



Auditor General

AUDIT REPORT
ON
AID DEVELOPMENT ASSISTANCE
TO NEPAL
As of March 31, 1977

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INTRODUCTION

The objectives of AID's assistance to His Majesty's Government of Nepal (HMG) are to improve agricultural technology and services for the small farmer; expand the delivery of family planning services; improve the distribution of basic health services at the village level; and train manpower. The level of grant assistance provided or proposed in support of these objectives during FY 1975 - FY 1978 is as follows:

	<u>U. S.</u> <u>Dollars</u> <u>(Millions) 2/</u>	<u>U.S. -owned Indian Rupees(Rs.)</u> <u>Alloca-</u> <u>tions</u> <u>(Millions)</u>	<u>U. S. Dollar</u> <u>Equivalent</u>	<u>T o t a l</u> <u>U. S. Dollar and</u> <u>Dollar Equivalent</u> <u>of U.S. -owned</u> <u>Rupees (Millions)</u>
FY 1975	\$ 2.5	Rs. 65	\$ 7.4	\$ 9.9
FY 1976	3.5 <u>1/</u>	80	9.0	12.5
FY 1977	6.7	75	8.5	15.2
FY 1978	12.1	-	-	12.1
	<u>\$24.8</u>	<u>Rs. 220</u>	<u>\$24.9</u>	<u>\$49.7</u>

1/ Includes transition quarter funding.

2/ FY 1977 - 78 congressional presentations data.

Details on the composition of the program are presented in Exhibit A.

A large part of AID's contribution has consisted of U.S.-owned Indian Rupees. However, under the terms of the U.S.-Indian Rupee agreement of February 18, 1974, Indian rupees cannot be used for AID's development program in Nepal after FY 1977. The large increase in dollar funding for FY 1978 thus reflects a substitution of AID dollars for U.S.-owned Indian rupees.

The purpose of this examination was to evaluate how effectively the AID supported activities were planned, implemented and monitored.

SUMMARY

The most significant findings developed during the audit, and presented in detail in the following sections, are digested below:

- Few benefits have resulted from the two AID-financed projects in the Food and Nutrition Sector because of contractor and HMG staffing problems, procurement delays and untimely construction of project facilities. (See pp. 5 - 7.)
- Insufficient operating funds are adversely affecting the effectiveness of the Integrated Health System. (See pp. 8 - 9.)
- The effectiveness of Family Planning/Maternal Child Health based clinics are being diminished after being integrated into the Integrated Health System. (See pp. 9 - 11.)
- HMG's controls and accountability for AID-financed Family Planning and Maternal Child Health commodities were inadequate. (See pp. 11 - 13.)
- There is a need for greater USAID/N contact with returned participants to assure that the employment provisions of the agreements with the HMG are being fulfilled. (See p. 14.)
- The accounting procedures for U.S.-owned local currency contributions (rupees) released to the HMG's implementing agencies are not adequate to identify and recover unutilized rupees for reprogramming. (See pp. 15 - 16.)
- USAID/N is reprogramming unutilized rupee contributions from terminated projects without adequate assurance the rupees are actually available for use on new development projects. (See pp. 17 - 18.)

- USAID/N is reprogramming unutilized rupee contributions from terminated projects in a manner that may violate the time limitations imposed by the Office of Management and Budget. (See pp. 18 - 19.)
- USAID/N is reprogramming unutilized rupee contributions from terminated projects in a manner that circumvents normal AID accounting procedures. (See pp. 19 - 20.)
- Improper use of program documentation resulted in the Office of Contract Management (AID/W/SER/CM) negotiating a contract substantially in excess of approved project funding. (See pp. 21 - 22.)

The report contains 12 recommendations listed in Exhibit

B.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. FOOD AND NUTRITION SECTOR

Implementation of the two major projects in this sector have progressed slowly and few benefits have resulted.

AID's assistance in the Food and Nutrition sector consists primarily of activities financed under the Integrated Cereals (IC) and the Institute of Agriculture and Animal Sciences (IAAS) projects. The agreements for these projects were signed on June 30, 1976, and June 28, 1974, respectively.

The IC project is designed to help HMG improve its capacity to (1) generate improved production technology for major foodgrain crops and related cropping systems; and (2) transfer that technology to Nepali farmers, particularly those located in the hill country. The IAAS project is designed to help the HMG develop an institution that will train extension agents, supervisory personnel, secondary level vocational agriculture teachers, and eventually degree candidates for a broad range of public and private agricultural research and management roles.

Project implementation under both projects has been significantly delayed for much the same reasons. Reasons for these delays have been due in part to contractors' staffing difficulties, insufficient and untrained HMG support personnel and untimely construction of project facilities and procurement of tools and equipment. Salient comments on these problems are cited below.

Contractor Staffing

The AID-financed contractor on the IC project (International Agricultural Development Service) should provide seven specialists. The implementation plan, prepared in April 1976 and submitted with the project paper, showed that six of the seven specialists would be on board by September 1976. However, as the contract was not signed until September 1976, a revised paper, prepared in October 1976, showed that all seven specialists would be on board by April 1, 1977. Yet, as of that date, only four of the seven were on board. Two additional members of the team were reportedly scheduled to arrive in late May 1977. The final specialist, and a key member of the team, had not yet been identified by the contractor.

The IC contract states that two-thirds of the teams' efforts will focus on the problems of the hill farmers. Because of this staffing delay very little has been achieved in this area. Thus, until all contract specialists are on board, the benefits expected from the contractors' efforts will not be fully realized.

The contract under the IAAS project was executed with an effective date of December 1, 1975. The contractor (Midwest Universities Consortium for International Activities Inc.) was not fully able to staff the team until June 1976, two years after the project was approved and about seven months after the effective date of the contract. The specialists, once on board, conducted substantial activities, but these activities have recently been curtailed because two of the four specialists terminated their employment and returned to the United States.

HMG Staffing

The HMG agreed to provide adequately trained staff to assist in the implementation of the projects. However, during our visit to several project sites, we found a shortage of adequately trained staff to implement the projects. The staff on one HMG team, for example, has only 60 percent of its authorized staff, and the staff of one agricultural farm has only 75 percent of its authorized staff. Every site visited during our audit revealed a similar need for adequately trained mechanical and administrative personnel.

Procurement of Facilities and Equipment

USAID/N and the HMG have agreed that to implement the two projects certain additional facilities, tools and equipment were needed.

USAID/N accordingly programmed NC Rs. 5.3 million under the IC project. Rs. 1.5 million of these funds were released to the HMG in January 1976. Yet, as of April 30, 1977, only part of the tools and equipment had been procured and none of the facilities were ready for use.

Construction of the facilities was delayed by one year because USAID/N did not provide the proper designs. More importantly, the HMG does not now appear to be interested in procuring the tools and equipment for the project.

NC Rs. 25.6 million were programmed for facilities relating to the IAAS project. These funds were provided under a grant agreement signed January 13, 1976. But, as of April 30, 1977, only the conditions precedent to release of funds for architectural and engineering services had been met. Contracts for construction of the buildings and roads had been let, but conditions precedent for release of funds for construction work had not been satisfied.

Indications are that, unless these problems are quickly resolved, few beneficial results will be derived from the projects.

Recommendation No. 1

We recommend that USAID/N, in cooperation with HMG, review the effects of contractor staffing, HMG staffing and procurement problems of the IC and IAAS projects and, as necessary, reduce the scope of the projects to a level which can be supported by the HMG and the contractors.

B. POPULATION/FAMILY PLANNING AND HEALTH SECTOR

1. HMG's Financial Support to the IHS System

HMG's financial support to the expanding Integrated Health Services (IHS) system is inadequate. Without this financial support, the IHS system is unable to deliver basic health and Family Planning/Maternal Child Health (FP/MCH) services at the village level.

AID has supported HMG's FP/MCH program since 1968. The program is now being progressively transferred to the HMG's expanding IHS system.

As of June 30, 1977, there were 429 health posts in operation. Of these, 192 had been integrated since June 1973. By the end of HMG's 5th year plan in 1980, it is planned to have converted the remaining 237 non-integrated health posts to the integrated model. During this process, the services of about 200 FP/MCH clinics currently in operation will be transferred to the integrated health posts.

The HMG has given a high priority to family planning and health, but it has neither planned for nor recognized the importance of providing adequate operating funds at the field level. Yet, the heart of the program focuses on operating out of the integrated health posts utilizing Junior Auxiliary Health Workers (JAHW's) and Auxiliary Health Workers (AHW's). Thus, if the integrated health program is to be effective, travel allowances and daily allowances (TA/DA) are essential to defray travel and subsistence cost of workers to carry preventive health and family planning services to the people.

Only 17 percent of the TA/DA budget request of Rs. 3.5 million for FY 1977 was provided for the 192 integrated health posts. Additionally, only 22 percent of the Rs. 527,000 TA/DA budget request for FY 1977 was allocated for District Health Offices (DHO's) which are responsible for managing and coordinating health post activities in their districts.

Estimated TA/DA requirements for health posts and district offices for the IHS system for FY 1978, FY 1979 and FY 1980 are conservatively estimated at Rs. 5.7 million, Rs. 10.3 million and

Rs. 14.8 million, respectively. These estimates, made as of February 1977, would increase significantly if optimal field supervisory movement could be afforded. Yet, since only 17 percent of the FY 1977 combined TA/DA budget request of Rs. 4 million was provided for the IHS program, it appears highly questionable whether the HMG will be able to fund the rapidly expanding TA/DA requirements.

Because the HMG has not financially supported the integrated program, USAID/N is planning to program \$900,000 over the next several years to help finance TA/DA costs. These costs are conservatively projected to triple during the next 3 years. Since the USAID/N contribution will be spread about evenly each year, HMG's contribution will have to increase to 75 percent to meet the 1980 projected budget. This is a sizeable increase, considering HMG's current funding performance.

HMG is currently scheduled to contribute 36 percent of the FY 77/78 TA/DA requirements of the IHS project. Without this financial support, there is no reasonable assurance that the FP/MCH projects' demographic targets will continue to be emphasized under the IHS system.

Recommendation No. 2

We recommend that USAID/N obtain, prior to making any TA/DA contributions to the IHS project, a firm commitment from the HMG to fund its proportionate share of the TA/DA requirements for FY 77/78.

2. Transfer of FP/MCH Clinic Based Services into the IHS System

The FP/MCH based clinics are becoming less effective after integration into the IHS system.

The purpose of the FP/MCH project (No. C096) is to foster a progressive decline in the size of families and the distribution of population consistent with Nepal's overall social and economic objectives. Through this project, USAID/N supports the HMG's FP/MCH program with technical assistance furnished under an AID contract with the Regents of the University of California (UC).

Two of UC's work plan targets for FY 1977/78 are to:

(a) promote the field-based FP/MCH worker delivering both family planning and MCH services into the homes; and (b) assess work patterns, staffing problems and the strengths and weaknesses of the clinic based services and make appropriate recommendations for improving clinic services.

The IHS system is supported by USAID/N through a contract with Management Sciences for Health Inc. (MSH) funded under the IHS project (No. 367-0126). The MSH contractor is responsible for upgrading the capability of the HMG to organize and manage a nationwide IHS system. As such, the contractor is focusing on improving HMG's capability in a wide range of areas. These areas include but are not limited to programming, budgeting, research, assessing and developing training programs and information feedback systems.

Major problems exist in coordinating an effective transfer of responsibility for FP/MCH project activities into the new IHS system. To assist with this transfer, USAID/N is in the process of setting up meetings between the two HMG organizations and contractors' involved in the programs. Points of USAID/N concern are: (a) that a good plan, including the manner and procedures for integration, has not yet been developed and agreed upon by all parties concerned; and (b) that the overall responsibility for FP/MCH and national population policy will receive less than the highest priority required when FP/MCH activities are merged with other health priorities in an effective IHS system.

The FP/MCH project has developed a body of skilled manpower in research, evaluation, training, etc. These services are essential for an effective FP/MCH service under any delivery system. Yet a plan for organizing and utilizing this expertise in the IHS system has not been developed.

Based on our review of integrated health posts, we concluded that much of the FP/MCH contractors' work in upgrading FP/MCH clinics under the project is being negated after integration. FP/MCH activities under the IHS system are not being given the same high priority they received under the project.

We believe, if the IHS system is to expand and be an effective vehicle for achieving FP/MCH targets in the future, more emphasis should be given to promoting the delivery of both family planning and MCH services into the homes under the integrated health post concept.

Recommendation No. 3

We recommend that USAID/N, (a) develop a plan of action to have the FP/MCH (UC) contractor assist the HMG in upgrading FP/MCH service capabilities of workers at the integrated health posts, and (b) based on the plan, take action as appropriate, to amend UC's scope of work.

3. FP/MCH Commodity Logistics System

HMG's controls and accountability for AID-financed family planning and maternal child health commodities are inadequate.

The supply and commodity management system maintained by the HMG's FP/MCH organization is not adequate to control and protect AID-financed contraceptives and other commodities supplied to the program.

Some examples of the inadequacies we found in the HMG's system are cited below:

- (a) Individual commodity stock cards are not maintained by the FP/MCH central warehouse. Although receipts and issues are recorded in the ledgers, running stock balances were not maintained on a continuing basis.
- (b) The FP/MCH central warehouse maintains a sub-warehouse but does not maintain separate inventory records for each warehouse. Therefore, verification of physical inventories against book balances at the central warehouse was not possible.
- (c) FP/MCH commodities stored at the central warehouse were not stacked in a manner to facilitate a reasonable count or assure protection of the commodities.

- (d) Major FP/MCH distribution points provide no effective reporting on the distribution system through which availabilities could be determined by project headquarters at a given time. No data is supplied to headquarters on commodity usage and availabilities at the clinic level.
- (e) The FP/MCH project supplies the IHS system with FP/MCH commodities. But, once the commodities are delivered by the FP/MCH central warehouse to the IHS warehouse, there is no reporting back to FP/MCH on usage and availabilities.

The results of these inadequacies are reflected in USAID/N's inaccurate reporting on commodity availabilities to AID/W. For example, in the Family Planning Annual U-1612/4 Report to AID/W as of December 31, 1976, USAID/N reported 6,581,000 condoms on hand at the FP/MCH central and sub-warehouses. However, based on our review of receiving reports and related inventories, there would have been at least 10.5 million condoms on hand at these warehouses on that date.

The quantity of condoms shown in the annual report as being on hand at FP/MCH Regional Medical Stores, and District Family Planning Offices, was qualified on the basis that quarterly reports from these field distribution points were incomplete. FP/MCH commodities transferred from the central warehouse to the IHS system were also excluded from the annual report for lack of reporting information. We thus consider the U-1612/4 Report for December 31, 1976, too inaccurate to be of value.

A short term supply consultant, financed under the University of California (UC) advisory contract, was assigned the task of assisting the FP/MCH Project Director to design and implement a new supply and commodity management system. The consultant's final report, issued in August 1976, focused on establishing a new supply system. Numerous recommendations were made; however, as of our review, no action had been taken to implement them because many of the recommendations, such as establishing individual stock record cards, were not accepted at the highest levels of the HMC.

The program currently has no mechanism to facilitate uniform, accurate and timely inventorying, record keeping and **reporting** on FP/MCH commodities available within its system or on hand within the IHS system which it services. Unless such data can be promptly collected, there can be no meaningful reporting on FP/MCH commodity availabilities for management purposes.

Recommendation No. 4

We recommend that USAID/N (a) review the feasibility of the recommendations contained in the consultant's report and take action to implement those changes with emphasis on improving the inventorying, distribution, record-keeping and reporting procedures, and (b) request HMG project officials to provide current and accurate data on contraceptive usage and availabilities, and prepare new estimates of contraceptives on hand.

C. PARTICIPANT TRAINING

USAID/N's contact with returned participants has been very limited and undocumented in recent years.

Between July 1, 1975, and April 30, 1977, \$1.14 million (in dollars or rupees) was obligated for participant training. The types of training ranged from observation tours to long term degree training.

From October 1975 to March 1977, a total of 169 participants departed Nepal to receive training in the U.S. or third countries. Eighty-six participants returned from training during this same period.

USAID/N officials informed us that until calendar year 1974, an active follow-up program was in effect. However, because of a substantial reduction-in-force at that time, the follow-up and evaluation of participant training activities was discontinued.

USAID/N's Project Implementation Order for Participants (PIO/P) state: "to assure the training is fully utilized, the trainees must return to the position for which they were trained for at least a two year period or to a position equal or superior to the one occupied previously." Some PIO/P's require the trainee to remain an employee of the HMG for a period of at least 5 years. All training is approved by HMG officials by signing the PIO/P's.

In order to accomplish the training objective, attention must be given not only to selection and scheduling of participants but to the status of employment of returned participants. Follow-up reviews should be conducted from time to time to assure compliance with the employment provisions of PIO/P's.

The training program is important to the overall program strategy for Nepal because nearly all programs lack sufficiently trained personnel. Effective follow-up on returned participants could improve the training program.

Recommendation No. 5

We recommend that USAID/N initiate and implement a procedure to evaluate the employment status of returned participants including follow-up with the HMG to enforce the PIO/P employment provisions.

D. PROGRAMMING LOCAL CURRENCY

1. Unaccounted for Releases

Accounting for U.S. -owned rupees released over the years to projects now terminated has not been timely. In many cases this has prevented recovery and possible reuse of these funds for new authorized purposes.

Based on requests from HMG's Ministry of Finance (MOF), and in accordance with the provisions of the agreements, USAID/N releases U.S. -owned Nepalese (NC) rupees to the MOF. The NC rupees are then deposited along with HMG's rupee contribution to the appropriate HMG agencies project accounts.

Prior to FY 1975, all releases to the MOF were automatically recorded as obligations and expenditures. Although expenditure reports were required, such reports were often not received from the HMG. Therefore, as the projects terminated, any unutilized funds were transferred to the HMG's general revenue account.

USAID/N conducted a review on the propriety of documentation supporting utilization of rupees released to the HMG between 1965 and 1974. As a result of the review, USAID/N has questioned Rs. 12.7 million as being either unutilized or unaccounted for based on available documents and records.

As of March 31, 1977, USAID/N's records reflect that through its efforts Rs. 6.7 million has been identified as unutilized. At USAID/N's request, the HMG then deposited the rupees in a special joint account (No. Ka-6-13). This account, maintained at the HMG's Nepal Rastra (State) Bank, is used for joint reprogramming on new bilateral projects.

The balance of Rs. 6 million remains unaccounted for pending receipt of additional records and negotiation with HMG agency officials. Accounting for these funds will be difficult because of the age of the projects and absence of many records.

There are several causes for the poor accountability on utilization of USAID/N rupee contributions to projects. One is that USAID/N has not consistently enforced provisions in agreements

requiring HMG implementing agencies to submit expenditure reports and/or other documentation before making additional releases. Another cause is that agreements make no provision for a prompt financial accounting at project termination, and for refund to USAID/N of its share of any unutilized rupees. And finally, USAID/N has no effective follow-up procedure with HMG's agencies to effect recovery of unutilized rupees on terminating projects.

Recommendation No. 6

We recommend that USAID/N (a) establish a procedure to monitor and follow-up promptly on the status of unutilized releases on terminating projects, (b) adopt a standard provision for inclusion in all active and future agreements that requires the unutilized U.S.-owned rupee contributions to be promptly determined and either transferred directly to the special Rastra Ka-6-13 account or refunded to USAID/N, and (c) strengthen and enforce agreement provisions requiring submission of expenditure reports and related documentation.

2. Uncleared Advances

Often there has been no reporting to USAID/N on how the rupee funds were used after being advanced to contractors.

After deposit of rupees in the project accounts, they were further advanced to contractors operating on the projects. The USAID/N review disclosed that in many instances there was no documentary evidence to support whether contractors had provided goods or performed services for the funds advanced. Such documentation was necessary to classify advances as valid expenditures.

As of December 31, 1976, no documentation had been submitted to cover Rs. 38.8 million (\$3 million U.S. equivalent) of advances made to contractors on 25 projects between 1965 and 1975. USAID/N's share of the contributions can be determined by a review of the funding agreements.

Recommendation No. 7

We recommend that USAID/N make a final concerted effort to clear up and/or recover the long outstanding unaccounted for releases and uncleared advances.

3. Reprogramming Unutilized Rupees

USAID/N is reprogramming unutilized rupees from terminated projects prematurely and without sufficient controls to assure the rupees are available for timely reuse.

On December 31, 1975, Rs. 3 million was programmed in Project Agreement No. FY 1975-14 (Revision No. 3). Rs. 1.45 million was to come from the special Ka-6-13 account maintained by the Nepal Rastra Bank. An estimated Rs. 685,000 was to come from unutilized funds on two terminated projects not yet transferred to the special account. The balance of Rs. 865,000 was to be made available from the special account as funds became available at a later date.

In March 1977, USAID/N requested a confirmation from the HMG regarding the amount of unutilized rupees available for reprogramming from the two terminated projects. As of April 30, 1977, the estimated Rs. 685,000 programmed in 1975 had still not been deposited to the special account for use on the project.

USAID/N records show that for reprogramming purposes, there should have been a balance of Rs. 1.3 million remaining in the special account. However, our review of HMG's records showed that there was only Rs. 15,251 available in the account. There were a number of unreconciled transactions that in part caused the discrepancy in the records. But, the principal reason for the shortage in the account was that in FY 1975 and FY 1976 the HMG transferred year end balances totaling Rs. 1.56 million from the special account to its general revenue account. These actions were taken without advising USAID/N. USAID/N was unaware of the actual availabilities in the account because the Nepal Rastra Bank does not provide it with bank statements, nor does USAID/N periodically reconcile its records with those maintained on the account by the HMG.

It is evident that USAID/N has been reprogramming rupees from the special account based on both potential deposits and inaccurate data as to actual availabilities in the account. This is poor financial management and could result in programming more funds than are readily available. There is thus a need for USAID/N to tighten its controls on programming unutilized rupees from the special account.

Recommendation No. 8

We recommend that USAID/N, (a) establish a procedure for periodic reconciliation of USAID/N and HMG's records on the special Ka-6-13 account, and for reprogramming of rupees based on actual availabilities in the account, (b) require the HMG to redeposit to the special account Rs. 1.56 million transferred to HMG's revenue account, and (c) require the HMG to discontinue the practice of transferring Ka-6-13 year end account balances into HMG's revenue account.

4. Expiration of Reprogramming Authority

USAID/N is reprogramming unutilized rupees from terminated projects in a manner that may be in violation of the time limitations on use of the funds.

According to Part II (Item 10) of the Indian-U.S. Rupee Agreement of February 18, 1974, the U.S. Government may use PL 480 Indian Rupees (IC) for three years following the date of the Rupee Agreement to help finance its economic assistance programs in Nepal. Additionally, the Office of Management and Budget (OMB) allocation letters, authorizing use of IC Rs. 220 million during FY 1975, FY 1976, and FY 1977, have definite expiration dates. Beyond these dates the IC rupees will no longer be available for conversion to NC and obligation for new projects. For example, obligational authority on four tranches of IC allocated during FY 1975 and FY 1976 expires on an average of 11 months after authorization.

There will be many instances in the future when the Nepalese rupees will be unutilized on terminating projects and reprogrammed after the OMB expiration dates. These reprogramming actions, in our opinion, constitute deobligation/reobligation actions. We question therefore whether reobligating unutilized rupees on new projects and sectors after the OMB expiration dates constitutes a violation of the intent of the OMB time limitations. This question should be resolved before projects funded with the latest IC Rs. 220 million allocations are terminated and unutilized rupees are reobligated on new projects.

Recommendation No. 9

We recommend that USAID/N (a) obtain a legal decision as to whether reobligating unutilized rupees on new project activities after the OMB expiration dates constitutes a violation of the time limitations of the OMB allocation letters, and (b) adjust as necessary USAID/N's procedures to conform with the legal determination.

5. Reobligation of Unutilized Rupees

USAID/N is reprogramming unutilized rupees from terminated projects in a manner that circumvents normal obligation procedures and distorts the accounting records and reports.

USAID/N contributions were reported as obligated and fully expended at the time the rupees were released to the HMG's Agencies. Consequently, as projects terminate, no funding reductions are made to terminating project accounts for unutilized and recovered rupees. The recovered rupees, moreover, are being reprogrammed on new projects without recording them as new obligations. This procedure results in switching of funds between projects outside the normal obligation/deobligation process and the normal accounting and reporting procedure. There is continual inaccurate reporting of rupees actually obligated and expended on new and terminated projects.

Also, because implementing HMG Agencies will include these reprogrammed rupees in their expenditure reports, expenditures reported to USAID/N will eventually exceed recorded obligations on active projects.

Rs. 113 million were reported as being unexpended on active projects with Rs. 104 million of FY 1977 funds yet to be obligated as of December 31, 1976. Use of these Nepalese rupee funds, equivalent to U.S. \$17.4 million, will continue for several years. Because of the significant amount of rupees yet to be spent, there will be considerable reprogramming in future years. It is important for USAID/N to revise its procedures to accurately reflect how the reprogrammed rupees were used.

Recommendation No. 10

We recommend that USAID/N revise its re-programming procedures to require deobligation of unutilized rupees on terminated projects and their reobligation in new agreements and project records when programmed for new project activities.

E. CONTRACTING

1. Education Skills Training Project

The total estimated costs of contract No. AID/ASIA-C-1209 financed under the Education Skills Training project exceeds the approved project funding.

The project was included in the FY 1977 Congressional Presentation (CP) dated February 1976 at a total estimated cost of \$1.345 million.

In April 1976, an informal AID/Washington (AID/W) committee reviewed the project. Based on the review, USAID/N reduced the project scope. Consequently, a new Project Paper (PP) was submitted to AID/W on May 5, 1976, reflecting a much reduced USAID/N contribution of \$508,000 over the life of the project. The revised contribution included estimated contract costs of \$444,700.

The new PP was approved by AID/W (AA/ASIA) on June 7, 1976. However, subsequent to submission and approval of the revised PP, USAID/N revised the estimated total contract cost to \$509,800.

On several occasions, AID/W was requested by USAID/N to provide it with copies of the approved PP and the name of the contractor selected to implement the project. On January 8, 1977, AID/W advised USAID/N that a contract had been signed for an estimated cost of \$833,892. USAID/N received a copy of the contract on February 22, 1977. After reviewing the contract, USAID/N cabled AID/W expressing concern about the estimated contract costs and scope.

On March 24, 1977, the AID/W Office of Contract Management (AID/W/SER/CM) informed USAID/N of the following circumstances concerning execution of the contract; (a) that SER/CM had not received a copy of the approved PP nor a revised cost estimate from USAID/N; (b) that the PIO/T funded at \$61,000 did not provide any clarification of the size of the program envisioned by USAID/N as is required; and (c) that the proposal of the contractor and the contract negotiations participated in by the AID/W team were based on the scope of work prepared by USAID/N. Thus, the negotiator, with the advice of AID/W technical officials, relied on the sum of \$1.345 million shown in the FY 1977 CP dated February 1976.

In response to the above, USAID/N advised AID/W on May 4, 1977 of its concern about the contract funding. USAID/N stated, (a) since cost of the contract exceeds the Mission budgeted figure by about 50 percent, USAID/N will prepare a PP revision in consultation with appropriate AID/W offices to reflect additional contract costs, and (b) USAID/N assumes Congressional notification will be required since cost of the contract also exceeds the FY 1978 CP amount. Accordingly, we were advised by USAID/N officials that, in consultation with AID/W, it is now preparing a revised PP.

Based on a review of the documentation on file in USAID/N, we concluded that sufficient information on the approved contract budget was available in AID/W well in advance of contract negotiations. Use of this data would have precluded negotiating the contract cost in excess of approved funds. Copies of the revised PP, reproduced and approved at \$508,000 by AID/W in June 1976, should have been available upon request in AID/W. The USAID/N's Annual Budget Submission (ABS) for FY 1978 dated July 1976 showed the total project costs of \$508,000. A copy of the revised contract cost estimate of \$509,800 was reportedly given to a representative of SER/CM when he was in Nepal in August 1976.

Since SER/CM did not consider the PIO/T submission sufficiently clear as to the magnitude of the program, SER/CM should have researched more data about the approved scope and project funding. In particular, the approved PP should have been obtained before finalizing the contract.

Recommendation No. 11

We recommend that the Office of Contract Management (AID/W/SER/CM) review its procedures and controls to ensure that all USAID financed contracts negotiated by it are being executed based on proper documentation as to the approved project funding.

2. Integrated Health Services Project

The contractor's reporting requirements and USAID/N's technical authority over the contractor were inadequate.

The contract with Management Sciences for Health Inc. (MSH) (AID/NESA-C-1191), financed by USAID/N under the Integrated Health Services project, was executed on October 15, 1975. On December 8, 1976, the contract was amended increasing the contractor's scope of services, and the contract budget from \$666,000 to \$1.6 million to conform with an expanded project. The contract completion date was also extended to December 31, 1979.

The original MSH contract provided for an annual report in lieu of the normal semiannual report required under clause 16 of the General Provisions to the contract. Clause 16 calls for a report indicating status of work, progress, future plans and recommendations covering current needs of the activity covered by the contract.

Submission by the contractor of an annual report on progress against work plans is too infrequent. The first such report was received five months after the contractor's first year of work. Reporting on problems and progress should be more current if USAID/N is to effectively monitor progress toward objectives and make management decisions.

The original MSH contract also provides that performance of work done by MSH is to be subject to the technical direction of the Asia (formerly NESA) Bureau, AID/W. Our review indicates that only USAID/N is providing any technical guidance on this USAID/N funded project. When USAID/N authorized AID/W to amend the contract in September 1976, the authorizing document (PIO/T 60072) stated that both AID/W and USAID/N would provide necessary guidance to the contractor. However, when the contract was amended in December 1976, this authority was not extended to include USAID/N. If USAID/N is responsible for managing the project, then USAID/N should have commensurate technical authority over the contractor's field operations.

Recommendation No. 12

We recommend that the Office of Contract Management, (AID/W/SER/CM) take action to amend contract AID/NESA-C-1191 to provide for: (a) progress reports of accomplishments against the work plan to be submitted to USAID/N on a semiannual basis, and (b) USAID/N managerial/technical authority over the contract with regard to the contractor's field operations.

BACKGROUND

USAID/Nepal is currently operating under the guidelines established by the Development Assistance Program prepared in June 1974. The Mission considers that most of the program direction established by that document to be valid. However, at the time of our review an appraisal team from AID/W visited USAID/N to review the present USAID strategy. The team is to determine whether the program is responsive to Nepal's most urgent development problems and the most recent Congressional Mandate. The team's report had not been issued at the time we concluded our audit.

The AID assistance program to Nepal is entirely grant financed. The dollar funding level is expected to increase from \$2.5 million in FY 1975 to a request of \$12.1 million for FY 1978.

U.S.-owned P.L. 480-generated Indian Rupees have been used for economic development activities in Nepal for the last 20 years. The latest Indian Rupee (Rs.) allocation of Rs.220 million (U.S. equivalent \$24.9 million) was made available pursuant to the Indian-U.S. Rupee Agreement of February 18, 1974. These rupees were made available for economic development in Nepal during FY 1975 (Rs.65 million), FY 1976 (Rs.80 million) and FY 1977 (Rs.75 million). Except for Rs.824,000 retained in India for support of USAID/N's participant training program, the Indian rupees were converted to Nepalese Rupees (NC) for use in Nepal. The NC are made available to HMG's implementing agencies for development activities under terms and conditions of agreements between USAID/N and the HMG.

SCOPE OF EXAMINATION

We performed an examination of the AID program in Nepal for the period October 1, 1975 through March 31, 1977.

The examination covered activities in Food and Nutrition, Population Planning, Health and Education and Human Resources Development sectors. Most activities involved substantial inputs of U.S.-owned local currency (Nepalese Rupees). We accordingly evaluated USAID/N's policies and procedures for managing the rupee inputs.

Our examination was made in accordance with generally accepted auditing standards and included such tests and site visits as we considered necessary.

A draft of this report was reviewed with USAID officials. Their comments were considered prior to the issuance of the report.

EXHIBIT A

SCHEDULE OF FINANCIAL STATUS OF ACTIVE PROJECTS

AS OF MARCH 31, 1977

<u>Sector/Project</u>	U. S. Dollars (\$ 000) ^{1/}		Local Currency (Rs. 000)	
	<u>Obliga-</u> <u>tions</u>	<u>Expendi-</u> <u>tures</u>	<u>Obliga-</u> <u>tions</u>	<u>Expendi-</u> <u>tures</u>
<u>Food and Nutrition</u>				
Food Grain Technology	\$ 4,340	\$ 4,320	Rs. 61,929	Rs. 61,824
Integrated Cereals	1,549	273	3,994	1,215
Institute of Agriculture and Animal Sciences	670	418	28,020	3,336
<u>Population/Family Plag. and Health</u>				
Population/Family Planning	<u>2/</u> 4,109	4,015	28,299	25,514
Malaria Control	102	86	42,611	30,611
Integration of Health Services	912	773	10,445	976
Integrated Health Services	356	16	2,453	253
<u>Education and Human Resources Development</u>				
Education Skills Training	64	3	-	-
Manpower Development	461	256	-	-
Teacher and Material Utilization and Development	1,615	1,395	1,001	842
<u>Special Development Projects</u>				
Development and Support Costs	302	300	307	289
Western Hills Road	-	-	162,390	119,510
Construction Activities	-	-	13,527	13,179
Airport Development	-	-	46,170	46,170
Totals	<u>\$14,480</u>	<u>\$11,855</u>	<u>Rs. 401,146</u> ^{3/}	<u>Rs. 303,719</u>

Total expenditures in U.S. dollar equivalent covered by this audit is \$8.6 million. ^{3/}

(1) As of March 31, 1977.

(2) Does not include the value of AID/Washington centrally funded commodities.

(3) Rs. 12.45 = \$1.00.

LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 1

We recommend that USAID/N, in cooperation with HMG, review the effects of contractor staffing, HMG staffing and procurement problems of the IC and LAAS projects and, as necessary, reduce the scope of the projects to a level which can be supported by the HMG and the contractors.

7

Recommendation No. 2

We recommend that USAID/N obtain, prior to making any TA/DA contributions to the IHS project, a firm commitment from the HMG to fund its proportionate share of the TA/DA requirements for FY 77/78.

9

Recommendation No. 3

We recommend that USAID/N, (a) develop a plan of action to have the FP/MCH (UC) contractor assist the HMG in upgrading FP/MCH service capabilities of workers at the integrated health posts, and (b) based on the plan, take action as appropriate, to amend UC's scope of work.

11

Recommendation No. 4

We recommend that USAID/N (a) review the feasibility of the recommendations contained in the consultant's report and take action to implement these changes with emphasis on improving the inventorying, distribution, record-keeping and reporting procedures, and (b) request HMG project officials to provide current and accurate data on contraceptive usage and availabilities, and prepare new estimates of contraceptives on hand.

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LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 5

We recommend that USAID/N initiate and implement a procedure to evaluate the employment status of returned participants including follow-up with the HMG to enforce the PIO/P employment provisions.

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Recommendation No. 6

We recommend that USAID/N (a) establish a procedure to monitor and follow-up promptly on the status of unutilized releases on terminating projects, (b) adopt a standard provision for inclusion in all active and future agreements that requires the unutilized U.S. -owned rupee contributions to be promptly determined and either transferred directly to the special Rastra Ka-6-13 account or refunded to USAID/N, and (c) strengthen and enforce agreement provisions requiring submission of expenditure reports and related documentation.

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Recommendation No. 7

We recommend that USAID/N make a final concerted effort to clear up and/or recover the long outstanding unaccounted for releases and uncleared advances.

16

Recommendation No. 8

We recommend that USAID/N, (a) establish a procedure for periodic reconciliation of USAID/N and HMG's records on the special Ka-6-13 account, and for reprogramming of rupees based on actual availabilities in the account, (b) require the HMG to redeposit to the special account Rs. 1.56 million transferred to HMG's revenue account, and (c) require the HMG to discontinue the practice of transferring Ka-6-13 year end account balances into HMG's revenue account.

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LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 9

We recommend that USAID/N (a) obtain a legal decision as to whether reobligating unutilized rupees on new project activities after the OMB expiration dates constitutes a violation of the time limitations of the OMB allocation letters, and (b) adjust as necessary USAID/N's procedures to conform with the legal determination.

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Recommendation No. 10

We recommend that USAID/N revise its reprogramming procedures to require deobligation of unutilized rupees on terminated projects and their reobligation in new agreements and project records when programmed for new project activities.

20

Recommendation No. 11

We recommend that the Office of Contract Management (AID/W/SER/CM) review its procedures and controls to ensure that all USAID financed contracts negotiated by it are being executed based on proper documentation as to the approved project funding.

22

Recommendation No. 12

We recommend that the Office of Contract Management, (AID/W/SER/CM) take action to amend contract AID/NESA-C-1191 to provide for: (a) progress reports of accomplishments against the work plan to be submitted to USAID/N on a semiannual basis, and (b) USAID/N managerial/technical authority over the contract with regard to the contractor's field operations.

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REPORT RECIPIENTS

USAID/Nepal

Director 5

AID/W

Auditor General, Area Auditor General/W (AG/AAG/W) 8

Auditor General, Office of Oversight Coordination,
Policies and Procedures (AG/OC/PP) 1

Auditor General, Office of Oversight Coordination,
Plans and Evaluations (AG/OC/PE) 1

Auditor General, Office of Operations Appraisal Staff (AG/OAS) 1

Assistant Administrator/ASIA (AA/ASIA) 1

Office of Pakistan and Nepal Affairs (ASIA/PN) (Nepal Desk) 1

Executive Management Staff (ASIA/EMS) 1

Office of Project Development (ASIA/PD) 1

Office of Development Planning (ASIA/DP) 1

Office of Technical Resources (ASIA/TR) 1

Special Assistant For Program Management (AA/SER) 1

Office of Management Planning (SER/MP)
(Audit Oversight Coordination Office) 1

Office of Financial Management (SER/FM) 1

Office of Contract Management (SER/CM) 1

Office of Commodity Management (SER/COM) 1

Office of Program Review and Evaluation (PPC/DPRE) 1

Bureau For Technical Assistance, Office of Agriculture (TA/AGR) 1

Office of Health (TA/H) 1

Bureau For Population and Humanitarian Assistance
Office of Population (PHA/POP) 1

OTHERS

Inspector General of Foreign Assistance (IGA)/W 1

Inspections and Investigations Staff (IIS)/Karachi 1

Bureau of Ocean and Environmental and Scientific Affairs,
Department of State, Office of Population Affairs
(OES/ENP/PO) 1