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AUDIT OF SELECTED MANAGEMENT SYSTEMS AT USAID/INDIA

AUDIT REPORT NO. 5-386-89-06
JULY 18, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
– Singapore –

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July 17, 1989

MEMORANDUM FOR Mr. Robert N. Bakley
Director, USAID/Pakistan

FROM: Reginald Howard, RIG/A/Singapore

SUBJECT: Audit of Selected Management Systems at USAID/India

The Office of the Regional Inspector General for Audit/ Singapore has completed its audit of selected management systems at USAID/India. This report contains one recommendation which, based on the reply to the draft report, is considered resolved but not closed. Please advise us within 30 days of the status of the actions planned or taken to implement the recommendation. We appreciate the cooperation and courtesy extended to our staff during the audit.

BACKGROUND

A.I.D. guidelines required that missions have effective systems to manage and control project activities and the use of funds. USAID/India had 21 active projects with total estimated A.I.D. and host country costs of about

$1 billion ($600 million and $400 million, respectively). USAID/India obligations and expenditures for these projects as of December 31, 1988, were $467 million and $206 million, respectively.

While various systems were required, seven were selected for this review. These seven systems were to ensure that:

-- Quantitative indicators to measure project achievements were established and monitored.

-- Project evaluation report recommendations were appropriately resolved and implemented.

-- Host country contribution requirements were met.

-- Project commodities were properly accounted for and effectively utilized.

-- Participants trained overseas received the required medical certifications and worked on project activities for a certain period of time.

-- Project Assistance Completion Reports were prepared and recommendations for follow-up were appropriately implemented.

-- A.I.D.-funded procurement instruments were closed out correctly.

These seven systems were selected because prior Inspector General audits disclosed problems at some missions due in part to inadequate systems.

AUDIT OBJECTIVE AND SCOPE

The audit objective was to determine whether USAID/India complied with A.I.D. requirements for establishing and implementing the seven systems mentioned above. The audit did not attempt to evaluate overall Mission management or to quantify any adverse effect of not implementing the prescribed systems. Audit work included a review of project and administrative documents and interviews at USAID/India. Four active and three inactive projects were selected to test the implementation of the systems. The reviews of internal controls and compliance issues were limited to selected aspects of the seven systems discussed in this report.

The audit covered USAID/India systems in place when the audit was performed in January 1989. The audit was made in accordance with generally accepted Government auditing standards.

RESULTS OF AUDIT

The Mission generally had adequate systems to ensure that quantitative indicators were established and monitored, evaluation report recommendations were appropriately resolved, Project Assistance Completion Reports were prepared and recommendations implemented, and procurement instruments were properly closed out. Furthermore, the Mission was developing a Project Management Information System to review and identify areas requiring closer attention. Also, periodic meetings involving top level Mission management reviewed the status of all projects.

The Mission's system for participant training included a requirement for medical certificates but did not require that project agreements include a statement that participants trained overseas work on project activities for a certain period of time. In addition, the Mission had not developed a formal system to monitor host country contributions. The Mission believed the Government of India's systems were generally adequate to satisfy A.I.D. requirements in these areas. Accordingly, the officials did not believe it necessary to duplicate these systems by implementing the letter of A.I.D. guidance, particularly given its staffing constraints. Also, while the Mission had an adequate system for quantitative indicators, it could be more fully implemented. The "Other Pertinent Comments" section of this report contain additional information on these areas.

The Mission did need to implement a system to better control project commodities. Therefore, as discussed in the following observation, this report recommends that a more formal Mission system for commodities be established.

USAID/INDIA NEEDED TO IMPROVE ITS SYSTEM FOR MONITORING COMMODITIES

USAID/India needed to establish a system to ensure project commodities were accounted for and effectively utilized as required by A.I.D. guidance. Mission officials had relied on the Government of India's system because the value of commodities in any one period had been relatively small. As a result, the Mission was not in compliance with A.I.D. requirements and lacked

assurance that commodities were properly accounted for and effectively utilized.

Discussion

Missions were required to ensure effective accounting for and utilization of project commodities. To help accomplish this, A.I.D. Handbook 15, Chapter 10, requires missions to maintain a current description, approved by the mission controller, of a host country's commodity arrival and disposition systems. Also required were the mission's evaluation of the systems and the mission's established monitoring procedures.

USAID/India officials did not maintain a current description of the host country's commodity arrival and disposition systems and related Mission's monitoring procedures. Accordingly, USAID/India did not have the required assurance that the host country's system was adequate.

USAID/India relied upon the system used by the Government of India to provide adequate controls over A.I.D.-funded commodities. Also, trip reports and progress reports were to be used to ensure effective utilization of commodities. However, for the two active projects included in our review which had received commodities (costing about $1.7 million), the trip reports and progress reports did not consistently contain information about commodity utilization. The reports did not provide the Mission with overall systemic information to adequately determine accountability or whether the commodities were being effectively utilized.

As of January 31, 1989, estimated total cost for commodities under active projects was about $30.5 million. At that time, actual purchases were about $6.3 million. Because of the future volume of commodities and to comply with A.I.D. Handbook 15, additional controls were needed to monitor commodities.

Mission officials did indicate that because of the anticipated increase in commodity purchases, they were planning on establishing a more formal system. According to Mission officials, such a system had been in place and found to be adequate when the commodity import program was large. Also, Mission officials stated that the services of a commodity expert had been recently requested to provide some guidance in this area.

Recommendation No. 1

We recommend that USAID/India develop procedures to ensure:

a. A current description, approved by the Mission Controller, is maintained of both the host country's commodity arrival and disposition systems (including the Mission's evaluation of the systems) and the Mission's established monitoring procedures.

b. Information is obtained to help ensure effective utilization of project commodities.

Management Comments

USAID/India officials generally concurred with the finding and recommendation. They stated in part that:

> " Now that the value of commodity procurement is increasing (and thus becoming more material), USAID/India has initiated project specific measures to monitor the commodity arrival and disposition systems. "
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> ***
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> " Irrespective of our small commodity portfolio and our project-specific efforts to monitor commodity utilization, we plan to update and amplify the earlier description of host country's general commodity arrival and disposition system. We expect to complete this exercise in a period of 3-4 months. As part of our overall efforts to strengthen commodity arrival and disposition systems, we will also ensure a regular flow of information through project monitoring reports to confirm effective utilization of commodities. "

USAID/India comments to the entire draft report are presented as Appendix 1.

Office of Inspector General Comments

Based on the comments received from USAID/India, this recommendation is considered resolved and will be closed when the Mission completes its plans to update and amplify the commodity arrival and disposition systems and to establish a regular flow of utilization information.

OTHER PERTINENT COMMENTS

USAID/India could improve its system to ensure participants trained overseas for specific projects were used for project purposes. USAID/India did not include in project agreements the requirement that the participants were to be used for project purposes for a certain period of time. Such a provision is required by A.I.D. Participant Training Notice 87-14. Also, USAID/India did not have a follow-up system to ensure host country participants trained overseas were effectively used for project purposes. This occurred because USAID/India relied mainly on the control system used by the Government of India which was believed by Mission officials to be adequate. This system bonds the employees to work for the Government of India for a set period of time after completion of training. In response to a draft of this report, USAID/India stated that existing project agreements will be amended and future project agreements will include a provision requiring participants to work for project purposes for a given period.

USAID/India had not developed a formal system to monitor host country contributions. For example, USAID/India did not have a system to periodically compare planned versus actual host country contributions or update financial plans to show contributions yet to be made, as prescribed by A.I.D. Handbooks 3 and 19. USAID/India believed that since the Government of India normally provided the majority of funds on any given general activity and far more than 25 percent on any given specific project, it was not necessary to develop a formal system to monitor such contributions in detail. In response to a draft of this report, USAID/India stated that progress reports and reimbursement claims

submitted by the Government of India indicate the cumulative contribution and this was sufficient to ensure required contributions are made.

USAID/India could improve its system for measuring project achievements. Mission Order 650 generally met the various A.I.D. requirements. It prescribed the Mission policy to (a) gather information regarding project inputs and outputs, and compare such information with plans and schedules; (b) make informed judgments about the continuing relevance/ appropriateness of project design and any need for changes; and (c) inform Government of India officials and Mission management about project progress. While the Mission's Order adequately addressed A.I.D. requirements, it was not being fully implemented. For example, objectively verifiable indicators were at times either not adequately developed or were not revised when no longer appropriate. In addition, interim targets for achieving indicators were not always established and periodic project management reports did not always report accomplishments. In response to a draft of this report, USAID/India stated that it is focusing on improving systems to measure project activities.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

NEW DELHI, INDIA

June 22, 1989

RECEIVED
- 3 JUL 1989

MEMORANDUM

TO :Mr. Reginald Howard, RIG/A/Singapore

FROM :Robert N.Bakley, Director

SUBJECT :Revised Draft Audit Report on Review of Selected Management Systems at USAID/India.

Following are the Mission's comments on the subject draft audit report:

The draft audit report states that USAID/India has 21 active projects with a total estimated AID cost of $600 million. It should be noted that the commodity cost is about $30 million or 5% of the estimated project cost. Out of $30 million, the actual purchases for equipment/ commodities is only $6.3 million or 1% of the total project costs. The Mission's view is that the current level of commodity procurement does not warrant elaborate monitoring procedures. We have already sent you a copy of the commodity arrival and disposition system as approved during the late sixties for the USAID/India program. The commodity portfolio during that time used to be about $400 million. USAID/India has not updated its analysis of the commodity arrival and accounting system since the commodity portfolio is presently so small.

Now that the value of commodity procurement is increasing (and thus becoming more material), USAID/India has initiated project specific measures to monitor the commodity arrival and disposition systems. For instance, the Family Planning Communication and Marketing Project has a commitment of $4.5 million for procurement of IUDs. To comply with the monitoring responsibilities for effective accounting and disposition of IUDs, USAID has approved a scope of work (see attachment I) for review of logistics management of the IUD's. Similar monitoring plans are in process for the Agriculture Research Project.

Irrespective of our small commodity portfolio and our project-specific efforts to monitor commodity utilization, we plan to update and amplify the earlier description of host country's general commodity arrival and disposition system. We expect to complete this exercise in a period of 3-4 months. As part of our overall efforts to strengthen commodity arrival and disposition systems, we will also ensure a regular flow of information through project monitoring reports to confirm effective utilization of commodities.

As regards participant trainees, we will ensure that all future project agreements include the provision required by AID Participant Training Notice 87-14. The existing project agreements will be amended by issuing project implementation letters detailing the provision on use of participants for project purposes for a given period. However, we have confidence in the Government of India system of binding the participants to work for a set period of time after completion of training. This system, we feel, has proven successful in achieving the objectives intended by Participant Training Notice 87-14.

The draft report mentions absence of a formal system to monitor host country contributions. As explained verbally and also pointed out in the draft report, most of the funds for any general activity are contributed by the GOI. Thus, little or no purpose is achieved in establishing an elaborate system to ensure a minimal host country contribution of 25%. The progress reports and reimbursement claims submitted by the implementation agencies do indicate the cumulative GOI contributions. We believe that such reporting is sufficient to ensure that a) the host country contribution to any specific project is more than 25%; and b) the host country commitments as mentioned in the project agreements are complied with. In view of the above observations, please amend the report to reflect the Mission's actual monitoring practice.

As a result of various Agency directives, the Mission is focusing on improving systems to measure project achievements. We wish to point out that quantitative indicators are developed as a part of the project paper design and authorization process. Therefore, many of the indicators for projects designed in the early eighties were inherited by current Mission management. Further, quantitative indicators and project objectives require bi-lateral or multi-lateral agreement documented in project agreements and implementation letters. Projects with deficient project parameters are being restructured/redesigned to enable the Project Officers to better track outputs. The Mission has also initiated ground work for establishing an automated system to track the physical outputs as part of the Project Monitoring and Information System (PROMIS). I hope that our continued efforts to amplify PROMIS and develop better quantitative indicators will address your audit concerns in this area.

Attachment: Not Included

Appendix 2

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