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AUDIT OF
HEALTH AND JOBS FOR DISPLACED FAMILIES
USAID/EL SALVADOR PROJECT NO. 519-0281

AUDIT REPORT NO. 1-519-86-13
APRIL 30, 1986

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
RIG/T
APO MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA — HONDURAS

TELEPHONES:
32-0044 & 32-0092
also 32-3120/9, EXT. 293 & 296

April 30, 1980

MEMORANDUM FOR: D/USAID/El Salvador, Robin Gomez
FROM: : RIG/A/T, *Coinage N. Gothard*
SUBJECT : Audit Report No. 1-519-86-13
on Health and Jobs for Displaced Families
(USAID/El Salvador Project No. 519-0281)

This report presents the results of our audit of Health and Jobs for Displaced Families (USAID/El Salvador Project No. 519-0281).

Background

As a result of the civil war in El Salvador, more than 500,000 persons (11 percent of the country's population) have fled from conflict zones to areas where violence is less likely. The employment, health, and nutritional status of these persons has generally deteriorated since their displacement.

USAID/El Salvador signed the original agreement for the Health and Jobs for Displaced Families project on May 12, 1982 to provide emergency employment, food, and health assistance to the displaced population. An amendment, signed on August 24, 1984, expanded the project to provide additional services and to begin assisting those displaced persons who live outside concentrated settlements and who have not registered with the Government. The present project assistance completion date is September 10, 1987.

As stated in the August 24, 1984 amendment, the project's purpose is to provide temporary employment, basic health services, and adequate nutrition for the displaced population, while approaches for relocating families wishing to resettle are developed and tested. Services are provided in four areas:

- The jobs component aims to provide temporary employment to an average of 18,000 people per month, through health and other community infrastructure projects.
- The health component provides preventive health services, curative services, and health education to displaced persons.
- The nutrition component includes distribution of a basic food ration providing 1,600 calories per person per day, as well as supplementary and therapeutic feeding for young children, pregnant and lactating women, persons recovering from serious illness, and persons engaged in heavy labor.

- The pilot relocation component is designed to develop and test strategies for reintegrating displaced persons and helping them live more independent, productive lives.

Responsibility for implementing the project is assigned to eighteen organizations which operate under the supervision of a staff of eighteen project-funded contractors in USAID/El Salvador's Office of Human Resources and Humanitarian Assistance.

The project budget, including income from all sources, amounts to \$ 123.9 million. AID disbursements totaled \$22.3 million, as of December 31, 1985 (see Exhibit 1).

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa performed a program results audit of the Health and Jobs for Displaced Families project from January 27 through February 21, 1986. The audit covered project activities from May 12, 1982 through December 31, 1985. The audit objectives were to assess the project's progress toward achieving its objectives, and to evaluate project internal controls and compliance with AID requirements. To accomplish these objectives, the audit included reviews of project agreements, correspondence, plans, reports, and accounting records. It also included reviews of project evaluations and audits and selective verification that the recommendations had been implemented. Finally, interviews with project officials and project beneficiaries were conducted. The audit was performed in San Salvador, San Miguel, and San Francisco Gotera, El Salvador.

The review covered \$ 30.9 million in AID disbursements and advances. Documentation supporting \$421,321 in expenditures of AID funds was reviewed. Supporting documentation for counterpart contributions was not reviewed. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

The project was progressing satisfactorily toward achievement of its objectives in most areas, and in some important respects, had already surpassed the original objectives. In our opinion, this level of performance was due to the establishment of realistic goals and to close supervision by USAID/El Salvador. This report contains three findings and recommendations concerning the need to improve controls over project funds in three private voluntary organizations, to improve project progress reports, and to amend the grant agreement with the Government of El Salvador to require additional counterpart contributions.

The cooperative agreements with the Salvadoran Evangelic Committee for Assistance and Development (CESAD), World Relief, and the People-to-People Health Foundation, Inc. (Project HOPE) establish standards for control of AID funds. In several instances, the control procedures followed did not comply with these standards, resulting in

excessive charges to AID, and, in the case of CESAD, in interest earned on AID funds. If not corrected, these problems would result in a excess cost to the U.S. Government of more than \$42,000 annually. These weaknesses were caused by poorly qualified staff and by a lack of payment verification.

The cooperative agreements with CESAD, World Relief, and Project HOPE require that the organizations maintain proper control over project funds and ensure that they are used only for authorized purposes. They also stipulate that interest earned on AID funds must be refunded to AID.

A review of documentation supporting \$421,321 in expenditures of AID funds disclosed several cases in which the organizations had not complied with those requirements:

- In CESAD and World Relief, accounting records, internal reports, and advance liquidation vouchers had not been reconciled and did not agree.
- Both CESAD and World Relief had overcharged AID for overhead. CESAD had overbilled AID for about \$11,785 for overhead, and had transferred approximately another \$4,485 from the project bank account to its main office bank account for the avowed purpose of recovering overhead costs. World Relief had also overbilled AID for overhead, due to an inconsistency within the cooperative agreement concerning the calculation of overhead. The exact amount of the overcharges could not be calculated since the base for overhead, "overseas project management," had not been defined.
- CESAD and World Relief had billed AID for expenditures which were not supported by documentation to demonstrate that the costs were project related. In the case of CESAD these expenditures amounted to about \$185, and in the case of World Relief, to about \$540 (see Exhibit 2).
- World Relief and Project HOPE had used project funds for purposes outside the scope of the project, and CESAD had billed AID for one item which should have been included in overhead. The amounts involved were \$1,248, \$54, and \$224, respectively (see Exhibit 2).
- CESAD had established an interest bearing term deposit account using about \$11,287 in AID funds. This amount had been on deposit for eighty days when we completed our survey. CESAD's accountant stated that the interest would be used for project purposes.

We project that, if these problems were not corrected, AID would incur excess expenses of more than \$42,000 annually.

Responsible officials attributed the problems identified to unfamiliarity with AID requirements and, in the case of CESAD, to a poorly qualified accountant who was replaced in January 1986. Also, while CESAD'S records had been audited once, USAID/El Salvador did not examine the detailed documentation supporting expenditures by World Relief or Project HOPE, and had not otherwise provided for payment verification of expenditures

by those organizations. In its comments on the draft report, USAID/El Salvador pointed out that technical assistance was being provided to CESAD to correct financial management deficiencies.

Recommendation No. 1

We recommend that USAID/El Salvador:

- a. obtain evidence that World Relief and the Salvadoran Evangelic Committee for Assistance and Development have reconciled their accounting records, internal reports, and advance liquidation vouchers;
- b. recover or offset the identified overcharges, erroneous charges, and non-project related expenditures made by World Relief, the Salvadoran Evangelic Committee, and the People-to-People Health Foundation, Inc.;
- c. negotiate with World Relief the appropriate base for application of overhead costs and amend the cooperative agreement accordingly;
- d. recover, offset, or obtain supporting documentation for the identified unsupported costs incurred by World Relief and the Salvadoran Evangelic Committee;
- e. recover, offset, or agree on the use of interest earned on AID funds by the Salvadoran Evangelic Committee, and reduce advances to that organization by at least the amount used to fund a term deposit account; and
- f. review detailed supporting documentation for expenditures by World Relief and the People-to-People Health Foundation, Inc., or otherwise provide for payment verification of expenditures by those organizations.

Sound management necessarily involves periodic comparison of planned and actual accomplishments. With the exception of the reports prepared by two U.S. private voluntary organizations participating in the project, the progress reports prepared by the implementing agencies and by the Division of Humanitarian Assistance's Evaluation Specialist generally did not compare accomplishments with established goals. As a result, project management lacked a potentially useful means of focusing attention on divergence between planned and actual accomplishments. The Project Manager explained that the reporting formats were developed early on in the project when fewer activities were being reported, and had not been revised.

Recommendation No. 2

We recommend that USAID/El Salvador modify project progress report formats to show a comparison between planned and actual achievements.

The Government of El Salvador has not made, and USAID/El Salvador has not required, adequate counterpart contributions. The project paper budget showed Government contributions of \$26.9 million. At a minimum, contributions of \$4.7 million (25 percent of development assistance funds obligated directly with the Government) should have been required. However, counterpart contributions were only mentioned in amendment number five to the project agreement, which requires a \$2.6 million contribution. Subsequent amendments added additional increments of AID funding but were silent on counterpart contributions. A Supervisory Project Development Officer stated the relevant language had been omitted through an oversight. In addition to in-kind contributions which had not been accounted for, the Government had spent 20.1 million colones (worth about \$4.4 million) on the project, as of December 31, 1985. If additional contributions are not required in the project agreement, the Government's contributions may not reach the planned amount.

Recommendation No. 3

We recommend that USAID/El Salvador amend the project agreement to require counterpart contributions of at least \$4.7 million.

Management Comments

USAID/El Salvador stated that the report appeared to be a balanced and objective overview of the project, but included several questions and clarifying statements in its comments on the draft report.

Office of Inspector General Comments

We have modified this report where appropriate in response to the Mission's comments. The text of USAID/El Salvador's comments and our response is presented in Appendix 2.

Please advise this office within thirty days of the actions planned or taken to implement the recommendations in this report.

Source and Application of Funds
As of December 31, 1985
USAID/El Salvador Project No. 519-0281

<u>Budget Line Item</u>	<u>AID</u>		<u>GOES</u>		<u>PL 480 Title II</u>		<u>World Food Program</u>		<u>CARITAS</u>		<u>Total</u>	
	<u>Planned</u>	<u>Disbursed</u>	<u>Planned</u>	<u>Disbursed 1/</u>	<u>Planned</u>	<u>Disbursed</u>	<u>Planned</u>	<u>Disbursed 2/</u>	<u>Planned</u>	<u>Disbursed 3/</u>	<u>Planned</u>	<u>Disbursed</u>
Jobs Program	\$ 47,914	\$ 17,847	\$ 200								\$ 48,114	\$ 17,847
Health Services	8,134	2,660	6,785						\$ 838		15,757	2,660
Environmental Improvement	611		3,815								4,426	
Nutrition	4,655	351	15,146	\$ 4,922	\$ 730	\$ 1,240	\$17,317	\$21,988	5,625		43,473	28,501
Pilot Relocation Services	2,653	57	942								3,595	57
Program Management and Surveillance	2,323	1,053									2,323	1,053
Project Evaluation	780	75									780	75
Contingencies	5,455	233									5,455	233
Subtotal	\$72,525	\$22,276	\$26,888	\$ 4,922	\$ 730	\$ 1,240	\$17,317	\$21,988	\$ 6,463	\$ -0-	\$123,923	\$ 50,426
Accruals												563
Total Accrued Expenditures												\$ 50,989

Notes: 1. Exchange rate used is 4.00 Colones to \$1 (estimated average rate over the life of the project).

2. This is an estimate.

3. CARITAS withdrew from the project.

Source: Project paper and records provided by USAID/El Salvador and the Government of El Salvador's Court of Accounts.

Unsupported, Non-Project Related,
and Erroneously Billed Costs
Identified by Survey

<u>Date</u>	<u>Check or Voucher Number</u>	<u>Explanation</u>	<u>Amount (colones)</u>	<u>Amount 1/ (\$)</u>
<u>World Relief - Unsupported Costs</u>				
July 1985	314	Expenditures supported by cash register tapes instead of itemized receipts.	137.90	30.11
July 1985	316	Same individual that signed the check also signed a note stating that receipt was lost.	1,442.70	315.00
July 1985	-	Accounting error overstated costs for July 1985.	40.00	8.73
Oct. 1985	0021	Check is for 750 colones; receipt is for 206.73 colones.	543.27	112.01
Nov. 1985	0077	Expenditure supported by cash register tape instead of itemized receipt.	350.42	72.25
Dec. 1985	102	Payment for oil which should have been reimbursed by rental car company.	<u>9.00</u>	<u>1.86</u>
Subtotal			2,523.29	539.96

1/ The exchange rates used for World Relief and the People-to-People Health Foundation, Inc. are actual rates. The exchange rate used for the Salvadoran Evangelic Committee for Assistance and Development is an estimated rate of 4.43 colones to \$1.

<u>Date</u>	<u>Check or Voucher Number</u>	<u>Explanation</u>	<u>Amount (colones)</u>	<u>Amount (\$)</u>
<u>Non-Project Related Costs</u>				
July 1985	318	Individual annotated hotel receipts to identify personal expenses but had not reimbursed them.	678.95	148.24
Sept. 1985	9942	Subscription to an American newspaper.	147.00	30.31
Dec. 1985	100	Christmas tree and decorations.	266.25	46.65
Dec. 1985	132	Christmas cards.	75.00	15.46
Dec. 1985	134	Employees' Christmas party.	529.00	109.07
Dec. 1985	146	Food and gifts for Christmas party for project beneficiaries in La Florida.	2,836.80	584.91
Dec. 1985	161	Drinks and ice for La Florida Christmas party.	272.40	56.16
Dec. 1985	162	Food for La Florida Christmas party.	1,225.00	252.58
Dec. 1985	167	Gift wrap.	<u>22.40</u>	<u>4.62</u>
Subtotal			<u>6,052.80</u>	<u>1,248.00</u>
World Relief Total			<u>8,576.09</u> *****	<u>1,787.96</u> *****

<u>Date</u>	<u>Check or Voucher Number</u>	<u>Explanation</u>	<u>Amount (colones)</u>	<u>Amount (\$)</u>
<u>Salvadoran Evangelic Committee For Assistance and Development Unsupported Costs</u>				
July 1985	4256055	Payment for per diem not supported by a trip report.	220.00	49.66
July 1985	4256056	Same as above.	250.00	56.43
July 1985	4256065	Same as above.	<u>346.67</u>	<u>78.55</u>
Subtotal			816.67	184.34
<u>Erronously Billed Cost</u>				
July 1985	-	Rental of telephone switchboard was appropriately charged to overhead in an internal financial report, but billed to AID as a direct cost.	<u>993.00</u>	<u>224.15</u>
Salvadoran Evangelic Committee Total			<u>1,809.67</u> *****	<u>408.49</u> *****
<u>People-to-People Health Foundation, Inc. Non-Project Related Costs</u>				
Nov/Dec 1985	1632	Cost of transporting shampoo donated to the Salvadoran armed forces.	125.00	25.77
	1637	Personal telephone call to England.	<u>137.50</u>	<u>28.35</u>
People-to People Health Foundation Total			<u>262.50</u> *****	<u>54.12</u> *****

Comparison of Project Objectives
and Actual Accomplishments
as of December 31, 1985

<u>Objectives</u>	<u>Actual Accomplishments</u>	<u>Observations</u>
Goal:		
To achieve an acceptable level of social stabilization.		
-- By 9/10/87, not more than 10 percent of the displaced population will have migrated a second time within the three years.	-- Not Available.	
-- At least 10 percent of new immigrants from 8/24/84 to 9/10/87 relocated or settled in place.	-- 22 families relocated to La Florida were being provided assistance.	-- The agreement with World Relief to implement the pilot relocation component was delayed by lengthy cost negotiations.
Purposes:		
To provide cash income to displaced families.		
-- Approximately \$30 million distributed through jobs program through July 1987.	-- Approximately \$19.6 million distributed through the jobs program.	-- Progress was impeded by a lack of AID funds in early 1985, and by the introduction of the Federation Credit Unions to manage this component, which hurt morale in the credit unions themselves.

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<u>Objectives</u>	<u>Actual Accomplishments</u>	<u>Observations</u>
To improve the health and nutrition status of displaced persons.		
-- Child mortality rate among settled displaced persons reduced 25 percent between 1984 and 1987.	-- Not available.	
-- Evidence of immuno - preventable diseases reduced by 90 percent in those largest settlements where 95 percent of displaced persons live.	-- Not available.	
-- Incidence of birth weight less than 2,500 grams reduced 5 percent among settled displaced persons.	-- Not available.	
-- Evidence of water- and vector-borne diseases reduced 25 percent in largest settlements where 95 percent of displaced persons live.	-- Not available.	
-- Second and third degree malnutrition reduced by 25 percent among all displaced persons and by 90 percent among settled displaced persons.	-- Not available.	
To test permanent relocation and settlement in place programs.		-- Agreement with World Relief to implement this component was only signed in July 1985.

<u>Objectives</u>	<u>Actual Accomplishments</u>	<u>Observations</u>
-- Relocation proposals developed.	-- Project has concentrated on assisting existing displaced person settlements.	
-- Families relocated.	-- Project was assisting an existing settlement of 22 families.	
-- Microbusinesses established with project assistance.	-- Not accomplished.	
Outputs:		
1. Expanded Jobs Program Operating.		
-- Monthly average of 18,000 displaced persons employed.	-- A monthly average of 12,050 displaced persons were employed in 1985.	-- Progress was impeded by a lack of AID funds and by the introduction of the Federation of Credit Unions to manage this component.
-- Number of participating credit unions increased from 7 in 1984 to 10 in 1985.	-- Accomplished.	
-- Active projects being carried out in 14 departments (later revised to 10 departments).	-- Accomplished.	

<u>Objectives</u>	<u>Actual Accomplishments</u>	<u>Observations</u>
-- Following projects carried out by 1987:		
-- 630 road projects.	-- 1,185 road projects.	
-- 30 sewage projects.	-- 62 sewage projects.	
-- 50 drainage projects.	-- 31 drainage projects.	
-- 45 potable water projects.	-- 45 potable water projects.	
-- 60 latrine projects (3,000 latrines by 1985).	-- 295 latrine projects.	
-- 625 other projects.	-- 805 other projects.	
2.a. Health Services		
1) Preventive Health Services		
Oral Rehydration Therapy.		
-- Oral rehydration therapy used for all cases of moderate or severe diarrhea treated at dispensaries.	-- Nurses at the three dispensaries visited during the survey used oral rehydration therapy.	
Vaccination.		
-- 85 percent of displaced children under 12 in settlements have completed vaccination series or are in process at any time.	-- Not available.	-- In one dispensary visited, the nurse estimated that 95 percent of children under 12 and 80 percent of women had been vaccinated. The second

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Objectives

Actual Accomplishments

Observations

-- 100 percent of pregnant women visiting dispensaries are vaccinated against tetanus.

-- Not available.

dispensary had just begun operations so the percentage was still quite low. In the third dispensary, the nurse stated that nearly the entire target population had been reached.

-- See above.

Education.

-- Level of recall by displaced persons of themes used in campaigns.

-- Not available.

2) Curative Health Services

Thirty dispensaries serving 117 settlements.

-- Thirty dispensaries built, staffed by forty auxiliary nurses, maintaining specified stocks of medicines (later revised to 55 dispensaries).

-- 22 dispensaries have been built or remodeled. 39 dispensaries were operating. There were 58 auxiliary nurses working. No serious problems in medicine supply or availability were observed during our survey of the supply system at the central, regional, and dispensary levels.

-- Seventeen dispensaries were operating in existing buildings which had not been remodeled.

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<u>Objectives</u>	<u>Actual Accomplishments</u>	<u>Observations</u>
At least four dispensaries operating at feeding centers.	-- Accomplished.	
-- Dispensaries built, staffed on a regular schedule, and stocked with medicines.		
Outreach program.		
-- Fifteen registered nurses (revised to auxiliary nurses) employed by the National Commission for Displaced Persons doing 250 home visits per week.	-- Accomplished.	
Dispersed displaced persons attend Ministry of Health facilities after being referred by project personnel.		
-- 75 percent of those referred attend a Ministry of Health facility.	-- 41 percent actually attended.	-- Some Ministry facilities refused to accept the referral slips given to displaced persons for waiver of the \$.40 fee, because they did not believe they would be repaid. The Project Manager stated that project staff were trying to educate Ministry of Health personnel about the repayment process.

Objectives

Actual Accomplishments

Observations

3) Program Monitoring and Surveillance

Epidemiological surveillance system prevents or controls communicable disease in displaced persons settlements.

-- Symptom sets reported upon observation; analyzed within one working day of receipt; physician arrives within one day after Ministry of Health determines an epidemic may be starting.

-- Project HOPE, instead of the Ministry of Health, was operating the system. Symptom sets were reported once or twice a week, and weekly reports were produced. According to the project's Health Advisor, Project HOPE's system was still being developed, and only two or three diseases instead of the fifteen planned were being monitored.

Health and nutritional status of population in settlements routinely monitored. Symptom sets, indicators events, vital events (births and deaths with cause), birth weights, hospitalization, and census data recorded. Nutrition records maintained, including registration coverage, daily attendance, percent malnourished, and weight gain of infants.

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Objectives

Actual Accomplishments

Observations

-- Dispensaries fill out and return reporting sheets as scheduled; they are analyzed on a monthly basis with no more than a two month lag and on an annual basis with no more than a three month lag.

-- Accomplished.

-- "Road to Health" charts maintained for 90 percent of displaced children under 5 in settlements.

-- "Road to Health" charts were not maintained, but children attending supplementary feeding centers were weighed every two weeks and their weight recorded.

-- The Ministry of Health believed that "Road to Health" charts would duplicate existing records.

-- Focused investigation of all hospitalizations and deaths during the first two project years.

-- Project HOPE nurses reported hospitalizations and deaths, but there was no "focused investigation".

-- Reinstall the Government of El Salvador's nutrition surveillance system.

Not accomplished.

-- No project funds were provided to accomplish this objective.

2.b. Environmental Improvement

Displaced persons settlements and resettlement locations have adequate water supply.

-- Water systems built or expanded so that every ten to twenty families have a water source, with fifteen liters per person per day available.

-- Not accomplished.

-- Project HOPE determined that achieving this objectives was not feasible, since settlements did not

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Objectives

Actual Accomplishments

Observations

have secure land tenure and their future status was uncertain.

Displaced persons settlements and resettlement locations have adequate latrine facilities.

-- No family located further than fifty meters from a latrine.

-- Not available. However, 295 latrine projects had been completed through the jobs program.

Washing facilities available to displaced persons in settlements.

-- Washing facilities built and operating at or near all water taps.

-- Not available. However, 25 washing facilities had been built through the jobs program.

Periodic refuse collection system operating in settlements where at least 90 percent of displaced persons live.

-- 67 systems by December 1984.

-- Completed in September 1985.

Mosquito breeding areas reduced in settlements where 90 percent of displaced persons live.

Objectives

- Priority projects to reduce stagnant water (draining and filling) carried out.

Equipment and activities designed to use appropriate technology introduced into displaced persons settlements.

- Lorena stoves, compost latrines, and backyard gardening introduced on a pilot basis in appropriate settlements.
- Training provided to one person per fifty displaced families in settlements to operate technologies by 1985.

2.c. Nutrition

Food distribution to all displaced persons who wish to receive a regular food ration.

- 90 percent of the time, displaced persons receive shipments at least every two weeks (revised to every month), providing 1,500 calories per day.

Actual Accomplishments

- 31 projects had been carried out through the jobs program.

- 168 lorena stoves had been constructed and 49 home garden demonstration plots had been introduced.

- Not accomplished.

- The Salvadoran Evangelic Committee for Assistance and Development was distributing food to about 25,000 unregistered displaced persons. No information was available on the number of registered displaced

Observations

- This activity was no longer being pursued. No agency was assigned responsibility for carrying out this activity.

- See above.

- The World Food Program representative for El Salvador was attempting to establish a reporting system on food deliveries and the number of beneficiaries served by the National Commission of Displaced Persons.

Objectives

Actual Accomplishments

Observations

persons receiving food from the National Commission for Displaced Persons. According to the Project Manager, beneficiaries received monthly shipments somewhat less than 90 percent of the time, although shipment had become more regular.

Supplementary Feeding.

-- 95 percent of children under age five, pregnant and lactating women, and persons recovering from serious illness receive an extra 300-400 calories per day in up to thirty settlements with dispensaries and at four CARITAS regional centers by the end of 1985.

-- Eight supplementary feeding centers were operational. CARITAS had withdrawn from the project. Information on the percentage of eligible persons attending the feeding centers was not readily available, but personnel from Project HOPE and the Salvadoran Evangelic Committee for Assistance and Development believed that virtually all of the eligible population attended.

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Objectives

- Participants in the jobs program get an extra 300-400 calories per day.

Therapeutic feeding for malnourished children.

- 90 percent of identified children receive daily therapeutic feeding until they reach 70 percent weight/height, at supplementary feeding centers.

3. Pilot Relocation Services

Plans developed for permanent relocation.

- Sites selected based on a survey of availability and displaced persons preferences; approved; water systems installed; health care upgraded.

Support provided to displaced persons for relocation and settlement in place.

- Displaced persons provided with transportation, production credit, self-help employment, basic food rations, and housing material or credit.

Actual Accomplishments

- Accomplished.

- While statistics were not readily available, project personnel believed that nearly all the eligible children participated.

- Assistance was being provided to a pre-existing community of displaced persons in La Florida. Water systems had not yet been installed but were in an early construction stage, and a Project HDPE nurse provided health care.

- Basic food ration provided.

Observations

- Less progress had been made in this component than in others because the cooperative agreement with World Relief was only signed in July 1985.

- See above.

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<u>Objectives</u>	<u>Actual Accomplishments</u>	<u>Observations</u>
-- Skills training provided based on needs identified by survey.	-- In process.	-- See above.
-- 1,500 micro-business loans made to displaced persons settling in place or permanently relocating.	-- Not accomplished.	-- See above.

UNITED STATES GOVERNMENT

memorandum

DATE: April 23, 1986

CONT 86-488

REPLY TO
ATTN OF: Robin Gomez, DIR, USAID/El Salvador

SUBJECT: Draft Memorandum Report on Health and Jobs for Displaced Families (USAID/El Salvador Project No. 519-0281)

TO: Mr. Coinage Gothard, RIG/A/LAB, USAID/Tegucigalpa

Mission appreciates the opportunity to respond to your draft report. We are pleased that RIG is satisfied with the project management, supervision and implementation of this difficult and critical project. The draft appears to be a balanced and objective overview of the project, and we have no major disagreements with the report.

However, we do have several questions and wish to provide some clarifying comments, which are keyed to the page numbers of your draft report.

-Page 3 The first paragraph states that the project has been supervised by "eighteen project-funded personal services contractors." At no time has the project ever employed more than fourteen contractors, and at the time of the RIG visit there were eleven contractors. We assume that the seven Food Monitors are included in your total. These, however, are not PSCs. Please correct or clarify this figure.

OIG Response -- Text changed to " eighteen project-funded contractors."

-Page 4 The second paragraph states that the report covers \$30.9 million in AID disbursements and advances, plus a review of documentation covering \$421,321. These figures are not easily identified in the accompanying Exhibits or Appendices. An Exhibit relating the amounts reviewed to total project activities would be helpful.

OIG Response -- The \$30.9 million figure includes \$22.27 million in AID disbursements shown in Exhibit 1 plus \$8.67 million in outstanding advances. The statement that "Documentation supporting \$421,321 in expenditures of AID funds was reviewed" is self-explanatory.

-Page 4 See the last paragraph of each page.
and 5 Comments concerning CESAD overhead and CESAD accounting procedures fail to recognize the fact that the mission through its contracting for financial reviews identified these problems and has required the contracting of technical assistance to CESAD for the resolution of the overhead problem and improvement of accounting procedures. We request that language along the following lines be included in an appropriate place in the report.

"The mission contracted for a financial review of CESAD in April 1985. As a result of the findings concerning their accounting records and the calculation of overhead rates, AID required the contracting of technical assistance to review the overhead rate and provide financial management assistance to correct other deficiencies. This TA began in November 1985, and is in place at the present time. A condition precedent to disbursement of the latest incremental funding under the grant is the satisfactory resolution of the overhead rate problem."

The above comments also relate to the parts of recommendation No. 1 as they relate to CESAD.

OIG Response -- The April 1985 financial review of CESAD did not identify any of the deficiencies discussed in this report. The review questioned whether CESAD actually incurred enough indirect costs to justify the 10 percent overhead rate. We found that CESAD had charged AID more than 10 percent for overhead (an \$11,785 difference), and that it had charged AID directly for one item which should have been included in overhead (a \$224 difference). The Mission should recover these amounts to implement the recommendation.

Page 5 Here and in recommendation 1. a., reference is made to reconciliation of various records, reports and vouchers for CESAD and World Relief. In order to assure complete follow-up on the recommendation we would appreciate a copy of the workpapers that identify the various discrepancies.

The last paragraph refers to specific amounts concerning overhead payments. While we believe the above mentioned TA will resolve this problem, copies of your worksheets arriving at these amounts would be useful in our negotiations with CESAD. Please provide us a copy separately.

Page 6 In the first full paragraph an amount of \$891. is referred to in relation to World Relief. According to Exhibit 2 the amount is \$539.96.

OIG Response -- We have changed the text of the report to reflect the correct amount shown in Exhibit 2.

In relation to comments in paragraph 3 and other sections of the report, on the interest earned by CESAD, we have attached a copy of a letter to CESAD in this regard. We have received two checks for refund of interest, each in the amount of \$395.83.

OIG Response -- We did not receive the letter referred to. To implement this recommendation, USAID/El Salvador needs to recover all interest earned on AID funds.

We do not understand the calculation of possible excess expenses in the amount of \$42,000. Total questioned costs, excluding the overhead for CESAD, amount to only \$2,250 over a six month period of review. This amount is about 1/2 of 1% of total costs reviewed, and an amount which in conformance with current internal control guidelines raises questions concerning the cost/benefits of intensive documentation review procedures. A review and establishment of appropriate internal controls as was done with CESAD would appear to be adequate.

25

OIG Response -- Our estimate includes overcharges for overhead by World Relief and CESAD as well as erroneous, non-project related, and unsupported charges by these two organizations and Project HOPE. We continue to believe that payment verification is the appropriate corrective action.

Page 8 The mission is not in agreement with the comments on periodic comparison of planned and actual accomplishments. No single implementing organization has the total picture concerning the project. Periodic progress reports from the various institutions are consolidated by the mission, HR/HA and PRJ, into regular quarterly reports for internal review at the mission management level. These reports are prepared in a format consistent with that required for semi-annual reporting to AID/W. They show the following:

- Project outputs
- Planned LOP
- Accomplished current quarter
- Planned for the next quarter
- Planned cumulative
- Accomplished cumulative

These reports provide mission management with sufficient monitoring information on project targets and accomplishments. A copy of the December 31, 1985 report is attached for your convenience.

OIG Response -- This recommendation is intended primarily to help direct implementing agencies' attention to differences between their own performance and established standards. We expect that the revised reports will also be useful for Mission management, since Mission reports are prepared at a higher level of abstraction. For example, the Mission's December 31, 1985 report includes three measures of the performance of health staff employed by the National Commission for Displaced Persons. The Commission's own reports include seventeen measures of performance.

Page 9 The mission admits that counterpart monitoring has not been fully satisfactory and that agreements need to be modified to include a revised calculation of counterpart requirements. However the following facts need to be considered in a rewrite of this section. Only approximately \$18.7 million, of the total project obligations of \$60.0 million, are DA funds obligated with the GOES and thus subject to the counterpart requirement. The remaining funds are ESF, Migration and Refugee Assistance and Disaster Assistance, or are obligated directly with non government organizations. Thus the total counterpart requirements are approximately \$6.2 million. As stated in your draft the GOES has supplied Colones 20.1 million. You have calculated the dollar equivalent at approximately 4.6 to the dollar. However any calculation of counterpart done at the PP stage was done at the official rate of 2.5 to the dollar. Until July 1985 local currency disbursements were charged to the project at the official rate. Using this rate would provide an equivalent amount of \$ 8.0 million, an amount in excess of the actual legislative requirement, without counting in-kind contributions. In addition, while the original counterpart was estimated at \$26.9 million, the actual use of the government as an implementing agent has been reduced through the use of other non-government organizations. Thus while monitoring of counterpart could be improved, technical compliance with counterpart requirements appears to have been met. In addition mission monitoring of the project and project accomplishments to date as testified to by the report indicate that project implementation is not being adversely affected by lack of counterpart contributions.

The reference to the comments made by a supervisory project development officer should be deleted, both in light of the above comments and because none of the officers recall making such a statement. Discussions did take place concerning counterpart but they feel the statement reflects a miscommunication.

27

OIG Response -- We are puzzled how counterpart contributions could have been over-estimated in the project paper by more than 500 percent since, insofar as we can determine, non-governmental organizations have been used exactly as was contemplated in the project paper. Nevertheless, since we found no evidence that the project was suffering from a lack of counterpart contributions, we have changed the recommendation to require only the minimum statutory counterpart contribution of 25 percent of development assistance funds obligated directly with the Government of El Salvador. Counterpart contributions should be charged to the project at the highest rate of exchange which is not illegal in El Salvador.

The text of our draft report accurately reflected comments made by a Supervisory Project Development Officer during our exit conference with Mission officials. Following additional discussions, however, we have modified the text to reflect the Officer's current position.

Appnd. 1
Page 1

We cannot reconcile the \$8.6 million distributed under the jobs program. The accrued expenditure figure as of December 31, 1985 was \$19.6 million.

OIG Response -- The amount shown in the draft report only included salaries for participants in the jobs program. We have modified the report to include expenditures for supervision, materials, tools, and transportation.

Page 3

The figure of 9,661 displaced persons employed in December as reported on page three is misleading. The output as stated is an average. The month of December figure is low because of coffee harvesting and the change over from direct USAID implementation to FEDECCREDITO. That agency had only been implementing the Jobs Component for two months. In addition, by using only the December figure, employment levels for the whole year are not represented. The average monthly figure for the whole year for DP's employed was 12,050. The report should use an average as stated in the output criteria.

28

OIG Response -- We have modified the report as suggested.

App.I
Page 8 The "Road to Health" charts were not used due to the insistence of the MOH. They felt that the cards would duplicate existing vaccination records and reporting formats already being used country wide.

OIG Response -- We have added this information to the report.

Page 10 Under observations it was stated that lorena stoves and backyard gardening activities were no longer being pursued. While the activity has not been a major emphasis of the project, 168 lorena stoves have been constructed under 3 different projects, (copies attached) and Project HOPE and CESAD have introduced 49 home garden demonstration plots in the settlements.

OIG Response -- We have added this information to the report.

Page 12 Under actual accomplishments for the Pilot Relocation Services we would like to have the following insertions:

Water systems had not yet been installed but were in an early construction stage and a Project Hope nurse provided health care.

OIG Response -- We have added this language to the report.

Exh. I We are unable to identify the figures included in this report. We have attached a copy of our December 31, 1985 pipeline report. This report includes accrued expenditures, but excludes advances paid.

OIG Response -- The source for this information is shown in Exhibit 1.

Appendix 4

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