

PD-AAH-981

UNITED STATES GOVERNMENT

memorandum

DATE:

June 30, 1981

R. Dean Hinderliter

Acting RIG/A/Panama, c/o USAID/Panama

REPLY TO
ATTN OF:

SUBJECT:

Memorandum Audit Report No. 1-518-81-19, Small Business and Employment
Generation, OPG No. 518-0001 - Ecuador

TO:

Mr. John Sambrailo
Mission Director
USAID/Ecuador

At the request of USAID/Ecuador, we made an audit of the Operational Program Grant (OPG), Small Business and Employment Generation Project No. 518-0001.

The review was performed in Quito, Ecuador and covered the period August 1, 1978 to May 31, 1981. The primary purpose of our review was to determine project progress and to assess project management by USAID/Ecuador and the implementing organization. As of May 31, 1981, the recorded project expenditures totalled about \$219,000.

Our audit showed that the project had not achieved the objectives of training and finding employment for the number of persons originally intended. The project did not accomplish the planned objectives because the targets were unrealistic, higher standards of achievement were established, and the training program time was increased from a 45 to 50 week program to a three-year program. USAID/Ecuador monitoring of the project was hindered by the lack of staff.

Background

The Small Business Development and Employment Generation Project No. 518-0001 was designed to improve the economic and social well-being of low income urban youth and their families by providing expanded vocational training through a program that was to become self-financing. The project was assisting the Quito Working Boys' Center, to (1) design and implement a pre-vocational program; (2) convert carpentry and automobile repair services into self-financing operations; and (3) develop a program in small business organization and management.

Activities were financed by a Grant Agreement signed in March 1978 for \$186,200 and amended in August 1979 increasing the grant obligations to \$256,200. The funds were to pay for instructors salaries, raw materials, a vehicle, and transportation costs. As of May 31, 1981, the expenditures were \$218,522. The Quito Working Boys' Center agreed to contribute \$460,000 to pay operational costs that were not covered by the AID grant. The project assistance completion date is July 30, 1981. This project has a companion grant from American Schools and Hospitals Abroad funds of \$2,245,000 for constructing new facilities in Quito, Ecuador.



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The Working Boys' Center was founded in Quito in 1964. It was designed as a long range human development institution with a goal of assisting a specific sector of the lowest income group in Ecuador, namely the families of shoeshine boys as well as other working boys.

Since 1964 much has been accomplished in the areas of instituting, coordinating and refining a great number of formational programs, such as, a child care center, primary schooling, technical training, adult education, meals, medical, dental, legal services, psychiatric, obligatory savings and low cost housing. At present, the Working Boys' Center is a huge operation of total family formation. The working boy is dealt with as a member of his family group. At May 31, 1981, there were 250 families involved in the Working Boys' Center activities.

Scope

We made an initial audit of Operational Project Grant No. 518-0001 Working Boys' Center in Quito, Ecuador for the period April 1, 1978 to May 31, 1981. The audit was made to evaluate the effectiveness of project progress and the controls and operations, to determine whether commodities were adequately used and controlled and to appraise USAID/Ecuador monitoring of the project.

We examined USAID/Ecuador project files and records to ascertain the extent of reporting and monitoring. We visited Working Boys' Center to inspect commercial and vocational training activities and made a selective inventory count of the equipment and furniture purchased by the grantee. We also reviewed the financial and accounting controls to determine if grant funds were properly accounted for. Mission and project officers were interviewed as necessary.

Our review was made during the period June 1, 1981 to June 12, 1981. The comments of Mission and project officials were considered and incorporated into the report as appropriate.

We also made a review of the companion American Schools and Hospitals Abroad grant. We plan to do additional work on this grant in Washington, D.C., and will issue a separate report.

Audit Findings, Conclusions, and Recommendations

Project Objectives

Project objectives will not be fully completed when the project ends July 31, 1981. Project officials reported that only three of eight objectives would be realized by that date.

A summary of some of the objectives that will not be achieved follows. One objective indicated at least 90 young men were to be placed in career vocational jobs. The Center reported 37 men had completed training in welding/machine shop, basic carpentry and basic auto-mechanics and were gainfully employed. Another objective was that about 150 girls were to be fully employed. Project Officers reported that only 8 girls were receiving on-the-job training

in the Working Boys' Center. No girls had achieved job placement outside the Working Boys' Center as a direct result of the training programs. A third objective called for 100 mothers to be employed and earning more than the minimum wage level income in the small business productions and sales of merchandise. The Center reported that 69 women had completed vocational education in sewing, but only 8 were employed in the Working Boys' Center. A fourth objective provided that at least 30 young men were to be trained and employed by the Center. Only 10 men were working full time as employees of the Center.

The Working Boys' Center claimed the objectives could not be achieved because the targets were unrealistic due to establishing higher standards of achievement. For instance, the original plan called for a 45 to 50 week training program. The program was found to be too short in time and too limited in subject matter. The training program was increased to a three-year period and the subject matter was developed into "pre-vocational" and "vocational" curriculum.

Other reasons given for not achieving the objectives were the Center's inability to attract teenage girls and creating appropriate job training courses for them. Also, parents in the program lacked minimal education and had to attend daily grammar school class before being considered for "pre-vocational" courses. So little was done for the girls because of socio-economic obstacles that were outside the control of the Center. These obstacles include girls not receiving equal basic education or motivation for gainful employment.

Center officials stated that the Center had a good, viable and expandable program underway and they were satisfied that through the Center there was a new breed of upward moving workers among the poor through its coordinated systems of formation.

We agree that accomplishments have been made although substantially less than originally planned. Mission officials had received from the Working Boys' Center a proposal to continue the project for another three years. We believe that if the Mission extends the project, a careful analysis should be made to assure project objectives are realistic and can be met.

Property Control

Although the Working Boys' Center had maintained inventory lists on the furniture, shop machinery and shop tools that were received, control procedures needed to be improved to accurately account for commodities. We found that inventory lists contained duplicate items and values. Project personnel had not noted that the inventory lists were inaccurate because inventory counts had not been made to verify the physical count against the property control records.

The Center's property control procedures call for preparing a list of the property located in each shop or department. However, when property was transferred from one department to a shop, the receiving shop added the item to the shop's property list, but the sending department did not delete the item and

value from its property list. This has resulted in property being listed on more than one list and increasing the amount of the inventory by the duplicate item(s). For instance, we noted shop tools costing about \$4,800 were listed in two inventory lists, the general warehouse and the carpentry shop.

The Center's procedures do not require periodic physical inventories to assure better accounting for commodities. Project officials agreed that periodic inventory checks should be made to test inventory records against a physical count.

Recommendation No. 1

USAID/Ecuador should obtain from the Working Boys' Center an updated inventory list to assure that the inventory records agree with the physical count.

Recommendation No. 2

USAID/Ecuador should obtain from the Working Boys' Center a set of procedures to ensure that periodic physical counts are made and reconciled with inventory records.

Sales Taxes

USAID/Ecuador reimbursed the Working Boys' Center \$1,715.00 for sales taxes paid in purchasing commodities. We believe the sales tax should be regarded as part of the Center's contribution to the project. The sales taxes were reimbursed by the Mission because there was no formal agreement exempting the payment of sales tax.

We discussed the payment of sales taxes with the Director of the Working Boys' Center. The Director agreed that the sales taxes could be paid from other funds and that a refund would be made to the Mission when requested.

Recommendation No. 3

USAID/Ecuador should obtain a refund from the Working Boys' Center in the amount of \$1,715.00 for the sales taxes that were previously reimbursed.

AID Marking Requirements

The Working Boys' Center had partially complied with AID marking requirements. We found that some of the major commodities purchased with AID funds were not marked with the official A.I.D. (clapsed hands) emblem.

Project officials said they were aware of AID's marking requirements, but had not affixed AID emblems to all the commodities because emblems were not available. Although Mission personnel were aware of marking requirements, they had not assured that the AID marking requirements were complied with by project officials. Mission personnel should monitor arrivals of commodities and make end-use checks to assure compliance with marking requirements.

Recommendation No. 4

USAID/Ecuador secure AID emblems and furnish them to the Working Boys' Center and ensure that the emblems are affixed to AID-financed commodities.

Need to Improve Accounting Procedures

The consolidated accounting statements that have been prepared for the Working Boys' Center were not accurate because some AID grant receipts and expenses were not entered in the records. Also, the Center had not prepared a profit and loss statement for its production operations because of the lack of a cost accounting system.

Although the Center maintained a general ledger, the bookkeeping personnel had not recorded about \$157,000 of AID grant funds for expenses and purchase of equipment that were received from USAID/Ecuador. The bookkeeper explained that a separate accounting had been maintained over AID grant funds and that at the end of the project on July 31, 1981, all grant receipts and expenses would be recorded in the accounting records.

American Schools and Hospital Abroad grant funds of \$1,550,000 disbursed for constructing a building and purchasing furniture were recorded in a separate account but were not shown in the Centers' consolidated financial statements. According to project officers, these funds will be shown as received and expended once the project is completed in October 1981.

A cost accounting system had not been established that would show the degree of success or failure of the Working Boys' Centers commercial operations. For example, different size dolls had been manufactured and sold. There was no definitive information on what it cost to produce the dolls. Project personnel felt that the production costs (material and labor costs) had been covered by the sales price of the dolls. Project officers agreed that a cost accounting system must be developed to provide them with financial information which was not available at the time of our review.

The Project's Director said that the accounting system had not been fully developed and maintained because of the lack of qualified personnel. He plans to hire three more employees when the new building for the project is completed. One of the new employees would be an accountant who would be responsible for maintaining the cost accounting system and preparing financial reports.

The Mission had been receiving periodic reports on project progress, but the reports did not contain financial information on the commercial activities.

We believe the Mission should receive financial information so that it can evaluate the entire project.

We are not making a recommendation because the project terminates on July 31, 1981. However, Mission officers advised us that they were considering another grant that would extend the life of the project. If another grant agreement is signed the Mission should ensure that the Working Boys' Center establishes and maintains a cost accounting system for the project's commercial activities and that progress reports include financial information. The Mission should provide funds to contract an accounting firm to assist in establishing the accounting system.

Counterpart Contribution

The monthly Working Boys' Center Statement of Expenditures and the Quarterly Operational and Financial Progress reports that were submitted to USAID/Ecuador did not show the Center's contribution as required by the grant agreement. Therefore, the Mission does not know the amount the Center has contributed to the project.

The grant agreement called for the Center to contribute \$460,000 for certain local salaries and operational costs. We discussed with Project officers the need for reporting to the Mission the amount of the Center's contribution. They agreed to include this information in future financial reports.

We are not making a recommendation at this time since the project is ending July 31, 1981; however, we believe that if the Mission authorizes additional funds, the grant agreement should require periodic reporting on the counterpart contribution.

Monitoring

Infrequent visits were made to the Working Boys' Center at the beginning of the project because of the lack of Mission staffing. Mission officers reported they have recently been making periodic visits to the Working Boys' Center to review project progress. However, no trip reports were prepared on the results of the field visits. Trip reports are needed for following up on problem areas and to appraise management officials of project progress.

Mission officers agreed that field trip reports should be prepared after significant visit/inspections are made. The Mission had not evaluated the project, however we were informed by the Mission Director that they were in the process of contracting a firm to perform an evaluation in early July 1981 of project activities. We are making no recommendation because the project is terminating. However, if the project is continued, the Mission should establish monitoring procedures that require preparing appropriate field trip reports on visits made to the Working Boys' Center.

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