integrated with the accounting system. Moreover, the two systems do not interface; rather, all data is keyed into both manually, resulting in risk of error or omission. • The Ministry of Finance’s internal audit group has not conducted any audit of the information systems maintained by the ministry, including the SAFI accounting system. Employees at the ministry explained that system auditors had been hired recently, but no systems audits had been conducted as of August 24, 2012 (the date of our review). 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • In the short term, the Ministry of Finance should verify that data from supporting systems is properly uploaded to the accounting system. • In the long term, the Government of El Salvador should upgrade the accounting system to include the asset management and purchasing modules. • The Ministry of Finance should conduct systems audits. 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help the Government of El Salvador implement the actions noted above to strengthen the PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines and include alternative manual tests to validate the completeness, accuracy, and timeliness of the reports. 			

Area Evaluated	Risk Rating		
Information Systems – Ministry of Finance (Hacienda): Backups, contingency plans, physical controls, and passwords	Probability:	Frequent	Critical
Potential Impact			
Inaccurate reporting and recording, and loss of data	Impact:	Material	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Policies and procedures for information systems • Physical safeguards for information systems • Contingency planning • Passwords and controls over users' roles • Backups <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • The air-conditioning (AC) unit is in the same room with the server, EPS2. AC units should not be placed in the same room with the server because condensate from cooling increases the risk of water damage to the mainframe. Additionally, the mainframe server floor for EPS2 is not raised for protection in case of flooding. • The door protecting the computer room is not fireproof. • The user role <i>sostenibilidad</i> (support) in the SAFI accounting system has access to the system's security modules. This user role is defined at the institutional level, meaning that users from other institutions with this role may be able to access the Ministry of Finance's security modules. Access to these should be restricted to IT support at the Ministry of Finance. • The accounting system does not require a strong password. The ministry's information technology manual defines a strong password as one that is 15 characters long and includes a combination of special characters, capital letters, lowercase letters, and numbers. • The ministry uses a mirror server at its customs office to store data in case of an emergency or disaster. However, because this site is only 23 kilometers away, a disaster—particularly an earthquake—could also damage the mirror server. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Protect the main servers from water damage. • Install a fireproof door in the computer room. • Deny the user role <i>sostenibilidad</i> access to security modules. • Strengthen password rules to comply with the information systems manual. • Use a remote location as the site for a mirror server, or use cloud storage. 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help the Government of El Salvador implement the actions noted above to strengthen its PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. 			

Area Evaluated	Risk Rating		
Audit: Internal Audit Function - MARN	Probability:	Probable	High
Potential Impact			
Inaccurate reporting	Impact:	Marginal	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Audit coverage • Independence • Audit effectiveness and capacity <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • The internal audit department is not independent; the Minister of Environment has operational control of the internal audit department and the auditors do not report directly to an audit committee or officials independent of the ministry. • MARN's internal audit procedures manual does not establish a deadline for closing recommendations. For example, recommendations from an audit in 2010 remain open. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Establish and meet deadlines to implement audit recommendations. 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Develop a reporting structure requiring all ministries' internal audit departments to have a higher degree of independence by reporting directly to SAI rather than to their respective minister. 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help the government and MARN implement the institutional actions noted above to strengthen the PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. 			

Area Evaluated	Risk Rating		
Audit: Financial Audit Function – Government of El Salvador (SAI)	Probability:	Probable	High
Potential Impact			
Inaccurate reporting	Impact:	Marginal	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Policies and procedures • Audit process <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • The results of audits conducted by SAI are not available to the public, only to public officials. • SAI does not establish deadlines for completing government audits. The audit report for MARN for the period ended December 31, 2009, was published in February 2012 (26 months later), and the report for the period ended December 31, 2010, was published on May 2012 (17 months later). • The Legislative Assembly appoints SAI officials, raising doubts about SAI's independence and potentially affecting the results of audits at a time when one party exercises significant control over the political system. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Require that the results of audits be posted on SAI's Web site, making them accessible to Salvadoran citizens. • Establish deadlines for conducting and reporting the results of government audits. 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help the government implement the actions noted above to strengthen its PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. • Monitor the political environment in El Salvador; if the SAI's independence is questionable, choose a private audit firm. 			

Area Evaluated	Risk Rating		
Compliance with local procurement law (LACAP)	Probability:	Frequent	Critical
Potential Impact			
Misappropriation or misuse of funds	Impact:	Material	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Policies and procedures • Bidding and vendor selection • Contractual compliance <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • LACAP requires competitive bidding for purchases exceeding \$53,000 but allows government institutions to bypass the competitive bidding requirement without giving them clear criteria for justifying doing so. Bypassing the competitive bidding requirement increases the risk of misappropriation and manipulation of the bidding process. Our testing revealed that MARN purchased special equipment for \$1.3 million through direct procurement rather than competitive bidding. The justification for this direct procurement was inadequate because it lacked support (e.g., technical evaluation, specifications for equipment capacity and quality, etc.). • The bidding period is at times too short to allow for adequate vendor participation. For instance, the time LACAP allows for vendor selection for purchases above \$53,000 is from 3 to 5 days. Bidding for one sample item reviewed was only open for 1 day. • On two purchase requisitions in our sample, language was vague, not giving specific criteria for the purchases. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Use a competitive process rather than direct procurement to select most vendors for the program, and establish an appropriate approval process for noncompetitive procurement transactions that is properly documented. • Establish clear criteria for justifying noncompetitive procurement transactions. 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help the government and MARN implement the actions noted above to strengthen the PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. • Require all vendor selections for procurements above a threshold of \$2,500 to be made through a competitive process rather than through direct procurement as mandated by LACAP. 			

Area Evaluated	Risk Rating		
Compliance with local laws	Probability:	Probable	Critical
Potential Impact			
Violation of local laws	Impact:	Significant	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Policies and procedures • Controls to prevent fraud, waste, and abuse (e.g., transparency law) and enforce laws <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • The ethics law has the following weaknesses: <ul style="list-style-type: none"> ○ Complaints cannot be filed anonymously. ○ The law does not mention protection for whistleblowers. ○ The law does not provide for administrative leave while an official is under investigation for potential wrongdoing related to his or her duties. ○ The penalty for wrongdoing is limited to 40 times the minimum wage (about \$230 a month), which may not be enough to deter fraudulent acts and may not compare to the amount of the illicit gain or harm. • The ethics law requires the establishment of ethics boards at each government institution. MARN has established an ethics board; however, meetings of the board have not been documented. Additionally, one of the board members who represents the employees lives in a remote location and cannot easily participate in meetings. • The outcomes of investigations or reviews have not been posted on the public Web site. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Document meetings of the ethics board. • Establish eligibility requirements for elected board members so that they are easily accessible and can attend meetings. • Verify that the results of investigations or reviews are made public. 			
Government of El Salvador Institutional Strengthening Actions			
<p>Strengthen its ethics law by:</p> <ul style="list-style-type: none"> • Allowing complaints to be filed anonymously • Providing protection for whistleblowers • Pegging monetary sanctions to the value of illicit gains or damages to discourage illicit acts 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help the government and MARN implement the actions noted above to strengthen the PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. 			

Area Evaluated	Risk Rating		
Compliance with donor agreements	Probability:	Probable	High
Potential Impact			
Violation of donor agreements	Impact:	Negligible	
Factors Evaluated/ Vulnerabilities			
<p>Factors Evaluated:</p> <ul style="list-style-type: none"> • Controls to manage donor agreements • Policies and procedures • Training on U.S. laws and regulations applicable to the agreements • Controls to enforce laws applicable to the agreements <p>Vulnerabilities:</p> <ul style="list-style-type: none"> • MARN does not have a process for reviewing the issues raised by external and internal audit reports and applying them as lessons learned. • MARN hires outside consultants rather than using its own personnel to implement projects funded by international donors that utilize special accounts. When those projects end, most consultants are not retained at MARN, which loses their knowledge. • Interviews with MARN personnel revealed a lack of knowledge/familiarity with standard provisions applicable to USAID agreements. 			
MARN Institutional Strengthening Actions			
<ul style="list-style-type: none"> • Review the results of audits conducted by external auditors, and apply lessons learned. • Add project staff to its budget to avoid the loss of knowledge when donor funding ends. • Provide training to familiarize all personnel with U.S. laws applicable to the agreement with USAID. 			
Government of El Salvador Institutional Strengthening Actions			
<ul style="list-style-type: none"> • None 			
USAID Risk Mitigation Measures			
<ul style="list-style-type: none"> • Help MARN implement the actions noted above to strengthen its PFM system. • Implement a fixed-amount reimbursement agreement or a cost reimbursement agreement with appropriate mission monitoring to ensure compliance. • Require the use of a special account for the project, and require SAI to perform a yearly audit in accordance with guidelines. • Train MARN staff with standard USAID provisions applicable to the agreement. 			

SCOPE AND METHODOLOGY

Scope

RIG/San Salvador conducted this risk assessment in accordance with generally accepted government auditing standards. This risk assessment complies with the general standards in Chapter 3 as well as with the evidence and documentation standards in Chapter 6 (paragraphs 6.79 through 6.85) of *Government Auditing Standards*. Those standards require that we plan and perform the assessment to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides that reasonable basis.

The purpose of this assessment was to (1) perform an in-depth assessment of vulnerabilities noted during the Stage 1 assessment, (2) assess the control environment and identify additional vulnerabilities and risks associated with operating directly through the MARN environment, and (3) based on the risks and vulnerabilities identified, recommend institutional strengthening actions to strengthen the MARN control environment and reduce the risk of wasting or misusing U.S. Government resources.

In planning and performing the review, we assessed MARN's and the Government of El Salvador's management controls related to their internal processes. The management controls tested included controls over risk management, cash management, accounting and financial reporting, budgeting, payroll and human resources, assets management, audit, information systems, procurement, compliance with local and U.S. laws, and compliance with donor agreements.

The review covered expenditures associated with the Government of El Salvador's general funds and programs managed by MARN from January 1, 2010, to April 30, 2012. RIG/San Salvador conducted the risk assessment in San Salvador, El Salvador, from May 22 to August 24, 2012.

Stage 2 Team

The Stage 2 assessment was conducted under the overall responsibility of the IPR Committee coordinated by the mission controller. There were three teams involved in the assessment:

The Risk Assessment Team, which was responsible for conducting the fieldwork for the risk assessment:

- Ivan Magana – Regional Inspector General Office in San Salvador - Team Leader
- Karla Hasbun – Regional Inspector General Office in San Salvador
- Juan Carlos Rivas – USAID/El Salvador, Economist, Strategic Development Office Carlos Milla – USAID/El Salvador Financial Analyst
- Blanca Ibarra – USAID/El Salvador Senior Acquisition and Assistance Specialist
- Omar Robles – USAID/El Salvador Financial Management Officer

The Technical Capacity Assessment Team, which was responsible for conducting the technical evaluation of MARN's capacity:

- Carlos Hasbun – USAID/EI Salvador Environmental Team Leader
- Parviz Shahidinejad – USAID/EI Salvador Senior Financial Analyst
- Mary Latino Rodriguez – USAID/EI Salvador Environmental Team
- Luis Ramos – USAID/EI Salvador Environmental Team

From the IPR Committee, the following members were responsible for evaluating the results of the assessment:

- Allen Vargas – USAID/EI Salvador Mission Controller
- Parviz Shahidinejad – USAID/EI Salvador Senior Financial Analyst
- Michelle Jennings – USAID/EI Salvador Economic Growth Officer
- Karen Hunter – USAID/EI Salvador Regional Legal Advisor

Methodology

The risk assessment was conducted in compliance with ADS 220 and followed the guidance of the Public Financial Management Risk Assessment Framework for Stage 2 prepared by USAID. In conducting the risk assessment, we interviewed government officials at MARN, the Ministry of Finance, Customs, and SAI to obtain an understanding of the internal processes related to the management controls identified.

For each management control identified, we judgmentally made sample selections and tested the controls related to the area to determine whether the controls were operating effectively. (This assessment is not an audit; therefore, testing is appropriate for a limited sample of transactions.)

Additionally, we reviewed the Stage 1 Rapid Appraisal Risk Assessment report prepared by USAID/San Salvador to obtain an understanding of issues raised related to Government of El Salvador.

Analysis of Impact and Probability

Our approach for determining the risk rating of the areas of vulnerability during this Stage 2 risk assessment included an evaluation of the impact and probability of an adverse event occurring and affecting MARN's operations, including the project. Impact and probability were measured on a 1-4 scale.

Impact – The severity of an adverse event associated with a risk or combination of risks is described below. Impact was evaluated on a 1–4 scale.

Negligible: 1 - PFM broadly reflects good international practice. The development objective outcome can reasonably be assumed to be attained if conditions do not change. This rating indicates that strong political and management commitment to sound PFM practice is evident. Internal controls overall function as intended with deviations potentially having a financial impact that is less than significant to a program. Accountability institutions are mature, function routinely, and are not under threat.

Marginal: 2 - PFM broadly reflects good international practice with some gaps or inefficiencies present. Political or management commitment to closing the gaps and eliminating inefficiencies is present. The development objective is reasonably likely to be

attained. Expected effects could include minor delays in attainment, minor dissatisfaction by stakeholders, or a nonmaterial financial impact. Noncompliance with the internal control framework is the exception rather than the rule, potentially having a financial impact that is less than material on a program. Weaknesses in accountability may be present, or accountability may be in an early and untested stage of development.

Significant: 3 - Significant elements of the PFM system do not reflect good international practice. Political or management commitment to attaining a state of compliance with good international practice is inconsistent or questionable. Attainment of some of the expected outcomes associated with the development objective can reasonably be expected. Expected effects could include a major delay, limited dissatisfaction by stakeholders, and a material financial impact. Noncompliance with the internal control framework is likely to occur and may result in significant impact to the program. Weakness in accountability is evident. Opposition to accountability is evident among some elements in the government.

Material: 4 - There are obvious and material divergences from good international PFM practice. Political and management commitment to attainment of a state of compliance with good international practice is the exception or entirely absent. Realization of an adverse event associated with this risk factor would lead to less-than-desirable outcomes. Expected effects include failure of the project, widespread and severe dissatisfaction by stakeholders, major financial losses, and extensive loss of reputation. Noncompliance with the internal control framework is expected to occur widely. Accountability institutions have major gaps. Opposition to accountability is organized or widespread and therefore expected.

Probability – The likelihood of occurrence of an adverse event associated with a risk or a combination of risks. Probability was measured on a 1-4 scale.

Remote: 1 - This number reflects the conclusion that there is less than a 25 percent probability. An adverse event associated with the risk is rare or would only occur in exceptional circumstances. There is little or no experience of a similar failure.

Occasional: 2 - This number reflects a conclusion that the probability lies between 26 and 50 percent. An adverse event associated with the risk might occur because the conditions for it exist, but controls exist and are effective.

Probable: 3 - This number reflects a conclusion that the probability lies between 51 and 75 percent. An adverse event associated with the risk likely will occur because the controls are inadequate or are applied inconsistently.

Frequent: 4 - This number reflects a conclusion that the probability lies between 76 and 99 percent. An adverse event associated with the risk is expected to occur. There is near certainty of occurrence because the controls do not exist or are ineffective.

**Figure I-1
Public Financial Management Risk Matrix**

Impact	<i>Material</i>	High	Critical	Critical	Critical
	<i>Significant</i>	High	High	Critical	Critical
	<i>Marginal</i>	Medium	Medium	High	High
	<i>Negligible</i>	Low	Low	Medium	Medium
		<i>Remote</i>	<i>Occasional</i>	<i>Probable</i>	<i>Frequent</i>
		Probability			

Risk Treatment

Assignment of risk to a classification of Critical, High, Medium, or Low drives the appropriate level of treatment to mitigate the risk. Figure I-2 defines each of these scores and relates the appropriate levels of risk mitigation suggested for each.

**Figure I-2
Suggested Risk Mitigation Treatment**

Score	Mitigation Requirement	Detail
Critical	Terminate exposure or enforce mitigating measures.	Critical requires stringent mitigating measures only if these have a high probability of success. Otherwise, we would recommend terminating the exposure by delivering the assistance through other means. In rare cases where an effective transfer of risk mechanism exists and is deemed effective, we will consider transfer of the risk, albeit with a risk assessment of the ability of the transferor to deliver on its obligation. (A central bank guarantee of a deposit in a local bank is an example of a transfer mechanism.) Mitigating measures are likely to include concurrent audit, reimbursement-only mechanisms, tranching, affirmative transaction approval, cosignature requirements on disbursements, and other active and continuous control features.
High	Consider terminating exposure or enforcing mitigating measures	High requires serious mitigating measures to treat the risk. Treatment may include a wide variety of risk mitigation measures that should be enforced continuously.
Medium	Consider enforcing mitigating measures or monitoring	Medium requires mitigating measures, but these may be periodic, such as semiannual audits or no objection processes for procurement approval. Third-party oversight, such as an arrangement with the national procurement oversight body, could be considered.
Low	Monitoring	Low requires monitoring and audit, but treatment of specific risks will not be an <i>ex ante</i> requirement. Routine controls and oversight are appropriate. In some cases, terms and conditions in the agreement may be sufficient, provided that performance of the terms and conditions is monitored.

FLOW OF FUNDS UNDER THE TWO TYPES OF AGREEMENTS BEING CONSIDERED

The mission has determined that it will probably sign a fixed-amount reimbursement agreement or a cost reimbursement agreement with MARN. Below and on the next page, we provide the funds flows for these instruments.

Flow of Funds Under a Fixed-Amount Reimbursement Agreement



Flow of Funds Under a Cost Reimbursement Agreement

**USAID Advances Funds to MARN
Separate Project Account via EFT**

**MARN Processes Payments to
Vendors from Project Account via
Check**

**MARN Submits Voucher to
Liquidate Outstanding Advance**



TECHNICAL CAPACITY ASSESSMENT

A Quick Technical Assessment of the Ministry of Environment and Natural Resources to implement the Restoration of Ecosystems and Landscapes of El Salvador Project

A. The setting:

On May 7, 2012, MARN officially launched the National Program of Restoration of Ecosystems and Landscapes (PREP). The PREP is consistent with the Government of El Salvador's National Environmental Policy (NEP), which objective is to *reverse environmental degradation and reduce vulnerability to climate change*. One of the priorities of the NEP is the *inclusive restoration and conservation of ecosystems*.

According to the NEP, environmental degradation in El Salvador has reached such a critical point that meaningful action is necessary to reduce risks, support productive activities and ensure the welfare of the population. A socially inclusive approach involving the participation of communities is considered essential to preserve and enhance the provision of ecosystem services by the diversity of ecosystems and species.

The current Biodiversity Strategy of El Salvador was developed in 2000. MARN has recently started the updating of the Strategy with funds from GEF/UNDP. One of the goals of the updating process is to align it with NEP and PREP.

B. PREP has three main components:

1. Development of climate-resilient agriculture: Recognizing that agricultural activities represent the main land use in the country, this component seeks to begin the transition from an agricultural sector based heavily on slash and burn practices, and intensive agrochemical use to sustainable agricultural and livestock practices that are more resilient to the threat of climate change. PREP pursues the development of a massive expansion of agro-forestry and sustainable agriculture practices to prevent soil erosion, increase vegetation cover, mitigating climate change by soil and vegetation carbon sequestration while adapting to it, improve water flow hydrology, reduce agrochemical use, and improve conditions for biodiversity conservation.

2. Synergistic development of physical and natural infrastructure: Physical infrastructure in El Salvador, particularly road infrastructure, is very vulnerable to climate variability and has been heavily impacted by the increased frequency and intensity of climate change-related extreme weather events in the last decade. The typical response has been more complex man-made infrastructure. Although new design specifications can reduce this vulnerability, it implies significant costs increases. MARN and the Ministry of Public Works (MOP) propose through PREP that combining investments in both physical and natural infrastructure will be more cost efficient. For example, protecting watersheds with the expansion tree cover through agroforestry and creating or preserving riparian buffer forests along river banks would regulate hydrological flows, reducing flooding impacts on bridges, ports and communities. This would also restore and expand biological corridors, creating a more favorable environment for biodiversity conservation.

3. Restoration and conservation of critical ecosystems: The restoration and conservation of mangroves, beaches, wetlands and forests is essential to ensure adequate provision of environmental services necessary to support all productive activities, secure the livelihoods

of local communities, conserve biodiversity and enhance adaptation to climate changes. Of particular concern are coastal marine ecosystems, particularly mangroves, and the recovery of their role to protect against storm surges and tsunamis and to reduce coastal erosion, as well as the enhancement of their functionality as breeding areas for a wide range of marine and other species upon which communities depend for food and income. The PREP recognizes that given the levels of environmental degradation in El Salvador, it is not adequate to simply transform or manage isolated points or small areas of the country, but a massive transformation is required; eventually, results will be obtained throughout the country.

C. Analysis of Strengths and Weaknesses:

A quick assessment of MARN's current strengths and weaknesses in light of its new mandate to implement the PREP is present below. It should be noted that the proposed USAID project which is in preliminary design process falls within the purview of the PREP.

MARN has extensive experience implementing a large variety of environmental and biodiversity projects. Its personnel include a significant number of specialized professionals in areas of interest to PREP. MARN's solid institutional relationship with MAG and MOP, which are key stakeholders for PREP, is a source of strength which will be tapped during the implementation of the PREP. By policy, as a measure of long-term sustainability, MARN focuses on grass root practices through an inclusive management approach supported by community action and effective coordination of local governments and national public institutions, as expressed in the NEP. The PREP is a high priority for the Minister and the current Government of El Salvador administration and additional budgetary resources are being secured for its implementation.

Notwithstanding the strengths briefly discussed above, the 2012 NEP and PREP introduce significant changes in the approach to the management of biodiversity in El Salvador. There are two major issues that need to be addressed for successful implementation of PREP.

1. Identification of PREP within MARN's organizational structure

PREP will require efficient use of human and other institutional resources for a massive mobilization of farmers, grass root organizations and other key actors in the territories of intervention. Even though MARN has valuable institutional and specialized human resources that are relevant to project implementation, it is not clear whether these resources are efficiently organized under the same direction to optimize their performance.

Currently, MARN is going through a reengineering of its organizational structure directed at program management. Programs will be led by designated directorates with the participation of other related offices. PREP represents the climate change-related strategic action and, according to MARN's current plans, will be led by the General Directorate of Climate Change and Strategic Issues.

As a result of the reengineering, and because of PREP's biodiversity orientation, MARN is planning to establish the General Directorate of Biodiversity and Natural Heritage which will support the Climate Change Directorate in PREP implementation.

2. Strengthening of the National Environmental Management System (SINAMA)

The project will include working with small sub-projects implemented by NGOs and Communal Development Associations (ADESCOs). Therefore, MARN will require additional capacity to monitor and evaluate the sub-projects. This task can be performed by the Municipal Environmental Units considered by law under SINAMA. MARN acknowledges that SINAMA is not fully functional due to limited capacity of various municipalities, which would require institutional capacity development.

Accordingly, MARN is taking steps toward strengthening SINAMA. For example, MARN has programmed funds in its 2013 budget, subject to legislative approval, to support the municipalities' environmental units. In line with this initiative, the municipalities of initial PREP interventions are prioritized by MARN. Additionally, the Inter-American Development Bank has made strengthening of SINAMA a requirement for a \$200 million loan currently under negotiation with the Government of El Salvador.

D. Conclusion:

Based on the quick assessment and the additional capacity development considerations outlined above, the Economic Growth Office concludes that MARN is capable of implementing the PREP. It is intended that USAID's contribution will further fortify MARN and the municipalities to ensure program success and sustainability. The consultant to be contracted by USAID for the design of the project will further explore technical capacity development needs of the MARN in light of the up-coming program implementation challenges and will propose the required measures to be incorporated into project design and implementation.

PFMRAF QUESTIONNAIRE

**Questionnaire for the Public Financial Management Risk Assessment
(PFMRAF Stage II)**

FIRST CRITERION:

MANAGEMENT CONTROL ENVIRONMENT

Date of the assessment: **Completed on 07/09/12**

Author of the assessment: **Ivan Magana**

FIRST CRITERION:	MANAGEMENT CONTROL ENVIRONMENT		
Questions to evaluate the compliance with the criterion	Observations of the author, based on the analysis of available documents and enquiry of the entity subject to assessment (i.e., based on inquiry, interview, observation or testing)	Reference to documents (copy attached)	Assessment of the Author
<p>1. Management's philosophy and operating style, including management oversight</p> <p>1.1 Develop an understanding of government officials' management style and philosophy and its potential impact to the project</p>	<p>As a customary practice, governmental institutions in El Salvador are impacted by the philosophy of its government officials (ministers) and the ruling party in charge.</p> <p>Currently, the FMLN (left wing party) is in charge and the minister in charge of the ministry of environment (MARN) is Herman Rosa Chávez (HRC). Although many members of the current leadership in the government have bad feelings towards the government of the US because of the old civil war that took place in the 80s, the HRC has welcomed the help that USAID offers to MARN and has taken the lead in asking USAID to perform a risk assessment level II to determine any vulnerabilities and open the ministry to any aid.</p> <p>As discussed in the following sections, we noted various vulnerabilities related to management's control environment</p>	None	No issues noted.
<p>1.2 Develop an understanding of ethical requirements and regulations that oversee government officials</p>	<p>Basically, government employees and officials respond to the government's Ethical law (see B.2.4) and transparency law.</p> <p>Ethical Requirements:</p> <ol style="list-style-type: none"> 1. <u>Declaracion Jurada</u>: As part of the laws, certain government officials are required to file a document when they join the government where they list the goods that they own when they join the government so that the government can determine if their assets increased while they were part of the government. The purpose is to check that government officials did not enrich themselves while working for the government. Please note that testing of this law was completed at 4.6 below PA3.a 2. <u>The ethic's Tribunal</u>: The government also has established a tribunal of ethics with the purpose of reducing fraud. On 04/24/12, the president of the tribunal took place. However, the tribunal has not been fully functional as of yet. Please note that testing of this section was done at 4.1 through 4.5 at PA3.a 3. <u>Transparency Law</u>: This law has the purpose to make access to public institutions information available to the public. This translates on the public having access to request information from the government such as bids and information on direct procurement entered into by governmental institutions. Please note that further testing of this law was done in the procurement section 	B.2.4 B.2.5	Issues noted at PA3.a and PA3.a
<p>1.3 Confirm that government officials have develop a process for assessing risk, which includes: - Risk identification, including impact to projects and the objectives of the entity</p>	<p>During our review, we noted that MARN does not have a process for determining and evaluating risk and its potential impact on the entity and its programs.</p> <p>Basically, the government develops its yearly budgets based on the budgets of the previous years plus an adjustment due to inflation. Utilization of resources from the government (e.g.: employees) is not tied to programs or achievable results</p>	Schedule I-A B.2.1	Issue noted: The entity has not established a process of assessing, mitigating, monitoring risk and the impact that risk would have on the entity achieving its

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- Risk mitigation			objectives as noted at B.2.1
<p>2. Organizational Structure, delegation of authority and responsibility</p> <p>2.1 Review organizational charts, reporting lines and requirements and determine its impact to the project.</p>	We reviewed reporting lines and delegation of authorities in the banking, procurement and IT sections.	See procurement, IT and Banking sections below	See procurement, IT and Banking sections below
2.2 Review policies and procedures to enforce segregation of duties among government officials	During our review, we noted that there is only one set of policies and procedures applicable to all employees including governmental officials; therefore, this step was completed in the HR section at HR Section	See HR Section	Issues noted at HR Section
2.3 Obtain an understanding of any system of checks and balances such as committees and inter-agency oversight and assess its effectiveness	<p>1. Quinquennial Plan: The government of El Salvador utilizes the quinquennial plan as the means to review the performance of various government officials and how its meeting its plans for the 5 years that the government of El Salvador is in place. <u>This process does not seem to be efficient or productive.</u> The reason for this assessment is that in reviewing the plan, it does seem to indicate that the review process is more of a political tool used to state what the government of El Salvador under the current administration is doing well and accomplishing what it set up to do for the people rather than as a tool to become aware of any issues with the current administration.</p> <p>2. Financial Audits: Each governmental institution is required to go through various audits. At a minimum, each institution is required to go through a financial audit to determine if the officials in charge of the entity are complying with laws and regulations. <u>We have requested documentation for financial audits and will complete the review in the audit section of this questionnaire.</u></p>	B.2.6	Issues noted in the Audit section of this document.
2.4 Assess government officials' ability to act independently from other government entities to achieve project goals	<p>Projects are handled via the GOES general budget or special accounts for those being funded by international donors.</p> <p>MARN has the ability to act independently from other government entities and complete its projects unless they are being led by other government entities such as the ministry of agriculture (MAG).</p>	None	No issues noted
<p>3. Policies and Procedures</p> <p>3.1 Review governance documentation, government officials policies and procedures and determine whether they are</p>	During our review, we noted that there is only one set of policies and procedures applicable to all employees including governmental officials; therefore, this step was completed in the HR section at HR Section	See HR Section	Issues noted at HR Section

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complete (i.e.: at a minimum, the documentation should include details on compliance with ethical requirements, segregation of duties, use of government assets, compliance with anti-corruption laws, travel and entertainment, leave and sick time, benefits, evaluations and dispute resolution)			
3.2 Confirm that entity has set up proper policies to protect assets from government officials (e.g.: checks cannot be signed by government officials or require two signatures, officials cannot approve their expense reports, family members are excluded from competing in bids, etc.)	During our review, we noted that there is only one set of policies and procedures applicable to all employees including governmental officials; therefore, this step was completed in the HR section at HR Section	See HR Section	Issues noted at HR Section
3.3 Develop an understanding of the records retention policies and confirm that policies clearly define records retentions, including the types of documents to be retained, applicable periods and destruction policies.	During our review, we noted that there is only one set of policies and procedures applicable to all employees including governmental officials; therefore, this step was completed in the HR section at HR Section	See HR Section	Issues noted at HR Section
<p>4. Ethics and Fraud Detection</p> <p>4.1 Confirm that the entity has a process for monitoring and investigating complaints about potential fraud, misuse of funds. The process should include the following:</p> <ul style="list-style-type: none"> - Process for receiving and processing complaints (e.g.: hotline) 	<p>As noted in section 1.2, the government has established the Law of Ethics (see PA3.a)</p> <p>We tested the process for investigated complaints as noted at Schedule I-D and Schedule I-C. Issues were noted</p> <p>During our review, we noted that the Ethics Law requires the establishment of a commission board at each government institution. Although MARN has established a Commission Board, we noted that meetings of the Board have not been documented. We also noted that one of the board members representing employees is a park ranger located in a remote place and</p>	<p>Schedule I-C</p> <p>Schedule I-D</p>	<p>Issues noted:</p> <ol style="list-style-type: none"> 1. MARN does not have a process for log in complains or investigations. 2. MARN has not established a manual regarding its policies and procedures related to the ethics and transparency law 3. The ethics law has the

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<ul style="list-style-type: none"> - Process for protecting whistleblowers - Process for investigating complaints - Process for making the resolution of complaints available to the public 	cannot easily participate in Board meetings		following weaknesses: <ol style="list-style-type: none"> a. It does not permit any complaint to be filed in anonymity as it requires persons filing complaints to have to present them physically in person at the tribunal b. It does not provide any protection to whistleblowers c. It does not define certain elements such as leave or detachment from officials from their duties while investigation takes place if applicable, report requirements and publishing of results, d. Sanctions are not set up to discourage inappropriate behavior as the cost of sanctions is not set up to be equal or greater to the damage caused. The law basically establishes a ceiling totaling the equivalent of 40 minimum salaries which may not discourage certain actions where the value of the wrong may exceed the cost of sanction.
4.2 Review the list of complaints filed in the last 2 years and select a sample for testing and determine that: <ul style="list-style-type: none"> - Any recommendations from the 	We obtained a list of complaints filed and completed the testing as documented at Schedule I-D . No issues were noted during the testing	Schedule I-D .	No issues noted

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investigation(s) were addressed - Complaints were resolved timely			
4.3 Review the process of coordinating review of any complaints with other agencies as applicable (e.g.: Government Ethics Tribunal – GET, the Supreme Court, etc.)	As noted in section 1.2, the government has established the Law of Ethics (see PA3.a). Complaints reviewed by the ethics committee at MARN can be referred to the Ethics Tribunal. However, we did not find evidence that any complaints have been forwarded to the Ethics Tribunal	Schedule I-D .	No issues noted
4.4 Review training requirements as they relate to ethics and fraud awareness among members of the entity. Perform the following testing: - Confirm that ethics, fraud awareness and reporting is provided to employees at least yearly - Confirm that ethics training covers aspects related to investigation of complaints and applicable laws	We discussed training requirements. Under the new law, each institution is required to provide training for its employees at least annually. We noted that MARN is in the process of planning training for its employees.	None	No issues noted
4.5 Review the complaint mechanism: - Confirm that MARN has a mechanism to receive complaints - Confirm that complaints are forwarded to the applicable agency - Confirm that the applicable agency reviews and prosecutes cases as applicable - Review the mechanism to make the public aware of the outcome of any complaints - Confirm that agency handling complaints is properly staff - Is the agency independent? - Do the procedures provide for	We requested a copy of MARN's policies and procedures to process complaints. MARN does not have its own policies and procedures. In the place of its own policies and procedures, we received a copy of the Ethics law. As noted in section 4.1 above, we noted some issues as documented.	B.2.4 B.2.1	Issues noted: 1. MARN does not have a process for login in complains or investigations as noted on section PA3.a . 2. MARN has not established a manual regarding its policies and procedures related to the ethics law as noted on section PA3.a .

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fairness and due process?			
4.6 Obtain a copy of the “Declaracion of Patrimonio” related to the “Ley Sobre Enriquecimiento Illicito of any applicable personnel of MARN: - Ensure that applicable forms were filled out timely	We requested a listing of the individuals who had filed a wealth declaration which is required to avoid officials from enriching themselves from their government jobs. We inquired as to why the minister and vice-minister were not included in the list and were told that they were not aware if the President had required such a document from these officials but they were not located in the ministry’s Human Resources files as noted at C.2.23	C.2.23 and C.2.21	Issue noted: Human resources does not track that all applicable employees or government officials file the applicable documentation to ensure that they are not abusing their positions.

SECOND CRITERION: OPERATIONS

Date of the assessment: **July 2012**

Author of the assessment: **Ivan Magana,
Karla Hasbun,
Carlos Milla,
Blanca Ibarra and
Juan Carlos Milla**

SECOND CRITERION:	BUDGET EXECUTION		
Questions to evaluate the compliance with the criterion	Observations of the author, based on the analysis of available documents and enquiry of the entity subject to assessment	Reference to documents (copy attached)	Assessment of the Author
<p>1. Human resources management</p> <p>1.1 Review policies and procedures for the human resources process for completeness. At a minimum, confirm that the policies include the following areas: compliance with ethical requirements, use of government assets, compliance with anti-corruption laws, promotions, procedures for grievance, forms to be used by employees, advances, travel and entertainment, leave and sick time, benefits, evaluations and process for reporting fraud, including whistle blower protection</p>	<p>As documented in the narrative in the conclusions:</p> <p>1) There is no salary, grades or wage policy</p> <p>Manuals provided by MARN including policies and procedures were reviewed and we found policies and procedures for all the areas except the following:</p> <p>Exception 1 - Promotions are established in the manual "Reglamento Interno de Trabajo" (pg. 5) but in the Interview they told us that in reality they don't have Promotions. What they can do is participate as candidate for another position. –</p> <p>This exception is considered a deficiency that does not have an impact on a program.</p> <p>Exception 2 - Advances is not applicable, we didn't find advances in any manual. - This exception is not considered a deficiency.</p> <p>Exception 3 - In the "Reglamento Interno de Trabajo" pg. 19 & 20 manual they indirectly states they shouldn't commit fraud or abuse. But there is not an anti-corruption laws and procedures for reporting waste and abuse, this is stated in the "Ley de Etica Gubernamental" -</p> <p>This exception is not considered a deficiency.</p> <p>Exception 4 - Anti-corruption laws and procedures for reporting waste and abuse are well defined but there is just one article for whistle blower protection. See Art. 51.c. pg. 29 "Ley de Etica Gubernamental." –</p> <p>This is reported as an issue.</p>	<p>Narrative: C.2.1</p> <p>1. Reglamento Interno de Trabajo (Internal work manual) (C.2.4).</p> <p>2. Programa de sugerencias, ideas de mejora y quejas. (C.2.7).</p> <p>3. Manual de Procedimientos Administrativos. (C.2.8).</p> <p>4. Ley de Ética Gubernamental. (C.2.5).</p>	<p>We noted one issue:</p> <p>1. Anti-corruption laws and procedures for reporting waste and abuse are well defined but there is just one article for whistle blower protection. See Art. 51.c. pg. 29 "Ley de Ética Gubernamental."</p>
<p>1.2 Obtain an understanding of any monitoring tools available to management to manage the human resources process (e.g.: turnover ratio, resource allocation, utilization, pool of expertise available to projects, etc.) and confirm that:</p> <ul style="list-style-type: none"> - There are sufficient employees to carry out their work - Efficiency is tracked - They have the right skill's match 	<p>As documented in the narrative in the following conclusions:</p> <p>2) They do not have the proper number of employees to cover projects. If they need expertise in an area, consultants are hired, salaries are high. There are employees that work indirectly on the projects but not indirect costs are charged to projects.</p> <p>3) They do not have a turnover rate, but they have the data to obtain the rate.</p> <p>4) Employees and consultants do not record their work hours in a timesheet. They only have a record of attendance.</p> <p>As documented in the testing schedule the majority of the employees have the right skill's match. With the following exceptions:</p> <p>Exception 1 - MARN does not have a salary policy according with the different jobs levels. The government has hired a consulting firm to prepare a wage policy for all public employees. The consulting firm is going to provide the salary policy in 3 months (December 2012) - This exception is not considered a deficiency.</p> <p>Exception 2 - Exception 2.1 - We noted that for three out of five employees selected for</p>	<p>Narrative: C.2.1</p> <p>None for the monitoring tools.</p> <p>1. Job descriptions for the following positions:</p> <p>1.1 Gerente de Cambio Climático y Asuntos Estratégicos. See attachment No. 6 (C.2.15)</p> <p>1.2 Jefe de Unidad de Cultura</p>	<p>Issue noted:</p> <p>1. They don't have any monitoring tools available to manage the human resources process.</p> <p>2. Employees and consultants do not record their work hours in a timesheet. They only have a record of attendance.</p> <p>We noted 1 Issue in the testing schedule:</p> <p>1. We noted that the description of the requirements for the job for employees 2, 4, and 5, did not</p>

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	<p>testing, the description of the requirements for the job did not match the qualifications of the candidates, as follows: Employee 2) Sonia del Carmen Baires (Directora de Cambio Climático y Asuntos Estratégicos): The job description required a Post-graduate degree and she just have a bachelor in Social Science. Employee 3) Olga Lucía Rodríguez (Jefe Unidad Cultural Ambiental): The job description required a Post-graduate degree (master's degree) and a specialty in sociology, anthropology or social science; she has the master's degree. OK Employee 4) Francisco Ernesto Durán García (Gerente Cambio Climático): The job description required an Engineer or bachelor degree in social areas (OK) and a post-graduate in environment; he does not have the post-graduate degree. Employee 5) Silvia Margarita Hernández de Larios (Director General de ordenamiento, evaluación y cumplimiento): The job description required an Agronomic, Civil, Industrial Engineer and a master's degree in natural resources, she is not an engineer, she has a bachelor in economics and she is finishing the master's degree. 2.2 - In the job description the education requirement does not match the skills required for the job for instance Olga Lucia Rodriguez position requires a master's degree and a bachelor's degree in social science, anthropology or sociology (Her position is "Jefe Unidad Cultural Ambiental"), on the contrary her boss' (Sonia del Carmen Baires) position requires only a bachelor's degree in business administration, economy or industrial engineering. The experience for both of them is mostly consulting works, OK. This is reported as an issue (Issue #1)</p>	<p>Ambiental. . See attachment No. 7 (C.2.15) 1.3 Director General de ordenamiento, evaluación y cumplimiento. . See attachment No. 8 (C.2.15) 2. Resume from Silvia Margarita Hernández de Larios. See attachment No. 9 (C.2.9).</p>	<p>match the qualifications of the candidates, in addition, the qualifications could have been modified to fit the candidate's background.</p>
<p>1.3 Obtain a listing of recently hired new employees since the new minister was appointed and make a sample selection and test the following:</p> <ul style="list-style-type: none"> - Staff are hired using competitive procedures - Personnel hired had the proper qualifications to perform their duties - Approvals for hiring new employees were properly documented - Personnel have the appropriate experience fitting their job descriptions 	<p>According to the testing, the majority of the staff is hired using competitive procedures see attachment No. 5 (Include link), had proper qualifications to perform their duties, approvals for hiring new employees were properly documented and they had the appropriate experience fitting their job descriptions, except the ones that are politically appointed. We found the following exceptions in this area:</p> <p>Exception 1 - There was not a competitive process because it is a position that reports directly to the minister who is politically appointed. The MARN internal manual, chapter III, article #9 (see attachment No. 1), has direct hiring based on the minister needs or personal preferences based on trust. He can hire different positions based on this article: directors, managers, auditors, coordinators, and other positions. This is also stated in the "Recruitment and Selection of MARN Personnel Manual" see section IV Policy, 2nd paragraph (see attachment No. 2). In this last manual it just references the work internal manual - This is reported as an issue (Issue #1)</p> <p>Exception 2 - The description for the qualifications for the job is too general and could be fulfilled by almost anyone (see attachment No. 4 pg. 7/40). Also the Manual for positions and functions could be done after they selected the candidate and they can adapt the</p>	<p>1. MARN internal work manual, chapter III, article #9. See attachment No. 1 (C.2.13). 2. Manual for hiring and selecting personnel at MARN. Chapter IV, 2nd paragraph. See attachment No. 2 (C.2.10). 3. Memorandum from General</p>	<p>We noted 3 Issues in the testing schedule:</p> <ol style="list-style-type: none"> 1. The minister can directly choose employees based on his own judgment and it is permitted by the law. 2. We noted that the description of the requirements for the job for 2-3 did not match the qualifications of the candidates; in addition, the qualifications could have been modified to fit the candidate's background. 3. The approval from the minister was not found in the file.

SECOND CRITERION:	BUDGET EXECUTION		
Questions to evaluate the compliance with the criterion	Observations of the author, based on the analysis of available documents and enquiry of the entity subject to assessment	Reference to documents (copy attached)	Assessment of the Author
	<p>qualifications according to the candidate qualifications, just because she is the minister's assessor - This is reported as an issue (Issue #2)</p> <p>Exception 3 - There was not an approval in writing from the minister for this candidate Ana Maria Ester Mata de Bonilla (see attachment No. 4) - This is reported as an issue (Issue #3)</p> <p>Exception 4 - There was not a competitive process because it is a position that reports directly to the minister who is politically appointed. The position was not advertised, so it is not documented, on the other hand, although the minister interviews her, this was not documented. It is documented from the moment the minister selects the candidate and gives the curriculum to human resources - This is reported as an issue (#1)</p> <p>Exception 5 -The human resources employee file is complete from the moment the minister selects the candidate and gives the curriculum to human resources. The following procedures were not documented: vacancies published in the local newspaper, pre-selection of candidate, technical test, psychological test and interview, evaluation of test, and selection of employee from 3 candidates. This process indicates that the minister directly selected the candidate such as E1 and E4 - Issue noted (Issue # 1)</p> <p>Exception 6 - The position was not published in the newspaper and the minister made the selection process from candidates that had previously submitted resumes - This exception is not considered a deficiency.</p> <p>Exception 7 - The employee was already working at MARN as a consultant in a project that ended and was hired again as a MARN employee in the same position (See attachment 3) - This exception is not considered a deficiency.</p>	<p>Director to Chief of Human Resources stating art. 7 – (f) of the Internal Work Manual of MARN. See attachment No. 3 (C.2.11).</p> <p>4. Human Resources file for Ana María Ester Mata de Bonilla (Assessor for the Organizational & IT area). See attachment No. 4 (C.2.12). Exceptions 1, 2, 3, 4, and 5 apply to this employee.</p>	
<p>1.4 Obtain a listing of contractors for the last 4 years and make a sample selection and test the following:</p> <ul style="list-style-type: none"> - Contractors are hired using competitive procedures - Contractors hired had the proper qualifications to perform their duties - Approvals for hiring new contractors were properly documented - Contractors are not hired based on their political affiliations 	<p>Document testing down in purchasing at section 4 below documented at PA3.a</p>	<p>See section 4 below</p>	<p>See section 4 below.</p>
<p>1.5 Review the organizational chart and select samples from various</p>	<p>As documented in the test schedule. We noted 3 exceptions:</p> <p>1 There was not a competitive process because it is a position that reports directly to the minister who is politically appointed. The MARN internal manual, chapter III, article #9,</p>	<p>Test Schedule: C.2.3</p>	<p>We noted 3 Issues:</p> <p>1. The minister can directly</p>

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<p>employees and confirm that their qualifications and experience agree with the grade level</p>	<p>has direct hiring based on the minister needs or personal preferences based on trust. He can hire different positions based on this article: directors, managers, auditors, coordinators, and other positions. This is also stated in the "Recruitment and Selection of MARN Personnel Manual" see section IV Policy, 2nd paragraph. In this last manual it just references the work internal manual - This is reported as an issue (Issue #1)</p> <p>2 The description for the qualifications for the job is too general and could be fulfilled by almost anyone. Also the Manual for positions and functions could be done after they selected the candidate and they can adapt the qualifications according to the candidate qualifications, just because she is the minister's assessor - This is reported as an issue (Issue #2)</p> <p>3 There was not an approval in writing from the minister for this candidate - This is reported as an issue (Issue #3)</p> <p>4 The human resources employee file is complete from the moment the minister selects the candidate and gives the curriculum to human resources. The following procedures were not documented: vacancies published in the local newspaper, pre-selection of candidate, technical test, psychological test and interview, evaluation of test, and selection of employee from 3 candidates. This process indicates that the minister directly selected the candidate such as E1 and E4 - Issue noted (Issue #1)</p> <p>5 The human resources employee file is complete from the moment the minister selects the candidate and gives the curriculum to human resources. The following procedures were not documented: vacancies published in the local newspaper, pre-selection of candidate, technical test, psychological test and interview, evaluation of test, and selection of employee from 3 candidates. This process indicates that the minister directly selected the candidate such as E1 and E4 - Issue noted (Issue #1)</p> <p>6 The position was not published in the newspaper and the minister made the selection process from candidates that had previously submitted resumes - This exception is not considered a deficiency.</p> <p>7 The employee was already working at MARN as a consultant in a project that ended and was hired again as a MARN employee in the same position - This exception is not considered a deficiency.</p>		<p>choose employees based on his own judgment and it is permitted by the law.</p> <p>2. We noted that the description of the requirements for the job for 2-3 did not match the qualifications of the candidates; in addition, the qualifications could have been modified to fit the candidate's background.</p> <p>3. The approval from the minister was not found in the file.</p>
<p>a. Review MARN's strategy for train staff to develop capacity:</p> <ul style="list-style-type: none"> - Review the type of ongoing training that is provided to address any employee weaknesses - Review all trainings that are provided for all employees during the year 	<p>As documented in the narrative, they have no training because there is no budget for training in the Ministry of finance. However, there is an institutional network of training (responsible for training in all ministries) and for English training. The European Academy gives English classes in the Ministry and every employee interested pays for them.</p>	<p>Narrative: C.2.1</p>	<p>Issue noted: MARN does not have a strategy to train staff.</p>

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<p>2 Budgeting, accounting and financial reporting</p> <p>2.1 Review policies and procedures for budget, accounting and financial reporting cycles and review for completeness (i.e.: confirm that the policies include approval process, reporting deadlines, reporting lines, access to computer software, delegation of duties, etc.)</p>	<p>We obtained copies of the policies and procedures for the Government of El Salvador (GOES) and performed a walkthrough of the process as noted in the narrative.</p> <p>The policies included a process for approving the budget which has more than one tier as described by the law (one at the ministry level and one at the finance ministry or government level).</p> <p>We noted that the GOES develops the budget based on the prior year plus adjustments due to inflation; but, this is done based on salaries and it is not done at the project level. Currently, there is a plan to move towards a budget that will be project driven in the next 5 years – <u>This is noted as an issue.</u></p>	<p>Narrative – Budget: C.2.20</p>	<p>Issue noted: During our meetings, we became aware that the GOES develops the budget based on the prior year plus adjustments due to inflation; but, this is done based on salaries and it is not done at the project level. Currently, there is a plan to move towards a budget that will be project driven in the next 5 years.</p>
<p>2.2 Review process flows for the budgeting, accounting and financial processes and evaluate the effectiveness of various controls used in this process</p>	<p>We obtained a budget flow for the budgeting process as noted in the narrative. The budget process begins in April and ends prior to September 30th when the draft budget will submit to the legislative approval.</p> <p>We tested the controls for the budget process in the test plan and noted the deficiencies noted in the observations' column.</p>	<p>Narrative – Budget: C.2.20 Schedule II-D Schedule II-E</p>	<p>No issues noted</p>
<p>2.3 Obtain system flows or flowcharts of the budget, accounting and financial reporting systems. Determine controls available throughout the process and determine their functionality</p>	<p>As noted above, this has been documented in the narrative. We identified controls and are testing them as noted in 2.4 below.</p>	<p>Narrative – Budget See 2.4 below</p>	<p>Conclusions noted on 2.4 below</p>
<p>2.4 For the budget cycles, review controls over projects to confirm that:</p> <ul style="list-style-type: none"> - Budgets are approved timely - Budgets are reviewed and approved timely - Funds and budgets for specific projects are restricted from other use - Deviations from the original budget are tracked and properly approved 	<p>We met with Carla Canas (CC), UFI Manager at MARN, and discussed controls over the budget process as documented in the narrative.</p> <p>When it comes to timeliness, during our initial testing (as noted in the narrative), we noted that they have been preparing the budget timely.</p> <p>All changes made during the fiscal year are tracked with the Programming of the Budget Execution Report (PEP). This report serves as monitor and control execution, comparing the planned budget with the actual execution.</p> <p>According with the interview with CC (UFI Manager) every major reallocation in the budget required approval from Directorate General of Budget following the mandatory procedures.</p>	<p>Narrative Budget: C.2.20 Schedule II-D Schedule II-E</p>	<p>Issues noted as follows:</p> <p>1. Reallocation or reprogramming of funds to different budget areas is done without the appropriate level of approval. For instance, UFI may make budget reallocations without the appropriate approval while reprogramming of funds are approved by the UPC manager without the required next level of approval (See Schedule II-</p>

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			<p>D)</p> <p>2.MARN is currently utilizing a manual notebook as an informal mechanism to track shortfalls in budget funding rather than utilizing the accounting system (See Schedule II-D).</p>
<p>2.1 Off-budget spending</p> <ul style="list-style-type: none"> - What is the extent of extra-budgetary funds, special funds and separate or supplementary budgets? - Who benefits from them? 	<p>The extra budgetary resources do not require legislative approval if they came from FOMILENIO, FONAES, Grants from donors community directly management by the Ministries, and earning incomes generated by providing goods and services.</p>	<p>Narrative Budget: C.2.20</p>	<p>No issues noted during the testing.</p>
<p>2.5 Obtain an understanding of how special accounts are used, including controls to:</p> <ul style="list-style-type: none"> - Implement and maintain special accounts - Monitoring special accounts - Restricting funds in special accounts (restrictions placed on accounts) 	<p>These special projects are managed separately by each entity (e.g.: MARN) and are ruled by the law mentioned in the agreement/contract with the donor. As we note in the annual report MARN had more than 20 cooperation projects in 2010.</p> <p>We found that projects are handled directly in separate bank accounts. Many projects have two bank accounts (saving and operations accounts). Donor agencies transferred funds to the saving accounts and the institutions have distributed funds using check accounts. Please refer to the bank accounts section of the testing for further details on controls over bank accounts.</p> <p>If the donations has included in the general budget, in theory, this funds will be captured by the treasury in case they would not be used in the current budget year. In the past, MARN has cases of misappropriated funds by the treasury.</p>	<p>Narrative Budget: C.2.20</p>	<p>Issue noted:</p> <p>We noted that unused Funds in the GOES budget can be misappropriated by the government if unused in the year when budgeted. This may impact programs that have budgets extending for more than one year. In theory a project may lose its funds if it were to donate funds that were placed directly into the GOES budget. Furthermore, political changes may result in changes to special accounts enabling GOES to misappropriate unused funds even if they are from projects (See Budget Iss App).</p>
<p>2.6 Develop an understanding of controls to ensure segregation of duties are enforced to ensure budgets are followed</p>	<p>We found that the major responsible of execution of budget is the Directorate of Budget (Treasury) who leads, regulates, and control the formulation, implementation, monitoring and evaluation of general budget. The General Director has responsible to report to Minister of Finance on a regular basis the results of execution of budget, including recommendations for corrective action to deviations.</p> <p>In the case of the public institutions, each entity is responsible to execute the budget that has</p>	<p>Narrative Budget: C.2.20</p>	<p>No issues noted during the testing.</p>

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	been allocated. The UFI manager has the responsibility to inform to the highest level of authority about the follow up on the budget.		
<p>2.7 Do financial regulations provide for additions to budgets during the year? If so</p> <ul style="list-style-type: none"> - What is the procedure? - Is there a limit for which approval is not required? 	<p>We note that in recent years, MARN has received extraordinary resources form international cooperation reaching more than three-quarters of total ordinary funds for a fiscal year. The trend is upward to get more extraordinary funds and there are not prohibitions or ceiling to acquire these funds.</p>	<p>Narrative Budget: C.2.20</p>	<p>No issues noted during the testing.</p>
<p>2.8 Obtain the chart of accounts for the MARN and the balance sheet for some quarters and confirm that:</p> <ul style="list-style-type: none"> - It does not contain accounts that seem strange or could be misused - Major account balances are reconciled timely (e.g.: cash balance to accounts making up cash, payroll accounts, assets, etc) - The balance sheet per MARN is reconciled to the one from the financial statement - The balance sheet is mapped to the financial statements 	<p>We reviewed the financial statements and did not see any accounts that merit any further review.</p> <p>When it comes to account balances, we noted that MARN utilizes the SIAF system for purchases and assets while the SAFI system from the ministry of Finance for their accounting needs. We noted that data kept in the SIAF and Excel (purchases) is not reconciled to the SAFI accounting system</p> <p>When it comes to the balance sheet, the system is mapped to the financial statements.</p>	<p>C.2.16</p>	<p>Issue noted:</p> <p>MARN does not reconcile purchases done manually in Excel and in the system SIAF to the ones in the Accounting system (SAFI)</p>
<p>2.9 What is the extent of spending by autonomous agencies in the budget for MARN? Does MARN have any controls over such spending?</p>	<p>MARN has two special funds: the Environment fund of El Salvador (FONAES) and the Environment Foundation of Santa Ana project. These projects have received transfers according to the budget programming PEP. Institutions have provided the supporting documents in order to be available to receive these funds.</p> <p>We note that through this procedure, the Ministry ensures that funds have been used were promptly budget.</p>	<p>Narrative Budget –</p>	<p>No issues noted during the testing.</p>
<p>2.10 When it comes to budget transparency and access to information, what is the degree of public access to key fiscal information?</p> <ul style="list-style-type: none"> - Is it limited to raw fiscal data on an official website? 	<p>The government has many web sites to inform about fiscal transparency (budget and expenditures), procurement process (COMPRASAL), fiscal sector data (BCR), and more recently a special web site for transparency (Government Transparent).</p> <p>We found a citizen's guide has made by Ministry of Finance to provide a simple, user-friendly explanation of the components of general budget and summary of the main budget figures. This guide was published and broadly disseminated.</p>		<p>Issue note: There is no regulated procedure for consulting public opinion on budget, although informal discussions are held with organizations representing the public and enterprise sector and</p>

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<ul style="list-style-type: none"> - Does the government produce a 'Citizens' Guide' to the Budget? - Are there opportunities for the public to comment on and review budgets before they are formulated or approved? 	<p>However, we noted that the public opinion is generally not consulted sufficiently in terms of plans for budget and its modifications. MARN hasn't any procedures to drive a citizen's consulting process about the allocation of funds and construction of their budget.</p>		other think tanks.
<p>2.11 When it comes to reserves requirements in the budget</p> <ul style="list-style-type: none"> - Do financial regulations provide for inflation or other reserves? - If so, how are these reserves handled? 	<p>We note the MARN budget has increase in recent years and the special funds During development of a new budget, adjustments are made to the budget from the previous year due to inflation.</p> <p>There are not incremental rules in the budget. The general budget has a reserves or special allocations for emergencies purposes.</p>	None	No issues noted during the testing.
<p>2.12 Review controls over approval of budgets.</p> <ul style="list-style-type: none"> - Is MARN solely responsible for budgetary control? - What monitoring tools are used by other agencies for evaluation purposes? - How is over/under spending reported to the responsible government official? If so, are those only above certain limits reported? 	<p>Monitoring the budget and its execution is extensive audited and oversight for many institutions including Internal Audit Unit of entities responsible for its execution, Court of Accounts, Directorate of Budget as noted in the narrative.</p> <p>As we mentioned above the major responsible of execution of budget is the Directorate of Budget (Minister of Finance) and each UFI manager has the responsibility for their entity's budget, which is further explained in the narrative.</p>	Narrative – Budget (C.2.20)	No issues noted during the testing.
<p>2.13 Confirm how transfer of funds are used by the ministry:</p> <ul style="list-style-type: none"> - Assess what degree of flexibility MARN has to transfer funds - What controls are in place to determine that funds are used as intended 	<p>The Directorate General of Treasury (DGT) gave a single treasury account to each entity and has authorized subsidiary bank accounts and managed by institutions.</p> <p>The DGT has established monitoring and oversight procedures to check the bank accounts balances. Institutions must submit banks reconciliations and balance monitoring information on a regular schedule (For further details on the testing related to bank accounts, please refer to Test Schedule II – Sheets J and K)</p> <p>Each month, the institutional treasury (UFI) received programmed funds from the Ministry of Finance into a main bank account. Then the institutional treasury (UFI) transfer funds to subsidiaries bank accounts in order to management the cash flow using electronic procedures (such as token codes).</p>	Narrative – Budget (C.2.20)	No issues noted during the testing.
<p>2.14 When it comes to accounting, confirm that:</p>	<p>Basis of accounting: GOES utilizes bases of accounting that uses both cash basis and</p>	Schedule II-G	No issues were noted.

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<ul style="list-style-type: none"> - The basis of accounting is clearly established and it follows some clear and consistent guidelines (e.g.: GAAP, local GAAP, international standards) - The basis of accounting are the same for all the various governmental units - Impact that local regulation has on the reporting of specific projects or the use of special accounts - Fund statements for the projects are prepared using the government software rather than being prepared manually - Financial statements for projects are prepared periodically - Journal entries are systematically numbered - Additions to the chart of accounts are controlled centrally - Access to the accounting system is restricted based on duties 	<p>accrual (modified basis). This basis of accounting is other than GAAP and follows local laws. We did confirm that all the governmental units follow the same local accounting rules.</p> <p>Impact of local regulation on projects: Donor projects are handled separately including with their own bank accounts. Since these projects are not part of the government budget, their accounts extend beyond one year. Accounting and reporting for these projects is done using the government's local accounting system (SAFI) and may also require the use of another accounting package if the donor requires it. When it comes to the financial statements prepared for projects, they may have to be done manually using Excel since the SAFI system has the ledger accounts established by the GOES that may not correspond to the accounts required by a donor. Financial statements for donors are prepared in accordance with the donor agreements.</p> <p>Controls over Journal Entries: We tested the following controls over journal entries: sequential numbering, controls over deletion of posted journal entries, field restrictions in journal entries, timing restrictions (no prior year postings) as documented at Schedule II-G. No issues were noted</p> <p>Additions to Chart of Accounts: We tested controls over additions to the chart of accounts as documented at Schedule II-F. No issues were noted during the testing.</p>	<p>Schedule II-F C.2.16</p>	
<p>2.15 When it comes to the general ledger, confirm that:</p> <ul style="list-style-type: none"> - There is a link between the general journal, subsidiary ledger and the general ledger - Subsidiary ledgers are reconciled to the general ledger 	<p>MARN utilizes the SAFI accounting system maintained by Hacienda (Ministry of Finance) to record all their accounting journal entries and produce their financial statements. According to the Ministry of Finance, SAFI is utilized by most GOES entities (about 98%).</p> <p>During our review, we confirmed that for payroll, a separate system is utilized (SIRH). However, the data from SIRH is uploaded to SAFI once a month.</p> <p>We noted that there are no subsidiary ledgers maintained in other systems that needed to be reconciled.</p>	None	No issues noted
2.16			
<p>3. Collections, deposits and cash funds</p> <p>3.1 Review policies and procedures for</p>	<p>We reviewed policies and procedures related to the cash cycle as documented at Schedule II-I</p>	<p>Schedule II-I C.2.24</p>	No issues noted during the testing

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<p>the cash cycle and review for completeness (i.e.: confirm that the policies include controls over access to cash and checks, reconciliation of bank accounts, use of petty cash funds, segregation of duties, etc.)</p> <ul style="list-style-type: none"> - Confirm that the policies are in place and enforced - Confirm that cash tracking can be done by project by fund and account - Review procedures for selecting banks. Is a single bank used for all banking needs? - How are credit cards utilized? 	<p>We confirmed that policies are in place and enforced.</p> <p>We confirmed that tracking is done by project as individual accounts are maintained for each project.</p> <p>We reviewed the process for selecting bank accounts and noted that MARN only utilizes one bank. MARN has a total of 55 bank accounts.</p>		
<p>3.2 Review process flows for the cash process and evaluate the effectiveness of various controls used in this process</p>	<p>Process reviewed process flows for the accounting cycle and payments of expenses related to projects.</p>	<p>C.2.24</p>	<p>No issues noted.</p>
<p>3.3 Confirm that there are controls over cash management including investing accounts to generate interest when not in use</p> <ul style="list-style-type: none"> - Confirm that short term investments are properly tracked - Investments are reconciled and integrated into the accounting records 	<p>We discussed management controls over funds. Per MARN, account balances are invested in CD accounts and earn interest if the contract/agreement requires that funds be invested while they await usage. CD accounts that earn interest are tracked as applicable for some projects and interest earned is integrated as applicable.</p>	<p>C.2.24</p>	<p>No issues noted</p>
<p>3.4 Confirm whether cash rationing has been imposed. Develop an understanding of the rules for rationing cash</p> <p>3.5 Confirm that there are sufficient tracking tools to properly manage the cash needs of the projects and the entity</p>	<p>No cash rationing was noted.</p> <p>When it comes to the tracking of funds and budgets, this area is covered in the budget section of the testing. When it comes to the tracking of project funds, we noted that an accounting tech is responsible for tracking account balances and usages of cash for each individual project.</p>	<p>None</p>	<p>No issues noted</p>

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<p>3.6 Review the potential impact of the use of a single account act and the impact to any projects managed by the entity:</p> <ul style="list-style-type: none"> - Develop an understanding of any treasury single account - Does the entity use one single bank for all accounts or various banks? 	<p>GOES is in the process of undergoing a project that oversees the upgrade of the SAFI accounting system used by most government institutions in El Salvador. This project is also trying to implement the use of a single account. However, implementation of a single account would seem to require changes in regulation since all the payments including the ones for special projects would have to be managed from one account rather than being managed from various bank accounts as it currently is handled.</p> <p>Implementation of a single account may have an impact to the projects in the future. Currently, donor programs/projects are managed using independent bank accounts that are not tied to the budget of the GOES. Changing to a single account may have an impact in that unused funds may be misappropriated if not used during the year when they were designated. USAID needs to assess the future impact of using a single account in light of the law at the time.</p>	None	<p>Potential Issue:</p> <p>Use of a single account is being considered for the future. This may negatively impact projects as unused funds may be misappropriated by GOES depending on how the law is written at the time.</p>
<p>3.7 Review controls over the cash process to record adjustment to cash balances and confirm that adjustments to cash balances are recorded timely</p>	We reviewed and tested the process for recording cash adjustments as noted at Schedule II-K	Schedule II-K	No issues were noted
<p>3.8 Confirm that the budget and cash plans are integrated, taking account the timing of payments and updates of cash during the year.</p>	When it comes to projects, tracking of the budget and cash is monitored by an accounting tech. For projects, MARN sets up a spending plan which is monitored.	None	No issues were noted
<p>3.9 Confirm that the entity uses an annual cash plan, which is updated, setting out monthly cash inflows, outflows, and borrowing requirements</p>	When it comes to projects, tracking of the budget and cash is monitored by an accounting tech. For projects, MARN sets up a spending plan which is monitored	None	No issues were noted
<p>3.10 Review controls over access to the cash account balances and confirm that access to the bank accounts is limited and powers of authority of government officials to such accounts is restricted</p>	<p>We reviewed controls over access to the bank accounts. MARN maintains 55 bank accounts. Bank accounts require two signatures for any checks or to transfer funds to pay vendors. We tested controls over access to bank accounts as documented at Schedule II-J</p> <p>When it comes to government officials, they are not authorized to sign checks or transfer funds from the bank accounts.</p>	C.2.24 Schedule II-J	<p>Exceptions noted:</p> <ol style="list-style-type: none"> 1. MARN utilizes an excessive number of accounts which increase the likelihood of fraud and creates inefficiencies. Additionally, GOES maintains an excessive number of accounts (around 1200 - 1500) 2. We noted that the same

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			individuals are basically in charge of being the signatories for various bank accounts. The reason for this is that MARN as a government institution only has a certain number of employees that are allowed to have access to bank accounts and sign checks. This may seem to potentially cause conflicts as people managing various projects are signing checks for various projects.
3.11 Discuss with government officials controls used to prevent and detect fraud, waste and abuse in the bank and fund accounts (discuss the use of both front and back end controls, or combination of preventive, detective and corrective)	<p>We met with MARN employees and discuss controls used to prevent fraud, waste and abuse. Basically, MARN relies on the following controls: segregation of duties (e.g.: requisition approval and receiving of goods), two signatories being required for each check, bank reconciliations, ethics committee.</p> <p>During our review of purchases (see expenditures section), we noted that signers of checks perform multiple duties such as being involved in choosing the vendor, signing the checks, receiving the goods and preparing the journal entries – This is further discussed in the expenditures section.</p>	<p>C.2.24 Schedule II-J Schedule II-K</p>	Issue noted in the expenditures section related to potential segregation of duties issue.
3.12 Review segregation of duties over cash accounts over physical security, authority and recording. Confirm that the duties of signing checks is separated from preparing bank reconciliations, recording transactions and custody of assets (assets to vault)	During our review of purchases (see expenditures section), we noted that signers of checks perform multiple duties such as being involved in choosing the vendor, signing the checks, receiving the goods and preparing the journal entries – This will be further discussed in the expenditures section, please refer to it.	See expenditures section.	Issue noted in the expenditures section related to potential segregation of duties issue.
3.13 Make a selection of cash accounts and test the following: <ul style="list-style-type: none"> - reconciliations are prepared timely - Reconciling items are resolved timely (they are not carried from 	<p>We reviewed controls over bank reconciliations and confirmed that they were functioning as intended.</p> <p>We noted that all bank accounts require two signatures per check or transfer. However, we noted that MARN does not have a control to further mitigate the risk of loss for high payments. There is no control requiring a second level review or approval for payments exceeding a</p>	<p>C.2.24 Schedule II-J Schedule II-K</p>	<p>Issues noted:</p> <p>1) We noted that MARN does not have a control to further mitigate the risk of loss for high payments. There is no control requiring a second level review or approval for</p>

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<p>month to month)</p> <ul style="list-style-type: none"> - Reconciliations were reviewed - Reconciliations were accurate (they reconciled to the general ledger and to the bank statement) - Items on the reconciliation are properly supported - Check signing requires more than one signature based on the value of the payment - Payments exceeding a certain threshold (e.g.: \$100K) require additional approvals - The background of people executing checks is checked - Bond amounts of people signing checks is significant enough to cover the value of the account balances 	<p>certain threshold.</p> <p>We inquired about controls to ensure that employees handling bank accounts do not commit fraud. First, background checks are done of individuals responsible for bank accounts; however, they are only done when employees first join MARN rather than periodically. Second, MARN maintains bonds/insurance for employees handling bank accounts; however, the amounts insured do not represent the balances managed in the bank accounts. Basically, the insurance only covers up to approximately \$11K per employee when the account balances could be in the millions.</p>		<p>payments exceeding a certain threshold.</p> <p>2) background checks are done of individuals responsible for bank accounts; however, they are only done when employees first join MARN rather than periodically</p> <p>3) MARN maintains insurance to cover potential losses caused by employees handling bank accounts; however, the amounts insured do not represent the balances managed in the bank accounts. The insurance covers up to approximately \$11K per employee when the account balances could be in the millions</p>
<p>3.14 Make a selection of petty cash accounts and test the following:</p> <ul style="list-style-type: none"> - Items in the petty cash fund are properly supported - Only petty purchases are recorded 	<p>This item was covered in the procurement section. Please refer to the sample testing in section 4.</p>	<p>This item was covered in the procurement section. Please refer to the sample testing in section 4.</p>	<p>This item was covered in the procurement section. Please refer to the sample testing in section 4.</p>
<p>4. Procurement, purchasing and disbursement cycle</p> <p>4.1 Review policies and procedures for the purchasing and disbursements cycle and review for completeness confirming that they address at the minimum the bidding process (this should include bid evaluation process such as committees, competency, etc.), selection of vendors, maintenance of the</p>	<p>We obtained a copy of the policies and procedures and reviewed them as noted.</p> <p>The legal framework for purchasing is the Public Acquisition Law (LACAP). The Unit responsible for the bidding, evaluation, and award process is the UACI. The UACI is required by law to publish all solicitations, regardless of dollar value, in a system called COMPRASAL, which is kept by the Ministry of Finance.</p> <p>MARN utilizes the SIAF system to input requisitions and to partly comply with the LACAP regulation. However, we noted that not all the purchases are input into the SIAF system. The majority, approximately 90% of all donor projects are kept outside the SIAF system (This is reported as an issue). When it comes to the tracking of payables or the vendor listing, UACI does not have a systematic tracking system for open purchases because not all purchases</p>	<p>Narrative: E.2.2</p> <p>Test Schedule II – Sheet L – Schedule II-L</p>	<p>Issue #1: Although MARN has a system to track purchases; it is not fully utilized as donor projects are managed manually by using Excel. The impact is that there is no way of managing the purchase cycle and understand delays or monitoring of payments. Furthermore, there is a lack of a database that provides timely and reliable</p>

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<p>vendor listing, regulations related to LACAP, ordering processing system, purchase approvals, tracking of open orders and tracking of payables</p>	<p>are input in the SIAF system as noted above.</p> <p>When it comes to the maintenance of the vendor listing, UACI does not have a system for managing the vendors. Furthermore, the vendor listing is maintained in a separate system owned by UNAC from the Ministry of Finance (Hacienda).</p> <p>When it comes to the bid evaluation process, as documented in the narrative, there are 3 types of award bidding processes depending on the value:</p> <ul style="list-style-type: none"> • Bidding process if it is greater than \$53,000 which requires that it goes through the COMPRASAL portal and publication in local newspapers. Furthermore, the bidders have the right to ask for a review of the process if they do not win. • If the value is less than \$53,000, it could go through what is called "libre gestion" which is processed by the MARN unit in charge of managing the bidding (UACI) and places the item in COMPRASAL and vendors can submit quotes. However, bidders do not have the right to request a review in case they lose. • In case MARN determines that they have one vendor uniquely qualified, they may bypass any other option and choose the one vendor directly. However, they are required to publish in COMPRASAL, the solicitation and who they awarded the contract to. (This is reported as an issue) 		<p>information (please refer to the narrative for further details)</p> <p>Issue #2: Registration control and maintenance of vendors in COMPRASAL seems to be split between MARN and the Ministry of Finance (Hacienda) without clear assignment for maintenance of the vendor master file, especially vendors who are at default.</p> <p>Issue #3: Direct procurement bypasses any controls established to ensure that you utilize the most qualified vendor for the lowest price. Furthermore, there are no ceilings on the value of the procurement that can go through the direct procurement process. We recommend that the instrument defines that direct procurement should not be used in the project.</p>
<p>4.2 Confirm if the procurement process can begin before the budget is authorized and how?</p>	<p>The procurement process cannot begin before the budget is authorized. According to the latest modifications to LACAP, the law requires that prior to issuance of a requisition for goods or services, the requestor must obtain funds availability which is stamped in the requisition.</p>	<p>Narrative: E.2.2</p>	<p>No issues noted</p>
<p>4.3 Review process flows for the purchasing process and evaluate the effectiveness of various controls used in this process</p>	<p>We obtained policies and procedures including process flows. We completed the evaluation of controls in section 4.7 below</p> <p>The internal procedures regarding "Gerencia de Adquisiciones y Contrataciones Institucional (GACI), or UACI, describes the purchasing process, which was also confirmed during the interviews. The effectiveness of the controls is tested at 4.7 and 4.8.</p>	<p>Narrative: E.2.2 C.2.8</p>	<p>No issues noted</p>
<p>4.4 Obtain an understanding of the procurement oversight/regulatory body and confirm that:</p> <ul style="list-style-type: none"> - Such body has proper authority 	<p><u>UNAC</u> – There is a unit in charge of contracting and procurement of the government (UNAC) that should oversee the purchasing unit at each institution including the one from MARN. However, the UNAC has limited resources and provides guidance when it is requested from the local procurement unit at MARN (UACI).</p>	<p>Narrative: E.2.2 E.2.2 see page 4 (UNAC)</p>	<p>Issues noted:</p> <ol style="list-style-type: none"> 1. There is no actual monitoring of vendors, account balances, time to process requests, and

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<p>and independence in the legal framework</p> <ul style="list-style-type: none"> - Review the monitoring tools for the oversight body to report trends and issues to the government - The public is made aware of issues noted by the regulatory body 	<p><u>Monitoring of Purchases</u> – the unit in charge of purchases at MARN should be in charge of monitoring performance of purchases such as: time to process a purchase, time to pay a vendor, number of bids process and so forth. However, we noted that monitoring of purchases and vendors is not done – <u>this is reported as a deficiency in the observations column.</u></p> <p>The procurement oversight may be done thru different means:</p> <ul style="list-style-type: none"> • Internal audit division. This function basically performs internal reviews of the procurement function every year. The purpose is to ensure that they follow the LACAP regulation. • Ministry of Finance. This ministry performs reviews of the procurement function to ensure that purchases follow the LACAP regulation. <u>However, the reports issued by this ministry are not published so that the general public is made aware of issues.</u> • Court of Accounts. This ministry performs the financial reviews of the MARN. <u>However, the reports issued by this ministry are not published so that the general public is made aware of issues.</u> • Donor's audits. Each individual donor may have their individual audits to ensure that the funds are used as intended 		<p>so forth. Therefore, it is hard to determine if MARN processes purchases effectively, accurately or timely and/or if payments are processed timely (see E.2.2)</p> <p>2. Audits or reviews done by various entities are not published to ensure that the public is aware of issues related to compliance or vulnerabilities.</p>
<p>4.5 Is there a process for controlling actual purchases (e.g.: triple matching, list of approvers, list of approved vendors, order processing unit, receiving unit, budget and commitments compared, Develop an understanding of how such controls are enforced</p>	<p>The actual process for controlling the purchases, employs the following controls: requisitions are used for purchases, budget availability is checked prior to committing the funds for a purchase, goods are received by the warehouse and receipt is noted by the warehouse and the person requesting the goods, receipt of the invoice is noted (quedan) and payments (checks) require two signatures. The process does involve triple matching although it requires more than 3 documents.</p> <p>The actual process for controlling purchases can take one of three forms: Bidding (Licitaciones o concursos), free purchase (Procesos de libre Gestión) and direct procurement (Contrataciones directas). The process requires documentation for the actual approval of the original purchase requisition, bidding, analysis of bids or direct procurement, receiving of goods and payments to vendors. We tested these controls at 4.7 below</p>	<p>E.2.2</p> <p>Test Schedule II – Sheet N: Schedule II-N</p>	<p>No issues noted</p>
<p>4.6 Confirm that the procurement system is linked with other institutions carrying out government functions</p>	<p>The procurement system used to track purchases open for bids is COMPRASAL. This system is usable by all government institutions as required by the LACAP law; however, there are no linkages with other government functions due to several factors as further described in the narrative.</p>	<p>Narrative: E.2.2</p>	<p>Issue Noted:</p> <p>The SAFI accounting system is not integrated with the SIAF used by MARN nor with any of the other systems used by the other ministries.</p>

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<p>4.7 Make sample selections of vendors from the vendor master file and test to confirm that:</p> <ul style="list-style-type: none"> - New vendors were properly approved (approved by approver with authority to approve them) and approval was in writing - Bidding process is used when selecting new vendors - Vendor listing is reviewed to ensure that old vendors no longer used are deleted from the listing 	<p>We were not able to make sample selections of new vendors from the system. The reason for this is that MARN does not maintain the vendor master file as this is maintained by Hacienda. MARN only reviews vendors when processing a purchase to make sure that the vendors have not been suspended or are in the list of those vendors that should not be used. Therefore, there is no process at MARN to ensure that vendors are up to date.</p> <p>Basically, there is no master list of vendors at MARN. Vendors may register in COMPRASAL to participate in a bidding process. However, the vendor's list is updated by the Ministry of Finance. As noted above, the LACAP authorizes "direct contracting" which does not require prior registration in COMPRASAL</p>	<p>Narrative: E.2.2 Test Schedule II – Sheet M: Schedule II-M</p>	<p>Potential issue noted:</p> <ol style="list-style-type: none"> 1. Vendors are not maintained by MARN and there is no coordination to ensure that the listing is kept to date by the applicable ministry (see Schedule II-M). 2. Vendor data from the purchase requisition system used by MARN (SIAF and Excel) is not reconciled to the accounting system (see Schedule II-M).
<p>4.8 Make sample selections of the purchase cycle (payments) and ensure that:</p> <ul style="list-style-type: none"> - Matching of invoice, receiving report and order was done prior to paying for goods or services (triple matching is used) - Bidding was used in accordance with the policies - Expenses were approved in accordance with the policies and procedures - Requisition orders were used in the process - Items were recorded accurately - Items were recorded timely - Vendor used was an approved vendor - For items requiring an agreement, confirm that the expense agree to the terms of the agreement - Payment was processed timely in accordance with LACAP regulation 	<p>We reviewed various awards, per Sheet N of the test schedule, and confirmed that the invoice matched the order and the receiving report. In fact, the awards require a receiving report as part of the payment documentation. In addition, every award identifies an "administrator" who is responsible to confirm receipt of goods or services according to the award terms and conditions.</p> <p>We also confirmed that Requisitions were issued prior to the issuance of the solicitation document; however, some of these requisitions had vague specifications. We also confirmed minor instances where payment was delayed for nearly 3 months after receipt of goods or services.</p>	<p>Narrative: E.2.2 Test Schedule II – Sheet L: Schedule II-L Test Schedule II – Sheet N: Schedule II-N</p>	<p>Issues noted:</p> <ol style="list-style-type: none"> 1. Time allowed for vendor participation during procurement is too short to ensure that the best bids are received. For instance, we noted that bidding was only open for one day for one procurement because it was done through (see Schedule II-L) 2. There is no process for tracking open orders processed through the SIAF system or manually (see Schedule II-L) 3. Single vendor selection is not properly documented and it is questionable. For instance, explanations used to document the selection of a single vendor stated that a vendor was the best based on discussion with various

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<ul style="list-style-type: none"> - Vendor was paid timely in accordance with laws and agreements - Quantity and quality of goods/services were inspected - Confirm process for preventing double payments 			<p>personnel and companies. However, the technical reasons for concluding that a vendor is the best one in its category are not documented (e.g.: capacity compared to other vendors, quality, etc.) (see Schedule II-L)</p> <p>4. Payment to one sample selection was made 3 1/2 months late (see Schedule II-N)</p> <p>5. Language for the requisition sometimes is too vague for the proposals (see Schedule II-N)</p>
<p>4.9 Review tools used by MARN to track vendors and balances payables to ensure that:</p> <ul style="list-style-type: none"> - Balances owed to vendors are aged - LACAP regulation is followed regarding the aging balances - Determine controls over special accounts to determine if items are processed timely - Determine any potential impact of any issues noted on the project - Vendors are paid in accordance with vendor agreements - Vendors are paid timely 	<p>There are no tracking tools for vendors and balances payables. The tracking responsibility falls directly onto the Administrator of each award who has to certify receipt of goods or services and the Finance Unit has to effect payment in a timely manner once the required documentation is submitted for processing. The LACAP requires timely payments and penalizes any delays due to negligence. Our testing revealed that the majority of payments were done timely, i.e. not more than one or one a half month after receipt of goods or services.</p>	<p>Narrative: E.2.2</p> <p>Test Schedule II – Sheet O: Schedule II-O</p>	<p>Issues noted:</p> <p>MARN does not use any tracking tools to monitor vendors such as review of vendor's balances, time to process requests, aging of payables, and so forth (See Schedule II-O).</p>
<p>4.10 Review controls over recording of commitments at MARN. Confirm if any entity is exempt from the controls and why</p>	<p>We reviewed controls over recording of entries and commitments during the testing done for the accounting testing.</p>	<p>None</p>	<p>No exceptions noted</p>

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4.11 Assess the process for recording and reporting of MARN debt and guarantees - Review the process and controls over loan guarantees	Given the impact on the project and time constraints, we were unable to test this step	None	None
4.12 Review monitoring tools available to government officials to monitor the purchase and disbursement cycle	According to our interviews, there are no monitoring tools in place to review the purchase and disbursement cycle.	Narrative: E.2.2 Test Schedule II – Sheet O: Schedule II-O	Issued noted at 4.9
4.13 Review MARN's controls to confirm that public sector opportunities are open to the private sector and confirm that: - System exists to make all opportunities known to the public sector - Different business sectors are encouraged to bid	MARN does not have a policy to promote private sector participation given that its responsibility ends with the publication of its business opportunities in COMPRASAL. All opportunities are listed at COMPRASAL and some of them are published in the newspapers.	Narrative: E.2.2	No issues noted
4.14 Review controls to mitigate the amount of any potential loss such as insurance, caps on checks requiring additional signatures, additional approvals for payments exceeding certain amounts, controls to prevent duplicate payments.	We reviewed controls to mitigate the amount of a loss such as insurance (See insurance Issue) and two signatures required on checks (tested in cash section as noted at Cash Section)	insurance Issue Cash Section	Issues noted in Asset testing and cash sections
4.15 Confirm segregation of duties among the duties of requesting services/goods, approving the request, request and approval for payment and receiving function	We noted one instance of non-compliance in this area. See Exception 1 of Test Schedule II, Section N, which reads as follows: The same individual had various roles in the award process, Mr. Jorge Quezada. He was the Requestor, participated in the evaluation process, was designated as the administrator of the purchase order, signed the receiving report, and was one of the signatories on the check No. 134. However, we noted other signatures (approvals) in the above documents	Narrative: E.2.2 Test Schedule II – Sheet N: Schedule II-N	Issue noted: The same individual was involved in the requisition, approval of the vendor and payment.
5. Asset management 5.1 Review policies and procedures for the asset management cycle and review for completeness for items	We reviewed the policies and procedures related to the asset management area for completeness as noted at Schedule II-P	Schedule II-P	No issues noted

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such as: bidding, use of contracts and agreements, monitoring of asset usage, controls to physically protect assets, physical verification, tagging, c\			
5.2 Review process flows for the asset management process and evaluate the effectiveness of various controls used in this process	We reviewed the process for asset management to evaluate its effectiveness. We noted various issues as noted in the following sections.	C.2.28 (see pages p.155-282)	No issues noted
5.3 Confirm that an asset registry is used at MARN. If so, confirm that it is up to date	<p>MARN implemented new software in 2010 that included a module for the asset registry and sub-ledger. The software utilized by MARN is the SIAF system.</p> <p>Previous to 2010, MARN utilized the COAFI system to keep the asset sub-ledger. In 2010, the asset module from the SIAF system was implemented. However, data from the COAFI system was not uploaded from the old system to the new; instead, the data is being re-keyed manually from the old system to the new system (SIAF) – <u>This is reported as an issue.</u></p> <p>Currently, MARN is still in the process of re-keying the data from the COAFI system into the SIAF system manually. Basically, we noted that the asset registry is not up to date as noted in the finding – <u>This is reported as an issue.</u></p>	C.2.27	<p>Issues noted:</p> <p>1) A new fixed asset module has been implemented at MARN; however, the data from the old system is being input manually into the new fixed asset module rather than being uploaded directly into the new module in the SIAF system (please refer to C.2.27)</p> <p>2) Transferring of data to the new asset registry is only approximately 70% completed (please refer to C.2.27)</p>
5.4 Review the results of 2 counts of assets in the last 2 years. Confirm that any discrepancies were investigated	<p>We requested the results of the asset counts for 2010 and 2009.</p> <p>We noted that MARN did not use sheets to track the asset counts done at MARN. Basically, MARN utilizes the copy of the invoice and tracks them to the assets utilizing the tracking numbers assign by them.</p> <p>When it comes to assets in the field, we were informed that MARN does not have the resources to send analysts to the field to verify that each of their assets in the field is still operating and in existence given personnel limitations. This is especially troublesome since the major assets are kept in the field such as radars and expensive equipment.</p> <p>We also performed testing to verify that some sample selections had asset tags and to confirm that controls functioned as intended as documented at Schedule II-R – <u>Deficiency was noted.</u></p>	C.2.27	<p>Issues noted:</p> <p>1) Annual verification of existence of assets on the field is not done physically as MARN does not have sufficient logistics personnel to effectively control assets at the national level (Please refer to C.2.27 and Schedule II-R)</p> <p>2) Documentation supporting</p>

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			annual asset counts is not kept as support. (Please refer to PA3.a and Schedule II-R .)
5.5 Confirm that MARN has controls to ensure that assets are not misappropriated such as asset tags, physical safeguards, etc.	MARN utilizes asset numbers to ensure that assets are not misappropriated. Instead of using asset tags, MARN develops asset numbers that identify the type of asset, location, person that has the asset, project and financing involved. The asset numbers are actually written on the assets using a pen with paint.	C.2.27 Schedule II-R .	No issues noted
5.6 Review and evaluate controls enforced at MARN to protect assets from misuse and to confirm that they are used in its intended purpose	We confirmed that MARN uses the following controls to ensure that assets are not misused: they used tracking sheets for vehicles, the asset ID number includes the location of the asset, and asset verification is done annually.	None	No issues noted
5.7 Review and evaluate controls enforced at MARN to protect assets from misappropriation	MARN uses insurance to cover some assets. However, the only assets insured are vehicles – <u>This is reported as an issue.</u>		
5.8 Review controls to ensure that the asset sub-ledger agrees to the GL	We requested the reconciliations for 2010 and 2011 as of June 2012. We noted various issues related to the reconciliation between the GL and the subsidiary ledger as documented in the observations' column.	C.2.27 Schedule II-Q	Issues noted: 1) The reconciliation between the Fixed Asset register and the GL for 2010 did not have evidence of review (Please refer E3 on Schedule II-Q) 2) Reconciliation for 2011 has not been prepared as of 06/29/12 (Please refer to E2 on Schedule II-Q) 3) There is no evidence of review/approval of reconciliations (Please refer to E3 on Schedule II-Q) 4) Large difference noted between the GL and the fixed asset register (\$354K) which did not include supporting documentation (Please refer

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			to E4 on Schedule II-Q).
6. Payroll 6.1 Review policies and procedures for the payroll process and review for completeness	We reviewed the payroll policies and procedures as documented at Schedule II-S	Schedule II-S C.2.28 (pages 111-153)	No issues noted
6.2 Review process flows for the payroll process and evaluate the effectiveness of various controls used in this process such as controls over timeliness (records are recorded timely), accuracy (payroll records are recorded accurately in the accounting system) and validity (payroll records were approved).	We reviewed process flows and met with personnel related to the payroll area at MARN to discuss and evaluate controls related to the payroll area.	Schedule II-S C.2.28 (pages 111-153) C.2.30	No issues noted
6.3 Are payroll payments linked to the time and attendance or Human resources systems?	<p>We reviewed the payroll and time and attendance systems. WE noted that both systems are not linked.</p> <p>Adjustments to employee payroll are one month behind because employee payroll is prepared by the 15th of each month while time and attendance reports are prepared by the end of the month. Basically, adjustments from the time and attendance report are made to the payroll on the subsequent month. We made sample selections of the payroll and tested that adjustments were made as applicable as noted at Schedule II-T.</p>	C.2.30 Schedule II-T	No issues noted
6.4 Review controls to prevent fraud, waste and abuse and assess their effectiveness. This should include: <ul style="list-style-type: none"> - Controls to ensure that payments are made to real employees - Access controls - Segregation of duties - Review of names shown on the payroll verified by the ministry at least once a year - Are personal records maintained for each employee showing rates of pay, sick leave taken, allowances, references, 	<p>We reviewed and tested various controls to prevent fraud, waste and abuse as follows:</p> <ol style="list-style-type: none"> 1) Controls to ensure that payments are made to real employees: Employees sign for their checks at the treasury department – <u>issue noted: treasury does not keep copies of cards or data showing the employee signatures to confirm signatures for employees at remote locations</u> 2) Access controls: two employees at MARN have access to the payroll and HR systems (SIRH). SOD is also applied as these are the only two employees processing payroll 3) Names of employees on the payroll listing are reviewed every year as the law requires that all employees be re-hired/re-set in the payroll system every year 4) We confirmed that employee records are maintained as verified for sample selections made 5) Overtime pay is not allowed at MARN 	C.2.30 Schedule II-T	Issue noted: Treasury department does not keep copies of data showing the employee signatures to confirm signatures for employees at remote locations. Additionally, we reviewed pay to an employee located in a remote location and noted that the signature did not match the one in the employee file.

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<ul style="list-style-type: none"> contracts, etc? - Maintaining the confidentiality of the records - Time and attendance records (e.g.: timesheets) - Controlling overtime pay 			
6.5 Assess the effectiveness of the segregation of duties used in the payroll process	We confirmed that there are only two employees in charge of the payroll at MARN. One basically is responsible for processing the payroll at MARN while the other is responsible to administer the HR functions in the SIRH system. Once the payroll is prepared, it is approved by the vice-minister and the accounting department (Treasurer) for processing. The accounting department is responsible for uploading the payroll into the accounting system. Then, the ministry of finance (Hacienda) is responsible for processing the payment. Last, treasury makes the deposits directly into the employees' accounts or cuts checks (most employees are paid by direct deposits). Each employee is responsible for signing for their pay before they can receive it.	None	No issues noted
6.6 Make a sample selection of payroll payments to determine that: <ul style="list-style-type: none"> - Payroll was calculated accurately - Payroll was recorded timely - Payroll was recorded accurately - Payroll was recorded in the right period - Controls totals were used - Batches are used - Payroll is approved by a person with authority and independent from the payroll preparation - Payroll preparation, approval and payment are segregated - Employees are identified before receiving payment - There is a control to confirm that appropriate employees received their payment - Unclaimed salaries held until claimed? 	We made sample selections of the payroll to test at Schedule II-T We noted one issue as noted in the observations column.	C.2.30 Schedule II-T	Issue noted: The treasury department is in charge of disbursing funds to employees directly, including those located in remote areas. However, they do not have copies of the employee signatures to confirm that the appropriate person signed for receipt of payment

**THIRD CRITERION:
INFORMATION AND COMMUNICATION**

Date of the assessment: **Completed on 10/15/12**

Author of the assessment: **Ivan Magana**

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<p>1. Information systems</p> <p>1.1 Review policies and procedures impacting the use and access to the information systems for completeness. At a minimum, confirm that the policies include the following areas: use of approved software, physical safeguards (locks, special rooms, and alarms), and backups and approved used.</p>	<p>MARN - We obtained a copy of the policies and procedures for MARN and reviewed it for completeness as noted at Schedule III-A.</p> <p>Hacienda – We reviewed the policies and procedures related to the SAFI accounting system maintained by Hacienda.</p>	<p>Schedule III-A D.2.17</p>	<p>No issues noted</p>
<p>1.2 Confirm that there is appropriate technology in place for information systems (i.e.: accounting, procurement, payroll, contract administration, human resources and payroll)</p> <p>- Confirm that the information and accounting systems allow timely financial reporting</p>	<p>MARN – We reviewed the technology at MARN and noted that there is appropriate technology to do the tasks that the ministry is responsible to complete.</p> <p>Hacienda – We reviewed the technology at Hacienda (Ministry of Finance) as Hacienda is responsible for maintaining the SAFI accounting system used by most government entities in El Salvador. During our review, we noted that there is appropriate technology to do the tasks that the ministry is responsible to complete</p>	<p>None</p>	<p>No issues noted</p>
<p>1.3 Confirm that policies and procedures provide for segregation of duties.</p> <p>Obtain an understanding of access controls to the various modules including: payroll, assets, inventory management, accounting and finance and confirm that:</p> <ul style="list-style-type: none"> - There are clear segregation of duties between authorizing transactions, processing transactions, recording transactions, custody of assets, and reviewing transactions - Access is segregated based on functions - Access is managed by appropriate personnel (i.e.: personnel segregated from the functions that it is supposed to protect) 	<p>MARN –We made sample selections to test access controls and ensure that there is a segregation of duties. When it comes to access granted to users at MARN, we made sample selections to confirm that access granted to the SIAF system agrees to the users' duties as documented at Schedule III-B. We noted that access to the SIAF system did agree with the employee duties.</p> <p>Hacienda – We noted that the SAFI accounting system maintained by Hacienda is used by most government entities including MARN. As such, we reviewed access controls to the SAFI as noted at SAFI Access. We noted three exceptions related to the access testing conducted of SAFI as noted in the observations column.</p> <p>Access to SIAF: We also noted that Hacienda performs a semi-annual review of SAFI users. We reviewed the last two semi-annual reviews performed at Hacienda as noted at D.2.18. No exceptions were noted</p>	<p>MARN: D.2.17 Schedule III-B</p> <p>Hacienda: D.2.18 D.2.19</p>	<p>MARN: No issues noted</p> <p>Hacienda: Issues noted:</p> <ol style="list-style-type: none"> 1) We noted that there were three users of SAFI from MARN that could not be verified as current employees. We contacted MARN and confirmed that these were valid users as they were recent additions to the payroll (See SAFI - Ex 4) – This exception is not reported as an issue, pass further review. 2) We noted one issue related to a user role named "Sostenibilidad" (support)

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<ul style="list-style-type: none"> - Access is monitored and monitoring is documented - Access is removed when employees are terminated or leave employment 			<p>which has access to the security modules in SAFI even though this user should only support institutional (see SAFI Ex 5). We recommend that Hacienda restricts the access to Security to user 21000 – This is reported as an issue</p>
<p>1.4 Review data controls, including: physical controls, system controls, backups and disaster recovery:</p> <ul style="list-style-type: none"> - Evaluate physical controls over computer hardware (e.g.: use of special rooms, locks, safety features such as fire safeguards, access restrictions to computer room, are keys restricted to certain personnel, .) - Evaluate data controls such as the use of passwords (evaluate policies on passwords such as expiration, length, rules upon termination, termination of access once employees leave, limitations on the number of attempts to use a password before locking itself,); - Evaluate the backup policy and confirm that backups are done periodically and they are kept offsite on a safe location on a separate building - Confirm that MARN maintains an inventory listing of all backups - Confirm that hardware and software inventories are maintained, including descriptions, locations and values of items 	<p>MARN: <u>Physical controls over the mainframe and use of passwords to access room</u> – We evaluated physical controls over the hardware at MARN as documented at Schedule III-C. We noted that MARN utilizes the following controls to protect its mainframe: access to the mainframe room requires the use of cards, passwords and fingerprints; the access cards are only kept by two individual; the room where the mainframe is kept has a fire alarm and system to control fire; the floor in the room is raised to prevent humidity and there is an AC operating in the room. <u>Backups</u> – We evaluated the procedures when it comes to backups of the system as documented at Schedule III-D. We noted an issue as documented in the observations column. Because the backups are kept in the computer room inside the server, there is no listing of backups maintained by MARN. <u>Mirror of the systems at MARN</u> - we noted that a running mirror of the system is not kept at an offsite location – <u>This is reported as an issue</u> <u>IT audit</u> – During our review, we were notified that no IT audit is performed at MARN - <u>This is reported as an issue</u></p> <p>Hacienda: <u>Physical controls</u> – We reviewed physical controls over the computer room at both Hacienda and Aduana related to security controls, security access to the computer room, electrical backup, fire suppression system and humidity and water as noted at SAFI - Physical. We noted three exceptions as noted in the observations column (see #1 – 3). <u>Backups</u> – We reviewed controls related to SAFI backups at both Hacienda and Aduana as documented at SAFI backups. No exceptions noted during the testing. <u>Password Security</u> – We reviewed password security at both Hacienda and Aduana as noted at SAFI - password. We noted one exception as noted in the observations column (see #4).</p>	<p>D.2.16 Schedule III-C Schedule III-D</p>	<p>MARN: Issues noted: 1) For MARN, we noted that backups of the system are kept in the computer room rather than offsite 2) we noted that a running mirror of the system is not kept at an offsite location 3) We noted that MARN's internal audit group or the SAI responsible for conducting financial audits (Corte de Cuentas) do not perform system audits to ensure that sufficient controls are enforced to protect the system or to test the controls to ensure that they are functioning as intended</p> <p>Hacienda: Exceptions noted: 1) Air Conditioning units for EPS1 and the tape library are located in the EPS2 area. This increases the likelihood of damaged by water. Additionally, the floor in the EPS2 area is not raised – This is reported as an issue 2) We noted that the flow of hot</p>

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			<p>air in EPS1 was not properly controlled by a physical barrier. However, the ministry is currently dealing with this deficiency by using other types of barriers to isolate hot air (using metal or wooden boards) – This deficiency is not reported as an issue, pass further review.</p> <p>3) The doors protecting the computer room are metallic and reinforced. However, they do not seem to be fire proof raised – This is reported as an issue</p> <p>4) Hacienda requires the SAFI passwords to be 8 characters, requiring one character to be a number. It is worth noting that Hacienda in their own manual defines a strong password as one that it is 15 characters in length and includes a combination of characters, capital letter, letters and numbers – This is reported as an issue</p>
<p>1.5 Test some application controls built in the systems such as:</p> <ul style="list-style-type: none"> - Systems allow only certain codes or values - Checks for duplicate records - The system tracks the person who inputs and approves the data 	<p>We tested some of the controls built in the SAFI system such as numerical sequence, allowing only certain dates (no backdating), deletion of prior posted entries and entries of only certain defined characters (e.g.: numerical entries) as documented at Schedule III-F</p>	<p>Schedule III-F</p>	<p>No issues noted</p>
<p>1.6 Obtain a copy of the disaster recovery plan and confirm that it is complete by addressing:</p> <ul style="list-style-type: none"> - Various types of disasters 	<p>MARN –We requested a copy of the disaster recovery plan to perform some testing as documented at Schedule III-E. MARN does not have a disaster recovery plan as noted on the observations.</p> <p>Hacienda - We reviewed continuity planning at Hacienda as noted at SAFI continuity. We</p>	<p>Schedule III-E</p>	<p>MARN: Issues noted: MARN does not have a disaster recovery plan.</p>

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<ul style="list-style-type: none"> - Mitigation controls - It includes business continuity plans (See ADS 545 and Business continuity planning reference to ADS545). The business continuity plan should include at a minimum: identify critical systems and resources, potential threats, preventive controls, delegating responsibilities and validating the business plan. - It provides a plan for offsite backup and recovery 	noted one exception as documented in the observations column (Please note that this exception was also noted).		<p>Hacienda: Issues noted: We noted that Hacienda uses a mirror site at Aduana as an alternate site in case of an emergency. However, this site is only located 23 kilometers away from the site at Hacienda and this distance is not sufficient to mitigate the risk of some events such as an earthquake – This is reported as an issue – We recommend that Hacienda either select a remote site or consider an alternative such as cloud storage</p>
1.7 Confirm that training has been provided on the disaster recovery plan to the appropriate personnel	<p>MARN –see issue noted above on 1.6 Hacienda – We confirmed that Hacienda has provided training on the disaster recovery plan and that the plan is tested at least annually. No exception noted.</p>	MARN: See section 1.6 above	MARN: See section 1.6 above
1.8 Review the human resource information system and its integration with the Payroll and Financial Administration and Accounting Systems	We noted that the Human Resources system is integrated with the payroll system (SIRH). Although the SIRH system is not integrated with the accounting system (SAFI), data from the payroll system is uploaded after the payroll is prepared and approved to the SAFI system.	None	No issues noted
1.9 Review the purchasing information system and its integration with the Financial Administration and Accounting Systems	When it comes to Purchases made by MARN, they are maintained either in Excel schedules or the SIAF systems (this is noted as an issue in the purchasing testing area). During our testing of the procurement area, we also noted that there is no reconciliation between the purchase requisitions maintained manually using Excel, SIAF and the ones recorded in the accounting system (this is noted as an issue in the purchasing testing area).	D.2.16	Issue noted in the purchasing section
1.10 Review the asset management system and its integration with the Accounting Systems	We noted that the asset management system (SIAF) is not integrated with the accounting system	See the asset management section	See the asset management section
<p>2. Audit Process: 2.1 Assess the external and internal audit capabilities, their complementarity and coverage to ensure effectiveness of MARN's internal control framework</p>	<p>MARN: We reviewed the internal audit function at MARN as documented in the narrative at D.2.1, Internal auditor and two technicians. However, we noted that they lacked the IT audit coverage as noted at 2.7 in this section (see PA3.a).</p> <p>Corte de Cuentas: We performed a limited review of the financial audit function which is managed by the Corte</p>	<p>MARN: Narrative: D.2.1</p> <p>Corte de Cuentas:</p>	<p>MARN: No issues noted</p> <p>Corte de Cuentas: Issues noted as follows: 1)</p>

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<p>2.2 Review process flows for the audit process and evaluate the effectiveness of various controls used in this process.</p>	<p>de Cuentas (the supreme audit institution) as documented in the narrative.</p> <p>As documented in the narrative the process flow for the audit document obeys the following cycle:</p> <ol style="list-style-type: none"> 1) The audit report is prepared semiannually. 2) The report is sent to the Minister in draft and final. 3) The report is reviewed by the Minister. 4) The report is sent to the supreme audit institution <p>According to the "Procedures manual for internal auditing" (pg. 7) the process flow for the audit is:</p> <ol style="list-style-type: none"> 1) Planning stage. 2) Execution 3) Audit report <ol style="list-style-type: none"> a. Prepare draft report (pg. 13) b. Read the draft report to the audited areas to have their input. c. Check that recommendations are been followed. d. Final report 4) Follow up 	<p>Narrative: D.2.1 Procedures for internal auditing D.2.9</p>	<p>No issue noted in this testing</p>
<p>2.3 Assess the effectiveness of the internal audit function:</p> <ul style="list-style-type: none"> - Confirm that it is independent in fact - Confirm that it has an internal audit manual - Confirm that there is a manual of internal controls applicable to MARN - Confirm that auditors received sufficient training 	<ol style="list-style-type: none"> 1. As documented in the narrative and in the testing schedule, the internal audit department is not independent. Specifically, we noted that the department reports directly to the Minister without having to report to an audit committee independent from the minister. 2. As documented in the testing schedule, the internal audit function has an internal control manual. 3. There is not a manual of internal controls applicable to MARN. Internal controls are described briefly in section 2.1.7 (pg. 4) of the internal control procedures manual. 4. Auditors receive training included in the SAI's annual training plan from the Supreme Audit Institution once or twice a year. On the other hand, they receive some training from the Ministry of Finance, new fiscal reforms or LACAP. MARN doesn't have the funds for training. Sometimes they have to pay for their trainings. 	<ol style="list-style-type: none"> 1. Narrative: D.2.1 2. Procedures for internal auditing D.2.9 and testing schedule D.2.2 (G-1) 4. Email dated 7/2/12 from Lorena Flores D.2.14 	<p>Issues noted:</p> <ol style="list-style-type: none"> 1. The internal audit department is not independent. Specifically, we noted that the department reports directly to the Minister without having to report to an audit committee independent from the minister. 2. There is not a manual of internal controls applicable to MARN. 3. Auditors don't receive sufficient training.
<p>2.4 Assess the internal and SAI's audit's independence of management and its effectiveness given any independence issues</p> <ul style="list-style-type: none"> - Is the SAI independent of the executive? - What is its mandate? - Does it have its own fiscal database? - Does the scope of the external 	<p>As stated in the narrative, external audits are carried out by the supreme audit institution and they report directly to the Legislative Assembly of the Republic. The document prepared by the supreme audit institution is sent to the Minister first for his revision. He can make changes to the report if necessary. Considering this, we may say that they have a certain level of independence but not complete independence.</p>		

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<p>audit include all major public sector entities?</p> <ul style="list-style-type: none"> - Does the entity have clear procedures to report the internal control weaknesses? - Does management issue an annual report/declaration on its assessment of the internal control environment? - If no SAI exists, by who (if at all) are external audits performed? <ul style="list-style-type: none"> ▪ External professional audit firms? ▪ Audit bodies from other organizations? ▪ Other? 			
<p>2.5 Make a selection of MARN's prior internal and external audit reports and evaluate</p> <ul style="list-style-type: none"> - The reports effectiveness - Issues or vulnerabilities are addressed timely - Recommendations are addressed timely - Review the issues noted in the reports for their potential impact to the project and determine if such issues have been addressed timely. - Confirm that internal control weaknesses are identified during the audit and they are addressed timely - Does MARN have the capacity to review and respond to SAI findings timely and effectively? 	<p>Internal Audit: The report is effective, issues, vulnerabilities, and internal control weaknesses are included in the audit report and transmitted to the audited area in an acceptable period of time, but recommendations and follow up on recommendations are not addressed timely. Internal control weaknesses are identified during the audit but they are not addressed timely. In audit report No. 115-10-10 the follow up of recommendations was done when the next audit report is prepared (1 year after).</p> <p>External Audit (Open)</p>	<ul style="list-style-type: none"> - Audit Report No. 115-10-10 D.2.8 - Test schedule: D.2.2 (H-D) - Internal Audit Follow up Matrix D.2.11 - Email dated 7/2/12 from Lorena Flores D.2.12 	<p>Issues noted:</p> <ol style="list-style-type: none"> 1. In the Internal Audit follow up recommendations Matrix (see attached pdf document) two projects (115-10-10 & 118-05-11) are on hold, they stated that they are going to follow up on this recommendation on 2012, month is not specified. Lic. Lorena de Rubio stated in the attached email that the procedures manual does not establish a due date to follow up recommendations. 2. We selected 2 audit recommendations from audit report No. 115-10-10; recommendations 1 & 2. They have not given follow up to these recommendations according to the matrix for follow up of recommendations (see attached pdf file pg. 19/61). Lic. de Rubio stated in the attached

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			email that the procedures manual does not establish a due date to follow up on recommendations and that they follow up on recommendations when they perform the next audit. (See note i).
<p>2.6 When it comes to the periodic coverage of audits, evaluate:</p> <ul style="list-style-type: none"> - What is the periodicity/targeted coverage of audits? - To what extent are audits carried out? - Are the annual financial statements regularly presented to an SAI or similar body? 	<p>The periodicity coverage for audit varies from 6 months to 2 years as noticed in audits tested No (118-05-11, 112-09-10, and 115-10-10). As documented in the narrative, they perform a bi-annual financial and administrative evaluation. As documented in the narrative, every audit report is sent to the supreme audit institution. The law requires considering the financial statements while conducting an audit.</p> <p>Audit plans are conducted by the internal audit area.</p>	Narrative: D.2.1	No issue noted.
<p>2.7 When it comes to the type of audits, evaluate:</p> <ul style="list-style-type: none"> - What types of audits are being performed: financial, internal controls, compliance, performance, specific subject audit, IT audits, special projects, procurements, vendors, other? 	<p>As documented in the narrative, the types of audits being performed are:</p> <ol style="list-style-type: none"> a) The financial statements (Internal control, financial and compliance with laws). This is documented in the testing schedule (H). b) Check if fractional purchases were done (because they are not permitted), if there is competition among suppliers and if the bidding process is transparent. c) Audit of project funds. d) Other audited funds: sale of natural products and SNET. <p>We noted that IT audits are not conducted by the internal audit function.</p>	Narrative: D.2.1 Email dated 6/28/12 from Lorena Flores D.2.15	We noted that IT audits are not conducted by the internal audit function. This is confirmed by an email sent by Internal Auditor Chief (answer # 3).
<p>2.8 Obtain other reports or related reports for the last three years to inform the risk assessment process relative to the areas being assessed and to the proposed implementation mechanism and evaluate that:</p> <ul style="list-style-type: none"> - The reports or tools are used effectively - Issues or vulnerabilities are addressed timely 	<p>MARN: As noted in the management control section, MARN does not have a risk assessment process performed by government officials. As stated in the testing schedule, from the sample selected we noted that the reports or tools are not used effectively because the issues or vulnerabilities are not addressed timely. These audits selected (See: No. 118-05-11 pg. 5, No. 112-09-10 pg. 5, and 115-10-10 pg. 7), have a small section to inform about risk assessment process relative to the areas being assessed.</p> <p>As stated in the narrative risk assessment is performed according to the following:</p> <ul style="list-style-type: none"> - The valuation of the risk assessment is established in the official journal. - The regulation states that the Minister and his team must evaluate the risk. Including what are the risks and how to mitigate them. - The internal audit has to audit what is established by law. - According to the law there is a committee of public ethics which is headed by human resources, but is outside the scope of internal audit. - If there is lack of material, the ministry may request them an audit. 	Narrative: D.2.1 Audit reports: No. 118-05-11 pg. 5, D.2.6 No. 112-09-10 pg. 5, and D.2.7 No. 115-10-10 pg. 7 D.2.8	<p>Issue noted: We noted that MARN does not have a risk assessment process performed by government officials.</p> <p>SAI: The SAI does not establish timeframes for completing government audits. The audit report for MARN for the period ended December 31, 2009 was published in February 2012 (26 months later) and the report for the period ended December 31, 2010 was published on May 2012</p>

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	<p>- If there are some other anomalies, the Ministry may also request an audit.</p> <p>SAI: We reviewed the audits conducted by the SAI of MARN and found no evidence to indicate that audits conducted by the SAI need to be completed within an established time frame. For instance, the audits for the period ended December 31, 2009 was published on February 2012 and the one for the period ended December 31, 2010 was published on May 2012.</p>		(17 months later)
2.9 Evaluate the effectiveness of MARN's follow-up process for internal and external audit findings	<p>MARN: For internal audit findings MARN's follow up process is not good. As documented in the narrative, they perform a follow up of the findings at the end of the fiscal year to be sure that they are solved. As observed in audit report No. 115-10-10 pg. 22, and documented in email sent by internal auditor, follow up of recommendations are done when the next audit report is prepared (1 year after).</p> <p>SAI: We reviewed the policies and procedures from the SAI and discussed them with MGT and noted that according to the SAI, the rules state that the results of the audit are to be made public, but this is understood as the audits being made available to public officials via access to the reports at the Court of Accounts building. The results of the audits are not published so the public is not made aware of the results – This is reported as issue #1</p>	No. 115-10-10 pg. 7 D.2.8 pg. 22 Email dated 6/29/12 from Lorena Flores D.2.12	Issue noted: MARN: We noted that audit recommendations are not followed up on time. SAI: Corte de Cuentas is the supreme audit institution (SAI) responsible for carrying out the audits of government institutions. During our review, we noted that results of the audits conducted by the SAI are not made public although the law states that the audits are to be made public. Per the SAI, the GOES interpretation of the wording "made public" is to be conducted by a public institution and be made available to public officials
2.10 Evaluate MARN's effectiveness and timeliness in adopting internal control recommendations	For internal audit findings MARN's follow up process is not good. As documented in the narrative, they perform a follow up of the findings at the end of the fiscal year to be sure that they are solved. As observed in audit report No. 115-10-10 pg. 22, and documented in email sent by internal auditor, follow up of recommendations are done when the next audit report is prepared (1 year after).	No. 115-10-10 pg. 7 D.2.8 pg. 22 Email dated 6/29/12 from Lorena Flores D.2.12	Issue noted: We noted that audit recommendations are not followed up on time, as a consequence, the reports are not used effectively and issues or vulnerabilities are not addressed timely.
2.11 Evaluate the capacity of the auditors and determine that auditors are: - Independent, objective, impartial - Possess the necessary professional competence in the audit field	<p>MARN: As documented in the narrative, the Profile of employees currently employed is:</p> <ul style="list-style-type: none"> - Internal auditor: 5 years of experience in the MARN. - Technician: 5 years of experience in ISNA, he also had experience in internal audit and accounting. - Technician: 1 year of experience but he did not have experience in public auditing. 	Narrative: D.2.1	Issue noted: MARN: The internal audit department is not independent. Specifically, we noted that the department reports directly to the Minister without

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	<p>- The internal auditors are not independent because they have to report to the minister.</p> <p>SAI: We noted that the president of the SAI are politically appointed by the legislature and this raises questions about its independence.</p>		<p>having to report to an audit committee independent from the minister.</p> <p>SAI: Officials of the SAI are politically appointed by the Legislative Assembly, which may raise doubts about the SAI's independence</p>
<p>2.12 Evaluate how audits of programs are managed. Determine by whom are these audits carried out:</p> <ul style="list-style-type: none"> - Auditors appointed by the implementing partner? - Auditors appointed by the procuring entity? 	<p>As documented in the narrative: Generally with projects, the organization states in the agreement or contract if the funds will be audited by a sub-contracted auditing firm. The funds for these audits are provided by the donor. The selection of the audit firm is done by the MARN through UACI and the project coordinator. If this is not set in the contract or agreement, the audit is carried out by the internal audit of the Ministry. Lic. Rubio (MARN Internal auditor) said that they select which audit they are going to do according to the following parameters:</p> <ol style="list-style-type: none"> 1) Date of finalization of the contract or agreement. 2) According to the percentage of implementation (they generally choose 2 projects). 	<p>Narrative: D.2.1 Email dated 7/2/12 from Lorena Flores D.2.14</p>	<p>Issue noted: The audit firm should be selected by the donor not by the recipient, this generates lack of independence.</p>
<p>2.13 Does MARN perform audits of partners and/or vendors? If so, please confirm the following:</p> <ul style="list-style-type: none"> - Who performs such audits? - What standards are used for such audits? (International standards) - How are the results tracked? 	<p>As documented in the email from Lic. Lorena Flores, MARN does not perform audits of partners and/or vendors.</p>	<p>Email dated 7/2/12 from Lorena Flores D.2.14</p>	<p>Issue noted: MARN does not perform audits of partners and/or vendors.</p>

FOURTH CRITERION: COMPLIANCE

Date of the assessment: Completed on 09/20/12
Author of the assessment: Ivan Magana,
Blanca Ibarra,
Juan Carlos Rivas

<p>1. Compliance with laws and regulations:</p> <p>1.1. Obtain an understanding of MARN's requirements and policies to comply with GOES's laws and regulations</p> <ul style="list-style-type: none"> - Review mechanisms or tools used by MARN to track compliance - Review mechanisms or tools used to understand applicable laws 	<p>We reviewed compliance with laws and regulations as noted in the narrative. MARN does not have any tools used to monitor compliance with laws and regulations or track compliance. As discussed in the procurement and audit sections, there is enforcement of the law by internal audit and procurement controls</p>	<p>E.2.2</p>	<p>Issues noted in the audit and procurement sections</p>
<p>1.2. Verify MARN's compliance with GOES's public procurement law (LACAP) and regulations, the AFI law and its regulations</p> <ul style="list-style-type: none"> - What is required by law? - How is it complied with? - Is the public procurement law accessible to the public? - Does the law apply to all public bodies, sub-national governments and entities when budget funds are used? - Does the law cover goods, works and services? - Have implementing regulations and sample documents been prepared to aid procuring entity compliance? (CPIs) - Are spending ministries and sub-entities familiar with (and generally compliant with) the law? 	<p>This was tested in the procurement section</p>	<p>E.2.2 Compliance with laws</p>	<p>Issues noted in the procurement section</p>
<p>1.3. Based on the first assessment, understand and assess the potential impact of local law on the program, such as:</p> <ul style="list-style-type: none"> - Potential impact of delays caused by laws such as LACAP 	<p>This was tested in the procurement section</p>	<p>E.2.2</p>	<p>Issues noted in the procurement section</p>
<p>1.4. Verify that MARN monitors vendors for compliance with laws and regulations when applicable</p>	<p>MARN does follow compliance with agreements by vendors when it comes to goods and/or services impacting GOES funds. However, compliance by vendors with donor agreements seems to be the responsibility of auditor working on behalf of donors. Vendor compliance</p>		<p>Issue noted: MARN personal lack the knowledge of regulations</p>

<ul style="list-style-type: none"> - Confirm how vendor compliance is monitored? - Have vendor audits been conducted? - Confirm if a standard form is used for vendors and the form includes all applicable regulations 	<p>with terms of agreements with donors seems to be an area lacking strength since personnel do not seem to be as familiar with required regulations from agreements.</p>		<p>applicable to USAID agreements. USAID needs to strengthen their capacity and understanding of what rules and regulations need to be enforced and followed by sub-recipients and third parties used by MARN.</p>
<p>1.5. Verify compliance with transparency and anti-corruption laws</p> <ul style="list-style-type: none"> - Develop an understanding of what the law requires - Confirm that MARN has established good mechanisms to communicate any issues with the applicable agency - Confirm that the agency in charge of prosecutions is properly functioning and that prosecutions have been conducted - Confirm that the results of any prosecutions have been made public - Confirm that the laws set forth actions that can be taken against various types of behavior such as conflicts of interest, fraud, unethical behavior and so forth - Does the government have an active anti-corruption program aimed at engaging all stakeholders and inform them of their rights and duties? 	<p>We met with personnel and documented our understanding of compliance with laws and regulations as documented in the narrative (see Compliance with laws)</p> <p>When it comes to the transparency law, we documented our review of the law and testing related to it in the section “Management Controls”</p>	<p>Compliance with laws Ethics reg Ethics II</p>	<p>Issues noted in the Management controls section.</p>
<p>1.6. Identify laws and regulations that are relevant to the Program:</p> <ul style="list-style-type: none"> - Confirm the impact of such laws to the program - Confirm that training is provided to employees 	<p>During our discussions with personnel, we were told that according to local law, laws may be applicable to the project if the donor elects to have local law apply; otherwise, the law that applies is the one designated on the agreement. As such, the local law that may apply would be all local laws (e.g.: LACAP, Transparency) or the applicable US laws and regulations</p>	<p>E.2.2</p>	<p>Issue noted: USAID needs to define the applicable law that needs to be enforced in the agreement.</p>
<p>2. Donor Relationships and Performance Controls: 2.1 Review procurement planning,</p>	<p>When it comes to procurement, bidding, vendor selection and publication of results; it was tested in the procurement section</p>	<p>E.2.2</p>	<p>Issues noted in the procurement section</p>

<p>including product selection, quantification, budgeting, and cost estimation, including:</p> <ul style="list-style-type: none"> - Determine that vendor selection requires bidding - Confirm that bidding requires public announcements - Confirm that the vendor selection process is open and transparent - Does the law require publication of business opportunities and contract awards - Is adequate time provided for offers to prepare and submit bids? - Does the law allow discrimination against firms for reasons other than lack of qualifications? For example, excessive preferences granted to local firms, how SOEs are treated, etc. 			
<p>2.2 Review controls over contract awards (e.g.: use of proper instruments such as agreements or contracts, complete documentation, supporting documentation, etc.)</p> <ul style="list-style-type: none"> - Confirm that standard documents are available for use - Review controls to ensure that vendors comply with their requirements - Review guidelines used by MARN to confirm that financial and legal requirements (local and international) are followed by recipients or vendors - Are audits required of recipients in accordance with donor agreements? - Develop an understanding of how vendor compliance is followed by employees (i.e.: are employees from the project or MARN used to 	<p>When it comes to use of standard agreements, we confirmed that MARN does develop their own standard agreements with vendors. However, USAID would have to require compliance with US laws and confirm that MARN does include the applicable language in their local agreements.</p>	<p>E.2.2</p>	<p>No issues noted</p>

monitor performance?)			
<p>2.3 Develop an understanding of the current utilization of country systems by other donors:</p> <ul style="list-style-type: none"> - What is the proportion of foreign aid by all donors managed by use of national country system - Do donors provide sufficient financial information for budgeting, tracking and reporting 	<p>During our meetings, we noted that there is only one donor that it is relying on the GOES host country system. Specifically, it is the government of Spain through the agency known as AECID.</p> <p>When it comes to 2011, the total budget for all projects was \$14.8M while AECID's aid totaled approximately \$1M.</p>	<p>See page 48 and 50 of E.2.3</p>	<p>No issues noted</p>
<p>2.4 Assess contract management during implementation, including dispute resolution methods</p> <ul style="list-style-type: none"> - How are contracts managed? - What system is used for contract administration? - Assess the potential impact of their contract management on the project 	<p>Contract management for projects is usually handled at MARN manually by using Excel unless a project requires the use of a certain packaged software.</p>	<p>None</p>	<p>No issues noted</p>
<p>2.5 Develop an understanding of how project results are tracked of project including timeliness and on-budget deliverables</p> <ul style="list-style-type: none"> - Review tools used to monitor project deliverables - Is the accounting system used to prepare fund accountability statements or are they prepared manually? - How is performance monitored? - Who is responsible for monitoring performance (e.g.: employees of MARN or the project?) 	<p>As noted in the audit section, project results are not tracked. Project results are basically prepared as required by the donor and the documentation is made available to the donor if required by the agreement or prepared by personnel fully dedicated to the program if required by the donor agreement.</p>	<p>E.2.2</p>	<p>No issues noted</p>
<p>2.6 Assess the capacity of MARN to plan, execute, monitor, evaluate, and report on all facets of project management</p> <ul style="list-style-type: none"> - Understand the capacity of the employees used to track project performance 	<p>Currently, MARN does not have the employee capacity to monitor all facets of the project management.</p>	<p>Issue on compliance</p>	<p>Issue noted: It appears that MARN internal systems require strengthening in terms of additional staff, office space, equipment, and training. This situation has led that other donors subscribe independent agreements (See Issue on compliance)</p>

<p>2.7 Make a sample selection of projects developed by MARN for other donors and test the following:</p> <ul style="list-style-type: none"> - Confirm that projects were completed timely - Confirm that project deliverables were completed as required by the agreements - Assess MARN's process for monitoring completion of the projects in accordance with agreements or contracts - Assess the impacts of any lessons learned from other projects 	<p>Given time constraints, we were unable to complete this section</p>	<p>None</p>	
<p>2.8 Assess MARN's capacity to develop "Lessons Learned Studies" and apply them to other projects to increase their capacity, efficiency and effectiveness</p> <ul style="list-style-type: none"> - Review other projects to confirm that lessons learned have been prepared for other projects 	<p>MARN does not have a process by which they examine issues raised during program evaluations and apply them as Lessons' Learned. Furthermore, MARN does not take ownership of donor projects where they allocated resources in their budget by project nor tie their budgets to achievement of goals and projects.</p>	<p>E.2.2</p>	<p>Issue noted: MARN does not take ownership of projects funded by donors as they do not receive the reports and apply them as lessons learned.</p>
<p>2.9 Assess organizational structure and staffing needs related to the requirements to be imposed by virtue of the project under consideration</p> <ul style="list-style-type: none"> - 	<p>Currently, MARN does not have the employee capacity to monitor all facets of the project management.</p>	<p>Issue _____ on compliance</p>	<p>Issue noted: It appears that MARN internal systems require strengthening in terms of additional staff, office space, equipment, and training. This situation has led that other donors subscribe independent agreements (See Issue _____ on compliance)</p>
<p>2.10 Assess controls used by MARN to confirm compliance with donor agreements and applicable US laws</p> <ul style="list-style-type: none"> - Is there a committee to review results of projects? - How is compliance with agreements with multiple donors enforced? 	<p>As previously documented, there is no committee to track results of projects or compliance with agreements</p>	<p>See other sections above</p>	<p>Issues noted above</p>
<p>2.11 Assess the feasibility of management of donor funds</p>	<p>As previously discussed, special accounts require that funds managed by use of separate</p>	<p>E.2.2</p>	<p>Potential issue noted at single</p>

<p>through separate accounts (e.g.: special accounts)</p> <ul style="list-style-type: none"> - Assess budgetary controls for this separate accounts - Assess how local laws impacts special accounts - Are special accounts exempt from local budgetary law (e.g.: prevent unused funds from being swept to the local budget) 	<p>bank accounts. Furthermore, special funds require that separate budget accounts be tracked.</p> <p>Currently, there is a special project related to the SAFI law and system that is considering the application of a single account rather than the use of various bank accounts. The application of a single account may impact the project depending on how the law is modified in the future requiring that all funds go to the general fund.</p>		<p>account</p>
<p>2.12 Assess the feasibility of satisfying audit requirements related to donor funds in accordance with GOES laws and regulations</p> <ul style="list-style-type: none"> - Review how audits are enforced - Confirm that the auditors are independent of MARN 	<p>This was tested in the audit section</p>	<p>See audit section</p>	<p>See issues noted in the audit section</p>
<p>2.13 Has the entity identified minimum internal controls required of implementing partners and vendors in accordance with donor agreements? Assess tools used by the entity to check minimum internal requirements (e.g.: use of contracts, vendor audits, recipient audits, etc.)</p>	<p>This was tested in the audit section</p>	<p>See audit section</p>	<p>See issues noted in the audit section</p>