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**AWARD SURVEY OF THE CAPABILITY OF
OUR YOUTH FOUNDATION TO MANAGE
USAID/ECUADOR'S DRUG INFORMATION AND
PUBLIC AWARENESS PROJECT-PHASE II**

**Audit Report No. 1-518-91-49-N
September 17, 1991**

U. S. MAILING ADDRESS:
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AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
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September 17, 1991

MEMORANDUM

TO: D/USAID/Ecuador, Charles E. Costello

FROM: 
RIG/A/T, Regina Howard

SUBJECT: Award Survey of the Capability of Our Youth Foundation to Manage
USAID/Ecuador's Drug Information and Public Awareness Project-
Phase II

This report presents the results of a award survey of the capability of Our Youth Foundation (Foundation) to manage the activities of the Drug Information and Public Awareness Project-Phase II, USAID/Ecuador Project No. 518-0064. The accounting firm of Price Waterhouse prepared the report which is dated August 30, 1991. The audit was requested by USAID/Ecuador.

The purpose of the Project is to increase public awareness of drugs and to prevent drug abuse. The Project's four year budget is \$1.7 million, with USAID/Ecuador providing \$1.1 million and the Foundation providing the balance as its counterpart contribution.

The objectives of the award survey were to report on the Foundation's: (1) statement of proposed direct and indirect costs; (2) financial and managerial capability to administer the Project; (3) internal control structure with respect to the Project's operations; and (4) compliance with the terms of the agreement and applicable laws and regulations. The scope of this audit included an examination of the Foundation's activities and transactions to the extent necessary to issue a report thereon for the period under audit.

Price Waterhouse was unable to express an opinion on the Project's proposed costs because of following scope limitations: (1) the Foundation could not provide the auditors with the documentation used to prepare the budget; (2) the budget was improperly structured; and (3) the Foundation's counterpart contributions were not quantified. The auditors concluded that the Foundation did not have the financial capability to administer the Project as it had neither achieved a level of solvency to enable it to subsist on its own funds, nor prepared cash flow forecasts to plan its funding needs. The auditors concluded that the Foundation has sufficient management capability to manage the activities of the Project except for weaknesses in the areas of personnel management, procedure manuals, and information reporting.

With respect to the Foundation's internal control structure, the auditors reported three material weaknesses: (1) the accounting system was inadequate for Project purposes; (2) the purchase of a major Project asset did not follow an adequate process; and (3) the data

processing area lacked adequate controls. Concerning the Foundation's compliance with terms of the Agreement and applicable laws and regulations, the auditors reported three instances of material noncompliance relating to local tax and registration laws. One instance also involved noncompliance with Office of Management and Budget Circular A-122 in that the Foundation had not obtained an exempt status from the value added tax.

This report was discussed with the Foundation's management who expressed general agreement with the report and their willingness to take the measures necessary to implement the recommendations. The full text of management's comments is included as Annex I to the report.

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

Recommendation No. 1

We recommend that USAID/Ecuador, as a condition precedent to disbursement of additional funds, require that Our Youth Foundation: (1) prepare a Project budget structured by activity and by year; (2) provide documentation to support proposed direct and indirect costs in the Project's budget, including an appropriate income projection supported by commitments from other donors expected to contribute resources to the Project.

Recommendation No. 2

We recommend that USAID/Ecuador in conjunction with Our Youth Foundation establish an action plan, including a timetable for implementation, to: (1) update and fully implement its Administrative and Financial Standards and Procedures Manual and its Personnel Administration and Procedures Manual; (2) increase its efforts to generate its own funds in order to permit self-sufficiency in the future; (3) implement procedures for preparing cash flow forecasts periodically; (4) implement an accounting system adequate for Project purposes; (5) implement procedures to resolve the identified data processing deficiencies; and (6) obtain a value added tax exemption certificate from the General Tax Administration.

Please advise this office within 30 days of actions planned or taken to resolve and close the recommendations.



PRE-AWARD SURVEY OF OUR YOUTH FOUNDATION
IN REGARD TO THE
DRUG INFORMATION AND PUBLIC AWARENESS PROJECT
PHASE II
USAID/ECUADOR PROJECT No. 518-0064



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Price Waterhouse



August 30, 1991

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

Dear Mr. Howard,

This report presents the results of our pre-award survey as of November 14, 1990 of Our Youth Foundation (Fundación Nuestros Jóvenes) in regard to the Drug Information and Public Awareness Project - Phase II, USAID/Ecuador Project No. 518-0064.

BACKGROUND

Our Youth Foundation began operations in 1982 as a Private Voluntary Organization as part of the Ecuadorian women's initiative represented by the Pichincha Province Association of Doctors' Wives. Its major objective was to provide an on-going response to the growing problem of drug abuse in Ecuadorian young people. Our Youth Foundation's initial activities were centered on preventive education among secondary school youth and information dissemination among high risk groups in the different provinces, where its 150 active members were organized into local nuclei.

On July 23, 1987, Our Youth Foundation and USAID/Ecuador signed Operational Program Grant Agreement No. 518-0064-G-00-7257-00 "Drug Information and Public Awareness". Through this Agreement, USAID/Ecuador granted Our Youth Foundation US\$1,600,000 for the development of the project, which was completed on March 23, 1990.

On April 6, 1990 a new agreement was signed between Our Youth Foundation (Foundation) and USAID/Ecuador. The purpose of this Cooperative Agreement No. 518-0064-A-00-0088-00, "Drug Information and Public Awareness - Phase II," was to increase public awareness of drugs and to prevent drug abuse by increasing the understanding of the negative effects of drug production, trafficking and consumption, which was partially obtained in the first stage of the project. The agreement will last for 4 years and will end on April 1, 1994.



The project purpose will be achieved through:

- Further strengthening the Foundation institutionally as a professional, private social development agency with the capacity to effectively intervene in the drug problem, and
- Increasing public awareness of the magnitude and seriousness of the problem through a program of action-oriented research and information dissemination.

The project will produce results which, in combination, will indicate achievement of the project purpose. Such results will be achieved when:

1. Government institutions articulate clear and coherent strategies relating to the political, economic, financial and social areas which support a drug prevention program, integrating efforts of the public and private sectors;
2. Effective controls are implemented that impede the formation of drug trafficking and production networks and reinforce public pressures against drugs;
3. A reduction or stabilization occurs in the rate of growth in the consumption of illegal drugs as compared to the 1988 rate; and
4. Anti-drug attitudes, opinions and practices are shared by 95% of the population.

The project's estimated cost is US\$1,657,000 during its four years of duration, with an USAID/ Ecuador contribution of US\$1,125,000. These funds will be disbursed primarily in local currency (sucres) with no more than 10% in US dollars. The Foundation will finance approximately 32% of the total cost, that is US\$532,000, in cash or in-kind as its counterpart contribution. Of this total, US\$250,000 or its equivalent is calculated to represent the value of the volunteer time contributed to all the Foundation's activities throughout the country during the life of the project. The Foundation also plans to provide US\$282,000 or its equivalent from other donations and income from supplying materials and services.



The project's proposed costs according to the agreement are detailed as follows:

	<u>USAID/Ecuador</u> <u>US\$</u>	<u>Our Youth</u> <u>Foundation</u> <u>US\$</u>	<u>Total</u> <u>US\$</u>
Salaries	680,300	387,000	1,067,300
Educational and promotional materials	189,500	-	189,500
Travel and per diem	30,300	-	30,300
Short-term consultants	49,600	-	49,600
Office supplies and equipment	44,300	-	44,300
Operating expenses	47,000	145,000	192,000
Audits & evaluation	84,000	-	84,000
	-----	-----	-----
	1,125,000	532,000	1,657,000
	=====	=====	=====

EVALUATION OBJECTIVES AND SCOPE

The objectives of our pre-award survey of the project were to examine Our Youth Foundation's management capability and the costs proposed in Cooperative Agreement No. 518-0064-A-00-0088-00. The specific objectives were defined to determine whether:

1. The estimated costs proposed by Our Youth Foundation for the Project on Drug Information and Public Awareness - Phase II, USAID/Ecuador Project No. 518-0064 are based on the most current, complete and accurate data available, and reflect only allocable, allowable and reasonable costs which are necessary to accomplish the project activities,
2. The Foundation has sufficient management capability and span of control to administer the project considering the Foundation's current and projected workload, staffing levels and past performance,
3. The Foundation is financially capable of performing the proposed project activities,



4. The Foundation's internal control structure, including its control environment, accounting system and control procedures, contains sufficient capacity to appropriately capture the project's accounting data and its internal controls are adequate for project purposes, and
5. The entity is in compliance with agreement terms, and applicable laws and regulations.

Our survey was conducted in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Government Auditing Standards" (1988 version). Consequently, we included selected tests of the accounting records and other procedures which we considered necessary in the circumstances.

The scope of our work consisted of:

1. An analytical review of the statement of proposed costs for the project to determine whether the estimated direct and indirect costs are based on the most current, complete and accurate data available, and whether the proposed costs are allocable, allowable, reasonable and necessary for the project;
2. A review of the Foundation's projected administrative structure considering the current and proposed levels of activity and past performance in administering Phase I of the Drug Information and Public Awareness Project and other similar projects.
3. An analysis of the Foundation's financial capability for performing the proposed project activities, through an understanding of the financial conditions existing during the Project's Phase I and considering proposed activities and costs, assets on hand and access to lines of credit until USAID/Ecuador makes periodic reimbursements and proposed counterpart contributions are obtained.
4. An evaluation of the Foundation's current internal control structure for the administration of the proposed project activities, including an evaluation of the procurement system, procedures for obtaining technical assistance, policies for planning and evaluating projects, control and use of



fixed assets including the control and use of vehicles, computer data input and output procedures, an evaluation of the entity's accounting system to determine whether it allows an adequate control of the source and application of funds for project activities, verification of the use of a separate bank account for the project, comparison of budget data with actual data and review of procedures for determining the reasonableness, nature and distribution of costs in accordance with the terms of the agreement.

5. A review of the Foundation's compliance with agreement provisions, and applicable laws and regulations which could have a significant effect on the project's results including both intentional or unintentional instances of non-compliance.
6. A review of the design of policies and procedures to be used in financial management, procurement, planning, and budget control systems and obtaining counterpart funding.

During our work we were alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditure and acts.

EVALUATION RESULTS

Proposed costs

The results of our review of proposed costs do not allow us to express an opinion for the following reasons:

1. We were not provided with the supporting documents necessary to evaluate the reasonableness of the bases used to prepare the project's cost budget.
2. The budget was not structured by year and type of activity but, rather, globally for four years and by type of expense.
3. The counterpart contribution, which includes the participation of voluntary personnel, was not quantified in monetary terms and other expected donations and income to be generated by the entity were not determined on a reasonable basis.



Management Capability

Based on the results of our review we believe that Our Youth Foundation has sufficient management capability and span of control to adequately manage the project, except for the following conditions:

1. Personnel management is inadequate.
2. Instructions contained in the Administrative and Financial Standards and Procedures Manual are incomplete and the Personnel Administration Procedures Manual is not enforced.
3. Information sent to USAID/Ecuador is inaccurate, untimely and does not comply with requirements.

Financial Capability

Based on the results of our review we believe that Our Youth Foundation does not have the financial capability to manage the project, since: (1) it has not reached a level of solvency which will permit it to cover its expenses in the absence of funding from USAID/Ecuador and (2) it lacks periodically prepared cash flow forecasts which would allow it to know its need for funds in accordance with budgeted expenses.

Internal Control Structure

Our Youth Foundation's proposed internal control structure is adequate for project purposes, except for the conditions mentioned below, which we consider are significant deficiencies in the design and operation of the internal control structure which, in our judgment, could negatively affect the entity's ability to record, process, summarize and report the financial information consistent with management assertions in the statement of proposed costs.

1. There is no adequate accounting system for the project's purposes.
2. The process followed in the purchase of the building in which the Foundation's offices are located was inadequate.
3. There are no adequate controls in the data processing area.



Compliance with Agreement Terms and Applicable Laws and Regulations.

We believe that Our Youth Foundation complied with agreement terms and applicable laws and regulations as tested, except for:

1. A new request for exemption from payment of value added tax (VAT) by the General Tax Administration has not been made.
2. There is a tax contingency arising from professional services rendered by foreigners with 12-VIII non-immigrant visas.

MANAGEMENT COMMENTS

A copy of this draft report was sent to Our Youth Foundation's management on November 16, 1990 and discussed with them on November 20 and 21, 1990. In these meetings management expressed their general agreement with the report's comments and their willingness to take the measures necessary to implement the recommendations. However, it later expressed its disagreement with the recommendations contained in the final report basically due to the summarized manner in which the recommendations have been presented in relation to the draft report whose recommendations were analyzed in greater detail. In the Executive President's opinion, this has given rise to a loss of details and the information contained in the recommendations has not provided the reader with accurate knowledge of the causes which gave rise to those recommendations. Our Youth Foundation's formal reply to our report is included as Annex I.

PRICE WATERHOUSE COMMENTS

The wording, but not the content, of the recommendations included in the draft report and discussed in November 1990 with Mrs. Silvia de Laufer and Mr. Santacruz, Our Youth Foundation's Executive President and Finance Manager, respectively, has indeed been modified, but the criteria and concepts included therein remain basically the same, which we hereby reconfirm since Our Youth Foundation did not provide us with additional information which would lead us to



change our conclusions as documented and supported in our work papers. Additionally, it should be mentioned that Our Youth Foundation's comments, as included in Annex I to this report, in several instances do not refer to the specific recommendation made by the auditor, but rather, its responses are of a general nature without focussing on the problem stated.

Yours truly,

Price Waterhouse.

Price Waterhouse**OUR YOUTH FOUNDATION****DRUG INFORMATION AND PUBLIC AWARENESS PROJECT****PHASE II****USAID/ECUADOR PROJECT No. 518-0064****STATEMENT OF PROPOSED COSTS****INDEPENDENT AUDITOR'S REPORT**

We were engaged to review the statement of costs proposed by Our Youth Foundation for the Drug Information and Public Awareness Project - Phase II, under Cooperative Agreement No. 518-0064-A-00-0088-00 with the Agency for International Development in Ecuador (USAID/Ecuador). The proposed costs statement is the responsibility of Our Youth Foundation management and our work was limited to determining whether the aforementioned statement complies with the following general guidelines:

1. Direct and indirect budget costs are based on the most current, complete and accurate pricing available.
2. All costs are allocable, allowable, reasonable, and necessary to complete the work in accordance with U.S. Office of Management and Budget (OMB) Circular No. A-122 and the terms of the agreement.
3. The most economic alternatives were used to develop the same project activities.
4. Proposed employee salary and wage escalation factors and fringe benefit plans are reasonable.

Because: (1) we were not provided with the cost proposal's supporting documents to determine whether it complies with the above general objectives; (2) the cost proposal has not been structured by years and by activity; and, (3) counterpart contributions, including the participation of volunteers, have not been quantified in monetary terms and income provided by other donors and self-generated was not determined on an objective basis, the scope of our review was not sufficient to enable us to express, and we do not express, an opinion on the statement of costs proposed by Our Youth Foundation for the Drug Information and Public Awareness Project - Phase II.



This report was prepared for the use of Our Youth Foundation and USAID/Ecuador. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Pricewaterhouse.

November 14, 1990
Quito, Ecuador

OUR YOUTH FOUNDATION
DRUG INFORMATION AND PUBLIC AWARENESS PROJECT
PHASE II
USAID/ECUADOR, PROJECT No. 518-0064

STATEMENT OF PROPOSED COSTS (*)

FUNDS TO BE PROVIDED BY USAID

(Expressed in U. S. Dollars)

<u>Project and activity</u>	<u>Salaries and contracts</u>	<u>Educational and promotional material</u>	<u>Travel and per-diem</u>	<u>Third party work</u>	<u>Office supplies</u>	<u>Mobilization</u>	<u>Equipment</u>	<u>Total operational expenses</u>
1. COMMUNITY PROGRAMS AND THEIR SUPPORTING SYSTEMS								
I PREVENTION INFORMATION								
Information Center	91,144	77,763	-	-	8,136	4,190	-	181,233
Radio Juvenil	28,436	5,000	4,440	12,265	-	-	15,500	65,641
Informa T	14,965	-	-	-	5,866	667	-	21,498
Prevention information campaign	<u>40,876</u>	<u>35,503</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,379</u>
Total prevention information	<u>175,421</u>	<u>118,266</u>	<u>6,440</u>	<u>12,265</u>	<u>14,002</u>	<u>4,857</u>	<u>15,500</u>	<u>346,751</u>
II LEGAL REFORM	36,481	28,500	5,608	15,000	2,500	2,500	-	90,589
III RESEARCH	<u>21,898</u>	<u>33,734</u>	<u>7,526</u>	<u>22,335</u>	<u>298</u>	<u>1,369</u>	<u>-</u>	<u>87,160</u>
Total programs	<u>233,800</u>	<u>180,500</u>	<u>19,574</u>	<u>49,600</u>	<u>16,800</u>	<u>8,726</u>	<u>15,500</u>	<u>524,500</u>
2. INSTITUTIONAL DEVELOPMENT								
Institutional Development	<u>446,500</u>	<u>9,000</u>	<u>2,000</u>	<u>84,000</u>	<u>12,000</u>	<u>-</u>	<u>47,000</u>	<u>600,500</u>
Total 4 year budget	<u>680,300</u> =====	<u>189,500</u> =====	<u>21,574</u> =====	<u>133,600</u> =====	<u>28,800</u> =====	<u>8,726</u> =====	<u>62,500</u> =====	<u>1,125,000</u> =====

(*) Budget obtained directly from USAID/Ecuador.

OUR YOUTH FOUNDATION**DRUG INFORMATION AND PUBLIC AWARENESS PROJECT****PHASE II****USAID/ECUADOR PROJECT No. 518-0064****STATEMENT OF PROPOSED COSTS****FUNDS TO BE PROVIDED BY USAID AND OUR YOUTH FOUNDATION**

(Expressed in U.S. dollars)

	<u>USAID/ Ecuador contribution</u>	<u>Our Youth Founda- tion contri- bution</u>	<u>Total approved according to Agree- ment</u>
Personnel and institutional development	446,500	222,000	668,500
Programs	233,800	165,000	398,800
Salaries	680,300	387,000	1,067,300
Educational and promotional materials	189,500	-	189,500
Travel and per diem	30,300	-	30,300
Short-term consultants	49,600	-	49,600
Office supplies and equipment	44,300	-	44,300
Operational costs	47,000	145,000	192,000
Audit and evaluation	84,000	-	84,000
	<u>1,125,000</u>	<u>532,000</u>	<u>1,657,000</u>

STATEMENT OF PROPOSED COSTS

FINDINGS

1. **The Drug Information and Public Awareness Project-Phase II Budget Approved by USAID/Ecuador has not Been Properly Prepared.**

Condition

Our Youth Foundation prepared a budget using the activities developed in the "Drug Information and Public Awareness - Phase I" Project as parameters and determined that an amount of approximately US\$4,000,000 would be necessary to carry out the activities planned during the four-year duration of Phase II of the project. However, the original budget had to be adjusted according to USAID/Ecuador instructions until it was approved for amounts of US\$1,125,000 and US\$532,000 to be financed by USAID/Ecuador and by Our Youth Foundation as project counterpart funds, respectively.

Additionally, the budget prepared by the entity presents the following conditions:

- The proposed costs were based on prices of previous purchases, undocumented telephone quotations and on the judgment of the personnel participating in the preparation of the budget.
- It has not been prepared by year or by activities.
- It was structured in US dollars without reflecting its equivalent in sucres.
- In the preparation of the budget the effects of local currency inflation/devaluation were not considered.
- The basis for calculating the salaries item was not documented.
- Counterpart contributions included in the budget have not been properly documented, volunteer services have not been quantified in monetary terms, and other project donations and income have not been determined using an objective basis.

Criteria

OMB Circular A-122 provides that the budget approved in the award agreement and the activities planned by the institution receiving the funds must be properly documented.

Cause

The proposed costs include estimates based on experience obtained in the execution of the Project's Phase I, and were determined without considering the standards contained in OMB Circular A-122. Additionally, there were no accurate and timely instructions from USAID/Ecuador regarding budget estimates and presentation and the amount which would finally be approved for the project.

Effect

Because of the procedures used by the Foundation's officials to adapt the initial budget to the budget approved by USAID/Ecuador, the proposed costs were not properly documented and, by not documenting the proposed costs in accordance with OMB Circular A-122, costs included in that budget could be over- or under-stated in relation to the proposed goals and the USAID/Ecuador approved amount.

Recommendation

Our Youth Foundation should prepare a budget structured by activities and years, expressed in US dollars with their equivalent in sucres and considering other specific conditions which should be provided by USAID/Ecuador, and should support the budget as required in OMB Circular A-122 to demonstrate that estimates were made on the most current, complete and accurate information available.

Price Waterhouse

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**OUR YOUTH FOUNDATION****DRUG INFORMATION AND PUBLIC AWARENESS PROJECT****PHASE II****USAID/ECUADOR PROJECT No. 518-0064****MANAGEMENT CAPABILITY****INDEPENDENT AUDITOR'S REPORT**

We were engaged to audit the statement of costs proposed by Our Youth Foundation for the Drug Information and Public Awareness Project - Phase II, under Cooperative Agreement No. 518-0064-A-00-0088-00 with the Agency for International Development in Ecuador (USAID/Ecuador) and have issued our report thereon dated November 14, 1990 in which we have abstained from expressing an opinion. As part of our review, we evaluated Our Youth Foundation's management capability to administer the project activities. Our evaluation included those areas we considered relevant to the criteria established by USAID/Ecuador in the statement of work for the pre-award survey of the project.

Based on our evaluation and understanding of the criteria included in the USAID/Ecuador statement of work, we believe that, except for: i) inadequate personnel management; ii) incomplete instructions contained in the Administrative and Financial Standards and Procedures Manual and the failure to enforce the Personnel Administration Procedures Manual; and iii) not preparing the information sent to USAID/Ecuador accurately, timely and pursuant to requirements, Our Youth Foundation has sufficient ability, span of control, human resources, and the management capability to properly administer the project.



This report was prepared for the use of Our Youth Foundation and USAID/Ecuador. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Pricewaterhouse.

November 14, 1990
Quito, Ecuador

MANAGEMENT CAPABILITY**FINDINGS****1. Inadequate Personnel Management****Condition**

Conditions such as those stated below reveal inadequate personnel management by the Our Youth Foundation:

- High financial management staff turnover.
- Concentration of functions in the Executive Presidency.
- Inadequate work distribution.
- Failure to define policies relating to:
 - Disbursements
 - Personnel training and hiring
 - Technical advisory services
 - Conflicts of interest

Criteria

The "Drug Information and Public Awareness" - Phases I and II Agreements include institutional strengthening as one of the principal project objectives. To comply with this purpose the Foundation should have a solid and stable organizational structure which requires having defined and adequate personnel management policies.

Cause

Our Youth Foundation is a new institution consolidated basically during the last three years during which its policies and procedures have slowly evolved.

Effect

Not having an adequate personnel management policy will delay the Foundation's institutional strengthening and may hamper the effective and efficient development of planned activities.

Recommendation

Our Youth Foundation should review its current policy for personnel management and determine the policies and procedures to be implemented and those which should be modified in order to provide an adequate management structure that allows it to achieve the institutional strengthening objective.

2. **Incomplete Instructions Contained in the Administrative and Financial Standards and Procedures Manual and Lack of Enforcement of the Personnel Administration Procedures Manual**

Condition

The current Administrative and Financial Standards and Procedures Manual does not include several control aspects, such as:

A) Accounting Matters

- 1) Internal policies do not include the disposition of inactive bank accounts.
- 2) There are no policies requiring the preparation of reconciliations between balances to be rendered to USAID/Ecuador to balances available in bank accounts in which the related project funds are deposited.

B) Administrative Matters

There are no written policies for: personnel training; rotation of duties; vacation planning; and payroll preparation, review and approval.

According to the Executive President's comments, the Personnel Administration and Procedures Manual, prepared by independent consultants Stern & Company in September 1990, is in the process of implementation and will become effective after it is formally submitted.

Criteria

The Agreement signed with USAID/Ecuador for executing Phase I of the project establishes that as part of

institutional strengthening, the Foundation should prepare and timely enforce personnel administration manuals.

Cause

The Administrative and Financial Standards and Procedures Manual has not been reviewed, evaluated, and updated due to its recent implementation, and because the delivery of procedures manuals by Stern & Company was delayed.

Effect

An incomplete procedures manual increases the possibility of errors in the processing of transactions and of failure to adhere to the policies established by management which otherwise could be avoided. Not enforcing the application of the personnel administration manuals and procedures does not contribute to timely and efficient personnel administration.

Recommendation

Our Youth Foundation should complete and update the Administrative and Financial Standards and Procedures Manual and at the same time implement as soon as possible the use of personnel administration manuals and procedures.

3. **Information sent to USAID/Ecuador should be More Accurate, in Accordance with Requirements, and Submitted Timely**

Condition

On several occasions USAID/Ecuador has requested clarification from Our Youth Foundation of the content of certain documents prepared by the institution which include information beyond the needs of USAID/Ecuador and on other occasions certain financial information has been submitted late by the Foundation.

Criteria

OMB Circular A-110 establishes that information generated by the institution should be concise and, additionally, the Agreement sets dates for the presentation of the different financial reports.

Cause

Our Youth Foundation tries to document the information in accordance with USAID/Ecuador requirements using analyses, studies and evaluations so as to demonstrate the reasonableness of the data provided.

Failure to timely submit financial reports was due basically to the extension on two occasions of Phase I of the project.

Effect

The frequent requests by USAID/Ecuador for clarification of the information submitted gives rise to different interpretations by each institution, and failure to timely submit the financial information could give rise to inconveniences or controversies between Our Youth Foundation and USAID/Ecuador.

Recommendation

Our Youth Foundation should prepare the information requested by USAID/Ecuador concisely, on a timely basis and in accordance with requirements.

Price Waterhouse**OUR YOUTH FOUNDATION****DRUG INFORMATION AND PUBLIC AWARENESS PROJECT****PHASE II****USAID/ECUADOR PROJECT No. 518-0064****FINANCIAL CAPABILITY****INDEPENDENT AUDITOR'S REPORT**

We were engaged to audit the statement of costs proposed by Our Youth Foundation for the Drug Information and Public Awareness Project - Phase II, under Cooperative Agreement No. 518-0064-A-00-0088-00 with the Agency for International Development in Ecuador (USAID/Ecuador) and have issued our report thereon dated November 14, 1990 in which we have abstained from expressing an opinion. Except for the limitations disclosed in our report on the proposed costs, our work included, to the extent we considered necessary, a review of Our Youth Foundation's assets and its income and expenditure estimates for the life of the project.

As part of our review, we have evaluated Our Youth Foundation's financial capability to administer the activities of the Project. Our evaluation was performed pursuant to the statement of work for the pre-award survey of the project.

As explained more extensively in the following pages, Our Youth Foundation has neither achieved a level of solvency which will enable it to subsist on its own nor does it prepare cash flow forecasts which will permit a better planning of the use of its funds. For these reasons we believe that Our Youth Foundation does not have the financial capability to manage the above mentioned project until it receives cash advances from USAID/Ecuador.



This report was prepared for the use of Our Youth Foundation and USAID/Ecuador. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Pricewaterhouse.

November 14, 1990
Quito, Ecuador

FINANCIAL CAPABILITY

FINDINGS

1. Our Youth Foundation has not Achieved a Level of Solvency which will Permit It to Finance the Foundation's Expenditures until It Receives USAID/Ecuador Funds and has Not Implemented as a Regular Procedure the Preparation of Cash Flow Forecasts.

Condition

The Foundation's self-generated income is not sufficient to cover its expenses until funds provided by USAID/Ecuador are received. We noted that during the months of February and March 1990 the Foundation's bank accounts showed overdrafts because in those months no funds from USAID/Ecuador were received since the project's Phase I was almost complete; also it had to request bank overdrafts on several occasions in the months from August to October as a consequence of the significant disbursement made for the property purchase. Additionally, donations forecasted to be received during the project's Phase II are based only on estimates. Moreover, during Phase II of the project it has not implemented as a regular procedure the preparation of cash flow forecasts for fixed periods which would include all receipts and disbursements of funds forecasted for those periods considering the activities planned.

Criteria

Annex 2 of the Agreement for the Drug Information and Public Awareness Project - Phase II signed with USAID/Ecuador establishes that Our Youth Foundation should reduce its dependence on USAID/Ecuador diversifying its financial base and increasing its fund-raising capacity.

Cause

Our Youth Foundation has not achieved an adequate level of solvency due to the following causes:

1. Research services offered by Our Youth Foundation are limited to specialized sectors.

2. Even though Our Youth Foundation developed during Phase I a system for generating its own funds, as of this date it has been unable to implement it.
3. Approximately 70% of the staff's time is dedicated to carrying out the activities of the Drug Information and Public Awareness Project - Phase II Agreement; consequently, only 30% of the time is spent on income-generating services.

Additionally, as a consequence of the Foundation's growth and, consequently, of its level of transactions, the official responsible for preparing cash flow forecasts was assigned to other functions without being replaced until now.

Effect

As of the date of our review, Our Youth Foundation has not consolidated a secure financial base that would allow it to generate its own income to cover its expenses. Lacking a secure financial base could hamper the normal development of its activities and the lack of cash flow forecasts will prevent the Foundation from being able to clearly determine its funding needs for a given period and may eventually lead to financial difficulties.

Recommendation

Our Youth Foundation should increase its efforts to generate its own funds which would permit self-financing in the future thus reducing its dependence on USAID/Ecuador and at the same time it should also implement as a normal procedure the preparation of regular cash flow forecasts which would permit it to determine its financial needs.

Price Waterhouse**OUR YOUTH FOUNDATION****DRUG INFORMATION AND PUBLIC AWARENESS PROJECT****PHASE II****USAID/ECUADOR PROJECT No. 518-0064****INTERNAL CONTROL STRUCTURE****INDEPENDENT AUDITOR'S REPORT**

We were engaged to audit the statement of costs proposed by Our Youth Foundation for the Drug Information and Public Awareness Project - Phase II, under Cooperative Agreement No. 518-0064-A-00-0088-00 with the Agency for International Development in Ecuador (USAID/Ecuador) and have issued our report thereon dated November 14, 1990 in which we have abstained from expressing an opinion.

The management of Our Youth Foundation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, error or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

For the purpose of this report, we have classified the significant project related internal control structure policies and procedures in the following categories: procurement procedures; obtaining technical assistance; planning and evaluation of projects; use and control of fixed assets; computer data input and output procedures; accounting system;



sources and use of the project funds; and budgetary control.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they had been put into operation, and we assessed control risk.

We observed certain matters involving the internal control structure and its operation, which are described below, that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the statement of proposed costs. We noted the following reportable conditions (See findings No. 1 to 3 on pages 28 to 31):

- The accounting system is inadequate for project purposes.
- A major project asset was not purchased in accordance with approved procedures.
- There are no adequate controls in the data processing area.

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

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.



We consider that all the reportable conditions included in this report are material weaknesses.

This report was prepared for the use of Our Youth Foundation and USAID/Ecuador. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Pricewaterhouse.

November 14, 1990
Quito, Ecuador

INTERNAL CONTROL SYSTEM**FINDINGS****1. The Accounting System is Inadequate for Project Purposes.****Condition**

The accounting system currently being used by Our Youth Foundation is not adequate for purposes of providing reliable financial information in relation to the project. Aspects identified during our evaluation and which we believe that the Foundation should analyze and take the necessary corrective measures are as follows:

- a) The institution's statement of income does not reflect the income received from USAID/Ecuador.
- b) Accounting and financial information is not timely prepared.
- c) The financial statements issued as of December 31, 1989 do not include the adjustments proposed by the external auditors, which had been accepted by the Foundation.
- d) There is no clear policy for approval of disbursements.
- e) The use of prenumbered purchasing and/or service order forms has not been implemented.
- f) Not all balances arising from imports of machinery and equipment have been properly accounted for.
- g) Accounting for the Centro Nuestros Jóvenes building construction has not been completed.
- h) The USAID/Ecuador donated Chevrolet Van vehicle has neither been licensed nor recorded as of this date.
- i) The minimum amount established for the capitalization of goods acquired is low.
- j) The fixed assets physical inventory results have not been reconciled to the accounting records.

- k) Fixed assets are not properly identified.
- l) A system which will permit comparisons between actual and budgeted expenses has not been implemented.

Criteria

In accordance with OMB Circular A-110, institutions receiving funds provided by USAID/Ecuador should have an adequate accounting system to generate reliable financial information.

Cause

Our Youth Foundation has faced personnel turnover problems and work overload in some of its departments. The accounting department has been affected by this situation which has given rise to the current accounting system and the related policies and procedures not being improved in the manner required by USAID/Ecuador.

Effect

As the institution does not have an adequate accounting system its financial statements do not clearly present its financial and administrative results.

Recommendation

Our Youth Foundation should implement an accounting system which clearly and accurately reflects the income, expenses and results (surpluses) corresponding to a determined period. For this it should analyze the current accounting system and related policies and procedures and take the necessary corrective measures.

2. **The Purchase of the Building where Our Youth Foundation's offices are Located Did not Follow an Adequate Process.**

Condition

Our Youth Foundation did not request authorization from USAID/Ecuador to purchase the building in which its offices are currently located.

The purchase deed dated August 14, 1990 has not yet been recorded in the Property Register.

Criteria

The budget approved in the agreement signed between USAID/Ecuador and Our Youth Foundation does not foresee the purchase of real estate.

According to Article 1767 of the Civil Code the sale of real estate is not complete until the purchase deed is recorded in the Property Register.

Cause

Our Youth Foundation was forced to look for new offices because it was not possible to continue using the old premises.

As we were informed by the Foundation's legal advisor, they have been unable to make the registration because certain legal documents have not yet been obtained.

Effect

If the entity does not obtain the necessary funds from USAID/Ecuador to cover the cost of the property it has considered requesting bank loans to be repaid with self generated funds and through the sale of two apartments which are not being used by the Foundation.

From a legal point of view, by not registering the transfer of the building, the transaction has not been perfected.

Recommendation

Our Youth Foundation should obtain authorization from the donor institution before carrying out activities not contemplated in the Agreement, and at the same time complete the deed registration proceedings in the Property Register.

3. **There are no Adequate Controls in the Data Processing Area.**

Condition

During our review we observed that there are no batch controls which would ensure correct input of the Foundation's accounting transactions, and individual and confidential passwords have not been assigned to computer users. As a result, the access password used by the financial department to enter data in the computer has not been modified since its installation.

Criteria

Attachment F, paragraph 2.c of OMB Circular A-110 requires effective control over and accountability for all funds, property and other assets. Recipients shall also adequately safeguard all such assets and shall assure that they are used solely for authorized purposes. These requirements should be included in the Administrative and Financial Standards and Procedures Manual.

Cause

The entity's Administrative and Financial Standards and Procedures Manual does not consider these controls.

Effect

Not having a batch control form, not assigning individual passwords and failure to modify them periodically increases the possibility that unauthorized persons may know and use the computer system access passwords, thus jeopardizing the reliability of the information entered in the microcomputer, which is the basis for preparing financial statements.

Recommendation

Our Youth Foundation should implement the use of a batch control form for vouchers related to accounting transactions and should also define a policy for assigning and periodically modifying individual and confidential passwords.

Price Waterhouse**OUR YOUTH FOUNDATION****DRUG INFORMATION AND PUBLIC AWARENESS PROJECT****PHASE II****USAID/ECUADOR PROJECT No. 518-0064****COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE
LAWS AND REGULATIONS****INDEPENDENT AUDITOR'S REPORT**

We were engaged to audit the statement of costs proposed by Our Youth Foundation for the Drug Information and Public Awareness Project - Phase II, under Cooperative Agreement No. 518-0064-A-00-0088-00 with the Agency for International Development in Ecuador (USAID/Ecuador) and have issued our report thereon dated November 14, 1990 in which we have abstained from expressing an opinion. As part of the examination, we have made a study and evaluation of Our Youth Foundation's compliance with the terms of the agreement and with applicable laws and regulations.

The management of Our Youth Foundation is responsible for compliance with Agreement terms and applicable laws and regulations. As part of our review of the proposed costs statement, we performed tests of Our Youth Foundation's compliance with agreement terms and with certain legal provisions, regulations, contracts, agreements and policies and obligatory procedures. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the project. The results of our tests of compliance disclosed the following material instances of noncompliance:

- i) Lack of legal documentation from the General Tax Administration confirming that the Foundation is exempt from Value Added Tax,
- ii) Tax contingency for professional services rendered by foreigners with a non-immigrant 12-VIII visa,



- iii) Lack of proper documentation of the purchase of Our Youth Foundation's building.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, Our Youth Foundation complied, in all material respects, with the aforementioned provisions, and with respect to items not tested, nothing came to our attention that caused us to believe that Our Youth Foundation had not complied, in all material respects, with those provisions.

This report was prepared for the use of Our Youth Foundation and USAID/Ecuador. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse.

November 14, 1990
Quito, Ecuador

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

FINDINGS

1. **Lack of Legal Documentation from the General Tax Administration Confirming that the Foundation is Exempt from Value Added Tax.**

Condition

We were informed that there is no legal document confirming that the Foundation is an institution exempt from Value Added Tax.

Criteria

According to Article No. 61 of the Internal Regime Tax Law of Ecuador, all entities which customarily render taxable services are subject to Value Added Tax; however, in Article No. 55 of the same law services rendered by the Foundation are not included as taxable. Because the law does not clearly state that non-profit organizations are exempt from Value Added Tax, Our Youth Foundation should direct a specific enquiry on this subject to the General Tax Administration.

Moreover, in accordance with OMB Circular A-122, Annex B, tax payments for which exemptions are available to the organization on the basis of exemptions granted by the Government when the agent receiving the donation provides the necessary certificates, are not reimbursable.

Cause

Our Youth Foundation previously made a specific enquiry to the General Tax Administration in relation to whether or not it was exempt from Value Added Tax in view of its condition as a non-profit organization, enquiry which was not answered by that entity.

Effect

Since the Foundation does not have a certificate from the General Tax Administration exempting it from paying the Value Added Tax, it is subject to the payment of such tax, which could be avoided.

Recommendation

Our Youth Foundation should request from the General Tax Administration a certificate confirming that the Foundation is an entity exempt from Value Added Tax.

2. Tax Contingency for Professional Services Rendered by Foreigners with a Non-Immigrant 12-VIII Visa.

Condition

Messrs Alejandro Pinto and Mirela Tironi, Chilean nationals with non-immigrant 12-VIII visas render professional services based on a contract with Our Youth Foundation. Seven percent income tax is withheld from the fees paid in conformity with paragraph 4 of Article No.1 of Ministerial Agreement No.615, published in Official Register 344 of December 28, 1989.

Criteria

The third clause of Article 36 of the Internal Regime Tax Law states that income obtained by foreign nationals with no Ecuadorian residence, for occasional services rendered in Ecuador, should pay the single tariff of 25% on total income perceived.

Cause

The new Internal Tax Regime Law, effective since 1990, contains confusing legal provisions which could be interpreted in different ways.

Effect

Our Youth Foundation could be liable for a tax contingency as a tax withholding agent.

Recommendation

Our Youth Foundation should direct a formal inquiry to the General Tax Administration regarding the income tax percentage to be withheld on fees for professional services rendered by foreigners with a non-immigrant 12-VIII visa.

3. **The Purchase of the Building in which Our Youth Foundation's Offices are Located Has Not been Properly Documented.**

Condition

Communication DF.0119.90 of September 12, 1990 sent by Our Youth Foundation to USAID/Ecuador states that the Foundation decided to acquire a building at a cost amounting to S/.165,000,000. However, the purchase deed states an amount of S/.90,000,000.

Criteria

Even though Our Youth Foundation is a non-profit organization and consequently is not subject to income tax, it has to comply with the other tax and municipal obligations including taxes payable on real estate transactions by both buyers and sellers. According to Article No.449 of the Municipal Regime Law natural and juridical persons who evade or assist in the evasion of taxes will be liable to a fine of up to three times the amount of the tax evaded.

Cause

Our Youth Foundation had stated in the deed for the purchase of the building an amount of S/.90,000,000 instead of S/.165,000,000 in order to reduce tax charges for both seller and buyer of the property.

Effect

Our Youth Foundation could be subject to possible penalties and fines by the municipal authorities.

Recommendation

Our Youth Foundation should properly document the building purchase to avoid a tax contingency.

OUR YOUTH FOUNDATION
DRUG INFORMATION AND PUBLIC AWARENESS PROJECT
PHASE II
USAID/ECUADOR PROJECT No. 518-0064
LIST OF REPORT RECOMMENDATIONS

Recommendation on Proposed Costs

Page

1. Our Youth Foundation should prepare a budget structured by activities and years, expressed in US dollars with their equivalent in sucres and considering other specific conditions which should be provided by USAID/Ecuador, and should support the budget as required in OMB Circular A-122 to demonstrate that estimates were made on the most current, complete and accurate information available.

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Recommendations on Management Capability

1. Our Youth Foundation should review its current policy for personnel management and determine the policies and procedures to be implemented and those which should be modified in order to provide an adequate management structure that allows it to achieve the institutional strengthening objective.

18

2. Our Youth Foundation should complete and update the Administrative and Financial Standards and Procedures Manual and at the same time implement as soon as possible the use of personnel administration manuals and procedures.

19

3. Our Youth Foundation should prepare the information requested by USAID/Ecuador concisely, on a timely basis and in accordance with requirements.

20

Recommendation on Financial Capability

1. Our Youth Foundation should increase its efforts to generate its own funds which would permit self-financing in the future thus reducing its dependence on USAID/Ecuador and at the same time it should also implement as a normal procedure the preparation of regular cash flow forecasts which would permit it to determine its financial needs.

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Recommendation on Internal Control Structure **Page**

1. Our Youth Foundation should implement an accounting system which clearly and accurately reflects the income, expenses and results (surpluses) corresponding to a determined period. For this it should analyze the current accounting system and related policies and procedures and take the necessary corrective measures. 29

2. Our Youth Foundation should obtain authorization from the donor institution before carrying out activities not contemplated in the Agreement, and at the same time complete the deed registration proceedings in the Property Register. 30

3. Our Youth Foundation should implement the use of a batch control form for vouchers related to accounting transactions and should also define a policy for assigning and periodically modifying individual and confidential passwords. 31

Recommendations on Compliance with Agreement Terms and Applicable Laws and Regulations

1. Our Youth Foundation should request from the General Tax Administration a certificate confirming that the Foundation is an entity exempt from Value Added Tax. 35

2. Our Youth Foundation should direct a formal enquiry to the General Tax Administration regarding the income tax percentage to be withheld on fees for professional services rendered by foreigners with a non-immigrant 12-VIII visa. 35

3. Our Youth Foundation should properly document the building purchase to avoid a tax contingency. 36

OB1FFS.OF
Quito. 12 de Junio de 1991

Señorita
Bertha Proaño
PRICE WATERHOUSE & CO.
Ciudad.

De mi consideración:

Me es grato referirme a su atenta comunicación del 29 de mayo/91 mediante la cual nos envía el borrador que contiene las observaciones que surgen de la evaluación pre-desembolso de la Fundación Nuestros Jóvenes, en relación con el Programa 518064 para la Información y Concientización Pública sobre Drogas Fase II, firmado con USAID/Ecuador. Hemos procedido a efectuar el correspondiente análisis el mismo que conjuntamente con nuestras observaciones, se servirá encontrar adjunto. Adicionalmente por la importancia que tiene para la FNJ ésta auditoría, es necesario puntualizar lo siguiente:

- 1.- Las recomendaciones que fueron aceptadas por la Fundación Nuestros Jóvenes en la reunión mantenida los días 20 y 21 de noviembre de 1990, con usted y el señor Basem Bader son diferentes en su contexto conforme la copia del borrador discutida en esa oportunidad.
- 2.- Las recomendaciones son demasiado generales, pues no permiten concretar en sugerencias válidas o no constituyen sugerencias positivas que aporten al mejoramiento de la administración de los recursos disponibles, por cuanto en ningún caso significan soluciones específicas a los problemas detectados.
- 3.- La Dirección Administrativa se encontraba en proceso de creación dentro de la estructura orgánico-funcional de la FNJ, esta situación fue conocida por Price Waterhouse, por lo tanto se trata de un área en plena formación como resultado del crecimiento de actividades de la Institución y por la sugerencia directa de la Firma Stern & Cía, quienes fueron contratados para desarrollar las políticas organizacionales.
- 4.- Conocían además el atraso en las actividades y en el registro de la información contable-financiera, producido por el desfase entre la terminación del convenio FASE I y la firma del convenio FASE II.

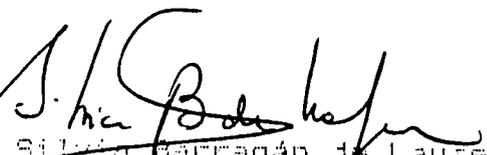
- 5.- Cuando existen los procedimientos el auditor los juzga inadecuados, incompletos e inconsistentes, desconociendo el enorme esfuerzo realizado en los dos últimos años para configurar una entidad económica-financiera perfectamente organizada.
- 6.- La redacción expuesta tiene el riesgo de que puede afectar a la imagen de la FNJ ante AID, aún cuando la misión UASID/Ecuador reconoce el permanente afán de automatización y búsqueda de la eficacia y eficiencia en el manejo Administrativo-Financiero.
- 7.- Al revisar el sistema de control interno se manifiesta que el sistema contable es inadecuado para el propósito del Proyecto, esta situación puede generar el criterio de que no existe organización contable-financiera. Este supuesto se desvirtúa automáticamente luego de la revisión de los Estados Financieros al 31 de diciembre de 1989 y 1990, que contienen la opinión de los auditores externos Salvador & Asociados y Romero & Asociados, quienes exponen su conformidad con la razonabilidad de las cifras y su adhesión a los principios de contabilidad generalmente aceptados en el Ecuador, circunstancia con la que Price Waterhouse en ningún momento demuestra su inconformidad.

Por todo lo expuesto anteriormente podemos fácilmente concluir:

- a.- La FNJ, es una Institución que se halla en franco crecimiento, que cumple y ejecuta las políticas, normas y procedimientos dictados por AID, que ha desarrollado esfuerzos gigantes por implantar el sistema de autofinanciamiento que le permita ofrecer un mayor servicio a la comunidad especialmente de jóvenes.
- b.- Estamos conscientes de que existen errores y es normal, cuando se desarrolla una actividad tan dinámica como la nuestra, pero estos errores no son relevantes de tal manera que desvirtúan la imagen de la FNJ y su manejo financiero (como parece desprenderse de los resultados tentativos presentados por los auditores), pues son únicamente de forma, o de inmediata corrección administrativa.

Finalmente espero que todas las observaciones puedan aclararse en beneficio mutuo, por cuanto es nuestro interés que la auditoría de Price Waterhouse sirva como asesoría en nuestra constante búsqueda de la calidad administrativa, mediante la adhesión a las políticas establecidas.

Atentamente,


Silvia Barragán de Lauffer
PRESIDENTA EJECUTIVA

FFS.INF

COMENTARIOS INSTITUCIONALES AL
INFORME AUDITORIA PRICE WATERHOUSE

AUDITORIA COMPLETADA: 21 de Noviembre de 1990
OBSERVACIONES RECIBIDAS: 29 de Mayo de 1991
COMENTARIOS: 7 de Junio de 1991

RECOMENDACION	CRITERIO PRICE WATERHOUSE	CRITERIO FUNDACION NUESTROS JOVENES
<p>PRESUPUESTO: El presupuesto del Proyecto Información y Concientización Pública sobre las Drogas - Fase II aprobado por USAID/ ECUADOR, no ha sido adecuadamente preparado.</p>	<p>CONDICION: - Los costos son históricos y no documentados. - No fue preparado por año o por actividad - Sólo en dólares - No se considera inflación-devaluación - Rubros sueldos no fue documentado. - Contribución de la contraparte sin documentos.</p>	<p>Introducción: Condición El concepto básico de presupuesto corresponde a un plan de actividades con cifras. Por lo tanto se entiende que un presupuesto puede ser flexible y que se irá ajustando adecuadamente conforme se vayan concretando los objetivos y productos planteados mediante la realización de las actividades. El plan operativo aprobado es el un documento de respaldo del presupuesto. No estamos de acuerdo que se preparó un proyecto por 4'000.000 de dolares y 4 años. La primera propuesta fue por 4'000.000 de dólares y 5 años. Cuando se presentó esa propuesta se habla solicitado insistentemente un tope al AID. Posteriormente antes de definir los topes presupuestarios, se solicitó reajustes, en tiempo, en monto y en estrategias, programas y proyectos. Por último se negoció el proyecto en el tiempo record de dos meses, durante los cuales se debió responder a muchas comunicaciones y elaborar en cada caso ajustes al presupuesto. Aún sin conocer claramente si el tope sería un millón o más. La auditoría encontró toda la documentación que justificaba el presupuesto en forma suficiente. La estructura del proyecto fué en sucres, traducido en dolares y no viceversa. Y el presupuesto fue preparado por el tiempo del proyecto y con aporte de la asesoría Stern se desglosó por años y por producto. Nos ratificamos en plantear que existieron razones de peso legal para no cuantificar los servicios voluntarios en términos monetarios. El calificativo "bases objetivas" para el caso de "donaciones" no tiene ningún asidero racional porque se fundamenta en la "buena-</p>

!voluntad del donante" y en la "credibilidad
!de la institución beneficiaria". En el
!caso de la proyección realizada se funda-
!mentó en montos recibidos en años anterior-
!iores por las mismas instituciones o afines.

!Documentos entregados:

- !1. 4 versiones de desgloses presupuestarios,
! por productos de 4 años. Cada una respondiendo
! do a ajustes solicitados por AID.
- !2. Archivo de presupuestos por proyecto que
! indican como se fue organizando el presupues-
! to global
- !3. Comunicaciones de la GDO solicitando aná-
! lisis más ajustados del presupuesto.
- !4. Documento STERN en el que se desglosa por
! año y se asignan los responsables, los pro-
! ductos inicialmente presentados para los 4
! años.

!CAPACIDAD ADMINISTRATIVA
!OBSERVACIONES
!Inadecuada Administración de
!Personal

!CONDICION:

- !- Alta rotación de personal del equipo
! financiero.
- !- Concentración de funciones en la
! Presidencia Ejecutiva
- !- Distribución inadecuada de trabajo
- !- Falta de definición de políticas
! relacionadas con:
! Desembolsos
! Entrenamiento y contratación.
! Servicios de consultoría.
! Conflictos de interés.

!Condición: rotación de personal.

!PMH constató que el único cargo al que
!realmente se aplica esta condición es al de
!Director Financiero. Puesto que el equipo
!encontrado por PMH ha permanecido 4 años.

!Condición: acumulación de funciones

!- Respondiendo a criterio de AID se contrató 1
!Auditoría administrativa (STERN Y ASOCIADOS)
!quienes consideraron la necesidad:
!de fucionar los cargos de Presidencia y Direc-
!ción ejecutiva por razones de organización
!y de historia (todas las presidencias habían fun-
!cionado como Dir.Ejec. y por tendencia
!cada vez más acentuada en empresas modernas.

!- Se entregó a consideración del AID, el pa-
!quete de asesoría fué aprobado por la oficina
!GDO a quien se les indicó que en consecuencia
!la FNJ modificaría sus estatutos, en donde se
!recogió las recomendaciones STERN, no objetadas
!por AID, el cargo de Presidenta Ejecutiva con
!su descripción funcional es clave en el conve-
!nio y fue aprobado por AID.

!- En el Organigrama se crea la Función de
!Gerencia que reemplaza la de Dirección Ejecutiva
!cuando PMH evaluó, recién se había implementado
!las funciones de Presidencia Ejec. y Gerencia
!y el Gerente actuante estaba en una beca en el
! exterior y el nuevo orgánico era de recién
!aplicación. En estas circunstancias es
!normal conceder tiempo a la institución para
!que ajuste sus normas y procedimientos.

!- Se entregó a PMH la propuesta STERN.

!-Condición: Distribución inadecuada de trabajo.

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!En la discusión con PMH se discutió hasta la
!saciedad que la FNJ no aceptaba esta condi-
!ción. Creemos que se demostró con documentos
!técnicos: sistemas de planificación y supervisión
!adecuados y funcionando, la adecuada distribu-
!ción de trabajo por responsable. Rechazamos
!rotundamente tal recomendación. Los informes
!mensuales de cada funcionario en la organización
!puede permitir ratificar lo que se afirma.

!- Condición: inexistencia de políticas
!La FNJ cuenta con política escrita de contrata-
!ción de personal (enseñado a PMH y al AID).
!En los demás áreas señaladas, la FNJ se somete
!a prácticas rigurosas que expresan políticas
!implícitas. Así, entrena su personal periódicamente.
!periódicamente. A PMH se le entregó
!en su oportunidad las planificaciones e
!informes del cumplimiento de los planes. En el
!caso de desembolsos, entrenamiento, servicios
!de consultoría y conflictos de interés sigue
!estrechamente los STANDARS PROVISIONS DE AID
!Un Convenio Suscrito es ley para las partes.
!Decir que "no hay política" es inducir a creer
!que la FNJ irrespeta el Convenio AID.

!- Causa: Estamos viviendo un proceso de
!consolidación, pero no es cierto que la insti-
!tución haya sido lenta en elaborar un ma-
!nual de normas y procedimientos. Este fue
!integrado en Febrero de 1989.

!- Recomendación: rechazamos su carácter general
!pues no permite concretar sugerencias válidas
!que aporten al mejoramiento de la administra-
!ción. La redacción expuesta hace correr el
!riesgo que se vea afectada la imagen de la FNJ.
!Solicita que la palabra "inadecuada" debe ser
!reemplazada por "no está consolidada o ajustada"
!Tomando en cuenta que acababa de terminar de
!recibir una consultoría externa de auditoría ad-
!ministrativa la misma que a la llegada de PMH
!estaba en proceso de asimilación e implanta-
!ción.

!Instrucciones Incompletas
!contenidas en el Manual de
!Normas y Procedimientos Admini-
!trativos- Financieros.

!CONDICION

!Aspectos Contables:

- !1) No existen políticas internas que
!incluyen disposiciones sobre aquellas
!cuentas bancarias que no tienen
!movimiento alguno.
- !2) No existen políticas que garanticen
!la elaboración de conciliaciones entre
!los saldos pendientes de justificación

!CONDICIONES CONTABLES

!Condición: Cuenta sin movimiento

!La política que en la práctica se ha manejado
!justifica su existencia: la obligatoriedad
!en caso de cuentas en dólares, de mantener
!cantidades mínimas (4.000-5.000) por lo tanto
!se mantiene la cuenta para evitar las exigen-
!cias de una nueva apertura.

!Condición: conciliaciones

!Oportunamente se realizaron las conci-
!liaciones de los saldos expuestos se-

! a USAID con los fondos disponibles !diante reuniones de trabajo entre las
! en las cuentas bancarias en las que se !contadoras de la FNJ y AID.
! depositan los fondos correspondientes a!
! al proyecto.

!Aspectos Administrativos

- !- No existe política sobre entrena-
! miento y capacitación del personal
- !- rotación de funciones
- !- plan de vacaciones
- !- elaboración, revisión y aprobación
! de roles de pago.

!CONDICIONES ADMINISTRATIVAS:

!Condición

!El área Administrativa como se lo ha dicho
! está en proceso de ajuste y consolidación
! Pero la FNJ ha realizado en la practica un
! gran esfuerzo de administración correcta
! de su personal en las áreas mencionadas.
! aunque no se traduzca en el Manual de normas y
! procedimientos.
! Fue justamente el interés en consolidar el área
! y llevar la práctica a la norma que motivó a la
! FNJ, a contratar (6 meses antes del II Conve-
! nio AID/FNJ) una consultoria administrativa
! Stern & Cia, se demoró en la elaboración de los
! manuales aproximadamente 8 meses. Esto impidió
! un proceso de implantación de los ajustes de
! la administración oportuna, es decir antes del
! Nuevo proyecto. Esto fué explicado al AID y a
! PMH. Aun es más, la FNJ para el nuevo proyecto
! la FNJ, hizo un esfuerzo -al no contar con los
! manuales definitivos- de elaborar un plan de
! personal, que recoge, la política de salarios
! la de contratación de personal, los instrumentos
! los ajustes y el orgánico funcional para el
! período. Estos documentos fueron entregados
! a PMH.

!CAUSA:

!No es exacto que el Manual de Normas y Procedi-
! mientos sea de reciente implantación. Ha exis-
! tido desde 1989, entregado al AID. Esta causa
! debe ser modificada. La FNJ, cada año procede
! en cambio a actualizar el manual, introduciendo
! las normas creadas y eso fué explicado a PMH.

!EFECTO:

!El Manual Administrativo Financiero al iniciar
! su vigencia en FEB.89, es lógico que haya
! requerido de que sus políticas, normas y proced.
! sean revisadas y/o autorizadas. Sobretudo si
! el Convenio AID/FNJ I fase, tenia como objetivo
! primordial el fortalecimiento. PMH ha encontrado
! una institución en constante cambio y consolida-
! ción. Con prácticas serias que poco a poco se han
! ido introduciendo en los manuales.
! Es el caso de la administración de personal,
! PMH no pudo observar indicadores de una mala
! administración (alta rotación, juicios laborales,
! los conflictos, etc). El único cargo que se re-
! conoce que ha sufrido de rotación como se lo ha
! señalado ha sido el de Director Financiero.
! Aunque fuera del control de la FNJ. Se nos ha
! informado que la estructura salarial no es con-
! petitiva para este tipo de cargos directivos

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!eso fue señalado al AID.
!Documentos entregados:
!Planes de Personal, orgánico funcional, política
!salarial, política de contrataciones, sistema
!de evaluación del personal. Cuadros conteniendo
!los datos de personal, terminos de referencia de
!cargos, carpetas de personal, Actas de Comités de
!de personal, el sistema de planificación, reporte
!te y acompañamiento, carpetas de evaluación
!semestral del personal, planes de capacitación
!e informes de seminarios de capacitación
!por convenio, planes de fortalecimiento insti-
!tucional, resultados de consultorias de desarro-
!llo organizacional y administrativa en aspectos
!especificos, planes de consultoría nacional e
!internacional. Infomes de becas nacionales e
!internacionales al personal. Lo expuesto
!anteriormente demuestra el interés
!de la FNJ por administrar adecuadamente
!su personal, aunque por las razones expuestas.
!no se hayan recogido en políticas, normas y pro-
!cedimientos escritos lo que en la práctica se
!se ha aplicaddo según el respeto que se ha te-
!nido a los STANDARS PROVISIONS del Convenio AID.

!Se solicita cambiar la redacción para reflejar
!el esfuerzo de la FNJ en crear, actualizar sus
!manuales fundamentándose en prácticas adecuadas.
!a los STANDARS PROVISIONS del Convenio.

3 !La información enviada a USAID/CONDICION

!ECUADOR debe ser más concisa y !- en ciertas ocasiones USAID/ECUADOR
!estar de acuerdo a los requer-!solicita a FNJ aclaraciones sobre el
!rimientos solicitados y !contenido de ciertos documentos elabo-
!debe ser presentada oportuna-!rados por la Institución, los que inclu-
!mente. !yen una extensa litaruatura que brinda
!información adicional a la que USAID/
!Ecuador necesita conocer y en otras
!ocasiones cierta información financiera
!ha sido presentada con retraso.

!Condición:

!Se explicó A PNH, que en la práctica hay incon-
!sistencia en la aplicación de parte de la AID
!de esta norma recogida en la circular OMB A-110
!Cuando se envía documentos concisos se pide
!aclaración detallada y viceversa, ocasionando
!el juego de la documentación que va y viene en
!doble sentido. El caso más obvio fue el proce-
!so de negociación del Proyecto.
!La inconsistencia en la práctica ha llevado a
!generar no solo interpretaciones erradas, sino
!un costo burocrático y pérdida de vista de los
!objetivos del Convenio. Esto ha afectado
!aún al personal administrativo y técnico que ha
!debido estar inmerso en estas exigencias.
!Creemos la recomendación debe ser aún más firme
!que lo señalada y debe ser en doble sentido.
!No solo la FNJ sino también el AID debe intentar
!definir los criterios de la información concisa y
!y oportuna. Muchas veces se se observa que falta
!consistencia en sus demandas.

!Condición retraso:

!Solo se señaló el retraso en la auditoria en el
!caso de un informe trimestral que no fue entre-

!gado a al fin del proyecto y que se explicó que
!se convirtió en semestral por extensión del
!tiempo del proyecto de la FASE I del Proyecto.

CAPACIDAD FINANCIERA

!La FNJ aún no alcanzado un
!nivel de solvencia autogene-
!rada y no ha implementado flu-
!jos de caja regulares.

CONDICION

!Los ingresos autogenerados por la Fundaci-
!no son suficientes para solventar sus
!costos hasta que los fondos provenientes
!de USAID/ Ecuador sea recibidos.
!Se determinó que la Fundación ha presenta-
!do sobregiros: en etapa de fin de proyect-
!y en etapa de compra de inmueble.
!Donaciones son estimaciones.
!Y no hay flujos de caja.

CAUSAS:

!Las causas señaladas no son las fundamentales.
!El retraso en la aplicación se debe a políticas
!de AID, que prohíben autorizar a la Institución
!contratar personal específico para el autofinan-
!ciamiento. Se asume en el Convenio una obliga-
!toriedad de alcanzar niveles de autofinanciamiento!
!de parte de la FNJ y de la AID de apoyar el proce-
!ceso, pero no se incluye en el presupuesto fon-
!dos necesarios para su implantación. Ni tiempo
!en las diferentes funciones del Orgánico-Funcional!

CAUSA

!De acuerdo con el convenio FASE II
!FNJ debe reducir su dependencia con
!AID, sin lograrlo por lo siguiente:
!- Investigaciones limitadas a sec-
!tores especializados
!- Sistema de autofinanciamiento sin
!implantar
!- 70% del tiempo del personal en ac-
!tividades de AID y 30% en activi-
!dades FNJ

!En el segundo convenio y con el fin de
!obviar los problemas generados por las
!políticas de la AID en el campo, la FNJ presentó
!a AID, una política de Autofinanciamiento que
!"obligaba" al personal a generar autofinan-
!ciamiento a parte del 70% de su tiempo cumpliendo
!do con los productos previstos del Convenio.
!Además el convenio Fase II, contiene toda una
!serie de productos que la FNJ aceptó que serían
!financiados por la FNJ, como contraparte.
!Esta contraparte cumple con las actividades
!que la FNJ desarrolla en un campo productivo.
!Por ejemplo se comprometió a realizar investigacio-
!ciones, seminarios, eventos comunit. buscando
!el financiamiento para los misioneros. Esto se
!debió al limitado presupuesto de la segunda
!fase lo que obligó a la FNJ a recortar proyectos
!importantes de la I Fase.

Documentos entregados:

!Se entregó a PWH, dos planes de autofinanciamiento!
!del primero y segundo convenio. Una política
!procedimientos y normas en vigencia. Y flujos
!de caja para el pago del inmueble.

Estrategias sobre las que fue informado PWH:

!a) La creación de una empresa de producción
!de videos, actualmente en pleno funcionamiento.

!b) El proyecto con el Gobierno para compra
!de Deuda Externa.

!Estas estrategias son firmes que proyectadas en
!el tiempo no pueden ser ignoradas por PWH.
!sobre todo cuando fueron recogidas en los documentos!

!mentos y se puede verificar del avance de las
!misiones y su efectividad.

!Observación con criterios insuficientes:

!- Sin embargo el establecimiento de un sistema
!y la observación de sus resultados no pudieron
!ser evaluador por PMH, por la fecha.

!- Un sistema de implementación por genera-
!ción de fondos propios requiere más que una
!estimación presupuestaria, como la efectuada
!por los Auditores, aun siendo un marco
!referencial al inicio.

!- Para que funcione el autofinanciamiento-
!se requiere del transcurso del tiempo
!conjuntamente con una política de
!de desarrollo organizacional,
!proyectos productivos y personal especializado.

!Sin embargo, estamos incluyendo un cuadro -
!demostrativo del movimiento autogenerado por
!la FNI, en este sentido; resultantes de la
!actividad exitosa de los proyectos productivos
!en investigación, producción de videos a fines,
!donaciones, etc.

!Se solicita a PMH cambiar la CAUSA y recoger
!en la CONDICION el hecho que la observación
!coincide con la presentación del nuevo plan, la
!nueva política y la creación de la empresa
!productiva, a la vez que con la compra del
!inmueble.

!Inadecuado sistema contable
!para propósito del proyecto

- !- El estado de resultados no refleja
! ingresos recibidos de AID.
- !- La información contable financiera
! no es preparada en forma oportuna.
- !- Los estados financieros preparados
! al 31-12-89 no incluye ajustes pro-
! puestos por el auditor externo.
- !- No existe una política de aproba-
! ción de desembolsos.
- !- Las ordenes de Compra no son pre-
! enumeradas.
- !- No se han liquidado la construcción
! del Centro Nuestros Jóvenes.
- !- El vehículo donado por AID no ha si-
! do matriculado.
- !- El monto mínimo para capitalizar
! bienes es bajo.
- !- No se ha conciliado el inventario
! físico de activos con los registros
! contables.

- !- La información contable financiera
! es preparada bajo un sistema electró-
! nico de registro (T-MAX) y es el resul-
! tado de:
- ! 1.- La adhesión a las políticas y es-
! tándares AID y envío de vouchers para
! su aprobación.
- ! 2.- Cumplimiento de políticas internas
- ! 3.- Marco de leyes ecuatorianas
- ! 4.- Plan de cuentas aprobadas por AID
- ! 5.- Control interno
- ! 6.- Formularios y requisitos diseñados
! para esta actividad especializada.
- ! Los estados financieros cumpliendo con
! los principios de contabilidad general-
! mente aceptados, revelan en forma su-
! ficiente y competente la información
! por lo tanto cualquier error no tiene
! importancia relativa que pueda desvir-
! tuar la opinión general de que responden racio-

- No existe sistema adecuado de codificación de los activos fijos.
- Falta de un sistema que permita comprar los gastos reales con los presupuestados

Finalmente a la posición financiera, a Dic.31 1989 conforme lo señalan expresamente los auditores externos, - Salvador & Asoc. -, por lo tanto, los errores corresponden a ajustes administrativos efectuados.
La dinámica de la FNJ, obliga a que los sistemas, vayan depurándose constantemente.

3 No se siguió un proceso adecuado para compra del inmueble

FNJ no solicitó autorización a AID y el presupuesto no preve su compra

Mediante oficios Nos. 191.90 y 230.90 la FNJ informó al contralor de la AID el costo de oportunidad favorable que representaba la compra de edificio, cuyo valor de S/.165 millones originales, este momento representa S/.300 millones lo que significa un verdadero patrimonio que consolida la posición financiera de la FNJ en el futuro.

4 No existen controles adecuados en el procedimiento de datos

No existe control de lotes para el ingreso de las transacciones contables.
- No hay asignación de claves individuales y confidenciales.
- La circular OMBA110 establece control sobre los fondos propiedades y otros activos y aseguran su utilización para propósitos autorizados.

Dentro del Manual de Normas y Procedimientos existe la normatividad para el uso de las computadoras, que es supervisada estrechamente por las instancias responsables
En cuanto al uso de claves individuales y control de lotes para el ingreso, creemos que no es aplicable, porque al momento cada computador tiene un responsable del uso de la información, así como de virus, se dispone de un inventario de diskettes activos y pasivos, la entrega de diskettes debidamente scaneados y formateados, así como existe un control de la información contenida en diskettes a través un cuaderno de registro.
Esta recomendación la consideraremos futuramente

5 La Dirección de Rentas no confirma que la FUNDACION es excenta del pago del IVA.

La Ley se presenta confusa, pues el Art. 61 dice que debe pagar y el Art. 55 que no es gravable.

Con fecha 17-DIC-90 se envió el oficio 0201.90, el mismo que ingreso a la Dirección General de Rentas con el trámite No. 16027, mediante el cual se insiste en las exenciones de la FNJ, según el numeral 3 del Art. 16 de la Ley de Control Tributario Interno. Este trámite se encuentra pendiente y comunicaremos su resultado oportunamente.

Contingencia tributaria por servicios profesionales de extranjeros

Alejandro Pinto y Mirella Tironi mantienen un convenio con FNJ y se les retiene el 7% de honorarios. El Art. 36 establece que los ingresos de las personas extranjeras por servicios profesionales, tienen la retención del 25% sobre sus ingresos. La nueva Ley

Los mencionados funcionarios se encuentran en el país mediante convenio Internacional de Voluntariado, debidamente aprobado por el Ministerio de Relaciones Exteriores del Ecuador, por lo tanto su situación tributaria es específica, por lo que creemos no se presentará ningún

!de Regionen Tributario Interno, tiene
!disposiciones legales confusas que
!pueden provocar contingencias tributa-
!rias para la FNJ.

!problema legal en este sentido.

7 !No se ha documentado la compra
!del edificio
!FNJ resolvió adquirir un edificio en
!165 millones y la escritura de compra-
!venta señala 90 millones. De acuerdo
!al Art. 449 de la Ley Municipal las
!personas naturales y juridicas que
!causen evación tributaria

!Existe la protocolización de toda la
!documentación referente a la adquisi-
!ción de la casa y sus valores efectua-
!do ante el Notario Dr. Andrés Acosta
!Holguín (200 folios) que desvirtuan
!virtualmente esta afirmación del auditor.

946FFS-I

ANEXO 2 DEL MEMORANDO No. 886FFS
DEPARTAMENTO FINANCIERO; 18 DE JUNIO DE 1991

DETALLE DEL MOVIMIENTOS DE INGRESOS AUTOGENERADOS POR LA FNJ
DE JUNIO 90 A JUNIO 91

SALDOS BANCARIOS

5.524.170.90

Bco. Pacífico Cta. 1772633-0	1.346.533.00
Bco Pacífico Cta.216291-6	2.770.283.45
Proinco FNJ	931.176.72
Proinco Bco. Central	166.331.93
Proinco Talleres	280.145.70
Bco. Producción US\$30	29.780.00

I N G R E S O S

Contratos: (Utilidades)

14.467.871.00

Ministerio Bienestar Social	2.756.869.00
Galo Rosero & Asociados	3.863.700.00
Ciba Geigy	5.160.870.00
Ministerio Educación Cultura	1.686.432.00
Colegio Americano	1.000.000.00

Donaciones:

31.897.845.00

Banco Central	6.750.000.00
Municipio de Quito	7.999.840.00
Texaco	181.500.00
Senefelder	130.750.00
DNP	22.000.00
Stern & Cia	112.616.00
Varios Anónimos	7.030.372.00
Dólares (1980 x 890)	1.762.200.00
AER	332.900.00
Seguros Equinoccial	129.838.00
Aportes Socios	420.000.00
Citibank	1.000.000.00
Finansa	352.159.00
Embajada Británica	2.356.790.00
Banco de la Producción	3.000.000.00

Reciclar papel	40.870.00
Tarjetas de Navidad	1.861.950.00
Imprenta	266.210.00
Arriendos ganados	2.724.378.90
Varios	505.792.00
Subasta Cuadros	3.535.202.00
Subsede Autofinanciamiento	12.631.176.32

TOTAL INGRESOS

67.138.575.22

72.662.746.12

Price Waterhouse



MANAGEMENT COMMENTS

(A free translation of the original comments received in Spanish)

ANNEX II

081FFS.OF
Quito, June 12, 1991

Ms. Bertha Proaño
PRICE WATERHOUSE & CO.
Quito

Dear Ms. Proaño:

I am pleased to refer to your kind communication of May 29/91 through which you sent us a draft with the observations which have arisen from the pre-award survey of Our Youth Foundation in regard to the Project 518064 on Drug Information and Public Awareness Phase II, subscribed with USAID/Ecuador, We have proceeded to carry out the corresponding analysis which, together with our observations, you will find herewith. Additionally, due to the importance that this audit has for OYF, it is necessary to detail the following:

1. The recommendations accepted by Our Youth Foundation in meetings held with you and Mr. Basem Bader on November 20 and 21, 1990 are different in context from the draft copy discussed on that occasion.
2. The recommendations are much too general, since they do not lead to concrete valid suggestions nor do they constitute positive suggestions which contribute to improving the administration of the resources available, since in no case do they suggest specific solutions to the problems detected.
3. The Administrative Management was in the process of creation within the OYF organization structure. This situation was known to Price Waterhouse. Therefore, it deals with an area in the middle of formation as a result of the institution's growing

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Page 2

activities and by direct suggestion of the firm Stern & Co., which was hired to develop the organization's policies.

4. You also knew of both the delay in activities and in recording the accounting-financial information, as a result of the delay between the termination of the agreement's Phase I and the subscription of the agreement's Phase II.
5. When procedures exist the auditor judges them as inadequate, incomplete or inconsistent, failing to recognize the huge effort made in the last two years to form a perfectly organized economic-financial entity.
6. The way it is written make us run the risk that OYF's image with AID be affected, although the USAID/Ecuador Mission recognizes our permanent desire for automation and search for an efficient and effective Administrative-Financial management.
7. On reviewing the system of internal control the report states that the accounting system is inadequate for Project purposes. This situation may generate the belief that there is no accounting-financial organization. This supposition is automatically discredited after reviewing the financial statements as of December 31, 1989 and 1990, containing the opinion of the external auditors Salvador & Asociados and Romero & Asociados, who express their conformity with the reasonableness of the figures and their adherence to accounting principles generally accepted in Ecuador, circumstance with which Price Waterhouse at no time express disagreement.

From all of the above we can easily conclude:

- a. OYF is an institution right in the middle of growth which complies with and executes AID policies, norms and procedures, which has made great efforts to implement a self financing system which will allow it to offer a greater service to the community especially to youth.

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- b. We are aware of the existing errors, but it is normal when carrying out such a dynamic activity such as ours, but these errors are not so important as to discredit OYF's image and its financial management (as it would appear from the tentative results presented by the auditors), since they are only of form, or of immediate administrative correction.

Finally, I hope that all the observations may be clarified for our mutual benefit, since we are interested in that the Price Waterhouse audit may serve as a consultancy in our constant search for administrative quality, through adherence to the established policies.

Yours truly,

Soc. Silvia Barragán de Laufer
EXECUTIVE PRESIDENT

(A free translation of the original comments received in Spanish)

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INSTITUTIONAL COMMENTS TO THE
PRICE WATERHOUSE AUDIT REPORT

AUDIT COMPLETED: November 21, 1990
OBSERVATIONS RECEIVED: May 29, 1991
COMMENTS: June 7, 1991

No.	RECOMMENDATION	PRICE WATERHOUSE OPINION	OUR YOUTH FOUNDATION OPINION
BUDGET:		CONDITION:	Introduction: Condition
1	The Drug Information and Public Awareness Project-Phase II budget approved by USAID/Ecuador has not been properly prepared.	<ul style="list-style-type: none">- Undocumented historic cost.- Was not prepared by year or by activity.- Structured in US dollars only.- Inflation-devaluation were not considered.- The salaries item was not documented.- Counterpart contribution without documents.	<p>The budget's basic concept is a plan of activities with figures.</p> <p>Therefore, it is understood that a budget may be flexible and will be adequately adjusted as the proposed objectives and products become effective through the carrying out of activities.</p> <p>The approved plan of operations is a supporting document for the budget.</p> <p>We do not agree that a project was prepared for US\$4,000,000 and 4 years.</p> <p>The first proposal was for US\$4,000,000 and 5 years. When that proposal was submitted we had insistently requested AID for a limit. Later, prior to the definition of budgetary limits, we requested adjustments to the time, amounts, strategies, programs and projects.</p>

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No.	RECOMMENDATION	PRICE WATERHOUSE OPINION	OUR YOUTH FOUNDATION OPINION
			<p data-bbox="1060 526 1430 814">Finally, the project was negotiated in the record time of two months, during which we had to answer many communications and prepare in each case adjustments to the budget, even without clearly knowing if the limit would be a million or more.</p> <p data-bbox="1060 864 1430 953">The auditors found all the documentation adequately justifying the budget.</p> <p data-bbox="1060 997 1430 1251">The project was structured in Ecuadorian sucres translated into dollars, not vice versa. The budget was prepared for the term of the project and was structured by years and products with the assistance of STERN.</p> <p data-bbox="1060 1300 1430 1422">We ratify our opinion that we had legal reasons for not quantifying voluntary services in monetary terms.</p> <p data-bbox="1060 1470 1430 1858">The term "objective bases" for the case of "donations" has no reasonable basis because it is based on the "goodwill of the grantor" and on the "credibility of the recipient institution". In the case of the projection made it was based on amounts received in prior years from the same or related institutions.</p>

No.	RECOMMENDATION	PRICE WATERHOUSE OPINION	OUR YOUTH FOUNDATION OPINION
			Documents submitted: <ol style="list-style-type: none"> 1. 4 versions of budget breakdowns, by products for 4 years, each responding to adjustments requested by AID. 2. Budget records by projects showing how the global budget was organized. 3. GDO communications requesting more precise budget analyses. 4. The STERN document analyzed by year, assigning responsibilities and products initially presented for the 4 years.
	MANAGEMENT CAPABILITY FINDINGS		
1	Personnel management is inadequate	CONDITION: <ul style="list-style-type: none"> - High financial management staff turnover. - Concentration of functions in the Executive Presidency. - Inadequate work distribution. - Failure to define policies relating to: <ul style="list-style-type: none"> - Disbursements - Personnel training and hiring - Consultancy services - Conflicts of interest. 	Condition: Personnel turnover. PW confirmed that the only position to which this condition really applies is to the Finance Manager, since the finance team that PW met has remained for 4 years. Condition: Concentration of functions. - Responding to AID criteria we hired an administrative audit (STERN Y ASOCIADOS) which considered the need to consolidate the Executive President and Director

No.	RECOMMENDATION	PRICE WATERHOUSE OPINION	OUR YOUTH FOUNDATION OPINION
			<p>roles for organization and historic reasons (all presidents had functioned as Executive Directors and with an increasingly emphasized tendency in modern enterprises).</p> <ul style="list-style-type: none">- The consultancy package was given to AID for their consideration, approved by the GDO Office, to whom we indicated that OYF would modify its by-laws accordingly, to reflect the STERN recommendations not objected by AID. The Executive President position with its description of functions is key to the agreement and was approved by AID.- In the organization chart the Manager position is created in substitution of that of Executive Director. At the time of the PW evaluation, the Executive President and Manager positions were recently implemented, the Acting Manager was abroad on a scholarship and the new chart was of recent application. In these circumstances it is normal to grant time to the institution to adjust its standards and procedures.- The STERN proposal was submitted to PW.

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			<p data-bbox="1060 526 1448 583">Condition: Inadequate work distribution.</p> <p data-bbox="1060 628 1448 1114">We discussed with PW to the point of exhaustion that OYF did not accept this condition. We believe that we have demonstrated with technical documents and with adequate and operating planning and supervision systems, the adequate work distribution by responsibility. We categorically reject this recommendation. The monthly reports of each of the organization's officials permit a ratification of this affirmation.</p> <p data-bbox="1060 1159 1448 1891">Condition: Lack of policies. OYF has written policies for hiring personnel (shown to PW and to AID). In other indicated areas, OYF subjects itself to rigorous practices expressed by implicit policies. Thus, its staff is periodically trained. The planning and reports on compliance with those plans were timely submitted to PW. In the case of disbursements, training, consultancy services and conflicts of interest we closely follow the AID STANDARD PROVISIONS. A subscribed agreement is law for the parties. To say that "there is no policy" leads to believe that OYF does not respect the AID Agreement.</p>

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2	Incomplete instructions contained in the Administrative and Financial Standards and Procedures Manual	<p>CONDITION:</p> <p>Accounting matters:</p> <p>1) Internal policies do not include the disposition of inactive bank accounts.</p>	<p>Cause: We are going through a consolidation process, but it is not true that the institution has been slow in the preparation of a standards and procedures manual. This was completed in February 1989.</p> <p>Recommendation: we reject its general nature since it does not lead to specific valid suggestions which contribute to improving the administration. This statement makes us run the risk that OYF's image be affected. We request that the word "inadequate" be substituted by "is not consolidated or adjusted", taking into account that we just had received an external consultancy in administrative audit which on the arrival of PW was in the process of assimilation and implementation.</p> <p>ACCOUNTING MATTERS</p> <p>Condition: Inactive account. Current policies justify its existence: the obligation, in the case of accounts in US dollars, is to maintain minimum amounts (US\$4,000-US\$5,000). Therefore, this account is maintained in order to avoid the demands opening a new account would bring.</p>

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2) There are no policies requiring the preparation of reconciliations between balances to be rendered to USAID/Ecuador to balances available in bank accounts in which the related project funds are deposited.

Administrative matters

There are no policies for:

- personnel training
- rotation of duties
- vacation planning
- payroll preparation, review and approval.

Condition: Reconciliations

The indicated balances were timely reconciled in work meetings held between OYF and AID accountants.

ADMINISTRATIVE CONDITIONS:

Condition:

The administrative area, as indicated, is in the process of adjustment and consolidation, but OYF has actually made a great effort in properly managing its personnel in the mentioned areas, even though it has not been reflected in the standards and procedures manual.

It was precisely with a view to consolidating the area and to put into effect the norms that motivated OYF to hire (6 months prior to the AID/OYF Agreement II) a management consultancy. Stern & Co. spent approximately 8 months on the preparation of the manuals. This precluded a timely implementation of adjustments to the management structure, that is, before the new Project. This was explained to AID and to PW. Moreover, for the new project, OYF made the effort--not having the final manuals--to prepare a personnel plan which gathers together salary and personnel

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hiring policies, the salary adjustment methods and the organization chart for the period. These documents were submitted to PW.

Cause:

It is not correct that the Standard and Procedures Manual is of recent implementation. It has existed since 1989, submitted to AID. This cause should be modified. OYF proceeds, on the other hand, to update the manual annually, introducing the norms created and that was explained to PW.

Effect:

It is natural that the Administrative-Financial Manual, on becoming effective in February 1989, required that its policies, standards and procedures be reviewed and/or authorized, specially if the AID/OYF Agreement Phase I had as a primary objective OYF's strengthening. PW has found a constantly changing and consolidating institution, with serious practices which little by little have been introduced into the manuals. In relation to personnel management, PW was unable to observe bad administration indicators (high rotation, labor lawsuits or conflicts, etc.). The only position with recognized rotation has been

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			<p data-bbox="1034 513 1428 742">that of the Finance Manager, although beyond OYF's control. We have been informed that the salary structure is not competitive for this type of management position and this was indicated to AID.</p> <p data-bbox="1034 775 1428 1869">Documents submitted: Personnel plans, organization chart, salary and personnel hiring policies, personnel performance evaluation system, charts containing staff details, job descriptions, staff files, Staff Committee Minutes, planning system reports and enclosures, bi-annual staff evaluations, training plans and reports on training by agreement, institutional strengthening plans, results of organizational and administrative development consultancies for specific aspects, national and international consultancy planning and reports on national and international staff scholarships. The aforementioned demonstrates OYF's interest to adequately manage its personnel, even though due to the stated reasons it has not put in writing the policies, standards and procedures that in practice have been applied in accordance with the respect it has for the AID Agreement's STANDARD PROVISIONS.</p>

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3	Information sent to USAID/Ecuador should be more concise, in accordance with requirements, and submitted timely.	<p>CONDITION:</p> <p>- On certain occasions USAID Ecuador has requested clarification of the content of certain documents prepared by the institution which include extensive literature which provides information beyond the needs of USAID/ Ecuador and on other occasions certain financial information has been submitted late.</p>	<p>We request the wording be changed in order to reflect OYF's effort to create and update its manuals on the basis of practices in keeping with the Agreement's STANDARD PROVISIONS.</p> <p>Condition: As explained to PW, in practice there is an inconsistency in AID's application of this rule taken from OMB Circular A-110. When concise documents are sent, detailed clarification is requested and vice versa, leading to the game of documents going and coming in both directions. The most obvious case was the Project negotiation process.</p> <p>This inconsistency has generated, in practice, not only erroneous interpretations but also a bureaucratic cost and losing sight of Agreement objectives. This has even affected the administrative and technical staff which has had to be immersed in these demands. We believe that the recommendation should be even firmer than stated and should be in both directions. Not only OYF but also AID must try to define the criteria for concise and timely information. Many times a lack of consistency in their demands has been noted.</p>

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FINANCIAL CAPABILITY

- 1 OYF has not yet achieved a level of self-generated solvency and has not implemented regular cash flow forecasts.

CONDITION:

The Foundation's self-generated income is not sufficient to cover its expenses until funds provided by USAID/Ecuador are received.

It was determined that the Foundation showed bank overdraft towards the end of the project, and during the property purchase.

Donations are estimated.

There are no cash flows forecasts.

CAUSE

In accordance with Phase II of the Agreement, OYF should reduce its dependence on AID. This is not being achieved due to the following causes:

- Research services are limited to specialized sectors.
- The self-financing system is not implemented.
- 70% of the staff's time is dedicated to AID activities and 30% to OYF activities.

Condition: delay:

The only delay mentioned by the audit was a quarterly report not submitted at the end of the Project which, as explained, was converted into a six-monthly report due to the extension of Phase I of the Project.

Causes:

The causes indicated are not the basic ones.

The delay in application is due to AID policies which prohibit authorizing the Institution to hire specific personnel for self-financing. The Agreement states the obligation of OYF to reach levels of self-financing and of AID to support the process, but the budget does not include the necessary funds for its implementation, or time in the different functions of the organization chart.

In the second agreement and in order to obviate the problems generated by AID policies in the field, OYF submitted to AID a self-financing policy "obligating" staff to generate self-financing apart from the 70% of their time achieving the objectives prescribed by the Agreement.

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Besides, Phase II of the Agreement contains a series of products which OYF accepted to finance as counterpart. This counterpart competes with the activities which OYF develops in a productive field. For example, it committed itself to carrying out research, seminars and community events, seeking their financing. This was due to Phase II's limited budget which forced OYF to cut important Phase I projects.

Documents submitted:

We submitted to PW two self-financing plans for the first and second Agreements, a procedures policy and current standards, and a cash flow forecast for payment of the building.

Strategies informed to PW:

- a) The creation of a video producing company, currently in full operation.
- b) A project with the Government for the purchase of foreign debt.

These strategies are firm and when projected in time could not be ignored by PW, specially when they were documented and their progress and effectiveness could be verified.

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			<p data-bbox="1066 513 1465 570">Observation with insufficient criteria:</p> <ul data-bbox="1066 578 1465 1168" style="list-style-type: none"><li data-bbox="1066 578 1465 701">- However, the setting up of a system and its results could not be evaluated by PW due to the date.<li data-bbox="1066 709 1465 963">- The implementation of a system to generate self-financing requires more than a budgetary estimate, such as the one made by the auditors, although at the beginning it is a point of reference.<li data-bbox="1066 971 1465 1168">- For the self-financing to work it requires time along with an organizational development policy, productive projects and specialized personnel. <p data-bbox="1066 1207 1465 1469">However, we are including a chart demonstrating OYF's self-generated funds, resulting from the successful activity of the productive projects in research, production of related videos, donations, etc.</p> <p data-bbox="1066 1509 1465 1803">We ask PW to change the CAUSE and to include in the CONDITION the fact that the observation coincides with the presentation of the new plan, the new policy and the creation of the productive enterprise, and at the same time with the building purchase.</p>

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2	The accounting system is inadequate for project purposes	<ul style="list-style-type: none">- The statement of income does not reflect income received from AID- The accounting and financial information is not timely prepared- The financial statements issued as of December 31, 1989 do not include the adjustments proposed by the external auditors- There is no policy for approval of disbursements- Purchase orders are not prenumbered- Accounting for the Centro Nuestros Jóvenes building construction has not been completed- The AID donated vehicle has not been licenced - The minimum amount for capitalization of goods is low- The fixed assets physical inventory results have not been reconciled to the accounting records- Fixed assets are not properly identified with codes- A system which permits comparisons between actual and budgeted expenses has not been implemented.	<ul style="list-style-type: none">- The financial accounting information is prepared on an electronic system (T-MAX) and is the result of:<ol style="list-style-type: none">1. The adherence to AID policies and standards and the submission of vouchers for approval.2. Compliance with internal policies.3. Ecuadorian law.4. Chart of accounts approved by AID.5. Internal controls.6. Formats and requirements designed for this specialized activity. <p>The financial statements, in accordance with generally accepted accounting principles, reveal fairly and adequately the information. Therefore, any error does not have the relative importance which might change the general opinion that they reasonably respond to the financial position as of December 31, 1989 as expressly stated by the external auditors Salvador & Asociados; consequently, the errors correspond to administrative adjustments. OYF's dynamic nature requires systems to be constantly improved.</p>

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3	The purchase of the building did not follow an adequate process	OYF did not request authorization from AID and the budget does not foresee its purchase	OYF, through official letters Nos 191.90 and 230.90, informed the AID Controller of the favorable opportunity cost which the building purchase represented, of which the original price was S/.165 million, and at the moment is S/.300 million, which represents a real equity to consolidate the financial position of OYF in the future.
4	There are no adequate controls in the Data Processing area	<ul style="list-style-type: none">- There are no batch controls for the input of the accounting transactions- Individual and confidential passwords have not been assigned to computer users.- OMB Circular A-110 requires effective control over and accountability for all funds, property and other assets to ensure that they are used solely for authorized purposes.	The Financial Standards and Procedures Manual does consider control of the use of computers, which is closely supervised by responsible officials. As regards the use of individual passwords and batch controls for input, we believe it is not applicable, because at present each computer has a person responsible for the use of the information, as well as for virus control, we have a blank and used diskette inventory, diskettes are issued duly scanned and formatted, and we also carry a log to control the information contained in the diskette. This recommendation will be considered in the future.
5	The General Tax Administration has not confirmed that the Foundation is exempt from Value Added Tax	The Law is confusing, since Art. 61 says it should pay and Art. 55 that it is not taxable.	On December 17, 1990 we sent communication No.0201.90, received by the General Tax Administration under proceeding No. 16027, through which we insisted on OYF's exemptions as per paragraph 3

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6	Tax contingency for professional services rendered by foreigners	Alejandro Pinto and Mirella Tironi have a contract with OYF and 7% income tax is withheld from fees. Art. 36 states that income obtained by foreign nationals for professional services rendered in Ecuador should pay a single rate of 25% on total income perceived. The new Internal Tax Regime Law contains confusing legal provisions which may lead to tax contingencies for OYF.	of Art. 16 of the Internal Tax Control Law. This proceeding is still pending and we will timely inform on its results. The aforementioned officials are in the country with an International Voluntary Services Agreement, duly approved by the Ministry of Foreign Relations of Ecuador. Therefore, they have a specific tax situation, and thus we believe there will be no legal problem.
7	The purchase of the building has not been documented	OYF decided to acquire a building at a cost of S/.165 million and the purchase deed states an amount of S/.90 million. According to Art. 449 of the Municipal Regime Law natural and juridical persons who evade or assist in the evasion of taxes will be liable to a fine of up to three times the amount of the tax evaded.	We have all the documentation (200 pages) related to the purchase of the building and its value registered by the Notary Dr. Andres Acosta Holguín, which virtually discredits this affirmation by the auditor.

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