PD-AAV-918

IAN-50982

6150169

6150172

6150186

6150193

6150205

6150216

6150219

6150232

6150236

6150229

6150220

6150239

6150241

6150221

AUDIT OF
USAID/KENYA'S MANAGEMENT SYSTEM

AUDIT REPORT NO. 3-615-87-13
May 29, 1987

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

UNITED STATES POSTAL ADDRESS
BOX 232
APO N.Y. 09675

INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

May 29, 1987

MEMORANDUM FOR DIRECTOR, USAID/Kenya, Steven W. Sinding

FROM: RIG/A/N, Richard C. Thabet R. C. Thabet

SUBJECT: Audit of USAID/Kenya's Management System

This report presents the results of audit of USAID/Kenya's management system. The objectives of this program results audit were to determine if the Mission's management system (1) effectively determined if projects should be extended or terminated, (2) identified and resolved project problems, and (3) ensured that project designs included features to objectively verify progress towards established objectives.

USAID/Kenya's management system was generally effective. However, the audit showed that improvements were needed in the areas of analyzing the need for project extensions, defining and resolving project problems, and using indicators of project progress.

Several projects with large amounts of unused funds were extended routinely, without adequate assessments of the alternatives for the use of the funds. Further, the portfolio review system usually identified problems, but it needed to be strengthened to better define and resolve the problems. Also, USAID/Kenya needed to improve the use of objectively verifiable indicators of progress in some of its projects.

To correct these problems, the report recommends that USAID/Kenya require, through its Mission Orders, the use of specific criteria for analyzing the merits of project extensions, and for defining and following-up project implementation problems. The report also recommends that the designs of two projects be changed to ensure that progress towards objectives can be objectively verified.

USAID/Kenya agreed with the report conclusions and recommendations. The Mission had already begun acting on the recommendations before the final report was issued.

Please advise us within 30 days of any additional information related to action planned or taken to implement the recommendations. Thank you for the courtesies extended to my staff during the audit.

EXECUTIVE SUMMARY

USAID/Kenya was responsible for overseeing, through its management system, 26 projects and 3 programs with authorizations totalling about $410 million. Authorizations for projects accounted for 60 percent of the total, or about $245 million. Assistance was concentrated in the areas of agriculture, population and health, and economic policy reform.

The staff of the Regional Inspector General for Audit, Nairobi conducted a program results audit of selected aspects of USAID/Kenya's management system. The audit objectives were to determine if the system (1) effectively decided if projects should be extended or terminated, (2) identified and resolved project problems, and (3) ensured that project designs included features to objectively verify progress towards established objectives.

The audit showed that seven projects with large amounts of unused funds were extended routinely, without an adequate assessment of the alternatives for the use of the funds. Further, the portfolio review system usually identified problems, but it needed to be strengthened to better define and resolve the problems. Also, USAID/Kenya needed to improve the use of objectively verifiable indicators of progress in two of seven recently designed projects.

USAID/Kenya's management system was generally effective. Further, USAID/Kenya recently had taken various actions to make the management system better. Some of these actions were related to topics discussed in this report. Overall, the Mission showed a constructive attitude about improving operations.

AID should not extend projects with unused funds to finance insignificant costs. Such action ties-up funds that could be invested more effectively in other projects. But USAID/Kenya's decision process was not fully effective in identifying such situations. Seven projects with large amounts of unused funds were extended routinely, without an adequate assessment of the alternatives for the use of the funds. The cause of the inadequate assessments was the absence of clear procedures for doing the analysis leading to the extension. The result was that about $13 million of expenditures were authorized for the projects without knowing if the expenditures were the most effective use of U.S. funds. The report recommends that USAID/Kenya include in mission orders clear requirements for the analysis preceding project extensions. Mission management agreed with this recommendation.

An AID Mission's portfolio review system should effectively identify problems, set corrective actions in motion, and report on the eventual outcomes of such actions. Although USAID/Kenya had an elaborate system in place, aspects of the system needed strengthening. For example, even though host country contribution problems were known to exist for the Arid and Semi-Arid Lands Development Project, the review system did not effectively define the problems, or facilitate implementation and reporting on corrective actions. This occurred because the portfolio review process was not focused on defining problems and following-up. In the case of the Arid and Semi-Arid Lands Project, the host country contribution to the project's primary contract was only 63 percent of the agreed amount at the end of the contract period. The lack of the required Government of Kenya contributions to the contract resulted in USAID/Kenya incorrectly paying to the Government of Kenya $1.5 million, funds that otherwise could have been used for valid development purposes. The report recommends that USAID/Kenya issue a mission order on the portfolio review process and that the order specifically include features to ensure problems are adequately defined and followed-up. Mission management agreed with this recommendation.

AID Handbook 3, Chapter 12 requires that projects incorporate objectively verifiable indicators of progress toward specific and measurable objectives. Five of seven recently designed projects that the audit staff assessed adequately incorporated indicators. Two projects, the National Agricultural Research Project and the Rural Private Enterprise Project, needed to improve the use of indicators. USAID/Kenya officials believed additional efforts would have exceeded what was appropriate. The effect was that AID had no way of knowing if the authorized project investments of $51.2 million would achieve its objectives. The report recommends that USAID/Kenya change the designs of the two projects to ensure that progress towards objectives can be objectively verified. Mission management agreed with this recommendation.

AUDIT OF
USAID/KENYA'S MANAGEMENT SYSTEM

TABLE OF CONTENTS

AUDIT OF
USAID/KENYA'S MANAGEMENT SYSTEM

PART I - INTRODUCTION

A. Background

Kenya has in recent years received the largest share of AID development assistance to East African countries. From 1985 to 1988 Congress approved $187 million in development assistance to the three East African countries of Kenya, Uganda and Tanzania. About 80 percent of the assistance was for Kenya.

At the end of 1986 USAID/Kenya was managing 26 projects and 3 programs with about $410 million in total authorizations. Project authorizations accounted for 60 percent of the total, or about $245 million. Assistance was concentrated in the areas of agriculture, population and health, and economic policy reform.

The Mission recently reported that "the past several years' efforts at portfolio consolidation and redesign are now being followed by a period of intensifying implementation efforts. There are several procedural obstacles to overcome, but the general Kenyan climate is favorable for achieving progress on all strategic objectives in FY 87."

B. Audit Objectives and Scope

The staff of the Regional Inspector General for Audit, Nairobi (RIG/A/N) conducted a program results audit of selected aspects of USAID/Kenya's management system. The audit objectives were to determine if the system:

-- effectively decided if projects should be extended or terminated,

-- identified and resolved project problems, and

-- ensured that project designs included features to objectively verify progress towards established objectives.

To accomplish these objectives, the audit staff reviewed selected aspects of 14 projects with about $141.1 million in obligations. The projects represented 80 percent of USAID/Kenya's obligations for 26 projects. USAID, Regional Economic Development Services Office, Government of Kenya and project officials were interviewed and appropriate documentation examined. The work was performed primarily in Nairobi, Kenya. The review of internal controls and compliance was limited to the findings reported. The audit was started in February 1987 and completed in April 1987 and was made in accordance with generally accepted Government auditing standards.

AUDIT OF
USAID/KENYA'S MANAGEMENT SYSTEM

PART II - RESULTS OF AUDIT

USAID/Kenya's management system was generally effective. However, the audit showed that improvements were needed in the areas of analyzing the need for project extensions, defining and resolving project problems, and using indicators of project progress.

USAID/Kenya recently had taken various actions to make the management system better. Some of these actions were related to topics discussed in this report. Overall, the Mission showed a constructive attitude about improving operations.

Seven projects with large amounts of unused funds were extended routinely, without an adequate assessment of the alternatives for the use of the funds. Further, the portfolio review system usually identified problems, but it needed to be strengthened to better define and resolve the problems. Also, USAID/Kenya needed to improve the use of objectively verifiable indicators of progress in two of seven recently designed projects.

To correct these problems, the report recommends that USAID/Kenya require, through its Mission orders, the use of specific criteria for analyzing the merits of project extensions, and for defining and following-up project implementation problems. The report also recommends that the designs of two projects be changed to ensure that progress towards objectives can be objectively verified.

A. Findings and Recommendations

1. USAID/Kenya Should Improve Its Decision Process for Extending or Terminating Projects

AID should not extend projects with unused funds to finance insignificant costs. Such action ties-up funds that could be invested more effectively in other projects. But USAID/Kenya's decision process was not fully effective in identifying such situations. Seven projects with large amounts of unused funds were extended routinely, without an adequate assessment of the alternatives for the use of the funds. The cause of the inadequate assessments was the absence of clear procedures for doing the analysis leading to the extension. The result was that about $13 million of expenditures were authorized for the projects without knowing if the expenditures were the most effective use of U.S. funds.

Recommendation No. 1

We recommend that the Director, USAID/Kenya incorporate in the Mission Orders a requirement that any action memorandum relating to a project extension clearly specify the amount of unliquidated obligations, project progress compared to objectives, the extent the proposed expenditures involve an expansion of the project, and investment alternatives to the extension.

Discussion - Nearly all AID projects have a Project Assistance Completion Date (PACD) after which AID may unilaterally deobligate project funds. The PACD is the date at which the parties estimate that all AID-financed goods will have been delivered and services will have been provided.

AID Handbook 3, Chapter 13 points out that there are cases where AID should refuse requests for extensions of the PACD because the extension would merely permit financing of insignificant project costs, but otherwise have substantial disadvantages to AID, including depriving other projects of needed funding. Such considerations should be weighed in the action memorandum submitted to the AID official who reviews and approves the request for extension.

Each action memorandum justifying an extension should have provided the information needed to make an informed decision. The information should have included (i) the amount of unliquidated obligations, (ii) project progress compared to objectives, (iii) the extent the proposed expenditures involve an expansion of the project, and (iv) an assessment of the comparative benefits from extending the project versus investing in a new or different project. Of course, other information may have been appropriate, but the foregoing information was needed by the official approving the extension.

An adequate assessment by USAID/Kenya before extension was important because many projects ended up with excess funds. The excess was caused by a variety of factors, including exchange rate fluctuations, planned activities not started, less person months of technical assistance utilized than budgeted, and over-budgeting in general, including high inflation and contingency factors. The combination of these factors caused surpluses of funds in various projects. Mission officials agreed that projects tended to accumulate excess funds after two or three years of implementation. The large investments at issue made an adequate assessment of the request for extension important.

The audit staff reviewed the decision process leading to the extensions for seven USAID/Kenya projects (see Exhibit 1 for a list of the projects). All of the extended projects had reached the PACD with significant unliquidated obligations. Overall, obligations at the time of the original project extensions totaled about $73 million, but expenditures totaled only about $60 million, or 82 percent of obligations. At December 31, 1986 the seven projects still had about $4.3 million of unliquidated obligations, ranging from $98,431 for the Family Planning Project, to $1,778,013 for the Arid and Semi-Arid Lands Project.

The audit staff reviewed 12 action memorandums justifying extensions that involved a total of about $13 million in unexpended funds at the PACD. All of the projects had been extended, but the analyses in the 12 memorandums were inadequate.

In every case only options regarding how the remaining funds could be spent within the project were considered. This was the case regardless of how insignificant the proposed expenditures within the project were, or how attractive alternative investments outside the project were.

The information provided in the memorandums provided an insufficient basis for logical decision-making. In only 4 of the 12 memorandums, for example, was the extent of the unliquidated obligations clearly stated. Among the projects where the information was not provided was a project with about $4.1 million in unliquidated obligations and two others with more than $1 million.

The sizes of some of the expenditures making up the total proposal for use of the remaining funds in a project were given. But a reviewer could not determine the total magnitude of the proposed investment associated with the extension because the information was incomplete.

An understanding of the extent of the unliquidated obligations was critical to an informed decision. In three cases the projects had experienced problems due to GOK budget constraints but the projects were extended anyway. In one case the project was extended 24 months, but 9 months after the extension $2.1 million was deobligated. In another case the funds available from the extension were spent on vehicles - an obligation originally that of the Government of Kenya. In a third case motorbikes were purchased for Peace Corps volunteers attached to the project. Had the total magnitude of the proposed investments been clearly set forth in the memorandums justifying the extensions the decision-maker might not have authorized the investments.

An additional information deficiency made sound decision-making difficult. Only 1 of the 12 memorandums clearly set forth the status of the project's progress towards the designed objectives. Such information was absent in five of the memorandums, and inadequate or incomplete in an additional six instances. Also the memorandums usually did not clearly establish whether the proposed investment was to achieve previously established objectives, or newly established objectives to facilitate the expenditure of the funds available after the extension. Thus the decision-maker could not easily judge how central to the project's purposes the proposed investments were.

In all 12 instances, the proposed investments to some extent involved an expansion of a project. The proposed expenditures had some merit, but usually appeared less significant than most project expenditures. For example, two memorandums proposed training nurses or teachers, two proposed procurements of vehicles or computers, two proposed additional technical assistance, and two proposed additional construction. Other memorandums proposed funding of additional surveys, studies or evaluations not originally envisioned.

These kinds of investment when made toward the end of a project typically did not have the same significance as the training, technical assistance, and equipment purchases or construction that were central to the original project design. As a practical matter they were after-thoughts and as such were less important to the central aims of the projects.

As a result of the information deficiencies in the action memorandums, the authorizing official could not assess whether the proposed investments were the most effective use of U.S. funds. In many instances the projects appeared to have been routinely extended to expend the remaining funds.

A primary cause of the inability to assess the merit of the investments was the absence of a requirement that key information be required in the memorandums. Chief among the deficiencies was the absence of a requirement to discuss alternatives to the extension of the project. An additional deficiency was the absence of a requirement to present information needed to judge the significance of the investments enabled by the extensions.

The effect of the situation was that about $13 million of expenditures were authorized for the seven projects without knowing if the expenditures were the most effective use of U.S. funds. To correct the situation the Mission should strengthen the decision-making process for authorizing extensions by requiring the memorandums to develop alternatives to the extension, and to clearly establish the size and developmental significance of the expenditures associated with the extension.

Management Comments - Management agreed with Recommendation No. 1 and stated that they intended to take the following action outlined in an earlier memo dated May 7, 1987:

"USAID will include the following instructions in a Mission Order on project approval and amendment procedures:

> Any request for project extension will clearly specify the amount of unliquidated obligations, the status of project accomplishment as compared with its objectives, the extent to which the proposed extension would involve an expansion of the project, and investment alternatives to the extension.

We expect this Mission Order to be issued o/a May 31, 1987."

Office of Inspector General Comments - Based on management's comments, we consider Recommendation No. 1 resolved. We will formally close the recommendation upon issuance of the Mission Order.

2. USAID/Kenya Should Better Utilize the Portfolio Review Process To Define and Resolve Project Problems

An AID Mission's portfolio review system should effectively identify problems, set corrective actions in motion, and report on the eventual outcomes of such actions. Although USAID/Kenya had an elaborate system in place, aspects of the system needed strengthening. For example, even though host country contribution problems were known to exist for the Arid and Semi-Arid Lands Development Project, the review system did not effectively define the problems, or facilitate implementation and reporting on corrective actions. This occurred because the portfolio review process was not focused on defining problems and following-up. In the case of the Arid and Semi-Arid Lands Project, the host country contribution to the project's primary contract was only 63 percent of the required amount at the end of the contract period. The lack of the required Government of Kenya contributions to the contract resulted in USAID/Kenya incorrectly paying to the Government of Kenya $1.5 million, funds that otherwise could have been used for valid development purposes.

Recommendation No. 2

We recommend that the Director, USAID/Kenya:

a. issue a Mission Order detailing the operation of the portfolio review process, and

b. include features in the process that will ensure adequate definition of problems, clearly defined staff responsibilities for implementation of corrective actions at an appropriate organization level, and adequate reporting on the results of the actions taken.

Discussion - AID Handbook 3, Chapter 11 leaves it up to individual missions to establish monitoring and portfolio review systems. The Handbook points out, however, that when project problems are identified, "it is... not enough to 'observe and record' such problems. Rather, efforts must be made to assist in the resolution of such problems whenever possible, i.e., to accept an additional measure of support or implementation responsibility."

With respect to a Mission's monitoring and portfolio review system, this means the system must effectively identify problems, set corrective actions in motion, and report on the eventual outcomes of such actions. This is a vital aspect of a Mission's overall systems to assure that U.S. funds are being disbursed in accordance with statutory requirements and that goods and services financed are utilized effectively to produce intended results.

USAID/Kenya's portfolio review system could be strengthened to better define and resolve project problems. At times problems surfaced as "issues," but were never clearly defined. Follow-up did not include features to ensure that responsibility for action was clearly assigned at an appropriate organizational level, and that reporting would continue until the problem was resolved.

The mission did have processes other than the portfolio review process to address problems. The Mission Director had weekly meetings with each division during which problems were addressed. Further, most divisions created monthly work plans that summarized actions needed, assigned staff, and discussed deadlines. These processes, however, did not always distinguish between routine problems and serious ones. Further, these processes were not designed to ensure continuity in addressing problems.

Responsibility for project management rested primarily with the project officer. The project officer, in coordination with the division chief, was concerned with the critical steps in project implementation and in influencing their successful accomplishment on a day-to-day basis.

The project officer reported project status quarterly. These reports, which were prepared jointly by the project manager and the project development officer, formed the basis of the mission's portfolio review system. The review was conducted quarterly, with a more elaborate work-up of data done semi-annually. This was the forum for the project officer, and the division chief to share serious problems with the Director and to keep the bureau informed. Although the portfolio review system was the primary means to address serious implementation problems, the system needed to be strengthened to more effectively define problems and to follow-up on those problems.

USAID/Kenya's experience with problems associated with the Arid and Semi-Arid Lands Development Project illustrated the portfolio review system's shortcomings. The project had suffered from insufficient Government of Kenya contributions.

In 1983 RIG/A/N reported on a large shortfall in the Governments contributions to a contract under the project. In February 1985 the Mission's portfolio review memorandum stated: "This project has moved slowly due in part to lack of GOK resources to handle all of their expected contributions to the project. A dialogue will be opened with the GOK on this subject to determine the strength of their current interest in ASAL activities and examine the implications of their response on All project activities." Five months later an interim evaluation of the project stated that "the GOK has been unable to make the up-front expenditures..., with the result that needed expenditures are not being made."

In December 1985 the Mission's portfolio review memorandum stated that early project progress was slow, "due largely to the critical financial position of the GOK and its inability to make up-front project expenditures for which it would be reimbursed from the project grant. Efforts have been made to solve this problem and the pace of implementation is improving."

In order to test the portfolio review system's effectiveness, the audit staff reviewed the status of the project's contributions. The review disclosed that the problems with the project's contributions had never been fully defined or resolved. RIG/A/N found it necessary to make a detailed audit of the host country contract under the project.

The audit disclosed a $443,851 (KShs. 3,683,963) local currency contribution shortfall by the Government at the end of the contract period. Further, because of a closely related problem USAID/Kenya had incorrectly paid about $1.5 million in costs that were obligations of the Government.

Thus, the test disclosed that a longstanding problem with the project was never fully defined or adequately acted upon. This problem was surfaced as a serious issue in 1983 by RIG/A/N and reported in the Mission Interim Evaluation of July 1985. However it was not discussed in the Mission 1986 review. The unnecessary costs to the U.S. of about $1.5 million might have been avoided if the review system had produced a better definition of the problem, assigned clear responsibility for action at an appropriate organizational level, and reported on the problem until it was resolved.

The Mission's staff pointed out that the portfolio review system generated a large amount of paperwork for the limited staff. Most projects were reported on regularly in the portfolio reviews to increase the likelihood of identifying problems early and to satisfy AID/Washington requirements for information.

However, instructions for preparing issues memos stated that only problem projects should be reported on. But this was not always the case. A more effective distribution of Mission effort would have occurred by focussing on fewer projects, that is, seriously troubled projects, and for those projects, by better defining problems, initiating corrective action, and following-up. The absence of a more focussed approach to defining and resolving problems was an important contributing factor in the continuing problems with the Government contributions to the Arid and Semi-Arid Lands Development project.

In the case of that project the effect was that about $1.5 million was unnecessarily expended on costs that were obligations of the Government, thereby reducing funds available for valid development purposes. To prevent future problems, the Mission should issue a Mission Order on the portfolio review process that specifically includes features to force improved definitions of problems and follow-up.

Management Comments - Management disagreed with the use of the Arid and Semi-Arid Lands Development Project as an example to illustrate the shortcomings in USAID/Kenya's portfolio review system. They suggested that we delete this example from the report.

Management, however, agreed with Recommendation No. 2 and stated that they intended to take the following action outlined in an earlier memo dated May 7, 1987:

"USAID has recently made revisions in the portfolio review documentation and procedures which will improve the definition of problems. Further revisions to improve designation of staff responsibility and follow-up monitoring and reporting are currently being developed. A Mission Order detailing the portfolio review process which incorporates modifications currently under consideration will be issued o/a July 31, 1987."

Office of Inspector General Comments - After carefully reviewing management's arguments (outlined in other memos to our office) for deleting the Arid and Semi-Arid Lands Development Project from the report, we decided that a separate report on this subject would be appropriate. We plan to issue such a report in the near future.

Based on management's other comments, we consider Recommendation No. 2 resolved. We will formally close the recommendation upon issuance of the Mission Order.

3. USAID/Kenya Should Improve Its Use of Objectively Verifiable Indicators of Project Progress

AID Handbook 3, Chapter 12 requires that projects incorporate objectively verifiable indicators of progress toward specific and measurable objectives. Five of seven recently designed projects that the audit staff assessed adequately incorporated indicators. Two projects, the National Agricultural Research Project and the Rural Private Enterprise Project, needed to improve the use of indicators. USAID/Kenya officials believed additional efforts would have exceeded what was appropriate. The effect was that AID had no way of knowing if the authorized project investments of $51.2 million would achieve its objectives.

Recommendation No. 3

We recommend that the Director, USAID/Kenya review the project objectives and indicators of the National Agricultural Research Project and the Rural Private Enterprise Project and make changes to ensure that progress towards objectives can be objectively verified.

Discussion - Foreign Assistance Act, Section 621(b) provides that "the President shall establish a management system that includes: the definition of objectives and programs for United States foreign assistance; the development of quantitative indicators of progress toward these objectives..." To implement this requirement AID Handbook 3, Chapter 12 sets forth a system which links evaluation to design and requires that project designs provide a basis for the assessment of performance. Chapters 1 and 2 of AID Handbook 3 describe methods for specifying project objectives, and defining indicators.

RIG/A/N reviewed project papers of seven recently designed projects (see Exhibit 2 for a list of the projects). In five of the project papers, the Mission's use of indicators was deemed adequate. In two project papers the use of indicators needed improvement.

The Mission did not incorporate objectively verifiable indicators of progress in three of the four components of the $15.25 million National Agricultural Research Project (615-0228). The project had four components: (1) Research Planning Management, (2) Maize and Sorghum/Millet Commodity Programs, (3) Human Resources Development, and (4) Research Fund. Each of the four components had three aspects: objective, outputs and inputs. The inputs in all cases were objectively verifiable.

However, the objective and outputs could not be objectively verified, because they were described in general terms such as "improve the efficiency" or "to increase yields," or "to improve system of designing..."

Certainly the results of research projects are not easy to measure. Nevertheless, an effort should have been made to quantify the expected results. Examples of measures that might have been considered included:

-- Hectares of cultivated land planted with improved high yielding varieties of food crops under AID assisted programs

-- number of field tests performed

-- number of improved practices extended to small farmers

-- number and types of high-yield crops developed.

The first major evaluation for the project was scheduled three years after the initial obligation. During the three year period USAID/Kenya oversight will be hampered by the absence of objective indicators. Early identification of problems or of the need to modify project design may not be possible.

The Rural Private Enterprise Project (615-0220) provided $24 million (to be matched by banks) for loans to private enterprises in Kenya's rural areas. The project's objectives were to increase rural production, employment and income. Successful project implementation was to lead to the following conditions:

(i) creation of 7,000 jobs directly and 12,000 indirectly in project-assisted and project related enterprises,

(ii) increased value-added in project assisted and project-related businesses. (Value-added is the value added at each stage of the processing of a raw material or the production or distribution of a commodity).

The project's design, however, did not include an adequate means to assess progress in meeting the objective of creating 7,000 new jobs. The means to be used was the tracking of current and projected employment data from loan applications. Given the incentives by applicants to inflate projected employment to encourage approval of the loans, reliance on the loan application data to monitor performance can provide only an initial indication of potential job creation.

Other than the use of the loan application information no ongoing method of objectively verifying the program's employment impact was planned. An in-depth evaluation was planned of assisted businesses after 2 or 3 years of loan experience. But by the time the evaluation was done, $10 to 20 million might have been lent before knowing if the intended results were being achieved.

In addition, the project paper did not provide objective indicators of progress for measuring the achievement of increased value-added. Value-added was measurable and the current level and the target level could have been quantified. Increased sales might have been tracked, for example, as a measure of the change in value-added. In the absence of indicators for this objective of the project, no means existed to determine ongoing project results.

USAID/Kenya officials believed additional efforts to use indicators in the two projects would have exceeded what was appropriate. This was not the case, however. Reasonable means did exist to monitor progress against measurable objectives for the projects.

The magnitude of the investments in the two projects was great. Assessing performance against objectives at the earliest possible time was important, so that action could be taken if needed to redesign the projects to better achieve the objectives. The effect of the situation for the two projects was that no objectively verifiable means existed to assess the ongoing performance for authorized project investments eventually totalling about $51.2 million.

To correct the situation USAID/Kenya should review the objectives and indicators for the two projects to ensure that progress can be objectively measured against clearly established targets.

Management Comments - Management agreed with Recommendation No. 3 and stated that they intended to take the following action outlined in an earlier memo dated May 7, 1987:

"USAID will review the objectively verifiable indicators of the Rural Private Enterprise and National Agricultural Research projects with a view to improving the consistency between the statements of measures of progress towards meeting project objectives included in those documents and actual project plans. We plan to incorporate the results of these reviews in modified logical frameworks by June 30, 1987."

Office of Inspector General Comments - Based on management's comments, we consider Recommendation No. 3 resolved. We will formally close the recommendation when the modified objectively verifiable indicators are incorporated into the projects' logical frameworks.

B. Compliance and Internal Control

Compliance

In the areas audited, there was an adequate level of compliance with applicable laws and AID guidelines. Nothing else came to our attention that indicated non-compliance in areas not tested.

Internal Control

As discussed in findings Nos. 1, 2 and 3, USAID/Kenya needed to improve its internal controls over project extensions, certain aspects of the portfolio review process, and in two instances the use of indicators of project progress. The audit work in internal control was limited to the findings reported.

AUDIT OF
USAID/KENYA'S MANAGEMENT SYSTEM

PART III - EXHIBITS AND APPENDICES

EXHIBIT 1

PROJECTS SELECTED TO REVIEW EXTENSIONS

	PROJECT STARTED	ORIGINAL PACD	CURRENT PACD	AT ORIGINAL PACD	AT DECEMBER 31, 1986
615-0169, Agricultural System Support:	8/78	3/85	6/87		
Obligations				$49,549,532	$49,549,532
Expenditures				45,415,100	47,944,233
Unliquidated Balance				$ 4,134,432	$ 1,605,299
615-0172, Arid & Semi Arid-Lands Development:	8/79	12/84	12/87		
Obligations				$10,900,000	$10,900,000
Expenditures				5,704,797	9,121,987
Unliquidated Balance				$ 5,195,203	$ 1,778,013
615-0180, Dryland Cropping System Research:	9/76	1/84	1/87		
Obligations				$4,233,179	$4,233,179
Expenditures				3,609,800	4,017,225
Unliquidated Balance				$ 623,379	$ 215,954
615-0193, Family Planning II:	8/82	9/85	6/86		
Obligations				$2,400,000	$2,400,000
Expenditures				1,122,415	2,301,569
Unliquidated Balance				$1,277,585	$ 98,431
615-0205, Renewable Energy Development:	8/80	9/84	12/86		
Obligations				$4,800,000	$4,800,000
Expenditures				3,590,161	4,597,680
Unliquidated Balance				$1,209,839	$ 202,320
615-0216, Family Planning Management - AMREF:	8/83	8/86	4/87		
Obligations				$620,000	$620,000
Expenditures				288,512	395,201
Unliquidated Balance				$331,488	$224,799
615-0219, Kitui Primary Health PH-2:	4/83	3/86	12/86		
Obligations				$500,000	$500,000
Expenditures				301,543	349,811
Unliquidated Balance				$198,457	$150,189
TOTALS FOR ALL PROJECTS:					
Obligations				$73,002,711	$73,002,711
Expenditures				60,032,328	68,727,706
Unliquidated Balance				$12,970,383	$4,275,005

EXHIBIT 2

PROJECTS SELECTED TO REVIEW THE USE OF OBJECTIVE INDICATORS

PROJECT NO.	PROJECT NAME	PROJECT STARTED	CURRENT PACD	AUTHORIZATION $ MILLION	OBLIGATION $ MILLION
615-0232	Family Planning and Support Services	9/85	9/92	43.0	15.5
615-0236	PVO Co-Financing	6/85	4/92	12.0	3.9
615-0229	National Agricultural Research	9/86	6/93	15.2	7.4
615-0220	Rural Private Enterprise	8/83	3/89	36.0	35.1
615-0241	CORAT-Child Survival	1/87	3/90	1.2	1.2
615-0239	Institutional Development for Agricultural Training	8/86	9/91	2.0	2.0
615-0221	Agricultural Management	9/85	12/88	3.0	3.0
TOTALS				$112.4	$68.1

UNITED STATES GOVERNMENT
memorandum

DATE: May 29, 1987

REPLY TO ATTN OF: Steven W. Sinding, Director, USAID/Kenya

SUBJECT: Audit of USAID/Kenya's Management System

TO: Richard C. Thabet, RIG/A/N

Ref: Your Memorandum of May 26

The Mission has reviewed the draft audit report on USAID's management system. We are pleased to note the change in the language of Recommendation No. 3 which we believe more accurately represents the needed action.

We also note that you have not changed the example (ASAL) used to illustrate the shortcomings in USAID's portfolio review system. Our position on this point remains that in view of the continuing differences which exist between USAID and RIG on the ASAL project, another example should be used.

USAID's intended actions in response to the three recommendations remain as described in our May 7 memo. We understand from your May 26 memo that RIG views the actions we proposed in our May 7 memo as acceptable responses to the three audit recommendations.

APPENDIX 2

REPORT DISTRIBUTION

Director USAID/Kenya	5
AA/AFR	1
AFR/EA/KS	1
AFR/CONT	1
AA/XA	2
XA/PR	1
LEG	1
GC	1
AA/M	2
M/FM/ASD	2
SAA/S&T	1
PPC/CDIE	3
M/SER/MO	1
M/SER/EOMS	1
IG	1
DIG	1
IG/PPO	2
IG/LC	1
IG/EMS/C&R	12
AIG/II	1
RIG/II/N	1
IG/PSA	1
RIG/A/C	1
RIG/A/D	1
RIG/A/M	1
RIG/A/S	1
RIG/A/T	1
RIG/A/W	1