



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/NEPAL'S HARIYO BAN PROGRAM

AUDIT REPORT NO. 5-367-15-003-P
FEBRUARY 23, 2015

MANILA, PHILIPPINES



Office of Inspector General

February 23, 2015

MEMORANDUM

TO: USAID/Nepal Mission Director, Beth Dunford

FROM: Acting Regional Inspector General/Manila, Steven Ramonas /s/

SUBJECT: Audit of USAID/Nepal's Hariyo Ban Program (Report No. 5-367-15-003-P)

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

The audit report contains five recommendations to assist the mission in improving various aspects of the program. The mission agreed with all five recommendations. After reviewing information provided in response to the draft report, we determined that the mission has made management decisions on all and taken final action on Recommendations 1 and 4. Please provide evidence of final action on the open recommendations to the Audit Performance and Compliance Division.

Thank you for the cooperation and assistance extended to the audit team during this audit.

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
CFR	U.S. Code of Federal Regulations
CHAL	Chitwan Annapurna Landscape
FECOFUN	Federation of Community Forest Users Nepal
FY	fiscal year
NTNC	National Trust for Nature Conservation
PMP	performance management plan
RIG	Regional Inspector General
TAL	Terai Arc Landscape
WOO	Windows of Opportunity
WWF	World Wildlife Fund

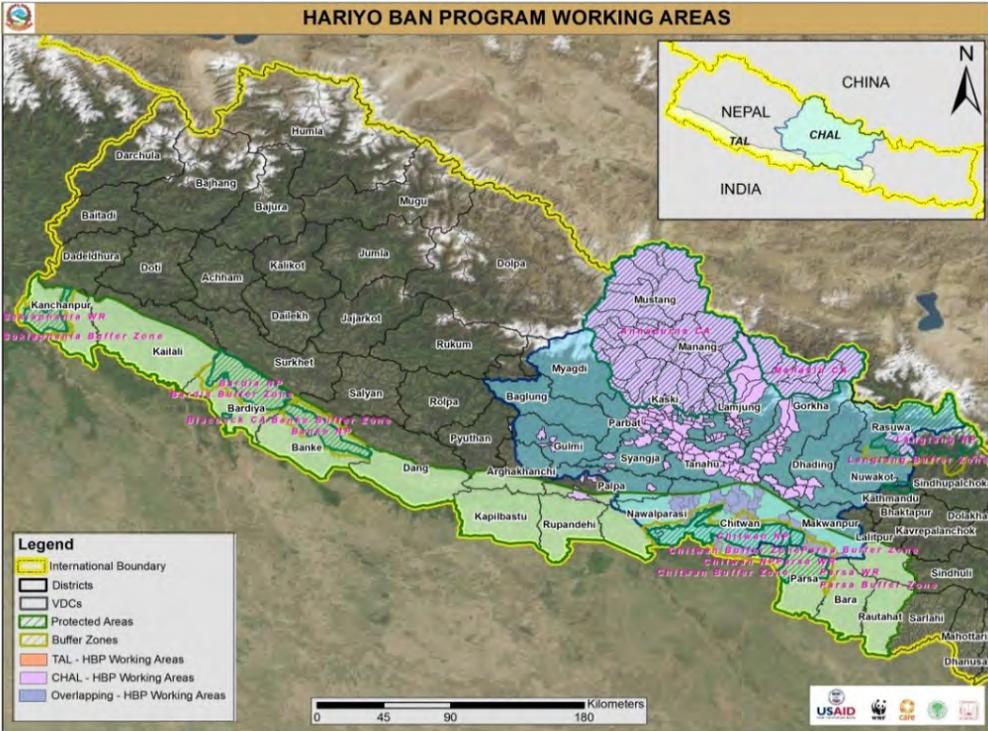
SUMMARY OF RESULTS

Deforestation is a major problem in Nepal, caused in part by the fact that many poor Nepalis depend on wood and other forest products for fuel and cleared land for agriculture. To address this problem, USAID/Nepal designed a program to stimulate economic growth, reduce poverty, and promote sustainable management of forest resources. The program encompassed three intersecting areas: (1) threats to biodiversity, (2) deforestation and degradation of forests, and (3) detrimental effects of climate change.

In August 2011 the mission awarded a 5-year, \$37.4 million cooperative agreement¹ to World Wildlife Fund (WWF) to implement the Hariyo Ban Program;² WWF is expected to contribute \$7.5 million of the total. The program’s goal is to reduce adverse impacts of climate change and threats to biodiversity in Nepal through three components:

1. Reduce threats to biodiversity in specific areas.
2. Build structures, capacity, and operations for effective forest landscape management.
3. Increase the ability of communities to adapt to adverse impacts of climate change.

The program focuses on two areas where activities would have the most impact: the Chitwan Annapurna Landscape (CHAL) and the Terai Arc Landscape (TAL), shown in the map below.



Source: Hariyo Ban Program/WWF Nepal

¹ A cooperative agreement is a legal instrument used to transfer money, property, services, or anything of value to a recipient in order to accomplish a public purpose of support or stimulation authorized by Federal statute and when substantial involvement by USAID is anticipated.

² The name of the program comes from a Nepali saying “Hariyo Ban Nepalko Dhan,” which means “Healthy green forests are the wealth of Nepal.”

As of March 31, 2014, USAID/Nepal had obligated \$17.1 million and spent \$12.7 million for the program.³

The Regional Inspector General (RIG)/Manila conducted this audit to determine whether USAID/Nepal's Hariyo Ban Program was achieving its main goal of reducing adverse impacts of climate change and threats to biodiversity, whether program activities were progressing as planned, and whether activities were achieving planned outputs.

The audit team found that the program was on track to achieve its goal and most of the activities were on track to achieve their planned outputs; 9 of the 16 indicators that had outputs reached their 3-year targets.

Key accomplishments under each component are discussed below.

- **Biodiversity Conservation.** Program assessments completed during the first 2 years identified habitat loss and poaching as threats to biodiversity. The program improved 4.4 million hectares of grassland, wetland, and forest. To counter the threat of poaching, the program formed, trained, and mobilized 131 community-based antipoaching units during the first 3 years.
- **Sustainable Landscapes.** The program promoted alternative sources of energy to decrease the need for firewood. During the first 3 years, 47,050 people benefited, the program reported, by installing biogas units⁴ or using more efficient stoves.
- **Climate Change Adaptation.** A key activity was to help communities develop plans to help them adjust to the effects of climate change identified in the program's assessments. For example, one of the most common threats identified was the increased risk of forest fires. In response, the program provided training, equipment, and supplies to fight fires. During the first 3 years, the program reported that 151,825 people benefited from the implementation of the plans.

³ These amounts come from the Agency's financial systems. On November 17, 2014, OIG issued *Audit of USAID's Financial Statements for Fiscal Years 2014 and 2013*, Report Number 0-000-15-001-C, disclaiming an opinion because of material unsupported adjustments that USAID made to reconcile its general and subsidiary ledgers. We did not perform any additional tests during this audit to verify the accuracy of the reported amounts. In FY 2015, OIG anticipates testing USAID's adjustments to determine if they were accurate and appropriate. USAID intends to provide explanations and other support to demonstrate the adjustments' validity.

⁴ Biogas comes from animal and human waste, as well as other organic materials.



The program preserved a grassy rhino habitat (left) in TAL to conserve biodiversity. The program also trained a community in CHAL to fight forest fires and supplied them with the necessary equipment (left). (Photos by RIG/Manila, July 2014)

However, now that the program is past its midpoint, it is important to note that USAID and WWF set program targets before they finished the studies they needed to identify what threats the activities would address (page 5). The program exceeded several targets by large margins, which suggests that they were too low.

In addition, the audit found three other problems that USAID/Nepal should address, in cooperation with WWF, to strengthen oversight and expand the program’s impact.

- WWF did not manage loan funds sufficiently (page 6). It did not track the interest that accrued on loans, and some of the local organizations that received funds did not lend out the entire amount.
- The program did not set targets for some activities (page 8).
- Two local subrecipients were not audited according to USAID standard provisions (page 9).

To address these problems, we recommend that USAID/Nepal:

1. Work with WWF to increase the target for *Hectares of biodiverse area under improved management* to reflect an ambitious, achievable result for the Hariyo Ban Program (page 6).
2. Work with WWF to standardize reporting procedures for income earned under the program (page 8).
3. Work with WWF to develop new guidance for cooperatives receiving funds for loans, including requirements to use funds in a timely manner and set limits on administrative expenses (page 8).
4. Require WWF to apply performance targets or milestones for activities funded by Windows of Opportunity (WOO) grants to assess whether they are contributing to the program’s objectives (page 9).
5. Require WWF to contract audits of Federation of Community Forest Users Nepal (FECOFUN) and National Trust for Nature Conservation (NTNC) for fiscal years ending

June 2013 and June 2014, and verify that an audit is completed for every subrecipient that spends more than \$300,000 in a fiscal year (page 10). The audits should be conducted in accordance with *Guidelines for Financial Audits Contracted by Foreign Recipients*, dated February 2009.

Detailed findings appear in the following section. Appendix I has information on the scope and methodology. OIG's evaluation of management comments is on page 11, and the full text of management comments is in Appendix II.

AUDIT FINDINGS

Some Performance Targets Were Not Useful or Ambitious

Missions use performance indicators to observe progress and compare actual results to expected results. According to USAID’s Automated Directives System (ADS) 203.3.9, “Setting Performance Baselines and Targets,” indicator definitions, units of measurement, and collection methods should remain constant to be useful for analysis and when making decisions. In addition, performance targets should be ambitious as well as achievable.

The program tracks activities within the three components and measures their progress through 30 indicators. It reached targets for 16 of them. Several exceeded the targets by large margins, as shown in Table 1 below.

Table 1. Indicators That Exceeded Targets

Indicator	Component/ Intermediate Result	3-Year Cumulative Result	5-Year Target	Difference (Percent)
<i>Level of threats to target species reduced</i>	Biodiversity conservation	131	30	337
<i>Number of hectares of biological significance and/or natural resources under improved natural resource management as a result of USG assistance</i>	Biodiversity conservation	4,417,515	500,000	784
<i>Number of people receiving training in [natural resources management] and/or biodiversity conservation</i>	Biodiversity conservation	20,106	7,000	187
<i>Number of people participating in [greenhouse gas] monitoring, equitable benefit sharing and REDD related activities</i>	Sustainable landscapes	151,462	41,000	269
<i>Number of people participating in climate change adaptation related activities and events</i>	Climate change adaptation	268,061	100,000	168
<i>Number of vulnerable people benefiting from the implementation of community adaptation plans</i>	Climate change adaptation	151,825	12,000	1,165

Performance targets appear low because WWF designed indicators and set 5-year targets early in the first year before it completed the studies necessary to base the program’s activities on. The cooperative agreement required WWF to submit a complete PMP 90 days after the program began.

During the first 2 years, WWF completed several studies and adjusted some activities accordingly. However, in one case it still did not revise the target after changing the method used to measure *Number of natural resource management groups with strengthened good governance practices*. The program originally defined an acceptable result as a community group that carried out one out of three good governance assessments. Under that definition, the indicator’s results were 426 percent above the 3-year target. WWF later changed that to

Number of groups that carried out all three practices, which it considered a better measurement of improved governance. Therefore, the official result that WWF reported to USAID were not what drove its management decisions.

In another case, the target for a standard USAID indicator⁵ did not reflect the desired outcome. The results for *Hectares of biodiverse area under improved management* were 2,845 percent of the 3-year cumulative target. WWF officials said that under the definition of that standard indicator, an area is considered improved if the program had performed an assessment. So during the second year, the program carried out assessments in communities throughout CHAL (3.1 million hectares) and parts of TAL (337,192 hectares).

WWF officials addressed most of these problems in the fourth-year PMP submitted in June 2014. However, the 5-year target for *Hectares of biodiverse area under improved management* was still lower than the actual results for the first 3 years, and more activities are planned for the remaining 2 years.

The mission cannot assess Hariyo Ban's program performance without appropriate targets. Moreover, a USAID/Nepal official said the mission would continue to support activities that conserve biodiversity and forests; therefore, future programs could possibly draw upon Hariyo Ban, which itself benefitted from what was learned during an earlier environment program.

To address this issue, we make the following recommendation.

Recommendation 1. *We recommend that USAID/Nepal work with World Wildlife Fund to increase the final target for Hectares of biodiverse area under improved management to reflect an ambitious, achievable result expected under the Hariyo Ban Program.*

World Wildlife Fund Did Not Manage Loan Funds Sufficiently

The cooperative agreement requires WWF to account for program income in accordance with USAID's *Standard Provisions for Non-U.S. Nongovernmental Organizations (Mandatory Reference for ADS Chapter 303)*. And they require the implementing partner to add income earned from federally supported activities during the program period to the total amount and use it to achieve the objectives. Further, a modification to the agreement reiterated that interest generated as program income is subject to the requirements of 22 Code of Federal Regulations (CFR) 226.24 and award terms.⁶

The program promotes alternative energy and provides money that can be lent out for activities that reduce people's dependency on forests. WWF provided the money for the loans to local cooperatives. Using this approach, a beneficiary willing to buy a biogas unit or new stove can

⁵ Standard indicators measure outputs that are directly attributable to the U.S. Government's foreign assistance activities and outcomes to which the U.S. Government contributes. They enable consolidation of key results across multiple activities to provide a broad picture of what is being achieved with foreign assistance.

⁶ According to 22 CFR 226.24, grantees can keep money they earn during a project period as long as they apply it in one of three specified ways: (1) add to funds committed by USAID and the recipient to the project or program and used to achieve its objectives; (2) use to finance the nonfederal share of the project or program; and (3) reduce the overhead ("net allowable costs") that they normally would bill the government for.

get a 2-year loan from a cooperative with an interest rate of 8 percent. For the income-generating activities, the maximum allowable interest rate is 12 percent. Throughout the program, principal and interest payments continue to be used as loans, which in turn help communities expand the use of biogas.

As of July 2014, the program gave \$418,830 to various organizations. In the 2 years left, it plans to issue another \$48,500, bringing the total amount to \$467,330. At the rate of 8 percent, for example, the funds would earn at least \$37,386⁷ in gross interest income per year.

The audit found a number of problems with the loan funds, however, stemming from inconsistent reporting practices, cooperatives not lending out enough of the funds, and high administrative costs.

Incomplete Records. WWF did not maintain records of how much interest the loans generated or should have generated. According to financial reports, the program's gross income totaled \$1,817 as of March 2014. However, the income records showed that 5 months earlier, at the end of the second year (October 2013), the local cooperatives reported \$2,613 in gross income.

No Standard Procedure. The cooperatives did not report income at the same time. Cooperatives report income directly to WWF, but they were not required to do so until a borrower fully repays a loan after 2 years. The subrecipients that transfer the funds to local cooperatives are required to report on gross income, expenses, and residual income every year, but inconsistent reporting information resulted in the different totals.

Not All Funds Used. As of July 16, 2014, WWF had given the cooperatives \$417,164 through May 2014. Of this amount, \$323,104 or 77 percent was lent to the intended beneficiaries. However, in one area, 19 participating cooperatives had given only 47 percent of \$117,861 awarded for loans.

Unlimited Administrative Expenses. There was no limit on cooperatives' administrative expenses outlined in the guidance. During one reporting period, two cooperatives charged more than the income earned.

When asked about these problems, the agreement officer's representative said the program's income is too small to justify excessive controls, and loans were simply a mechanism to expand use of alternative energy. He added that the amount of seed money Hariyo Ban contributes is minor compared with the contributions of other donors that conduct less oversight.

Unless program income is fully accounted for and potential income estimated, the program may be missing an opportunity to maximize the impact of its alternative energy activities. In addition, there is an increased risk of fraud and misuse of funds. Finally, unrealized income from revolving funds cannot help cooperatives that serve local communities become sustainable.

⁷ The amount of income could be more because repayments on the principal as well as interest income are used to make loans to more beneficiaries.



Biogas units (left) use organic waste to power stoves (right) in Nepal, reducing the need for firewood. (Photos taken by RIG/Manila, July 15, 2014)

The mission can tackle these problems without creating much more work by creating standard reporting procedures and developing new guidance for cooperatives. Therefore, we make the following recommendations.

Recommendation 2. We recommend that USAID/Nepal work with World Wildlife Fund to create standard reporting procedures for program income earned under the Hariyo Ban Program.

Recommendation 3. We recommend that USAID/Nepal work with World Wildlife Fund to develop new guidance for cooperatives receiving revolving funds, including requirements to use funds in a timely manner and limit administrative expenses.

Windows of Opportunity Funds Did Not Have Targets

According to ADS 596, “Management’s Responsibility for Internal Control,” program managers rely on internal controls to reasonably ensure that programs achieve their objectives and to mitigate fraud, waste, and mismanaged resources. One of the most important internal controls is reviewing activities based on established performance measures.

The original cooperative agreement set up a Windows of Opportunity (WOO) fund for activities such as “observation tours, special training, technical support to other USAID activities, participation in national/international forums, outside evaluations, and commodity support.” WWF was allowed to fund activities without a formal evaluation process or public announcement. The cooperative agreement also required WWF to include a schedule of all activities with performance milestones in each annual work plan. Each annual report should include a comparison of results against targets listed in those work plans.

In September 2013 USAID modified the agreement to make WOO a subgrant activity and reduced the amount from \$4 million to \$2.7 million. Each WOO activity now had to promote innovation, contribute to program objectives, and have targets. A new process required WWF to advertise the subgrants to potential applicants from government agencies and civil society organizations, and then evaluate the proposals received.

Before the agreement was modified, the program disbursed \$137,976 for six grants. For example, the program contributed \$74,399 to a tiger population survey in June 2013. As of July 2014, the program had not yet disbursed WOO grants under the new requirements and was reviewing applications for activities worth \$710,514.

In addition, none of the completed activities had targets. The chief of party said that because WWF could not predict what WOO activities it would approve and fund in a given year, it could not include a complete schedule of activities with targets in the annual work plan, as required by the agreement. The new activities under consideration at the time of audit fieldwork did not have targets either.

The chief of party said that because the program could not predict what grant proposals it would approve in a given year, it was not possible to assign targets to WOO activities in general. This does not explain why individual activities or grants did not have targets. For WOO activities during the first 2 years, WWF counted the results of activities against program indicators after the recipients implemented them.

According to mission officials, WOO was a common feature of USAID/Nepal programs when Hariyo Ban began. The original agreement did not require a target for each activity. However, the new process put in place after the modification was not clear enough about the need for targets for each WOO grant. This inability to track and assess performance is an internal control weakness that increases the risk of misuse or inefficient use of up to \$2.7 million in program funds.

To reduce the risk, we make the following recommendation.

Recommendation 4. *We recommend that USAID/Nepal require the World Wildlife Fund to set performance targets or milestones for activities funded by Windows of Opportunity grants to gauge how successful they are in contributing to the Hariyo Ban Program's objectives.*

Local Subrecipients Were Not Audited According to Guidelines

The USAID *Standard Provisions for Non-U.S. Nongovernmental Organizations* requires that recipients make sure an audit is performed for any fiscal year in which a foreign nonprofit subrecipient spends more than \$300,000 in USAID funds. The audit must be conducted according to *Guidelines for Financial Audits Contracted by Foreign Recipients*.

According to data from WWF, two Nepali subrecipients, FECOFUN and NTNC, spent the amounts shown in Table 2 on the next page during Years 2 and 3 of the program.

**Table 2. Subrecipients' Spending in Fiscal Years 2013 and 2014
(Unaudited)**

Organization	2013 (\$)	2014 (\$)
FECOFUN	488,798	763,998
NTNC	637,032	677,234

Neither was audited according to the guidelines for FY 2013 (Year 2), and although the requirement for FY 2014 (Year 3) is not due until March 2015, no such audit was planned as of the time of our fieldwork.

WWF officials said a Nepali firm conducted an audit of WWF-Nepal for FY 2013 and the scope included the local subrecipients. The general financial statement audit report included sections pertaining to them as well. Program officials said local organizations undergo annual financial statement audits, which are required by local regulations.

However, a general financial statement audit does not fulfill the requirements of *Standard Provisions for Non-U.S. Nongovernmental Grantees* and *Guidelines for Financial Audits Contracted by Foreign Recipients*. Specifically, in the 2013 general financial statement audit of WWF-Nepal, the auditors issued a report on the financial statements that expresses an opinion on them, but they did not issue reports on internal control and compliance, which *Guidelines* requires. Unlike a general financial statement, an audit according to *Guidelines* examines costs incurred for allowability, allocability, and reasonableness, and questions any costs considered unsupported or ineligible.

Because the required audits were not carried out, the program was exposed to increased risk of questioned costs, internal control deficiencies, noncompliance with applicable laws and regulations, or fraud going undetected. Because the level of spending for the local subrecipients is likely to continue for the next 2 years, we make the following recommendation.

Recommendation 5. We recommend that USAID/Nepal require World Wildlife Fund to contract audits of its subrecipients Federation of Community Forest Users Nepal and National Trust for Nature Conservation for the fiscal years ending June 2013 and June 2014, and verify that an audit is completed for every subrecipient spending more than \$300,000 in one fiscal year. The audits should be conducted in accordance with the Guidelines for Financial Audits Contracted by Foreign Recipients, dated February 2009.

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, USAID/Nepal agreed with all five recommendations. The mission has made management decisions on all and taken final action on Recommendations 1 and 4.

Recommendation 1. USAID/Nepal agreed to increase the program target for the indicator tracking *Number of hectares of biodiverse area under improved management*. The mission worked with the recipient to increase the target to 5,919,923 hectares and approved the recipient's most recent M&E plan that includes the revised target. Accordingly, it has taken final action on this recommendation. We acknowledge the mission's management decision and final action.

Recommendation 2. USAID/Nepal made a management decision to work with WWF to establish standard procedures for program income and expenditures that will apply to the program. The mission expects to complete the new procedures by March 31, 2015. We acknowledge the mission's management decision.

Recommendation 3. USAID/Nepal made a management decision to work with WWF to revise guidelines for cooperatives that receive revolving funds under the program. The new guidelines will require cooperatives to use funds in a timely manner and limit administrative expenses. The target date for completing the guidelines is May 31, 2015. We acknowledge the mission's management decision.

Recommendation 4. USAID/Nepal agreed to work with WWF to set performance targets for activities funded under WOO. The new targets were included in an updated M&E plan approved on January 5, 2015. The program will report results against targets under the normal reporting schedule. Accordingly, the mission has taken final action on this recommendation. We acknowledge the mission's management decision and final action.

Recommendation 5. USAID/Nepal made a management decision to require WWF to complete audits of subrecipients. Audits of FECOFUN for fiscal year 2013 and NTNC for fiscal years 2013 and 2014 have been completed. The mission expects an ongoing audit of FECOFUN for fiscal year 2014 to be finished by April 30, 2015. We acknowledge the mission's management decision.

SCOPE AND METHODOLOGY

Scope

RIG/Manila conducted this audit in accordance with generally accepted government auditing standards. 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 based on our audit objective. We believe the evidence obtained provides that basis.

The objectives of the audit were to determine whether the Hariyo Ban Program was achieving its main goal of reducing the adverse impacts of climate change and threats to biodiversity, whether program activities were progressing as planned, and if activities were achieving planned outputs. To implement the program, USAID/Nepal awarded a 5-year, \$29.9 million cooperative agreement to WWF in August 2011. The agreement included a requirement for cost share of \$7.5 million, bringing the total amount to \$37.4 million. As of March 31, 2014, the mission had obligated \$17.1 million and spent \$12.7 million.

The audit examined program activities in three components: (1) biodiversity conservation, (2) sustainable landscape management, and (3) climate change adaptation. In planning and carrying out the audit, the team assessed significant management controls: annual work plans and reports, periodic progress reports, portfolio reviews, financial reports, cooperative agreements and modifications, and monitoring and oversight procedures. Finally, we reviewed USAID/Nepal's FY 2013 annual self-assessment of management controls, a requirement of the Federal Managers' Financial Integrity Act of 1982.

The audit was performed from July 7 to August 19, 2014. We conducted the bulk of fieldwork in Kathmandu and the areas around Pokhara and Sarauha, where the program has field offices. The audit covered the period from program inception in August 2011 until the end of the third year in June 2014.

Methodology

To answer the audit objective, we interviewed personnel from USAID/Nepal, WWF, and the three subimplementers, Cooperative for Assistance and Relief Everywhere (CARE), FECOFUN, and NTNC. We interviewed program staff and reviewed supporting documentation in Kathmandu, Pokhara, and Sauraha. We visited 6 rural communities out of 277 communities in CHAL and TAL. In addition, we visited program sites at Chitwan National Park and Beeshazari Lake in TAL. The audit team judgmentally selected the sites in consultation with USAID/Nepal and WWF. We chose sites that were accessible and within reasonable travel distance from field offices and featured a variety of activities. In some locations, we met with beneficiaries in rural communities to get their feedback about the program.

We reviewed supporting documentation for ten indicators in Kathmandu and in the field. We judgmentally selected the indicators to maximize coverage of the program's results. For indicators tested, we drew judgmental samples because WWF did not maintain all supporting documentation for all indicators or kept them in multiple locations. For these reasons, test results and analysis are limited to the indicators tested and cannot be projected to the entire universe.

MANAGEMENT COMMENTS



MEMORANDUM

TO: Matthew Rathgeber, Regional Inspector General/Manila,

FROM: Beth Dunford, Mission Director, USAID/Nepal

DATE: February 4, 2015

SUBJECT: USAID/Nepal Management Comments on Draft Performance Audit Report of USAID/Nepal's Hariyo Ban Program (Report No. 5-367-15-XXX-P)

REFERENCE: Audit Report No. 5-367-15-XXX-P, January 6, 2015

USAID/Nepal wishes to thank you for providing the Mission the opportunity to review the subject draft performance audit report. We would like to express our gratitude for the professionalism, flexibility, resourcefulness, and hard work exhibited by the audit team. The Mission agrees that implementation of the audit recommendations will improve the effectiveness of the Mission's environment and climate change programs and the efficiency of Mission operations.

Based upon the draft audit report findings and guidance provided by the audit team at the audit exit conference, the Mission has taken immediate action to implement the five recommendations contained in the report. We are providing confirmation on the corrective actions that have been taken or are planned to be implemented to address the recommendations in the audit report.

MISSION COMMENTS TO AUDIT RECOMMENDATIONS

Recommendation 1. We recommend that USAID/Nepal work with World Wildlife Fund to increase the final target for hectares of biodiverse area under improved management to reflect an ambitious, achievable result expected under the Hariyo Ban Program.

The Mission agrees with this recommendation.

Action Taken:

The Mission worked with the recipient and increased the final target for bio-diverse area under improved management from 500,000 hectares to 5,919,923 hectares for the life of the Hariyo

Ban Program period. This is an ambitious, achievable result that we can expect under the program following USAID's standard indicator definition, which considers studies and assessments as one of the means of bringing large geographical areas under improved management.

Based on the above, the Mission requests RIG/Manila concurrence that a management decision has been reached and the audit recommendation deemed closed as the Mission has updated the Hariyo Ban Program's M&E Plan to include a revised target for this indicator.

Additional Comments:

The Mission had not foreseen the applicability of the "broader" definition at the time of setting the original target because local conservation stakeholders were used to monitoring progress applying the "narrow" definition based on the site-specific interventions such as: plantation establishment, protection of forests and biodiversity resources by fencing and trenching, removal of invasive species, etc.

Based on the audit recommendation, the Mission's technical team discussed this issue with WWF and revised the Hariyo Ban Program's M&E Plan to report progress under this indicator disaggregated by "broad" and "narrow" definitions that meet local and USAID standard indicator requirements. Hence, there are now two disaggregated targets for this indicator for the life of the project period:

- Target for broader definition is set to 5,919,923 hectares; and
- Target for narrow definition is set to remain 500,000 hectares.

WWF has agreed to monitor and report progress against both targets annually.

Recommendation 2. We recommend that USAID/Nepal work with World Wildlife Fund to create standard reporting procedures for program income earned under the Hariyo Ban Program.

The Mission agrees with this recommendation.

Action Taken:

The Mission is working with WWF to produce standard reporting procedures for program income earned and expenditures made. The same guidance will be used for the reporting of program income under the Hariyo Ban program during the current and coming financial year. In addition, the Mission will work with WWF to revisit the investment amount, program income and expenditure for each field office. Any differences from the reported amounts will be reconciled and included in the next financial report.

The Mission plans to produce final standard reporting procedures by the end of March, 2015.

Based on the above, the Mission requests RIG/Manila concurrence that a management decision has been reached and the audit recommendation deemed closed when the Mission produces guidance on standard reporting procedures for program income earned and expenditures for the Hariyo Ban Program.

Recommendation 3. We recommend that USAID/Nepal work with World Wildlife Fund to develop new guidance for cooperatives receiving revolving funds, including requirements to use funds in a timely manner and limit administrative expenses.

The Mission agrees with this recommendation.

Action Taken and to be Taken:

In the last quarter of 2014, Hariyo Ban program's implementing partner WWF commissioned an assessment of the status of the revolving funds in the Terai Arc Landscape area. Based on the draft audit recommendations and findings of the recent assessment commissioned by WWF, the Mission is working with WWF to revise the guidelines for cooperatives on management of revolving funds in line with host country policies and regulations. These guidelines will have requirements to use funds in a timely manner and limit administrative expenses.

The Mission plans to finalize the guidelines by the end of May, 2015.

Based on the above, the Mission requests RIG/Manila concurrence that a management decision has been reached and the audit recommendation deemed closed when the Mission produces the guidelines for cooperatives for the management of revolving funds.

Recommendation 4. We recommend that USAID/Nepal require the World Wildlife Fund to set performance targets or milestones for activities funded by Windows of Opportunity grants to gauge how successful they are in contributing to the Hariyo Ban Program's objectives.

The Mission agrees with this recommendation.

Action Taken:

The Mission worked with WWF to set performance targets for individual activities funded under the Windows of Opportunity (WOO) funds. The Mission approved an updated M&E Plan for the Hariyo Ban program on January 5, 2015. This M&E Plan includes provision of reporting performance against the WOO activities. In addition, the updated M&E Plan contains a separate section describing the WOO monitoring, and WOO results are included in separate tables in the M&E Plan indicator reference sheets, as and where applicable.

Based on the above, the Mission requests RIG/Manila concurrence that a management decision has been reached and the audit recommendation deemed closed when the Mission demonstrates that the WOO activity performance reporting mechanism has been established in the updated M&E Plan.

Recommendation 5. We recommend that USAID/Nepal require World Wildlife Fund to contract audits of its sub-recipients Federation of Community Forest Users Nepal and National Trust for Nature Conservation for the fiscal years ending June 2013 and June 2014, and verify that an audit is completed for every sub-recipient spending more than \$300,000 in one fiscal year. The audits should be conducted in accordance with the Guidelines for Financial Audits Contracted by Foreign Recipients, dated February 2009.

The Mission agrees with this recommendation.

Action Taken and to be Taken:

Audits have now been completed for FECOFUN (fiscal year 2013) and NTNC (fiscal years 2013 & 2014). Audits were not necessary for fiscal year 2012 for either organization as spending of each was less than \$300,000. WWF is reviewing the audits and will follow up with FECOFUN and NTNC to discuss any findings or deficiencies as necessary.

FECOFUN's audit for fiscal year 2014 is currently underway and will be completed by April, 2015.

Based on the above, the Mission requests RIG/Manila concurrence that a management decision has been reached and the audit recommendation deemed closed when the Mission demonstrates WWF has contracted audits for all sub-recipients meeting the audit threshold.

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