



Salesian Missions

Salesians of
Don Bosco

December 28, 1995

Cynthia Rohl
Education Officer
USAID- El Salvador
USAID/San Salvador
APO AA 24023

RE: Mid-Term Evaluation, Assistance to Orphans and Displaced Children, Ciudad de Los Niños, Santa Ana, El Salvador, AID Grant #519-0410-G-00-3120-00

Dear Ms. Rohl:

Prospero Año Nuevo! I have great hope for a prosperous new year for the people of El Salvador. I believe that as there is an integration of the markets and, more importantly, the aspirations of the people of this hemisphere we will all arrive together in prosperity in the next millennium.

Finally, we have the well traveled evaluation of Ciudad de los Niños! It is a distillation of the survey and Lennie Vargas-Secada's draft in light of the original objectives of the project. I used the original grant document as my guide, since the indicators outlined there were clearly defined to determine goal achievement.

The document was written in the time frame of June, 1995, since the evaluation results were obtained at that time. There are illusions to future activities, which have been completed, but these activities were planned at the time of the writing of this document.

Thank you again for your understanding with our staff transition here at Salesian Missions which complicated the delivery of this report. I will give my best efforts to maintain the time lines outlined in the original grant.

Again, *Prospero Año Nuevo!*

OFFICE FOR
GOVERNMENT PROGRAMS
1515 North Courthouse Rd.
Suite 502
Arlington, VA 22201
Tel. 703 524 0667
Fax 703 524 9882
America Online: SALESIAN2
Internet: Salesian2@aol.com

MAIN OFFICE
2 Lefevre Lane, PO Box 30
New Rochelle, NY 10802
Tel. 914 633 8344
Fãx 914 633 7404
America Online: SALESIAN
Internet: Salesian@aol.com

es122895.cr

PD-ABM-886

99298

Yours sincerely,

John Burke

ASSISTANCE TO ORPHANS AND DISPLACED CHILDREN
CIUDAD DE LOS NIÑOS
SANTA ANA, EL SALVADOR

AID GRANT # 519-0410-G-00-3120-00

MID-TERM EVALUATION
June, 1995

I. EXECUTIVE SUMMARY

This project was submitted to USAID for funding in January, 1993 and approved in July, 1993. Funding for the project commenced in December, 1993. The total amount of the grant is US\$505,000. The grant's completion date is June 30, 1996.

Original Project Objectives and Components:

1. To provide a selected number of orphaned, homeless and displaced youngsters with adequate housing and living conditions.
2. To educate and train needy, orphan, homeless and displaced youngsters in marketable skills so that they will be able to earn an income from their skills.
3. To upgrade the institution's services, make their delivery more efficient, and their impact more effective.
4. To design vocational training programs that respond both to market demands and are appropriate to the needs and capabilities of youngsters.
5. To enhance the production component of the workshops so that they can provide for the material needs of orphan, abandoned, and displaced youngsters (clothing, bedding, shoes, furniture) at the orphanage, as well as to contribute to the self-financing capacity of the institution.
6. To help place well trained workers into income-generating opportunities (jobs, apprenticeships, micro and small enterprises.)

The general purposes of this grant are to assist orphaned, abandoned and displaced children, caused primarily by the previous war conditions, make a smooth transition into the new Salvadorean society as responsible and productive adults. This will be accomplished through a comprehensive educational and preventive social services program which will help youngsters move from a life on the streets, to an orphanage, and an educational setting, then to independence and self-reliance. The project purpose is to facilitate their re-adjustment into a more peaceful and

democratic way of life. This will be done by improving the quality and impact of the services offered by the Ciudad de los Niños in Santa Ana and by strengthening programs designed to address the specific educational and social needs of this population.

The purpose of the evaluation was to use process indicators to evaluate efficiency and effectiveness in execution of project activities and to review impact through the identification of the benefits of the project in relation to the lives of the students and the institution implementing the project. This is a mid-term evaluation, so recommendations for mid-term corrections are incorporated in the conclusions below. Observations pertinent to future similar projects are in the conclusions sections of this summary. Issues of sustainability are addressed in the conclusion of the evaluation report.

The study method adopted has been: (1) the review of project documentation and information; (2) an analysis of experience gained through regular project monitoring visits, regular site visits and interviews with key personnel; and (3) a surveys of students and personnel.

The principal findings are as follows:

- The project has remained faithful to the intention of its designers;
- The objectives of the project are being met;
- No major changes are recommended, only minor budget modifications;
- The project activities have served as a catalyst for a more systematic approach to problem solving and everyday functions on the part of CDN personnel;
- The evaluation itself served as a catalyst for a more coherent approach to education; it also served as a forum for self-assessment of individual performance and achievements;
- The evaluation also served to induce the institution itself to reassess the appropriateness of the "orphanage" as an orphanage, and its old image as a correctional institution.

Some of the recommendations include:

- An increase in the number and the quality of home visits;
- An increase in community outreach and preventive programs that induce more involvement on the part of parents;
- A reassessment of the reasons given for desertion and an assessment of activities geared to assist families whose children drop out of the program;
- The formal establishment of a job placement office;
- A more formal relationship with the private sector, especially for apprenticeship and job placement.

A. DEFINITION OF TERMS OF THE EVALUATION

The evaluation was, to the best of the abilities of the evaluation team, a systematic and objective appraisal of the project and its achievements to date, and its findings and recommendations are intended to be used to determine problem areas, to make budgetary modifications, if necessary, to

formulate lessons learned in terms of its efficiency and effectiveness, impact, and sustainability. This was done in accordance to the directive included in the original project proposal, which stated as follows:

"During the life of the Project, evaluative exercises will be conducted to re-examine the project design and its specific activities; determine whether and/or to what extent the project purpose has been achieved; and conclude to what extent the project has contributed to achievement of the goal.

The process evaluation will be conducted to determine whether project inputs were delivered appropriately and on a timely basis as planned and to assess the adequacy and movement of all project inputs, including financial resources, as well as services and other support.

The impact evaluation will be conducted to assess project performance against qualitative and quantitative indicators. The objectively verifiable indicators will be reviewed and progress determined based on level of achievement and project outputs or results will be compared against those planned. This type of evaluation is also intended to consider less easily measured indicators such as level of adjustment of youngsters to their new environment, adjustment to the academic demands, discipline and responsibility. Other factors such as efficiency of services and use of space, full participation of project beneficiaries, school attendance, reading/writing competence levels, job readiness and placement in employment or income-generating situations, provide points of reference against which the project's overall performance may be judged.

The Project's Coordination Office will collect statistical data of all activities; data such as enrollment, attendance, desertion, achievement and completion rates will be systematically analyzed. Evaluation activities will be strengthened through meetings between the project coordinator and department representatives. For its part, Salesian Missions will make frequent supervision visits during the life of the project. During these visits, project achievements to date will be analyzed based on data collected by the project's information systems coordinator and through direct observations during site visits."

The following were the terms of reference for this evaluation keeping in mind that the primary purpose of the process evaluation was to determine whether or not the Project was **on track**, and not necessarily to measure its benefits or impact. However, the issues that were considered under this evaluation were the same as those that would have been included in an impact evaluation. The terms of reference were as follows:

- Goals and objectives of the Project compared with original assumptions and actual situation;
- Achievements to date compared with progress indicators and the project implementation schedule;
- Financial, material and human resources;
- Information systems, data collection, maintenance and analysis;
- Problems and areas of conflict that effect the implementation and the accomplishments of the Project.

The most important issues of concern the evaluation attempted to address were the following:

- The objectives and targets of the project; efficiency vs. concrete outputs: project program areas; the coordinating project team; the beneficiaries; training activities;

- project evaluation and follow-up.
- Institutional efficiency and resource management: Institutional strategies; internal operations; the management of human resources; the distribution of responsibility and functions; management of financial resources; external operations.
- The actual project status and future prospects: Contrast with conditions prior to project; perspectives and completion of the project, unforeseen results--positive or negative.

B. GOALS AND OBJECTIVES OF THE PROJECT

Background

The project's initial design was prepared by CDN in 1990 in response to a special appropriation being made by AID/Washington for orphans and abandoned children affected by war and other disasters.

The newest version, dated "Year 1993," with an addendum entitled "Concept Paper," were used in the preparation of the proposal submitted to AID in January, 1993 and approved in July, 1993. The goals and objectives of the project remained basically unchanged. What was drastically changed were the project's implementation plan and impact indicators, and although the budget would cover basically the same line items that had been included in the original version, the emphasis on the final version were on activities intended to change and promote a change in the approach to education and institutional care as practiced by Salesians.

These objectives have remained consistent with the problems observed, and the objective hierarchy seems to be in accord with the priority of the problems the project intends to address. The project's design appears to be sufficiently feasible to permit its implementation. The assumptions and suppositions are still valid, although the country in general seems to be undergoing a certain metamorphosis, and the population most affected by these changes are the children and young people, especially those from dysfunctional families or families that have suffered abandonment and neglect.

One tangible result of the project has been its impact on how the staff in general approaches problem-solving. Regular, albeit somewhat informal and unstructured meetings are held, during which problems and achievements are discussed and evaluated. These meetings are held on a bi-weekly meeting, and in 1995, meetings by department heads were started on a monthly basis. These meetings are more formal and more focused.

The following are the original quantitative indicators that had been established for each project component and compared with present performance¹:

1. Social Services and Counseling Program:

Basic social services and psychological/educational counseling have been provided. As of March, 1995 the project had provided 4,239 consultations in the areas of psychological testing, individual counseling, family counseling, individual psychotherapy, family therapy, group therapy, nursing services, and vocational counseling. This exceeds the original goal of a cumulative total of 4,074 in 1995.

2. Orphanage Residential Program:

The goal of providing a selected number of orphaned, homeless and displaced youngsters with adequate housing and living conditions has been met. The proportion of original "war orphans" has been overtaken by children who are from families that are still suffering the effects of war: poverty, family disintegration, and abandonment.

A total of 440 boys, ages 7 to 19 years, will have been housed on any given year.

Indicator	Target	As of 3/95	%
Orphanage: boys, ages 7 to 19 years, will have been housed on any given year.	440	423	96%

3. Basic Education Program:

Each Year, 690 youngsters will have enrolled for formal education classes (grades 1 through 9), and approximately 2 to 3% of these students each year will be assisted in furthering his/her academic education. Already, the project has met (June '95) 90% of its goal. Once all the records are computerized this year, we will take a further, more analytical look at this indicator to determine continuance of education vs. desertion/drop outs.

4. Vocational Training Program:

The number of Trainees enrolled was to be 4,074 in Year 3, but the project has exceeded this goal and project has exceeded this goal by having 6,007 trainees or 147% of its goal. More than 90%

¹This is based on cumulative figures July '93-March '94, since this original evaluation was done in June of 95.

of the trainees have completed their training.

5. Job Placement:

The original goal of the project was that approximately 70% of youngsters who complete a vocational skills training program will have been provided with assistance in job and/or apprenticeship placement. All have been provided assistance, but only about 50% have been able to find work and not all in their original field. The market has not been able to absorb all of them. Those who live in urban centers have a higher chance of finding work. The *Maquillas* are hiring those who have skills in sewing and tailoring. They have the highest percentage of hires. Next are mechanics followed by electricians, carpenters, block masons, and computer specialists.

The data bank of potential employers is now in place. Contacts are continuously being made with potential employers. FEPADE and the GTZ are involved in this project. All CDN students are counseled in job preparation, but the availability of employment varies dependent on the locale of the student and the field. This is still a work "in process".

6. Democracy Education:

In relation to Democracy Education, an election for student government was held. All students are to participate in a planned August event, "Semana Civica" (Citizenship Week) with a seminar on "Politics and Democracy in Latin America".

7. Recreational and Cultural Activities

In relation to recreational and cultural activities supported by the grant, there were various festivities such as "Don Bosco Day" (which celebrates St. John Bosco's birthday), and a dance contest for students at the orphanage. Coordinating activities were also started for the "Futbol" (soccer) tournament and groups such as Arts and Crafts and Clean-up Committees were formed. It was planned that during youth week in August there would be a Speech Contest, Poetry Reading Contest, Modern Dance Contest, Folk Dancing Contest, "Bands of Peace" Concert, Festival of Songs, Basketball Tournament, and Soccer Tournament. All students are invited to participate in these events.

8. Micro- and Small-Scale Enterprise Development:

Originally the goal was to have approximately 20% of youngsters who complete a vocational skills training program and who are interested in establishing their own production workshops will have been referred to institutions which would provide training, credit and assistance in small enterprise development. Presently, however, the funds in this area have dried up. PROMIPE was to have provided some assistance, but their funds are now ending.

This is an area where there is a continued need of project development. An analysis of successful

alumni who have participated in this part of the project needs to be done. Also, this may be an area for project development, since present market conditions are not providing the work needed by these youth.

9. Income-Generating Activities

Again, like the Micro- and Small-Scale Enterprise Development part of the project, the income generating activities are few. There is a nearby *Cafetero* that provides occasional work for the residents of the CDN. The new concrete block making productive enterprise has become lucrative providing work for the boys during vacation, but this is not the primary area where most of the boys are being trained. When school is out on holidays and vacation, most of this work is available to the boys who are interned in the CDN.

Padre Bolaños and Padre Rossi have been struggling with finding work for the boys. It was also an issue for the CDN when they were training the soldiers and former insurgents from the Salvadorean Civil War. This will be the great hurdle for El Salvador: to find meaningful work that matches the training that so many have.

D. FINANCIAL AND MATERIAL RESOURCE MANAGEMENT

The program spending is on target in all line items with the exception of salaries. The CDN would like to extend the salaries of the non-governmental employees in the institute for one year. Also, the line item for equipment has been proposed to be enlarged by moving \$7,000 from salaries for the purchase of an automobile/pickup to make visits to the families further from CDN as well as the planned purchase of the laundry equipment. An audit was done and the recommendations are included in Annex A.

E. HUMAN RESOURCES

There are both governmental and non-governmental workers at the CDN. There are 56 people in the staff. The level of experience and education is high. Some, however, were inherited when the Salesians took over CDN and have more than 20 years of tenure.

Among the professional staff are Fr. Elias Bolaños, director, Fr. Florindo Rossi, administrator of the Institutions, Alicia de Castro, project manager, Silvia Cecilia Lopez psychologist, Rosa Rivera Guzman, social worker, Guillerimos Alfaro, information systems & finances, Marvin Romeo Martinez, school assistant director, Felix Antonio Argueta, human resources for the Workshops, Ladislao Ayala, administration, Saul Gonzalez, coordinator for the "orientadores," German Rodriguez, Workshops, and Evy Ulloa de Benitez, assistant for workshops.

The ever present need is for more qualified people, who have different approaches to problem solving and working with the changing youth population of El Salvador.

G. PROBLEM AREAS THAT AFFECT PROJECT PERFORMANCE

These are a few of the issues that affect project performance:

- Changing demographics of the youth population; single parent families; poverty
- Deteriorating infrastructure
- Unfavorable market conditions for employment
- Lack of funds for micro & small enterprise development for the youth

H. LESSONS LEARNED AND RECOMMENDATIONS

Our hope at the beginning of the this project was to provide quality housing, education, social and psychological services and job placement and/or micro/small enterprise development for youth. CDN has done very well in the housing, education and social/psychological services areas exceeding its goals. In the area of job placement CDN has provided the basis for 50% of their youth to find work. For micro/small enterprise development, it has been much more difficult.

The end of the war spread a great deal of hope for a new generation of youth and their families with the vision of new prosperity that is arriving slowly. At least there are more days of peace. Family conditions have improved slightly. The job market is saturated by former soldiers, insurgents, and a new wave of youth that make up more than 50% of the nation's population.

What CDN has learned is that it is difficult to find the niches of the market in which its youth might be trained to find meaningful employment and to find resources for micro/small enterprise development. It is even more difficult to find work outside of the capitol.

This is the challenge for the future of CDN: to find meaningful placements for youth when they leave. The quality of education is not in question, but rather its ability to be in tune with the market's needs and opportunities.

The search for future resources at CDN will include staffing and mechanisms for direct linkages with the job market and with specific funding for micro/small enterprise development.

INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS

Donation Agreement USAID/El Salvador N° 519-0410
Assistance to Orphaned, Abandoned and Displaced Children

For the period July 7, 1993 to December 31, 1994



INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS

**Audit of Donation Agreement USAID/El Salvador N° 519-0410
Assistance to Orphaned, Abandoned and Displaced Children**

For the period from July 7, 1993 to December 31, 1994

TABLE OF CONTENTS

	<u>Page</u>
Transmittal Letter and Summary	
Background	1
Audit Objectives	2
Scope of Audit	2
Audit Results	3
Fund Accountability Statement	
Independent Auditors' Report	5
Fund Accountability Statement	7
Notes to the Fund Accountability Statement	8
Internal Control Structure	
Independent Auditors' Report	13
Audit Finding	16
Compliance with Agreement Terms and Applicable Laws and Regulations	
Independent Auditors' Report	18
List of Recommendations	20

Peat, Marwick, Mitchell & Co. (Latin America), S. A.

Ave. Olímpica 3324
San Salvador
El Salvador

Apartado Postal 1276
San Salvador
El Salvador

Teléfonos: 224-0963 224-1351
TELEFAX (503) 298-3354

July 25, 1995

Mr.
Gerard H. Joe Yen
Controller
Salesian Mission
New York

Dear Mr. Joe - Yen:

This report presents the results of the financial audit on the USAID Donation Agreement N° 519-0410 Assistance to Orphaned, Abandoned and Displaced Children, managed by the Institución Salesiana Ciudad de Los Niños, for the period from July 1993 to December 31, 1994.

BACKGROUND

On July 1993, Salesian Missions, New York and the Agency for International Development (AID) signed a Donation Agreement N° 519-0410-G-00-3120-00 Assistance to Orphaned, Abandoned and Displaced Children, with a committed amount of US\$505,000. These funds would be used on a Project to be performed in Santa Ana, El Salvador.

The Institución Salesiana Ciudad de Los Niños in Santa Ana, El Salvador, is a non-profit organization. The objective of the Salesian Mission is to help orphaned, abandoned and displaced children.

The Project N° 519-0410 Assistance to Orphaned, Abandoned and Displaced Children, consists in giving help to children affected by the war in El Salvador (orphaned, abandoned and displaced), with the purpose of obtaining the children's reintegration into the new salvadorean society as responsible and productive adults. This objective will be achieved through a comprehensive and preventive social services program which will help youngsters move from a life on the streets, to an orphanage and educational setting, then to independence and self-reliance. This donation will be used to improve the services offered by Ciudad de Los Niños, as to its impact and coverage, and to strengthen programs specifically designed to deal with emotional, educational and social problems. The expiration date of this Agreement is June 30, 1996.





Mr.
Gerard H. Joe - Yen
Salesian Mission

AUDIT OBJECTIVES

We were contracted to perform an audit of the fund accountability statement for USAID Agreement N° 519-0410 Assistance to Orphaned, Abandoned and Displaced Children, from July 7, 1993 to December 31, 1994.

Our audit was performed in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States (1994 Revision), and the Guidelines for Financial Audits Contracted by Foreign Recipients, OMB-A133 audits of Institutions of Higher Education and other Non-profit Organizations; and consequently, it included an examination of the accounting records and other auditing procedures which we deemed necessary under the circumstances with the goal of determining whether:

- a) The fund accountability statement for the Agreement presents fairly the revenues received, and the costs incurred, from July 7, 1993 to December 31, 1994.
- b) The internal control structure used by the Institution was adequate for the Agreement purposes.
- c) The Institutions complied with the Agreement's terms and applicable laws and regulations, which might affect the fund accountability statement.

SCOPE OF AUDIT

The scope of our audit included the following:

- We selectively examined the necessary documents to familiarize us with the Project, such as: Review of the Agreement, Contracts with third parties, Budgets, OMB Circular A-133, etc.
- We made a selective examination of the documents that support the disbursements of the Agreement in order to determine if the fund accountability statement presents fairly in all material respects, the financial activities of the Agreement and if they are reasonable, attributable and permissible according to the terms of the Agreement and the applicable laws and regulations.



Mr.
Gerard H. Joe - Yen
Salesian Mission

- We studied and evaluated the internal control structure related to the activities of the Agreement .
- We reviewed compliance of the Institution with the terms of the Agreement, applicable laws and regulations.

AUDIT RESULTS

Fund Accountability Statement

The fund accountability statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting that differs from generally accepted accounting principles in El Salvador.

In our opinion, the fund accountability statement presents fairly, in all material respects, the income received and disbursements of the Agreement N° 519-0410, Assistance to Orphaned, Abandoned and Displaced Children managed by Institución Salesiana Ciudad de Los Niños, for the period from July 7, 1993 to December 31, 1994, in accordance with the accounting basis described above.

Internal Control Structure

In planning and performing our audit for the Project, we considered its internal control structure in order to determine our audit procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure

Our evaluation identified the following reportable condition:

- 1) The quotation process for the purchases of equipment and supplies was not adequately documented.



Mr.
Gerard H. Joe - Yen
Salesian Mission

Compliance with Agreement Terms, and Applicable Laws and Regulations

As a part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement we performed tests to have evidence that the Institution has complied with the provisions, terms of the Agreement and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our compliance tests show that, in respect to the examined points the Institución Salesiana Ciudad de Los Niños, has complied on all the important aspects with the mentioned dispositions of the Agreement and applicable laws and regulations.

Management Comments

This report was discussed with representatives from Institución Salesiana Ciudad de Los Niños. Their comments have been taken into consideration in the preparation of this report.

KPMG Beat Hewich

Peat, Marwick, Mitchell & Co. (Latin America), S. A.

Ave. Olímpica 3324
San Salvador
El Salvador

Apartado Postal 1276
San Salvador
El Salvador

Teléfonos: 224-0963 224-1351
TELEFAX (503) 298-3354

INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS

Donation Agreement N° 519-0410
Assistance to Orphaned, Abandoned and Displaced Children

For the period July 7, 1993 to December 31, 1994

Independent Auditors' Report

Mr. Gerard H. Joe - Yen
Controller
Salesian Missions:

We have audited the fund accountability statement of the Donation Agreement N° 519-0410 Assistance to Orphaned, Abandoned and Displaced Children, managed by Institución Salesiana Ciudad de Los Niños, for the period from July 7, 1993 to December 31, 1994. The fund accountability statement is the responsibility of the management of Institución Salesiana Ciudad de Los Niños. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as indicated in the third paragraph, we conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States (1994 Revision) and Guidelines for Financial Audits Contracted by Foreign Recipients. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We do not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of chapter 3 of Government Auditing Standards, because no such quality review program is offered by professional organizations in El Salvador. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the KPMG worldwide internal quality control program, which requires the KPMG El Salvador office to be subject to an extensive quality control review by partners and managers from other KPMG offices in Latin America every three years.



As described in note (1), the fund accountability statement was prepared based on cash receipts and disbursement; therefore, some incomes and the corresponding asset are recognized when received and not when earned; and certain expenses are recognized when they are paid and not when the obligation is incurred. The cash basis is a comprehensive basis of accounting not in conformity with generally accepted accounting principles in El Salvador.

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, revenues and costs incurred and reimbursements, for the period from July 7, 1993 to December 31, 1994, in conformity with the basis of accounting described in note (1).

This report is intended solely for the use of the Salesian Mission in New York. This restriction is not intended to limit the distribution of the report which is a matter of public record.

Kathy Peat Marwick

San Salvador, July 19, 1995.



INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS

Fund Accountability Statement

Audit of Donation Agreement USAID/El Salvador N° 519-0410
Assistance to Orphaned, Abandoned and Displaced Children

For the period July 7, 1993 to December 31, 1994

Income:

Income	¢	<u>2,558,262</u>
--------	---	------------------

Disbursements:

Salaries and Benefits (note 5)	504,566
Acquisition of property, furniture and equipment (note 6)	886,813
Value Added Tax (VAT)	83,499
Supplies	1,610
Buildings in construction (note 7)	<u>765,597</u>
Total disbursements	<u>2,242,085</u>
Advances to be liquidated (note 3)	¢ <u>316,177</u>

See accompanying notes to the fund accountability statement.

17



INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS

Fund Accountability Statement

Audit of Donation Agreement USAID/El Salvador N° 519-0410
Assistance to Orphaned, Abandoned and Displaced Children

For the Period July 7, 1993 to December 31, 1994

Notes to the Fund Accountability Statement

(1) Summary of Significant Accounting Policies

a) Basis for Presentation

The fund accountability statement has been prepared on a cash basis. Under the cash basis accounting method, income is recognized when cash is received and not when earned, and expenses are recognized when paid and not when the obligation is incurred.

The cash basis accounting method is a comprehensive basis of accounting not in conformity with generally accepted accounting principles. Therefore, the fund accountability statement does not pretend to reflect the financial information of the Agreement in accordance with generally accepted accounting principles in El Salvador.

Disbursements are made up of payments for operational expenses and for the acquisition of fixed assets.

b) Property, Furniture and Equipment

Property, furniture and equipment acquired with Agreement funds are carried at cost.

In accordance with standard provisions of USAID, at the end of the Agreement, the Institución Salesiana should inform AID of all the assets over US\$1,000 acquired with agreement funds and inform of their use, being the right of AID to approve the definite title transfer of those assets to the Institution.

c) Severance Pay

Salvadoran legislation requires that all employees dismissed without due cause are entitled to severance pay equivalent to one month's salary (up to a maximum of four times the minimum salaries) for every year worked.



INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS

Notes to the Fund Accountability Statement

d) Donations

Cash donations received and designated by the donors to benefit a specific program are registered as income in the fund accountability statement.

e) Accounting Period

The income and disbursements included in the fund accountability statement cover the period from July 7, 1993 to December 31, 1994.

(2) Operations

On July 1993, Salesian Missions, New York and the International Development Agency (AID) signed a Donation Agreement N° 519-0410-G-00-3120-00 Assistance to Orphaned, Abandoned and Displaced Children for a binding amount of US\$505,000. These funds will be used on a Project in El Salvador, being the sub-donor the Institución Salesiana Ciudad de Los Niños located in the Santa Ana Province, El Salvador.

The Institución Salesiana Ciudad de los Niños, Santa Ana, El Salvador, is a non-profit institution created for the purpose to bring help to orphan, abandoned and displaced children.

The Agreement N° 519-0410 Assistance to Orphaned, Abandoned and Displaced Children was created to bring help to children affected by the war in El Salvador (orphan, abandoned and displaced), with the objective to reintegrate these children as responsible and productive persons in the new salvadorean society. This objective will be achieved through a comprehensive and preventive social services program which will help youngsters move from a life on the streets, to an orphanage and an educational setting, then to independence and self-reliance of social and educational services that will help the children. This donation will be used to improve the services given by Ciudad de Los Niños, improving also its impact and coverage strengthening the programs specifically designed to deal with emotional, educational and social problems. The expiration date for the Agreement is June 30, 1996.



INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS

Notes to the Fund Accountability Statement

(3) Advances to be Liquidated

The detail of advances to be liquidated at December 31, 1994 is as follows:

Cash (note 4)	¢	345,692
Accounts payable		(6,656)
Discounts and purchases refunds		(36)
Financial products (a)		<u>(22,823)</u>
	¢	<u>316,177</u>

(a) Interest accrued on the savings account in 1994.

(4) Cash

The cash detail at December 31, 1994, is as follows:

Banco Cuscatlán, S.A.		
Checking account	¢	88,607
Savings accounts		<u>257,085</u>
	¢	<u>345,692</u>

Cash can only be used for purposes of the Agreement.

(5) Salaries and Benefits

The detail of salaries and benefits at December 31, 1994, is as follows:

Salaries	¢	414,700
Vacations		6,662
Christmas bonus		10,574
Payment to ISSS and FSV		62,382 (a)
Severance pay		<u>10,248</u>
	¢	<u>504,566</u>

(a) Salvadorean law requires that the Institution pay to ISSS and FSV a percentage on the salaries.



INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS

Notes to the Fund Accountability Statement

(6) Property, Furniture and Equipment

A detail of property, furniture and equipment purchased with funds of the Agreement at December 31, 1994, is as follows:

Furniture and equipment	¢	35,894
Machinery		122,500
Buildings		<u>728,419</u>
	¢	<u>886,813</u>

For purposes of presenting the utilization of funds, purchases of property, furniture and equipment are included as disbursements in liquidations presented to the Salesian Missions in New York.

In accordance with standard provisions of USAID, at the end of the Agreement, the Institución Salesiana should inform AID of all the assets over US\$1,000 acquired with agreement funds and inform of their use, being the right of AID to approve the definite title transfer of those assets to the Institution.

(7) Buildings in Construction

At December 31, 1994, ten cabins for double occupancy were under construction at a cost of ¢765,597 which will be used to house children in Ciudad de Los Niños.

(8) Tax Exemption

The Institución Salesiana Ciudad de los Niños, is income tax exempt per Legislative Decree N° 745, published in the official gazette N° 168, volume 296 dated September 11, 1987.



INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS

Notes to the Fund Accountability Statement

(9) Exchange Rate Mechanisms and Currency

The fund accountability statement is expressed in colones (¢), the official currency of El Salvador.

On July 11, 1989 the Junta Monetaria de El Salvador adopted Agreement JM - 18/89 by which it was established that, as of July 25, 1989, it would recognize two foreign exchange markets: the fixed rate market and the banking market. In the fixed rate market the rate will be maintained at ¢5.00 per US\$1.00. In the banking market, the exchange rate is not pegged and is intended to reflect the supply and demand for foreign exchange for commercial transactions channeled through banks. On December 31, 1994, the average exchange rate in the banking market was ¢8.78 per US\$1.00.

Since April, 1990, the State authorized the establishment of foreign - exchange houses that can buy and sell U.S. dollars without any restrictions as to the type of transaction. On December 31, 1994 the average exchange rate stood at ¢8.78 per US\$1.00.

In order to show the Project's costs, the Institución Salesiana Ciudad de Los Niños used an exchange rate of S8.75 per US\$1.00.



Peat, Marwick, Mitchell & Co. (Latin America), S. A.

Ave. Olímpica 3324
San Salvador
El Salvador

Apartado Postal 1276
San Salvador
El Salvador

Teléfonos: 224-0963 224-1351
TELEFAX (503) 298-3354

INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS

**Audit of Donation Agreement USAID/El Salvador N° 519-0410
Assistance to Orphaned, Abandoned and Displaced Children**

For the period July 7, 1993 to December 31, 1994

INTERNAL CONTROL STRUCTURE

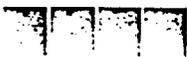
Independent Auditors' Report

We have audited the fund accountability statement of the Donation Agreement N° 519-0410 Assistance to Orphaned, Abandoned and Displaced Children, managed by Institución Salesiana Ciudad de Los Niños for the period July 7, 1993 to December 31, 1994, and have issued our opinion thereon dated July 19, 1995.

Except for not conducting an internal control quality review through an unaffiliated entity, as described in the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States (1994 Revision), as well as with the Guidelines for Financial Audits Contracted by Foreign Recipients. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

In planning and performing our audit of the fund accountability statement of the Agreement, we considered the internal control structure of the Institución Salesiana Ciudad de Los Niños, in order to determine our audit procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of Institución Salesiana Ciudad de Los Niños is responsible for establishing and maintaining an adequate 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 the fund accountability statement in accordance with the basis of accounting described in note (1) to the fund accountability statement.



23



Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Control environment
- Accounting systems
- Protection of assets and records
- Purchasing and disbursement procedures
- Real estate, furniture and equipment 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 have been placed in operation, and we assessed its control risk.

We observed certain matters involving the internal control structure and its operation that we considered to be reportable conditions as established by the American Institute of Certified Public Accountants. Reportable conditions are those which came to our attention in relation to deficiencies in the design or functioning of the internal control structure which, in our opinion, could adversely affect the capacity of the organization to record, process, summarize, and present financial information consistent with the assertions of management in the consolidated fund accountability statement. These reportable conditions are summarized below.

- 1) The quotations process for purchases of materials and supplies was not adequately documented.

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



Our consideration of the internal control structure would not necessarily detect all matters involving the internal control structure that could constitute material weaknesses and consequently would not necessarily disclose all reportable conditions that could be considered material weaknesses as described above. However, we believe that none of the reportable conditions described above constitute a material weakness.

This report is intended for the information of Salesian Missions, New York. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Kent Marwick

San Salvador, July 19, 1995.



INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS
 Audit of Donation Agreement USAID/El Salvador N° 519-0410
 Assistance to Orphaned, Abandoned and Displaced Children
 For the period July 7, 1993 to December 31, 1994

INTERNAL CONTROL STRUCTURE

Audit Finding

- 1) The Quotation Process for Purchases of Materials and Supplies is not Adequately Documented

Condition

During our examination we noticed that there are some purchases made with Project funds; which are not supported by the respective quotations.

Examples:

<u>Check N°</u>	<u>Description</u>	<u>Amount</u>
37936	Purchase of supplies from Castella Sagarra	¢ 14,360
37963	Purchase of supplies and metal sheets from Solaire, S.A. de C.V.	23,202

Criteria

According to the policy of the Institución Salesiana Ciudad de Los Niños, all purchases over ¢8,000, must be backed up by three quotations from suppliers and must choose the supplier that offers the lowest price, or special characteristics like previous experience, quality, etc.

Cause

Quotations are made by telephone and no documentation is left of who was called nor the basis of selection of the supplier.



Effect

There is no evidence that the goods were acquired through free competitiveness.

Recommendation

We recommend that when the decision to purchase is made be this written or by telephone the quotations received be documented mentioning on what basis the supplier was chosen, in order to be certain at any time if the goods or services were acquired at market value complying in this manner with the Agreement stipulations.

Management Comments

I wish to inform you that in order to avoid repeating the situation where there are no documents to support the quotations that were made over the telephone. I have given the appropriate instructions to establish a mechanism that will require that purchase quotes be left as evidence for purchases between €2,000 and €8,000 (no need for purchases under €2,000).

Regarding the purchase of supplies from Castella Sagarra for which check N° 37936 was used for an amount of €14,360 I wish to inform you that this is a disbursement for the value of four pending invoices at different dates prior purchase quotes over the telephone which together make up the referred amount.

Furthermore, for the purchase of sheet metal from Solaire, S.A. de C.V., made through check N° 37963, for an amount of €23,202, only the quote from Solaire exists because it is the only sheet metal distributor in Santa Ana.



Peat, Marwick, Mitchell & Co. (Latin America), S. A.

Ave. Olímpica 3324
San Salvador
El Salvador

Apartado Postal 1276
San Salvador
El Salvador

Teléfonos: 224-0963 224-1351
TELEFAX (503) 298-3354

INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS

Audit of Donation Agreement USAID/El Salvador N° 519-0410
Assistance to Orphaned, Abandoned and Displaced Children

For the period July 7, 1993 to December 31, 1994

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE

LAWS AND REGULATIONS

Independent Auditors' Report

We have audited the fund accountability statement of the Donation Agreement N° 519-0410, Assistance to Orphaned, Abandoned and Displaced Children, managed by the Institución Salesiana, Ciudad de Los Niños, for the period from July 7, 1993 to December 31, 1994, and have issued our report thereon dated July 19, 1995.

Except for not conducting an internal control quality review through an unaffiliated entity, as described in the fund accountability statement, we conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States (1994 Revision), as well as with the Guidelines for Financial Audits Contracted by Foreign Recipients. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

Compliance with Agreement terms and laws and regulations applicable to Agreements is responsibility of the Institución Salesiana Ciudad de Los Niños' management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the Institución Salesiana, Ciudad de Los Niños, compliance with certain provisions of Agreement terms and laws and regulations. However, our objective was not to provide an opinion on the overall compliance with such provisions. Accordingly, we do not express such an opinion.



28



The results of our tests indicate that, respect to the items tested, the Institución Salesiana Ciudad de Los Niños complied, in all material respects, with the provisions referred to in the proceeding paragraph, with respect to items not tested, nothing come to our attention that caused as to believe that Institución Salesiana Ciudad de los Niños had not complied, in all material respects with those provisions.

This report is intended for the information of the Salesian Missions. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick

San Salvador, July 19, 1995.



INSTITUCION SALESIANA CIUDAD DE LOS NIÑOS

Audit of Donation Agreement USAID/El Salvador N° 519-0410
Assistance to Orphan, Abandoned and Displaced Children

For the period July 7, 1993 to December 31, 1994

LIST OF REPORT RECOMMENDATION

INTERNAL CONTROL STRUCTURE

Recommendation	We recommend that when the decision to purchase is made be this written or by telephone the quotations received be documented mentioning on what basis the supplier was chosen, in order to be certain at any time if the goods or services were acquired at market value complying in this manner with the Agreement stipulations.
----------------	---