OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/EL SALVADOR'S EDUCATION ACTIVITIES

AUDIT REPORT NO. 1-519-11-007-P
AUGUST 9, 2011

SAN SALVADOR, EL SALVADOR

Office of Inspector General

August 9, 2011

MEMORANDUM

TO: USAID/El Salvador Mission Director, Carl Derrick

FROM: Regional Inspector General/San Salvador, Catherine Trujillo /s/

SUBJECT: Audit of USAID/El Salvador's Education Activities
(Report Number 1-519-11-007-P)

This memorandum transmits our report on the subject audit. In finalizing the report, we carefully considered your comments on the draft report and have included the comments in their entirety in Appendix II.

The report includes seven recommendations. On the basis of actions taken by the mission, we determined that final action has been reached on Recommendations 4, 5, 6, and 7 and management decisions have been reached on Recommendations 1, 2, and 3. Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action.

I appreciate the cooperation and courtesy extended to my staff during the audit.

U.S. Agency for International Development
Embajada Americana
Urb. y Blvd Santa Elena
Antiguo Cuscatlan, Depto. La Libertad
San Salvador, El Salvador
Tel. (503) 2501-2999—Fax (503) 2228-5459
www.usaid.gov/oig

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Abbreviations

The following abbreviations appear in this report:

AED	Academy for Educational Development
ADS	Automated Directives System
AO	assistance objective
CFR	Code of Federal Regulations
FEPADE	Fundación Empresarial para el Desarrollo Educativo
FY	fiscal year
IBB	International Book Bank
MOE	Ministry of Education
OIG	Office of Inspector General
PMP	performance management plan
PPR	Performance Plan and Report

SUMMARY OF RESULTS

USAID/El Salvador's education program has set out to achieve two intermediate results: (1) to improve social sector investments and transparency and (2) to increase and improve basic education opportunities. To achieve these intermediate results, USAID/El Salvador entered into two separate cooperative agreements. The first agreement, signed with the Academy for Educational Development (AED) in December 2005, was initially for $6.6 million. After modifications, the AED agreement is set to end September 2012 with an estimated budget of approximately $11.4 million. The second agreement, signed with the Fundación Empresarial para el Desarrollo Educativo (FEPADE) in January 2006, was initially for $6.5 million. After modifications, the FEPADE agreement is set to end in June 2011 with an estimated budget of $8.4 million.

The Office of Inspector General (OIG) conducted this audit to determine if USAID/El Salvador's education activities are achieving their primary goals of supporting educational polices and increasing and improving basic education opportunities. In discussions with USAID/El Salvador's staff and subsequent analysis of the agreements, it was agreed that the goal of supporting educational policies pertains to the first intermediate result. The other primary goal of increasing and improving basic education opportunities matches exactly the wording of the second intermediate result.

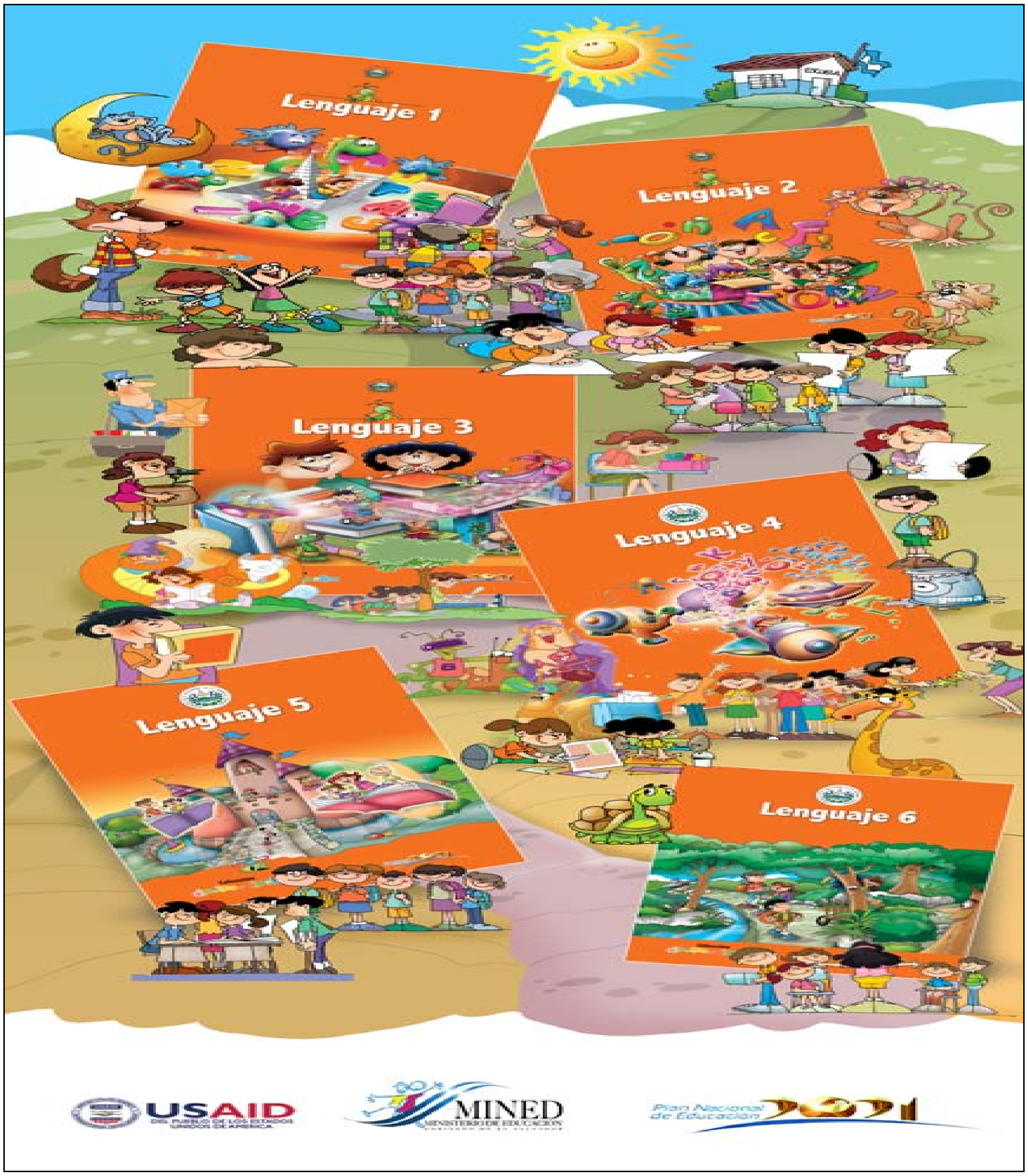
The audit determined that USAID/El Salvador's education activities are achieving their primary goals, although certain aspects need to be improved.

Both implementers are contributing to the goal of increasing and improving basic education opportunities by providing training to teachers, principals, administrators, and Ministry of Education (MOE) officials. The audit determined that the implementers have satisfactorily documented the training and put into place a solid system to follow up with beneficiaries. For fiscal years (FYs) 2009 and 2010, USAID/El Salvador's implementers trained more than 1,500 and 2,200 teachers, respectively.

Although USAID/El Salvador's implementers have demonstrated positive results for the number of individuals trained, the mission does not have qualitative performance measures to determine progress toward the goals of the program. Further, while the program provides support by training teachers and administrators, developing textbooks, and working on policies, it cannot determine the effect of the training (page 4). In addition, the audit determined that the implementers are not consistently following the Performance Plan and Report (PPR) definition for training, resulting in overreporting of results (page 5).

Furthermore, in tandem with the training, AED was to develop a language curriculum for grades one through six with the MOE, which involved in coming to an agreement on prototype textbooks and other teaching materials. This was an important aspect because the new textbooks were to aid in the new teaching methods for reading comprehension included in the training for teachers. Although both finalized the textbooks later than initially expected (page 6), they were successfully completed and are being used by teachers in schools (see Figure 1).

Figure 1: Banner of New Language Textbooks Developed for Grades One–Six



AED is the only implementer expected to carry out activities to support educational polices. In support of this goal, it conducted a strategic review of a community-based school management program, which was started for the MOE in the 1990s with World Bank financing. AED also continued to support the development of the National Education Accounts, a tool that improves MOE accountability, transparency, and credibility, because it allows the ministry and civil society to track the amount, source, use, and distribution of education funds.

Lastly, the audit determined that both implementers have not complied with cost-sharing requirements in all respects. FEPADE has reported cost-sharing; however, a portion of the amount is not adequately supported and another portion does not meet the definition of cost-sharing (page 6). AED's valuation methodology for donated books did not comply with applicable regulations (page 8).

The audit team recommends that USAID/El Salvador—

1. Develop indicators that measure the impact of the education program in future mechanisms (page 4).

2. Correct the reporting of training numbers in the PPR going forward to reflect the appropriate definition (page 5).

3. In conjunction with the Government of El Salvador, develop clear guidelines and procedures governing time and resources allowed for reviewing drafts when deliverables include host government approvals (page 6).

4. Make a management decision regarding how to resolve the $1,010,938 in ineligible cost-sharing contributions reported as of September 30, 2010 (page 7).

5. Make a management decision with regard to $437,693 in unsupported cost-sharing contributions that were not made as of September 30, 2010, and recover from the implementing partner the amount determined to be unallowable (page 7).

6. Make a management decision with regard to any ineligible cost-sharing contributions not made as of September 30, 2010, and recover from AED the amount determined to be unallowable (page 8).

7. Require AED to develop a methodology for establishing cost-sharing contributions that is reasonable and does not include cost elements that exceed actual market value (page 8).

Detailed findings follow. Our evaluation of management comments is on page 9. The audit scope and methodology are described in Appendix I (page 11), and management comments are presented in Appendix II (page 12).

AUDIT FINDINGS

USAID/El Salvador Lacked Indicators to Measure Higher Level Results

USAID Automated Directives System (ADS) 203.3.4.2 states that performance indicators selected by the mission should be unambiguous about what is being measured, useful for the relevant level of decisionmaking, and attributable to USAID/U.S. Government efforts. ADS 203.3.2.1 further addresses how USAID should use performance information to influence assistance objective (AO) decisionmaking and resource allocation. ADS 203.3.2.1 states that the basis for decisionmaking by AO teams will vary according to the implementation stage of a program. Early in the implementation of an AO, AO teams are likely to base their program management decisions largely on input and output data. As implementation proceeds and outputs become more substantial, AO teams will still need to consider the input and output data sources, but will also focus on whether intended results are being achieved. Therefore, AO teams will need information that measures progress at the AO level.

The mission's education activities have advanced beyond early implementation; however, the mission's current performance indicators measured and tracked tell only a part of the story—the number of people trained for example. The performance management plan (PMP) is missing indicators that will allow USAID to determine the effectiveness of the USAID-funded activities. For example, although it is important to track the number of teachers trained or numbers of students in U.S. Government-assisted schools during the early stages of program implementation, this information by itself does not indicate an improvement in basic education. As an output indicator, it does not provide data to USAID on the improvement that the training and textbook development was meant to effect.

Although the completion rates tracked in the PMP could be helpful, they are not fully attributable to USAID activities, as USAID is focusing on reading and writing specifically. For example, a study or survey of the schools or classes targeted could capture information specifically on improvements in students' reading comprehension. A survey could also capture information on the percentage of teachers using the new material and using it correctly. In discussions with an implementer, some of this information is being collected by the implementer with a focus on assessing the improvement in reading comprehension. The data collected show positive results.

Reliance on only output data without qualitative measures to assess whether results are being achieved makes it difficult to determine the impact of the training that both AED and FEPADE are conducting. Without this type of information, AO teams have a limited basis for making programmatic decisions. Furthermore, without data on the percentage of teachers using the new methods and students improving language competencies, it is difficult to determine whether the program is effective or whether the training should be modified. Without this information, USAID cannot plan effective follow-up activities to address identified barriers to implementation and ensure the maximum effectiveness of the project. To address these concerns, this audit makes the following recommendation:

> ***Recommendation 1.*** *We recommend that USAID/El Salvador develop indicators that measure the impact of the education program in future mechanisms.*

Implementers Did Not Consistently Follow the Definition for Training Results

According to the PPR Requirements issued by the Office of the Director of U.S. Foreign Assistance, it is critical that program planners know the standard indicators that are part of the *Standardized Program Structure*. These indicators are the "signposts" against which most targets will be set and results measured. Therefore, they are vital not only to successful planning but also to monitoring country progress and communicating with audiences. The mission PPR reports results on two training indicators: (1) the number of teachers/educators trained with U.S. Government support and (2) number of officials and administrators trained. For both indicators, the definition of the number of individuals trained states that "Successful completion requires that trainees meet the completion requirements of the structured training program as defined by the program offered. Training should be at least 3 working days (24 hours) in duration (based on the ADS standard for in-country training)."

Neither AED nor FEPADE is consistently following the PPR definition. FEPADE reported the number of people who attended 24 hours of training; however, this number included individuals who did not meet the completion requirements of the structured training program as defined by the program offered. AED reported the number of people who completed the training program; however, its structured training program did not meet the 24-hour requirement.

Because the PPR indicator definition was introduced in the middle of the current education program, these specific definitions were not included when USAID/El Salvador entered into its agreements. Neither AED nor FEPADE was required to report according to the PPR indicator definition. Once this definition was established, USAID/El Salvador did not modify its agreements requiring the partners to report the number of individuals trained in accordance with the definition.

As a result, in its 2009 and 2010 PPRs, USAID/El Salvador overreported the number of teachers/educators and the number of officials and administrators trained with U.S. Government support. In the FY 2009 PPR, the number of teachers/educators trained and the number of officials and administrators trained were overreported by 712 and 5,100, respectively. In the FY 2010 PPR, the number of teachers/educators trained with U.S. Government support and the number of officials and administrators trained were overreported by 1,088 and 414, respectively. These standard indicators measure the direct, intended results expected from U.S. Government-supported programs, projects, and activities. Overreporting does not accurately reflect what was accomplished, and this inaccurate information may affect decisions concerning future funding. The training completed may well have contributed to the achievements of the program. However, this will need to be reflected in the PMP and perhaps in the narrative of the PPR only. To address these concerns, this audit makes the following recommendation:

> ***Recommendation 2.*** *We recommend that USAID/El Salvador correct the reporting of training numbers in the Performance Plan and Report going forward to reflect the definition.*

Deliverables Requiring Host Government Approvals Were Delayed

According to the PMP, AED was to finalize textbooks in language for grades one through six by the end of 2007. According to USAID and AED officials, the textbooks were finalized at the end of 2008, 1 year later than planned.

The underlying reason for the delay was that USAID, the MOE, and AED agreed to an ambitious target date without establishing and agreeing to a time-phased schedule for the submission and review of the draft material. In addition to being responsible for reviewing and clearing the language textbooks designed under USAID's award, the MOE was responsible for reviewing and clearing math and science textbooks designed and funded by other donors. The feasibility of having the books in place by the end of 2007 without an agreed time-phased schedule defining the turnaround times for review and acceptance of the textbooks was not fully considered when the target was set.

The delay of the textbooks had two effects. First, the anticipated impact of the new textbooks took place a year later than anticipated. Second, as the new textbooks were meant to complement the training in new teaching methodology to increase language competencies, some teachers trained did not benefit from the textbooks.

> ***Recommendation 3.*** *We recommend that USAID/El Salvador, in conjunction with the Government of El Salvador, develop clear guidelines and procedures governing time and resources allowed for reviewing drafts when deliverables include host government approvals.*

Implementer Did Not Comply With Cost-Sharing Regulations

The Code of Federal Regulations (CFR), Title 22, Part 226, establishes uniform administrative requirements for grants and cooperative agreements awarded by USAID to U.S. institutions of higher education, hospitals, and other nonprofit organizations. Among the administrative requirements, 22 CFR 226.23 establishes the requirements for cost sharing or matching when the USAID awards include cost-sharing or matching provisions. According to 22 CFR 226.23(a), all contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions are—

- Verifiable from the recipient's records
- Necessary and reasonable for proper and efficient accomplishment of project or program objectives
- Allowable under the applicable cost principles.

The Code of Federal Regulations (22 CFR 226.23(d)) states that volunteer services furnished by professional and technical personnel, consultants, and other skilled and unskilled labor may be counted as cost sharing or matching if the service is an integral and necessary part of an approved project or program. Rates for volunteer services shall be consistent with those paid for similar work in the recipient's organizations. In instances in which the required skills are not found in the recipient organization, rates shall be consistent with those paid for similar work in the labor market in which the recipient competes for the kind of services involved. In either case, paid fringe benefits that are reasonable, allowable, and allocable may be included in the valuation.

FEPADE is not reporting cost-sharing contributions in full compliance with 22 CFR 226.23(a) and (d). Specifically, FEPADE is reporting technical support and volunteer hours as cost sharing. For technical support, FEPADE includes a fixed level of salary costs for each technical staff person not directly assigned to the program. However, it does not have support to show how and what these technical resources did to contribute to the program—for example, activity reports or timesheets supporting the hours spent on the program. Because FEPADE does not meet the documentation requirements, the value of labor costs reported as cost-sharing contributions as of September 2010 ($437,693) are not properly supported and therefore may not be allowable.

In addition, FEPADE is valuing volunteer hours as part of its cost-sharing contributions based on the salary equivalent for the hours that teachers attend program trainings on Saturdays (not a workday). However, time that the teachers spend receiving training does not meet the definition of volunteer services as stipulated in 22 CFR 226.23(d). The teachers are not providing services that are an integral and necessary part of the program; rather, they are the direct beneficiaries of the program. In addition, these salary costs do not represent costs that FEPADE has paid or would otherwise have paid in the necessary and efficient accomplishment of program objectives; therefore, the sum total of salary costs representing the salaries for teachers' time to attend training as of September 2010 ($1,010,938) is not a valid cost-sharing contribution.

FEPADE claimed the volunteer hours as cost sharing because USAID/El Salvador approved the hours in the implementing partner's cost-sharing plan. As to the technical support claimed, the cause is that the implementer is not using timesheets to track the hours claimed. As a result, as of September 30, 2010, FEPADE has overreported its level of allowable cost-sharing contributions by $1,448,631.

Cost sharing is an important element of the USAID-recipient relationship. USAID will include cost-sharing requirements when there is a programmatic rationale for cost share, such as helping to achieve program goals. Given that a material amount of the implementing partners' cost sharing does not meet the spirit of the requirements, the project lacked a source of funding. This cost sharing could have helped the program achieve more, as it was intended to by being a part of the budget in the agreement. To address these concerns, this audit makes the following recommendations:

> ***Recommendation 4.*** *We recommend that USAID/El Salvador make a management decision regarding how to resolve the $1,010,938 in ineligible cost-sharing contributions reported as of September 30, 2010.*

> ***Recommendation 5.*** *We recommend that USAID/El Salvador make a management decision with regard to $437,693 in unsupported cost-sharing contributions that were not made as of September 30, 2010, and recover from the implementing partner the amount determined to be unallowable.*

Cost-Sharing Contributions Were Not Adequately Supported

22 CFR 226(f) states that values assessed to donated supplies included in the cost sharing or matching share shall be reasonable and shall not exceed the fair market value of the property at the time of the donation. AED claimed $3,608,839 in cost sharing based on a valuation methodology that does not comply with 22 CFR 226(f). Through oral and written communication conducted during the audit, OIG confirmed that the International Book Bank (IBB) donated 153,814 books to AED. When the IBB donated the books, it provided a dollar value estimate for each book; the total value of all books was stated as $3,608,839.

AED then performed further research to determine the actual market value for each of the donated books. This research showed that in some cases the market value was higher than what the IBB claimed, and in other cases the market value was lower. When summed, the total market value was $4,025,900. Although AED's total based on market value research was higher than the IBB's estimated value of the books, AED used the IBB value of $3,608,839 to determine its cost-share contribution.

However, it is not clear that this methodology provides a reasonable basis for determining AED's cost-share in accordance with the CFR guidance. First, even though some of the estimated book prices were basically equivalent using either cost estimate, there were numerous significant differences. For example, test booklets valued by the IBB at $8,524 were estimated by AED to have a market value of $455,598. Similarly, the IBB valued 650 copies of a children's novel at $2,252, whereas AED determined that their market value was $126,516. On the other hand, teachers' books that the IBB valued at $103,389 were found by AED to have a market value of only $4,563. These large differences in estimated price make it difficult to evaluate the reasonableness of either the IBB or AED cost estimates, and thus AED's claimed cost-share.

Furthermore, AED's actual cost-share claim is based on the IBB price estimates even though AED's own research showed that in several cases these estimates substantially exceed actual market price. Had AED used this information to adjust downward the IBB prices that were clearly above market value, the total cost-share claimed would have been reduced to $3,070,601.

As a result, as of September 30, 2010, AED may have overreported its cost-sharing contributions by $538,238. USAID policy is that cost sharing is an important element of the USAID-recipient relationship. USAID will include cost-sharing requirements when the value used does not exceed the fair market value of the property. Given that a material amount of the AED's cost sharing does not meet this requirement, the project lacked a source of funding. This cost sharing could have helped the program achieve more, as it was intended to by being a part of the budget in the agreement. To address these concerns, this audit makes the following recommendations:

> ***Recommendation 6.*** *We recommend that USAID/El Salvador make a management decision with regard to any ineligible cost-sharing contributions that were not made as of September 30, 2010, and recover from the Academy for Educational Development the amount determined to be unallowable.*
>
> ***Recommendation 7.*** *We recommend that USAID/El Salvador require the Academy for Educational Development to develop a methodology for establishing cost-sharing contributions that is reasonable and does not include cost elements that exceed actual market value.*

EVALUATION OF MANAGEMENT COMMENTS

After evaluating USAID/El Salvador's comments on our draft report, final action has been reached on Recommendations 4, 5, 6, and 7. Management decisions have been reached on Recommendations 1, 2, and 3. The following paragraphs provide our evaluation of mission comments on each recommendation.

For Recommendation 1, which is that USAID/El Salvador develop indicators that measure the impact of the education program in future mechanisms, the mission concurs and agrees to develop impact indicators for its new Education for Youth at Risk activity. The mission intends to include the impact indicators in the program description and subsequently in the corresponding cooperative agreement. The mission intends to complete this action by November 31, 2011. For this reason, a management decision has been reached.

For Recommendation 2, which is to correct the reporting of training numbers in the PPR going forward to reflect the appropriate definition, the mission concurs and will work jointly with both implementing partners and ensure that both fully understand and correctly report on training numbers according to the definition of training. The mission also intends to modify both cooperative agreements to incorporate the complete Agency definition of training indicators. The mission intends to complete this action by November 31, 2011. For this reason, a management decision has been reached.

For Recommendation 3, which is that USAID/El Salvador, in conjunction with the Government of El Salvador, develop clear guidelines and procedures governing time and resources allowed for reviewing drafts when deliverables include host government approvals, the mission concurs and plans to implement the recommendation by October 30, 2011. For this reason, a management decision has been reached.

For Recommendation 4, which is that USAID/El Salvador make a management decision regarding how to resolve the $1,010,938 in ineligible cost-sharing contributions reported as of September 30, 2010, the mission determined that the training received by teachers under the project complies with the established requirement to meet the goals of the project. Therefore, no retroactive disallowance will be necessary. Based on the mission's reasons and additional explanation provided, this recommendation is considered closed and the mission has taken final action.

For Recommendation 5, which is that USAID/El Salvador make a management decision with regard to $437,693 in unsupported cost-sharing contributions that were not made as of September 30, 2010, and recover from the implementing partner the amount determined to be unallowable, the mission determined that the cost-sharing amounts in question are properly supported and allowable. The mission made its decision through its review of alternative evidence supporting the resources dedicated to the project. The mission further explained that it is assured that time spent and accounted for as cost sharing is accurate based on the agreement officer's technical representative monitoring of this project and observing firsthand the level of time and resources dedicated by key personnel. Lastly, the mission further comments that as of June 30, 2011, the recipient exceeded its cost-share contributions. Based on the mission's reasons and additional explanation, this recommendation is considered closed and the mission has taken final action.

For Recommendations 6 and 7, which address AED’s valuation and cost-estimating methodology for computing and reporting its cost-sharing contributions, the mission’s contracting officer made a determination that AED’s cost-sharing contributions reported are allowable and the mission will not recover any cost-sharing amounts previously reported. Further, the contracting officer determined that the IBB’s methodology for establishing the value of donated books is adequate to ensure that the amounts reported by AED as cost-sharing contributions are reasonable and do not include cost elements that exceed actual market value. Therefore, the contracting officer recommended that AED not conduct additional research for further valuation of donated books. Based on the contracting officer's decision and the mission's additional analysis and information provided in its response, both Recommendation 6 and 7 are considered closed and the mission has taken final action.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/San Salvador conducted this performance audit in accordance with generally accepted government auditing standards.[1] Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objectives. We believe that the evidence obtained provides that reasonable basis. The purpose of the audit was to determine if USAID/El Salvador's education activities are achieving their primary goals of supporting educational polices and increasing and improving basic education opportunities. The Regional Inspector General/San Salvador conducted audit fieldwork at USAID/El Salvador; at implementing partners' offices; and at field locations in San Salvador, San Rafael Cedros, and Cojutepeque from February 7 to 25, 2011.

The audit covered the period from October 1, 2008, through September 30, 2010, and focused on the implementation of the Investing in People: Healthier, Better Educated People Program by AED and Implementation of Basic Education Strengthening by FEPADE. In planning and performing this audit, we included in the audit scope a review of management controls put in place by USAID/El Salvador related to its education activities. The management controls identified included the mission's PMP, PPR, program progress reports, operational plan, and the FY 2010 self-assessment of management controls as required by the Federal Managers' Financial Integrity Act of 1982. We reviewed the program results reported by both AED and FEPADE for FYs 2009 and 2010.

Methodology

To determine whether USAID/El Salvador education activities are achieving their primary goals, we met with key mission personnel and implementing partners' officials and reviewed relevant agreements, modifications, program descriptions, progress reports, and operating plans provided by USAID/El Salvador. We judgmentally selected four of the six indicators in the FY 2009 and FY 2010 PPRs that USAID/El Salvador uses to report to stakeholders in Washington, DC, as well as one of the indicators from AED's PMP, and reviewed the associated documentation. We tested reported results for two of the four indicators selected during visits to implementing partners' offices by reviewing the supporting documentation. For teachers trained, we selected a statistical sample of 86 teachers trained for each fiscal year (out of 1,717 and 1,566 trained for FY 2009 and 2010) with an error rate of 5 percent and a confidence level of 95 percent. We also tested administrators by selecting a random judgmental sample of ten administrators trained for each fiscal year. For the other two indicators, we tested reported results by requesting and reviewing supporting documentation judgmentally.

[1] *Government Auditing Standards,* July 2007 Revision (GAO-07-731G).

MANAGEMENT COMMENTS

UNITED STATES GOVERNMENT

Memorandum

Date:	July 20, 2011
Reply to:	Carl Derrick, Director, USAID/El Salvador
Subject:	Audit of USAID/El Salvador's Education Activities (Audit Report No. 1-519-11-00X-P)
To:	Catherine Trujillo, Regional Inspector General/San Salvador

As requested, please find below USAID/El Salvador's comments on the subject audit report, dated June 10, 2011.

RECOMMENDATION 1: "We recommend that USAID/El Salvador develop indicators that measure the impact of the education program in future mechanisms."

Management Decision: USAID/El Salvador concurs with the recommendation. Impact indicators will be developed for all future activities and mechanisms as recommended by the audit report and as mandated in the Mission's recently issued guidelines for "Activity Design Process: Details on Process"; this process requires identification of results and indicators as a key part of concept paper and procurement processes. For example, the Mission is in the process of designing a new "Education for Youth at Risk" activity and will ensure that impact indicators are included in the respective program description and subsequently in the corresponding cooperative agreement.

Target closure date: December 31, 2011

RECOMMENDATION 2: "We recommend that USAID/El Salvador correct the reporting of training numbers in the Performance Plan & Report going forward to reflect the definition."

Management Decision: USAID/El Salvador concurs with the recommendation. The Mission's two AOTRs will work jointly with both implementing partners to review the ADS definition for the "number of individuals trained" and ensure that they fully understand and correctly report on training numbers according the definition of training. Subsequently, the Mission will modify the two existing cooperative agreements to incorporate the complete Agency definition of training indicators. The modified agreements will serve as evidence of completion of the required action under this recommendation.

Target closure date: November 30, 2011.

RECOMMENDATION 3: "We recommend that USAID/El Salvador, in conjunction with the Government of El Salvador, develop clear guidelines and procedures governing time and resources allowed for reviewing drafts when deliverables include host government approvals."

Management Decision: USAID/El Salvador concurs with the recommendation. The Mission and the GOES/MINED will jointly develop guidelines and a timetable for reviewing deliverables. An aid memoire will be signed by GOES/MINED and USAID/El Salvador AOTRs to record these agreements.

Target closure date: October 30, 2011

RECOMMENDATION 4: "We recommend that USAID/El Salvador make a management decision regarding how to resolve the $1,010,938 in ineligible cost-sharing contributions reported as of September 30, 2010."

Management Decision: USAID/El Salvador has determined that the cost sharing contribution of $1,010,938, which represents time that teachers spent "as volunteers" in training on weekends when they are not paid by the GOES, will be accepted as a cost-sharing contribution to the Strengthening Basic Education program. Mission management concludes that the training that was received by teachers under the project complies with the established requirement to meet the goals of the project; teachers are essential partners of the program and training them is a means to achieve the program result. Mission decision is that no retroactive disallowance will be necessary.

According to the auditors' Summary of Results for the USAID/El Salvador Education Program audit, the FEPADE program is "contributing to the goal of increasing and improving basic education opportunities by providing training to teachers, principals, administrators and MOE officials." School children are the first beneficiaries of the increased and improved educational opportunities. The end result of USAID/El Salvador's investments in education is to improve lives and create opportunities for students.

The cost sharing plan for the FEPADE agreement proposed by FEPADE and including teacher "volunteer" time in training was approved by USAID/El Salvador in 2006 and has been an accepted part of annual reporting since that date. Although teachers do benefit from the training in which they participate, the intended and ultimate beneficiaries of the program are the students. The time spent in training to improve their teaching skills is "an integral and necessary part" of the activities to enhance the teaching-learning process in the classroom in target schools.

According to the CFR the requirements for volunteer services are: "22 CFR 226.23(d) Volunteer services furnished by professional and technical personnel, consultants, and other skilled and unskilled labor may be counted as cost sharing or matching if the service is an integral and necessary part of an approved project or program."

Based on the foregoing, we request that this recommendation be closed upon issuance of the report.

RECOMMENDATION 5: "We recommend that USAID/El Salvador make a management decision with regard to $437,693 in unsupported cost-sharing contributions that were not made as of September 30, 2010, and recover from the implementing partner the amount determined to be unallowable."

Management Decision: USAID/El Salvador has determined that FEPADE has provided sufficient evidence of the actual contributions of key technical and management staff to achieve project objectives. These contributions meet or exceed project cost sharing targets. The Mission thus accepts FEPADE's reported cost-share level of $437,693 as of September 30, 2010. We reviewed alternative evidence in lieu of time sheets, as outlined below and satisfied ourselves that the $437,693 cost share contribution is reasonable in light of successful achievement of project objectives. The Agreement Officer sent a letter to FEPADE on July 20, 2011 to explicitly incorporate the procedures contained in the cost-sharing plan presented by FEPADE in June 2011, for reporting on staff paid by FEPADE that work on the project. (See Attachment 1). It should also be noted that as of June 30, 2011, FEPADE has exceeded its cost share contribution by $533,472.

USAID/El Salvador and FEPADE engaged in a well-documented planning process to negotiate a reasonable cost share plan to ensure that FEPADE's own staff and other resource contributions were adequate for accomplishing the objectives of the agreement. A detailed plan was presented by FEPADE in order to calculate the amount of time that key personnel (i.e. Executive Director, Technical Manager, Research Director, secretaries, drivers, and administrative staff) and the Executive Committee would be expected to contribute to the project. This plan was discussed and modified based on Mission feedback and the final plan was approved in February 2007. With each subsequent modification to the Cooperative Agreement that included an increase to the total estimated cost (TEC), a cost share plan was proposed by FEPADE and reviewed and approved by USAID/El Salvador as part of the negotiations. In approving the cost share plan, USAID/El Salvador and FEPADE agreed on a reasonable percentage of time to be dedicated to the project by staff whose compensation would be paid for by FEPADE.

The AOTR dedicates nearly 75% of her time to monitoring this program. Her monitoring includes frequent meetings with FEPADE staff, field visits, participation in FEPADE-organized events, discussions with GOES counterparts concerning project activities, and review of technical and financial reports. Quarterly reports on cost share submitted by FEPADE include a table listing FEPADE's personnel and other cost share contributions. The AOTR reviews the reports for reasonableness based on knowledge of actual project activities and ensures that FEPADE is making progress toward meeting the required cost sharing requirement. The quarterly report is based on more detailed internal cost share reports prepared by FEPADE which show input provided by each staff member. As an example, while the percentage of the Executive Director's time that FEPADE reports as devoted to the USAID-funded activity is only 12.5%, based on AOTR monitoring there is every indication that she spends considerably more time on the project and that the project is benefiting significantly from her leadership.

Alternative evidence of cost share contributions that the AOTR reviewed also include: Contracts for each technical and administrative staff, quarterly reports which list each FEPADE employee who is working on the activities, a sample of minutes from Executive Committee meetings, electronic correspondence and other administrative documentation, and a sample of FEPADE's control of the use of vehicles and drivers assigned to project activities. In addition, the high quality of implementation, adequacy and timeliness of reports, consistent evidence of involvement of the Executive Director and staff in leadership and monitoring, up-to-date knowledge of FEPADE technical staff (in addition to dedicated staff paid under the cooperative agreement) concerning program implementation have been taken into consideration in making this management decision.

Both the Mission and FEPADE staff monitor progress under the program. As noted in the audit and USAID's PPR, the FEPADE program is reaching its targets and contributing to the primary objective of improving basic education opportunities.

Based on the above management decision, USAID/El Salvador requests that the audit recommendation be closed upon the issuance of the final report.

RECOMMENDATION 6: "We recommend that USAID/El Salvador make a management decision with regard to any ineligible cost-sharing contributions that were not made as of September 30, 2010, and recover from the Academy for Education and Development the amount determined to be unallowable."

Management Decision: USAID/El Salvador has determined that AED has not reported any ineligible cost-sharing contribution as of September 30, 2010 and there is no need to recover from AED any unallowable amount of cost share contributions. Mission management is satisfied that the total value of three book shipments as reported by AED in their Federal financial reports represents the fair market value for purposes of reported cost sharing contributions.

AED receives all of the books donated to El Salvador from the International Book Bank (IBB), a 501(c) (3), tax-exempt charitable organization registered in the State of Maryland. According to an email from IBB to AED dated March 16, 2011, "IBB assigns value to our books by researching their retail price on Amazon.com, or through Bowker (a website database that has information on most books with ISBNs). We then use 75% of that price to come up with our value." IBB is a reputable US non-profit organization that is, in our judgment, qualified to assess the market value of books donated to the program. As noted in the table below, the total value of the three book shipments donated by IBB to AED and provided to the EQUIP2 El Salvador program is $3,608,839. After conducting their own market value review, AED documented a lower total value for the 2008 shipment as noted in the table; therefore, the total cost share reported by AED for three book shipments was $3,253,535.42.

Table: Summary of EQUIP2 El Salvador Validation of market value and cost share reporting

Year of Book Shipment Delivery	Book Quantity	Total Value (IBB)	Cost Share reported by AED for books
2007 Total	**59,234.00**	**510,968.66**	**510,968.66**
2008 Total	**59,351.00**	**2,390,256.39**	**2,034,953.05**
2009 Total	**35,229.00**	**707,613.71**	**707,613.71**
Totals:	153,814.00	3,608,838.76	3,253,535.42

According to USAID's financial records, the actual amount of cost share reported by AED in its quarterly Federal financial reports (SF 425) as of the date of the audit was $ 3,275,096 and not $3,608,839 as noted in the audit report. (See Attachment 2 for Federal Financial Report for period ending 9/30/10.) This figure is comprised of $3,253, 535.42 for the fair market value of books donated to the program for three years and $ 21,560 from the Presidential Monitoring Commission.

It should be noted that, according to Modification No. 6, the total cost sharing requirement is $3,920,419 and the activity completion date is September 30, 2012. The difference between the amount of $3,275,096 contributed as of September 30, 2010 and the total requirement of $3,920,419, or $645,323, will be contributed by AED during the remaining time period. It should also be noted that if AED wishes, the difference between the IBB value ($3,608,839) and the amount claimed ($3,275,096) may be reported as cost share contribution towards fulfillment of the total amount required.

The more than 153,000 reading and reference books provided to support the language curriculum objectives of the program have been a significant contribution to the goals of the overall USAID-MINED education activities. In summary, USAID/El Salvador considers the amount of $3,275,096 contributed by AED as of September 30, 2010 to be acceptable as cost share and requests that the recommendation be closed upon issuance of the audit report.

RECOMMENDATION 7: "We recommend that USAID/El Salvador require the Academy for Education Development to develop a methodology for establishing cost-sharing contributions that is reasonable and does not include cost elements that exceed actual market value."

Management Decision: USAID/El Salvador has determined that IBB's methodology for establishing the value of donated books is adequate to ensure that the amounts reported by AED as the cost-sharing contributions are reasonable and do not include cost elements that exceed actual market value. We do not believe that it is cost-effective for AED to conduct additional research for further valuation of donated books. Reporting the total value as determined by IBB of each shipment of donated books is reasonable and consistent with USAID regulations. USAID/El Salvador has recommended to AED that they utilize the IBB valuation for establishing cost-share contributions from book donations (See Attachment No. 3). Accordingly, we request that the recommendation be closed upon issuance of the audit report.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: 202-712-1150
Fax: 202-216-3047
www.usaid.gov/oig