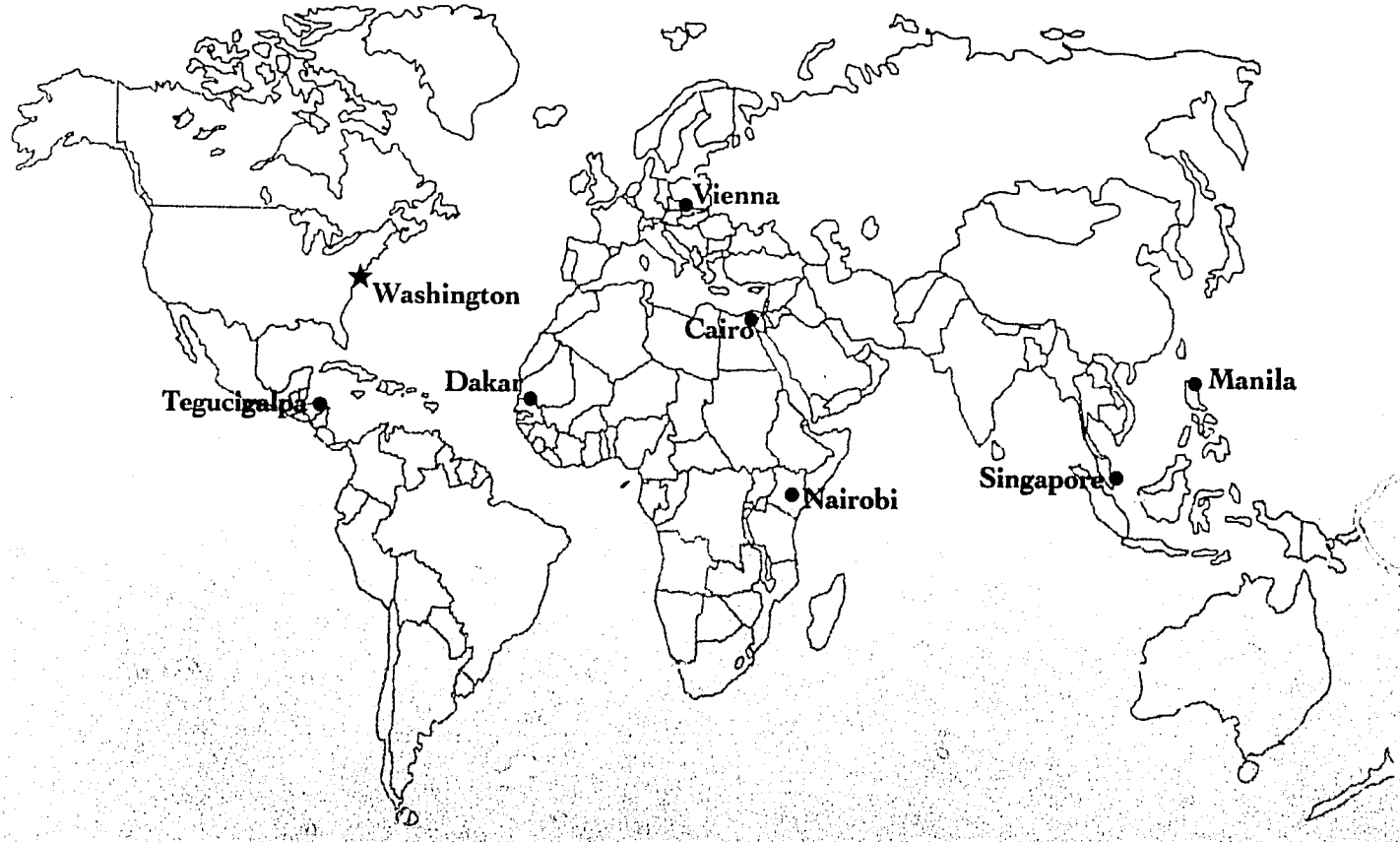
PD-ABH-462

Regional Inspector General for Audit
Singapore

AUDIT OF USAID/INDIA'S CONTROLS OVER GRANTS

Audit Report No. 5-386-94-002
December 28, 1993



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

December 28, 1993

MEMORANDUM

TO: Walter G. Bollinger, Mission Director, USAID/India

FROM: Richard C. Thabet, RIG/A/Singapore

SUBJECT: Audit of USAID/India's Controls Over Grants
(Audit Report No. 5-386-94-002)

Enclosed are five copies of the subject audit report. Our audit work and written representations made by your office confirmed that controls over bilateral project grants were adequate in many areas. For example, USAID policies and procedures in reviewing proposals, negotiating grants, and monitoring grantees were followed. However, controls over these activities can be strengthened for direct grants by ensuring that program descriptions contain benchmarks, that grant agreements include cost-sharing provisions, and that grantees submit performance reports.

Your comments to the draft report were very responsive. These comments are summarized after each finding and presented in their entirety in Appendix II. Based on your comments and supporting documentation, Recommendation Nos. 3 and 4.1 are closed. The remaining recommendations are considered resolved and can be closed when planned actions are completed.

Please provide us information within 30 days documenting actions taken to implement the open recommendations. I sincerely appreciate the cooperation and courtesies extended to my staff during the audit.

Attachments: a/s

EXECUTIVE SUMMARY

USAID/India manages 16 active projects with total obligations and disbursements of about $151.6 million and $39.5 million, respectively, and in carrying out its assistance program, awards grants to the Government of India which, in turn, awards subgrants to various organizations throughout the country. In addition, USAID/India has used its delegated authority to award grants and cooperative agreements directly to nonprofit organizations.

The Office of the Regional Inspector General for Audit/Singapore conducted an audit to determine whether USAID/India (1) ensured that grantees and subgrantees were capable of administering and accounting for grant funds and (2) monitored recipients to ensure that funds were used as intended and results were achieved. Because USAID/India had designed a $325 million project for which they planned to use performance-based disbursement for about $155.4 million, we added a third objective to determine if the Mission established adequate controls over the use of USAID funds. The audit was conducted from March 1 to July 15, 1993 (see Appendix I for Scope and Methodology).

With regard to the first audit objective, we tested components from three bilateral project grants with funding of $38.5 million and noted in all cases that the Mission is following the relevant Handbook 3 policies and procedures. For example, the Mission ensured that grantees required prospective subrecipients to develop program descriptions for reviewing and evaluating project progress. It also ensured that the agreements and/or implementation letters required cost-sharing contributions and reporting. We also tested four direct grants and cooperative agreements with funding of about $10 million for which Handbook 13 procedures apply and found that USAID/India is following most procedures. Also, the Grants Officer has instituted new procedures to ensure, for example, that cost proposal reviews are documented and preaward surveys are conducted. However, USAID/India needs to ensure benchmarks are established and agreements require cost-sharing contributions (pages 6 and 9).

Regarding the second audit objective, for the three bilateral project grants

tested, USAID/India is following Handbook 3 policies and procedures in conducting its monitoring responsibilities except for ensuring that USAID -financed goods are marked as required by Handbook 1 and the grant agreements. Under this audit objective, we also tested three direct grants and while USAID/India was generally following Handbook 13 policies and procedures, their monitoring efforts can be improved in the areas of performance reporting and making and documenting site visits (pages 13, 18, and 22).

For the third audit objective, we limited our review of project design to that portion of the local currency component—about $155.4 million—for which USAID/India plans to use performance-based disbursement. We found that USAID/India designed the project to ensure that the Mission and the recipients of USAID funds established controls over these funds. However, the Project Agreement did not require the grantee's implementing agency to demonstrate management and financial capability before funds were disbursed to it. Subsequent to the conclusion of fieldwork, USAID/India pointed out that the grantee has hired a leading Indian consultant firm to develop the appropriate systems, controls and procedures for project activities which the Mission will review (page 25).

USAID/India officials generally concurred with the findings and recommendations and were taking actions to implement the recommendations. Recommendation Nos. 3 and 4.1 are closed upon issuance of this report. The remaining recommendations are considered resolved and can be closed when planned actions are completed. The Mission's comments on our draft report are summarized after each finding and presented in their entirety in Appendix II.

Office of The Inspector General

Office of the Inspector General
December 28, 1993

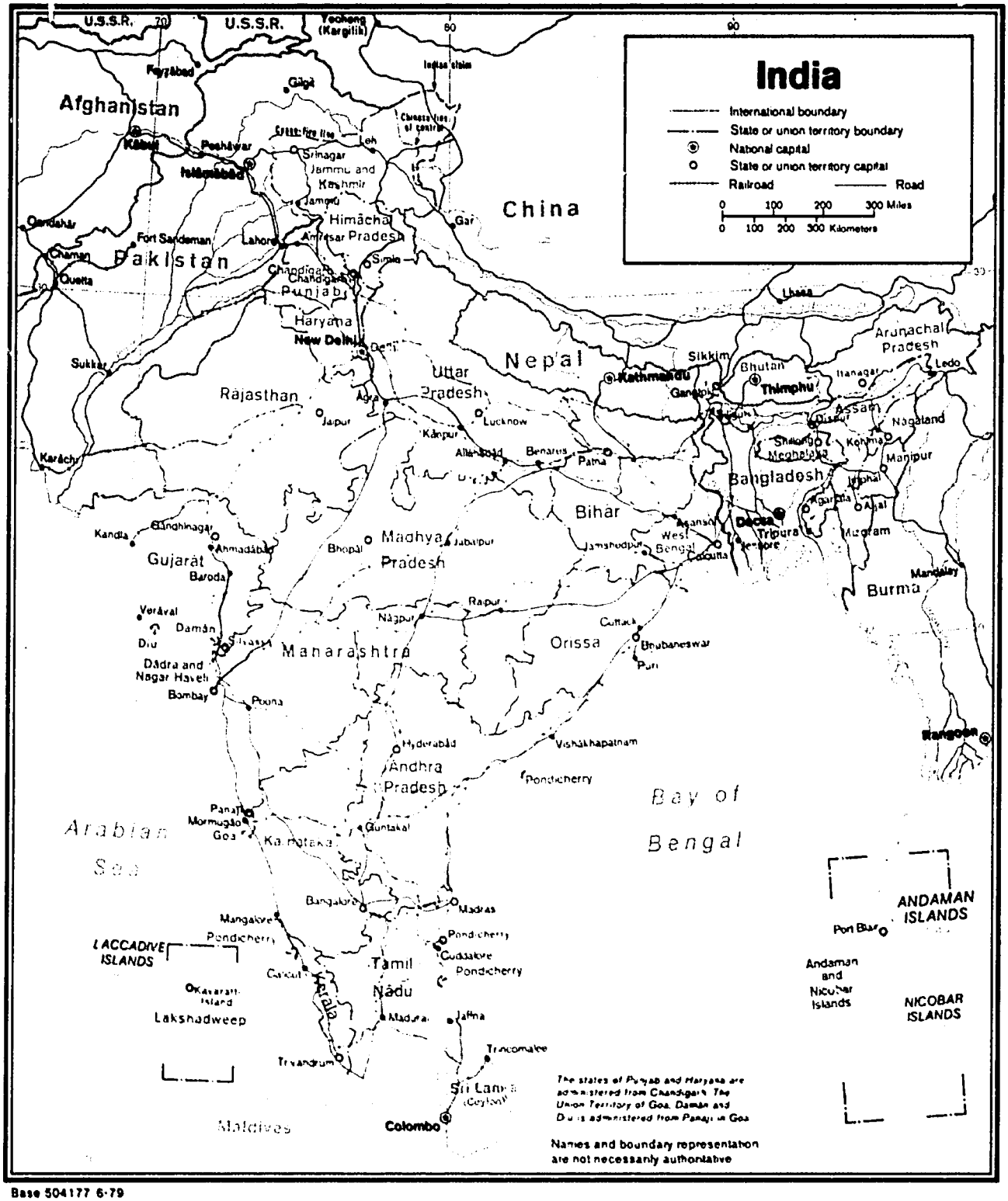


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Table of Contents

	Page
EXECUTIVE SUMMARY	i
INTRODUCTION	
Background	1
Audit Objectives	1
REPORT OF AUDIT FINDINGS	
USAID/India Generally Followed USAID Policies and Procedures in Reviewing Grantee/Subgrantee Proposals and in Negotiating Terms of the Grants/Subgrants, Except:	3
Program Descriptions Should Contain Benchmarks to Measure Progress and Results	6
Agreements Should Contain Required Cost-Sharing Provisions	9
USAID/India Generally Followed USAID Policies and Procedures in Monitoring Grantees and Subgrantees, However:	11
Marking Requirements Must Be Enforced	13
Monitoring Efforts Can Be Strengthened For Performance Reporting and Site Visits	18
USAID/India Generally Followed USAID Policies and Procedures in Designing the Innovations in Family Planning Systems Project, But:	25
Grantee Needs to Demonstrate Financial and Management Capability	25
Potential Problem Area: Terminal Dates for Conditions Precedent Are Being Extended	27

APPENDICES

	Appendix
Scope and Methodology	I
USAID/India Management Comments	II
Report Distribution	III

INTRODUCTION

Background

USAID/India manages 16 active projects with obligations and disbursements of about $151.6 million and $39.5 million, respectively, and in carrying out its assistance program, awards grants under policies and procedures contained in Handbooks 3 and 13. As of December 31, 1992, only 9 of these 16 projects, totaling $105.5 million in obligations, had sufficient activity for purposes of reviewing monitoring efforts.

Grants awarded under Handbook 3 procedures are known as bilateral project grants as they are government-to-government or, in this case, between the United States and the Government of India and/or its agencies. The grantee, in turn, may award subgrants to indigenous organizations to carry out various project activities. We reviewed components of three bilateral project grants with total funding of $38.5 million that had 76 active subgrants as of December 31, 1992.

A.I.D also awards grants and cooperative agreements directly to nonprofit organizations in support of programs designed and implemented by the organization, but the program activities must be consistent with USAID's own objectives. Handbook 13 procedures apply to these grants and cooperative agreements. We reviewed four such agreements with total funding of about $10 million.

Of the seven projects in the early stages of implementation, planned funding for one project—Innovations in Family Planning Services—totaled $325 million, which includes $100 million funded by USAID/Washington. We selected this project for review of project design.

Audit Objectives

The Office of the Regional Inspector General for Audit/Singapore audited USAID/India's controls over grants to answer the following audit objectives:

- Did USAID/India review grantee/subgrantee proposals and negotiate the terms of the grants/subgrants to ensure that recipients are capable of administering and accounting for grant funds, consistent with USAID policies and procedures?

- Did USAID/India monitor grantees and subgrantees to ensure that these recipients use USAID funds for the purposes intended and achieve the desired results, consistent with USAID policies and procedures?

- Did USAID/India design the Innovations in Family Planning Systems Project to ensure that the Mission and the recipients of USAID funds establish adequate controls over and properly account for the use of USAID funds, consistent with USAID policies and procedures?

In answering these audit objectives, we tested whether USAID/India followed applicable internal controls and complied with certain legal requirements. We also included steps to detect abuse or illegal acts which could affect the audit objectives. USAID/India's management provided written representations which we considered essential to confirming our conclusions on the audit objectives and to assessing internal controls and compliance. These written representations have been included as part of USAID/India's comments in Appendix II.

For problem areas, we performed additional work to:

- Identify the cause and effect of the problem; and

- Make recommendations to correct the problem and the cause.

Appendix I contains a complete discussion of the audit scope and methodology for this audit.

REPORT OF AUDIT FINDINGS

Did USAID/India review grantee/subgrantee proposals and negotiate the terms of the grants/subgrants to ensure that recipients are capable of administering and accounting for grant funds, consistent with USAID policies and procedures?

USAID/India generally reviewed proposals and negotiated the terms of the grants to ensure that recipients are capable of administering and accounting for grant funds, consistent with USAID policies and procedures.

For the three bilateral project grant agreements reviewed:

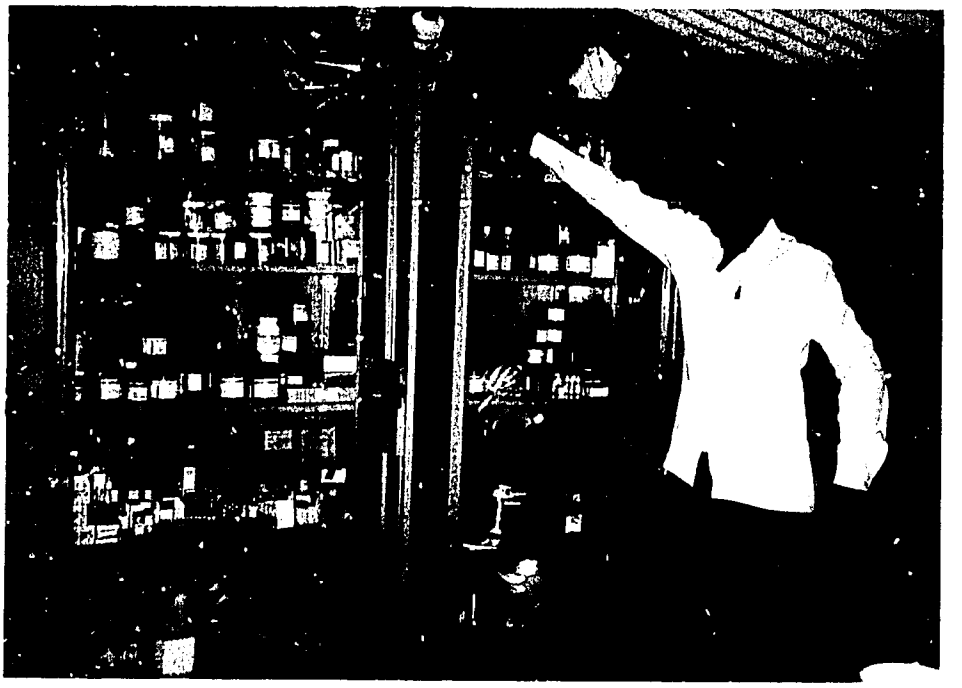
USAID/India ensured that the grantees assessed proposers' qualifications to implement subgrants and that grantees' followed the review and selection procedures detailed in the grant agreement, the basic implementation letter, and grantee-developed guidelines. On the health sector project, for example, USAID/India established the eligibility and selection criteria as well as the review, selection, and monitoring processes the grantee was to follow. Under these procedures, the grantee assists the prospective recipient in developing an acceptable proposal which the Project Officer then reviews. Similar review and selection procedures were developed for the two research and development projects—the grantee conducts a technical assessment and financial review and prepares a report. A panel then reviews the report and decides whether to award the subgrant.

USAID/India ensured that grantees required that prospective subrecipients develop program descriptions with sufficient detail for reviewing and evaluating project progress. For example, for the two research and development projects, the grantee developed guidelines for applicants which detailed proposal requirements and this is looked at during the panel review discussed above. Also, for the health sector project,

USAID/India required that each subgrant proposal include an outline for a baseline survey. The results would then be used by the grantee to establish performance targets for each subgrantee.

One Mahila Mandel (Women's Group) met to discuss village health issues. The subgrantee reported activities of the women's groups in its Quarterly Progress Report.

USAID/India included the cost-sharing requirement in the grant agreements and ensured that grantees required the appropriate cost-sharing contributions by its subgrantees. For example, two project agreements specified the dollar contributions due from the grantee and the percentage contribution due from the recipients of subproject financing. The third agreement stated that the grantee will provide in-kind support and that subproject participants will contribute an amount "not less than approximately forty percent of the total project cost".



One subgrantee's contribution to the project was the cost of medical supplies which was reported as part of the organization's contribution in the required Quarterly Expenditure Report.

USAID/India ensured that the grantees performed the appropriate assessments to determine that the prospective subrecipients were qualified to implement the subgrants. To illustrate, under the health sector project, the grantee prepares a Joint Appraisal Report after assessing the prospective subrecipient's capability. USAID/India's Project Implementation Committee, which includes the Controller and the Project Officer, uses the Appraisal Report to assess financial capability and to review the budget. The Mission may decide that a pre-award survey is necessary.

For the four direct grants and cooperative agreement reviewed:

As supported by correspondence in the grant files, USAID/India reviewed the proposals. However, documentation was not always sufficient to judge the extent of the reviews. Also, the results of these cost proposal reviews were not documented in the Memoranda of Negotiation. The current Grants Officer has instituted new review procedures and also is documenting the details of cost proposal reviews in the Memoranda of Negotiation.

USAID/India determined that the recipients were eligible to receive USAID assistance, but did not always assess the recipients qualifications to implement the grant or cooperative agreement through the preaward evaluation process described in Handbook 13 Chapter 4. Because USAID/India has relatively few direct grants, the current Grants Officer is requesting preaward surveys on all potential grant recipients and, thus, we did not make a formal recommendation in this area.

USAID/India properly selected either a grant or cooperative agreement for the proposed work and none of the agreements should have been a contract.

As discussed below, however, USAID/India did not always comply with USAID's policies and procedures for direct agreements in two areas—establishing benchmarks and requiring cost-sharing contributions.

Program Descriptions Should Contain
Benchmarks to Measure Progress and Results

Although USAID procedures emphasize that program descriptions must contain benchmarks with which to measure progress towards program objectives, three of the four direct grants and cooperative agreements reviewed did not include such benchmarks. The grant agreements did not contain such benchmarks because they were based on program descriptions provided by the recipients which did not always contain benchmarks. The absence of benchmarks makes it difficult for USAID/India to assess the progress of these programs under agreements for which the recipients have already expended about $6 million.

> **Recommendation No. 1: We recommend that USAID/India develop and implement procedures to ensure that Handbook 13 requirements for benchmarks to measure the progress, impact, and results of the recipients' programs, including targets and timeframes, are included in recipients' program descriptions.**

Handbook 13, Chapter 4 states that a potential recipient should develop a grant application which provides a clear summary of what is to be accomplished, the resources and steps required to meet objectives in an identifiable period of time, a realistic financing scheme, and benchmark measures of progress toward the objectives. Generally, the recipient's "program description" is the document that includes these benchmarks and becomes part of the agreement.

Without benchmarks or qualitative measurable indicators, comparisons cannot be made of the physical progress of the program, as described in performance reports, with the desired results to determine the success of the program. Even when performance reports properly discuss accomplished and planned activities, it becomes difficult to relate such accomplishments to the expected program outputs without proper benchmarks set out in the program description. Measurable indicators are also important as with this information a more accurate budget can be determined.

Three of the four Handbook 13 agreements reviewed neither contained benchmarks with which to objectively measure the recipients' program progress, results, and impact, nor required the recipient to provide the benchmarks at a later date. For example:

- One recipient was awarded a grant in July 1986 for about $100,000 (subsequent amendments increased the award to $1.2 million) to provide support for demographic research and training under a bilateral project. The agreement's program description consisted of three short paragraphs which merely indicated planned attendance at three workshops and conferences, three collaborative research projects, and one consultant visit. Subsequent amendments provided similar lists of planned activities, but neither the agreement nor amendments defined the total support program (benchmarks) so that progress could be evaluated.

- A second recipient was awarded a grant of $2.6 million in September 1988 to establish and manage a collaborative network of indigenous institutions and scientists to carry out an economic research program consisting of five analytical components. The program was expected to generate about 20 research-based publications and about 15 workshops, seminars, and conferences to discuss research results. It would also train graduate and post-graduate students by involving them in the research efforts.

  The agreement allowed a duration of five years for the level of effort, but did not contain benchmarks for reviewing and evaluating the progress, results, and program impact and did not provide target dates to be met. In April 1990 the grantee submitted a work plan for 14 research studies covering projected work during 1990 and 1991. However, there was no timetable as to when these studies and other activities were to be

achieved.

- A third recipient was awarded a cooperative agreement of about $2.1 million in February 1991 to facilitate the exchange of Indian and U.S. scientists by arranging for the stay of Indian scientists in the United States and of U.S. scientists in India. The agreement stated the tasks to be undertaken by the recipient, for example, to provide orientation, establish guidelines, screen applications, and design and implement an announcements process. However, the agreement did not provide benchmarks or set target dates for the completion of these tasks—tasks which need to be completed before any scientists could travel.

The lack of benchmarks described above makes it difficult for USAID/India to objectively assess the progress of these recipients under agreements for which the recipients have already expended approximately $6 million.

In contrast to the above three examples, one recipient did provide benchmarks for a grant that was awarded in September 1987 for $4.1 million to provide support for its program of contraceptive social marketing of Nirodh condoms in six states in India. The grantee's program description contained the expected results of project activities and the expected time frame to accomplish them. The program outputs were described briefly, but were nevertheless sufficient as a basis of comparison with the actual physical progress reported. For example, at the end of three months of implementation the grantee anticipated that, among other things, the marketing plan would be completed, the Delhi project staff would be recruited, and the regional office would be established.

USAID/India needs to develop procedures, in accordance with Handbook 13 requirements, to ensure that the recipients' program descriptions contain benchmarks that can be used to assess progress or that such benchmarks are provided within a reasonable period after the agreement starts.

Management Comments and Our Evaluation

USAID/India maintained that recent grants, unlike earlier grants, do contain benchmarks to measure progress and results, and provided an example of such a grant. Because RIG/A/Singapore wanted to assess not only the earlier stages of the proposal review and grant negotiation

processes but also the Mission's subsequent monitoring of grants, earlier grants were selected. In response to our recommendation, the Mission agreed to take appropriate action to formalize the procedures and fix responsibilities for their implementation.

Based on USAID/India's response, Recommendation No. 1 is considered resolved and can be closed when planned actions are completed.

Agreements Should Contain
Required Cost-Sharing Provisions

USAID policy extends the requirement for a 25 percent non-federal contribution to Private and Voluntary Organizations that receive mission-funded grants or cooperative agreements to support their program activities. However, the three grant agreements reviewed did not include this requirement for contributions. Nor did the files contain documented waivers of the requirement. In the absence of the Grants Officer responsible at the time, we were unable to determine why the required provisions were not included. As a result, recipients were not contributing about $2 million for the three projects.

Recommendation No. 2: We recommend that USAID/India develop and implement procedures to ensure that:

2.1 All direct grant and cooperative agreements contain the required provision for cost-sharing contributions; and

2.2 If the determination is made that the requirement be waived, the files are documented with the justification for the waiver.

Handbook 13, Chapter 4 states that specific support grants can be given to organizations for operational programs for Private and Voluntary Organizations (PVO) and that these grants require that 25 percent of program costs come from non-federal sources. A USAID/Washington world-wide cable dated October 23, 1987 (STATE 331065) also states that a 25 percent non-U.S. Government contribution is required for mission-funded PVO activities supported through grants and cooperative agreements. This guidance further states that the required contribution may be waived or reduced, but missions should require the full contribution unless there is strong justification for doing otherwise.

Our review of two grants and one cooperative agreement which were

awarded between 1986 and 1991 showed that none of the agreements incorporated the cost-sharing provision. To determine why cost-sharing was not required, we reviewed Memoranda of Negotiation for each agreement. The files for two of the three agreements contained a Memorandum of Negotiation documenting award of the agreement, the file for the third agreement only contained a Memorandum of Negotiation for a grant amendment. None of the Memoranda addressed cost-sharing contributions.

As mentioned above, the cable guidance does permit the Mission to waive the cost-sharing requirement or to reduce the amount of contribution, but none of the grant files for the three agreements contained waivers, or comments on reductions, to the cost-sharing requirement.

Since the grant officer who negotiated the agreements had been transferred, we could not verify why the cost-sharing provision was omitted.

In conclusion, USAID/India needs to develop procedures to ensure that all agreements contain the required provision for cost-sharing contributions or, if the requirement is waived, the files are documented with the justification.

Management Comments and Our Evaluation

USAID/India accepted the finding and agreed that grants to PVOs require contributions, but suggested clarifying Recommendation No. 2.1 by inserting "U.S." and also requested that the last two paragraphs on page 10 be deleted. The Mission pointed out that the subject matter addressed in these two paragraphs is complicated in that different types of grants treated by different guidance are at issue, but that the audit finding is based only on a review of grants to PVOs.

We do not agree with limiting the recommendation to U.S. PVOs. We reviewed agreements for cost-sharing provisions for bilateral and direct grants (Handbooks 3 and 13, respectively), but found problems only with direct grants (Handbook 13) which happened to be to U. S. Private and Voluntary Organizations. Because direct grants can be given to both U. S. and indigenous organizations, the recommendation should be applied to all Handbook 13 grantees.

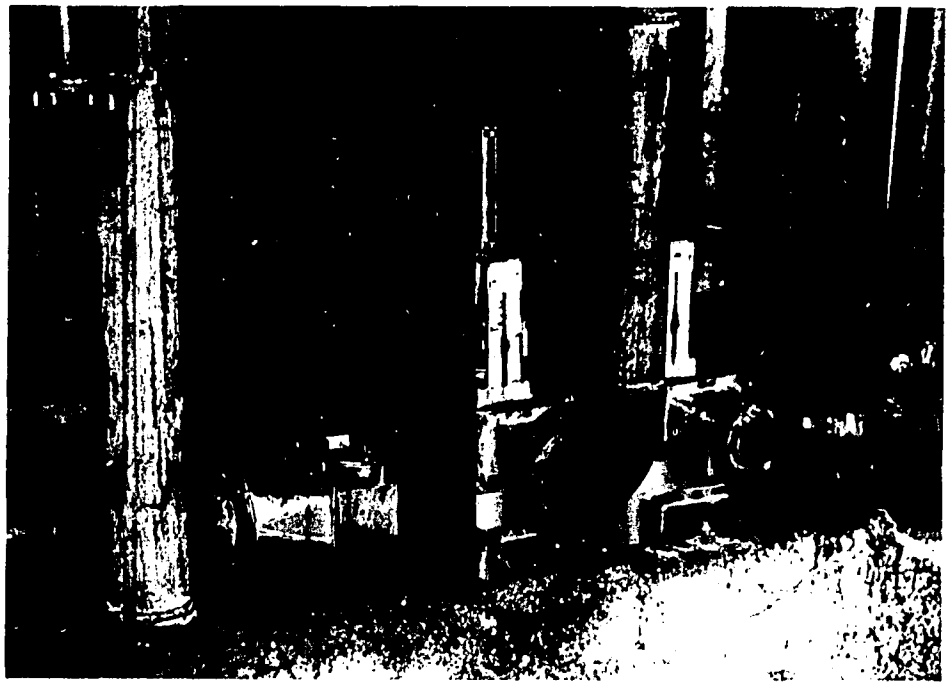
Recommendation No. 2 is considered resolved and can be closed when USAID/India develops and implements appropriate procedures.

Did USAID/India monitor grantees and subgrantees to ensure that these recipients use USAID funds for the purposes intended and achieve the desired results, consistent with USAID policies and procedures?

USAID/India generally followed USAID policies and procedures in monitoring grantees and subgrantees to ensure that these recipients used USAID funds for the intended purposes and achieved desired results. However, USAID/India could improve its monitoring efforts by ensuring U.S. participation is publicized, performance reporting is strengthened, and site visits are conducted and documented to a greater extent.

For the three bilateral project grant agreements reviewed:

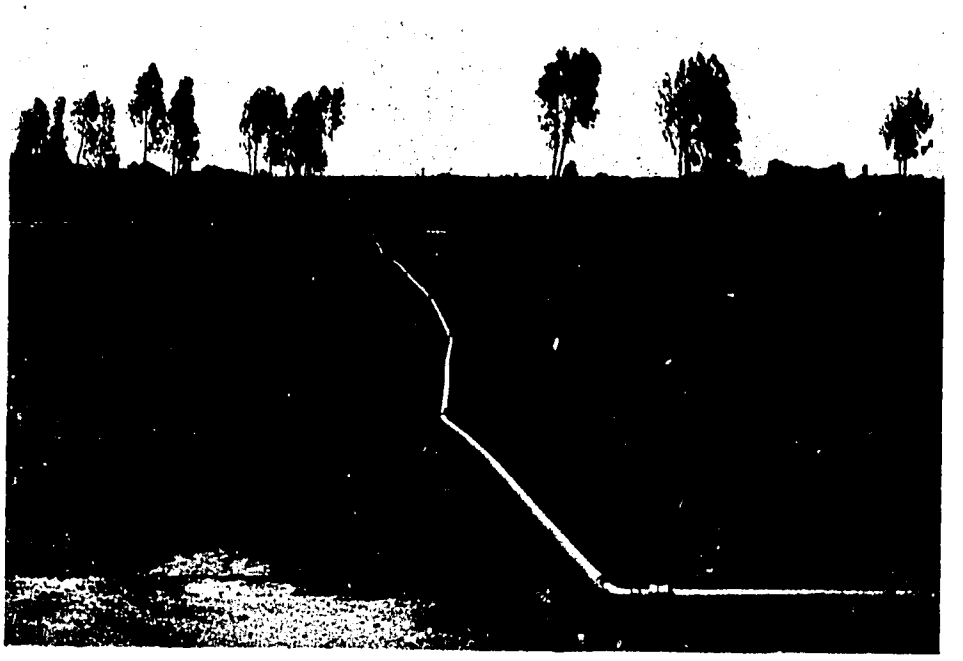
USAID/India prescribed performance report formats for the two research and development projects reviewed, including the type of information to be reported, and ensured that grantees submitted the required information by the due dates. For the health services project reviewed, USAID/India actually worked with the grantee's implementing agency to revise its report so that a critical review of project activities, rather than a mere report of service statistics, resulted. We consider this a good example of Mission monitoring.



Performance and site visit reports showed that the grantee monitored the project's progress from the development through the trial run of this regenerative burner.

USAID/India's Project Implementation Reviews reported on the physical progress of the three projects and included the status of major actions. The report on the health sector project contained a section on problems. In our opinion, however, the problems were understated. Mission records as of June 30, 1993, showed obligations, commitments, and disbursements of $9.7 million, $5.9 million, and $107,000 respectively. Both the Controller and Project Officer discussed the problem of slow disbursements with the audit team, but the statements which appeared in the project implementation report, for example, "MOHFW to be encouraged to submit reimbursement claims" and "The Project has an unearmarked balance of $4.0 million", do not sufficiently highlight the problem for USAID management.

In other monitoring areas, USAID/India required and ensured that grantees submitted financial reports in the agreed-to format with complete information. USAID/India also issued project implementation letters requiring the grantees to provide Equipment/Commodity Status Reports every six months and to report on cost-sharing contributions at least annually. For both types of report, USAID/India obtained copies of the reports and, where necessary, was taking action to ensure grantees submitted the information.



The subgrantee reported this watering/sprinkler system in its Equipment Status Report properly.

USAID/India properly amended all three project agreements to include the standard provision which requires audits be conducted and that USAID/India receive a copy of the audit report.

USAID/India ensured that project officials were making site visits and documenting these visits but, as discussed below, did not ensure that U.S. participation was publicized, i.e., USAID-financed goods were suitably marked.

For the three direct grants reviewed:

USAID/India project officers were following up on implementation problems brought to their attention by the recipients and ensuring that corrective action was taken. For example, one Project Officer was able to render assistance in obtaining visas for visiting lecturers at the request of a recipient.

For all three of the direct grants reviewed, the recipients submitted the prescribed periodic financial reports to USAID/India as required by provisions of the grant agreements. The physical progress of all the three grants in our review was also reported in the Project Implementation Reports by the USAID/India project officers.

The mandatory standard provision on Accounting, Audit and Records was included in all three of the grant agreements to ensure that audits are performed and that the audit reports are received from the grantees. However, USAID/India needs to ensure that grantees prepare and submit performance reports and that project officers conduct and document all site visits (see pages 18 to 24).

Marking Requirements Must Be Enforced

USAID/India did not always ensure that Handbook 1 requirements were met for publicizing U. S. participation in the projects by marking vehicles and equipment. Mission management did not properly instruct grantees of their responsibility to verify that recipients marked the goods and did not provide grantees the appropriate emblems for marking the goods. As a result, the United States Government did not receive full recognition for its development assistance efforts.

<u>Recommendation No. 3:</u> We recommend that USAID/India:

3.1 Implement procedures to ensure that all grantees are informed of their specific responsibility for monitoring the marking of USAID-financed goods, including the placing of publicity signs; and

3.2 Provide grantees the appropriate samples of emblems and ensure that emblems are ordered and distributed to subgrantees.

Handbook 1, Supplement B, Chapter 22 incorporates Section 641 of the Foreign Assistance Act which requires programs under this Act to be identified appropriately overseas as "American Aid". This Chapter also establishes specific publicity requirements by specifying that *"All AID-financed equipment and materials and their shipping containers must be suitably marked."*

It is USAID policy that projects and imported commodities financed under the program be suitably marked to identify them as U. S. foreign assistance. The term "suitably marked" means marking with the USAID red, white, and blue emblem. Handbook 3, Chapter 8 provides guidance for the agreement provision pertaining to information and marking for bilateral projects. The three bilateral agreements reviewed properly included the following clause for information and marking.

> *"The Grantee will give appropriate publicity to the Grant and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by USAID, as described in Project Implementation Letters."*

Project Implementation Letters are used by the Agency to give the grantee more detailed guidance on matters covered in the project agreement. However the implementation letters for one project provided no comments at all on marking and for two other projects provided very little additional information on marking. For example, USAID/India included the following paragraph in the implementation letter for the health sector project:

> *"This section requires the Grantee to cause appropriate signs to be displayed at any buildings or installations receiving assistance under the project to indicate participation of the United States in the Project."*

Similarly, the following paragraph for another project stated:

> *"ICICI will provide appropriate publicity to the project and the United States contribution thereto. USAID emblems should be displayed on all items financed under the project. Sample emblems will be provided to ICICI so that ICICI can get an adequate quantity of these printed and distributed to subproject participants."*

In the field, however, there was uneven compliance with marking requirements. For the seven subprojects activities we visited, none of the vehicles or equipment USAID paid for, either in whole or in part, were marked with the USAID emblem.

Under the Private Voluntary Organizations for Health II Project, we visited 3 of the 34 subgrantees and observed the situations depicted in the following photographs:

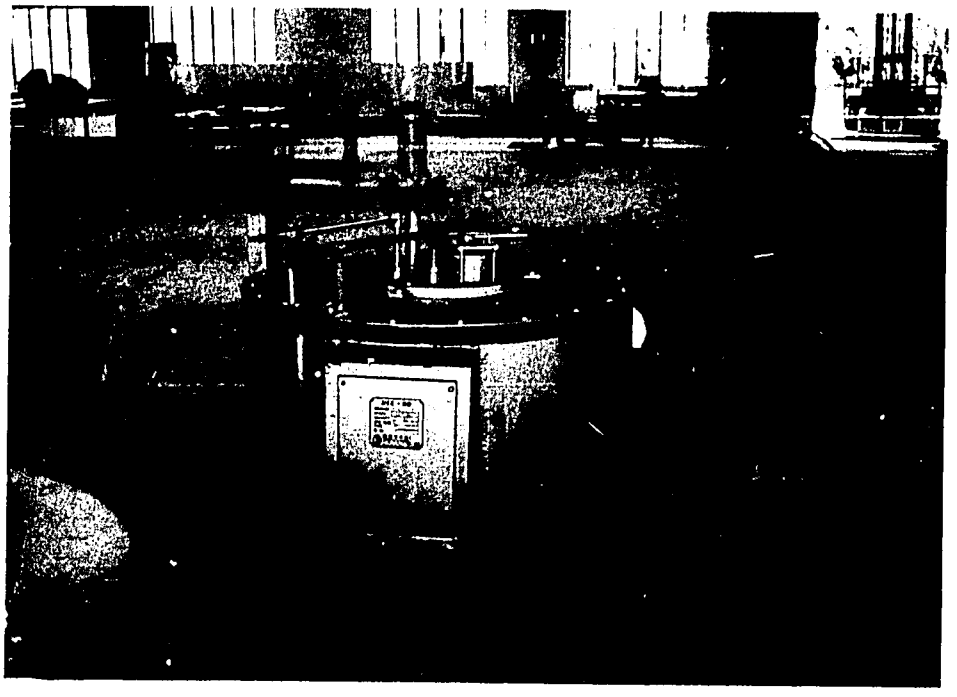
USAID funds were used to buy this ambulance, but only the subgrantee's name is stenciled on the vehicle.

The subgrantee reported this USAID-financed vehicle as required. However, the grantee did not ensure that the vehicle was properly marked to show U.S. participation.

We visited 2 of the 41 subgrantees under the Program for Advancement of Commercial Technology Project and took the following photograph.

USAID is funding 50 percent of this project, including the cost of the land, but the signboard does not indicate U.S. participation.

Likewise, under the Program for Acceleration of Commercial Energy Research Project, which has 16 subprojects, we found another example of non-marking:



This blending furnace was used to make prototype batteries under a PACER subproject. The subgrantee listed the furnace on the Equipment Status Report, but where is the USAID emblem?

Under the health sector project, the grantee did not have emblems to affix to the vehicles or equipment. The newly-hired Project Officer said that she was going to provide the emblems later. For the research and development projects, one Project Officer pointed out that USAID/India was only funding about 50 percent of each subproject and was not fully funding the equipment.

Although the project agreements and implementation letters stated the marking requirements, USAID/India needs to do more to ensure that grantees fully understand their responsibilities and are provided with sample emblems. The Mission should also include this area for monitoring during their site visits.

Management Comments and Our Evaluation

USAID/India agreed with our recommendation and has taken action to ensure that recipients are provided emblems to be put on the equipment and that they give due publicity to USAID assistance. Such actions

included establishing the Mission policy requiring project officers to (1) inform the grantees about their responsibility for monitoring subgrantees' compliance with the marking and publicity requirements, (2) review compliance with these requirements during site visits as applicable, and (3) document the findings in trip reports. In addition, USAID/India provided a copy of a letter reemphasizing this requirement to the recipients of USAID assistance.

Recommendation No. 3 is resolved and, based on our review of the documentation provided, closed upon issuance of this report.

Monitoring Efforts Can Be Strengthened
For Performance Reporting and Site Visits

Performance and site visit reports are two designated means of providing Mission management information on the progress and status of project activities. The performance reports submitted by three recipients, however, did not provide USAID/India with timely and complete information. This occurred because USAID/India project officers were not always ensuring that recipients' performance reports contained required information or were submitted when required. Project Officers did not always make site visits and, when they did, did not always document these visits. This occurred because project officers were unclear about requirements for site visits within the Delhi area. As a result, USAID/India did not have the most current or complete information about the progress of some projects.

Recommendation No. 4: We recommend that USAID/India:

4.1 Implement procedures to inform Project Officers of the importance of performance reporting and their responsibilities for ensuring that recipients provide required reports;

4.2 Implement existing procedures to ensure that periodic site visits are performed and that key information is documented.

Performance Reporting - USAID Handbook 13 specifies performance reporting requirements for grant recipients. Although USAID/India did ensure that the agreement provisions included these requirements, Mission project officers did not always ensure that the recipients complied with these reporting requirements.

Handbook 3, Supplement A summarizes the Project Officer's responsibilities in monitoring agreements—responsibilities which include (1) ensuring that recipients submit reports as required by the terms of the agreement and (2) reviewing the report and commenting upon its adequacy and responsiveness.

The Office of Management and Budget Circular A-110 (Attachment H) sets forth the performance reporting requirements for recipients which USAID incorporated in Handbook 13. The requirements state that the recipient has to submit performance reports that present certain information for each program, such as, a comparison of actual accomplishments with the goals established for the period and reasons why established goals were not met. Handbook 13 also states that performance reports shall not be required more frequently than quarterly or less frequently than annually.

Report contents did not meet requirements

Performance reporting is required to provide information to management on the progress and status of project activities. The performance reports, according to Handbook 13, should report activities for the current period, compare current and planned activities, and discuss why goals were not met and if progress will be delayed. They should also describe problems encountered, and planned activities for the next reporting period.

Although all three recipients submitted performance reports, the reports did not contain the type of information prescribed by Handbook 13. The following table summarizes our review results for three recipients' performance reports using the latest available reports and workplans:

RECIPIENT	COMPARISON OF ACTUAL WITH PLANNED	PLANNED ACTIVITIES FOR NEXT PERIOD	PROBLEMS
A	NO	NO[1]	NO
B	NO	YES[2]	YES
C	NO	NO	YES

1 - Shown in workplan only.
2 - Included in report and shown in a workplan.

All three recipients submitted performance reports which contained current period accomplishments but, as shown above, did not compare these accomplishments with planned activities. As for including information on planned activities for the next reporting period, only one recipient did so. Two of the three recipients reported on problems encountered in implementing their respective activities.

As part of the review, we traced the accomplishments reported by "Recipient A" to the workplan activities. We found that some of the planned activities, not yet implemented, were not discussed in the performance report. Because a comparison of the physical progress was not made with planned activities, it was difficult to tell if the program was progressing as planned or if adjustments had been made to the original plan. The Mission would have to rely solely on the Project Officer's familiarity and knowledge of the program for the status. If the Project Officer was unavailable, the Mission would have difficulty in determining the status of the program.

Performance reports reviewed for "Recipient B" contained detailed achievement reporting, as well as activities and targets for the next reporting period, and problems encountered. In reporting activities, however, the grantee did not compare these activities with either the planned activities (mentioned in the previous report) or the annual workplan. This made it difficult to assess how well the program was progressing.

"Recipient C's" reports documented planned activities only in the early stages where benchmarks and timeframes were set. Without a plan of activities which extend throughout the project, it would not be possible to tell at what stage the program was, even though the activities of the program were reported.

Reports not submitted at required intervals

Of the three grants reviewed, two were required to submit quarterly performance reports and one, semi-annual reports. Two recipients submitted performance reports as required by the agreements. However, one recipient, with quarterly submission requirements, submitted one performance report covering the period from mid-July 1987 through September 1989 (more than 26 months). Another report covered activities from October 1, 1989 through January 31, 1992 or 28 months.

When the recipient submits performance reports that span a period of more than two years it becomes difficult for anyone besides the Project

Officer to know what is happening with the project during that period. The Project Officer of the grant should have enforced this requirement on the recipient as it is eight times as long as the required frequency, i.e., quarterly. While no direct connection between reporting frequency and grantee performance could be made, it is interesting to note that this same grant has been amended from an original $100,000 grant to one with obligations totaling over $1,200,000.

In addition, performance reporting is tied to the Project Implementation Reporting process, which USAID/India conducts quarterly. This process reflects the progress of projects in accordance with the status reported in the performance reports. Without regular reporting by the recipient, the drafter of the Project Implementation Report would have to rely solely on the knowledge and memory of the project officer. In the event that the project officer is unavailable, the monitoring system breaks down as there would not be any current reporting available on the status and progress of the project.

Late submission of reports

Two agreements required the performance reports to be submitted within two weeks of the end of the reporting period, but both recipients were late in submitting the reports. The third agreement did not state a due date for the quarterly report. The number of days the reports were submitted late ranged from 10 to 216 days. The following table tabulates the results of progress reports reviewed.

RECIPIENT	NO. OF REPORTS REVIEWED	DUE AFTER END OF PERIOD	AVERAGE NO. OF DAYS LATE
A	2	10	17 days
B	2	14	29 days
C	2	14[1]	178 days

1 *No due date specified in the agreement, but, in our opinion, 14 days is reasonable.*

As shown above, Recipient C's grant agreement did not specify a due date for performance reports. However, an internal memorandum stated that:

"Special precautions have, however, been built into the grant to

ensure that technical and financial reporting will be sufficient for USAID to properly perform its monitoring role of the program."

We were unable to identify any such "special precautions". USAID/India needs to incorporate a specific due date in this, and all, agreements. Because performance reports are designed to serve as a monitoring tool, they must provide the required information at regular intervals shortly after the reporting period ends to be of value to Mission personnel.

Site Visits - Periodic visits by the Project Officer to the site where work under the agreement is being performed is one of the more significant aspects of oversight of an agreement. An appraisal of performance based on the comparison of the site visit report against implementation plans should be done to identify corrective actions required. Documented site visits also form a basis for a project officer's administrative approval of the recipient's voucher.

Handbook 13, Chapter 1 contains USAID's policy, based on Office of Management and Budget Circular A-110, for making site visits to those projects implemented through grants and cooperative agreements. It states that the Project Officer shall make site visits as frequently as possible to review program accomplishments and management control systems and provide such technical assistance as may be required.

Handbook 3, Chapter 11 contains procedures for documenting site visits and states that a site visit report is to be prepared and distributed as soon as possible after the field trip. It also provides a sample format for a site visit report and discusses several areas which can be reviewed during the visit.

We reviewed the project files for three active grants and held discussions with the respective project officers to determine the extent of site visit activity. As a result of reviewing the files, we found that site visit reports were not prepared for any of the three agreements. From discussions, we learned that:

- Two Project Officers had never visited the project activity site, although one had only recently assumed responsibility for the agreement.

- A third Project Officer visited the grantee but did not document his visits on the grounds that site visit reports were required to supplement travel claims and as his site visit was in Delhi, he

did not have any travel claims and hence believed he was not required to document the visits.

USAID/India's Controller confirmed that his Office requires that a Site Visit Report accompany a travel reimburse claim and that the claim will not be processed without the report. However, documentation of all site monitoring visits made should not be based on whether there are travel claims to be made or not. It should be a requirement to document all site monitoring visits as the visit provides physical evidence of project progress.

In summary, USAID/India project officers need to ensure that recipients submit performance reports that provide timely and essential information on project activities and that necessary site visits are made and results documented.

Management Comments and Our Evaluation

USAID/India agreed with subpart 4.1 of our recommendation and the Mission Director issued a memorandum emphasizing to project officers the importance of performance reports and the need to receive the prescribed reports in a timely manner.

However, Mission officials stated that draft Recommendation Nos. 4.2 and 4.3 were not necessary because they maintain that current procedures and controls are in place to plan site visits and ensure trip reports are prepared as required. Furthermore, each office prepares a travel plan at the beginning of a fiscal year based on inputs provided by each project officer. This plan serves as the basis for field monitoring of project activities during the year.

USAID/India notes that the audit finding is based on a couple of instances where site visits were not made or reports were not prepared for visits made to some implementing organizations located in New Delhi. Such visits are often made to discuss operational matters. The Mission wants to allow the project officer the flexibility to decide whether or not a written report is required for every visit to a local counterpart agency and requested that Recommendation Nos. 4.2 and 4.3 be dropped.

We disagree. Such flexibility could result in no site visit reports being made. While we tend to agree that not all visits should require extensive documentation, any visit worth making in the first place should warrant a brief note to the project files—if only to provide the basis for

administrative approval of vouchers. Furthermore, based on our review, Mission procedures do not differentiate between requirements for site visits and monitoring reports for projects in New Delhi and projects involving temporary duty travel. We combined subparts 4.2 and 4.3 of this recommendation, and allowed for some latitude in the extent of reporting.

Recommendation No. 4.1 is resolved and, based on our review of the documentation provided, closed upon issuance of this report. Recommendation No. 4.2 is resolved and can be closed when required actions have been completed.

Did USAID/India design the Innovations in Family Planning Systems Project to ensure that the Mission and the recipients of USAID funds establish adequate controls over and properly account for the use of USAID funds, consistent with USAID policies and procedures?

USAID/India designed the Innovations In Family Planning Services Project to ensure that the Mission and the recipients of USAID funds established adequate controls over the use of the funds, consistent with policies and procedures. We did not attempt to determine whether these controls would be completely effective as funds had not been disbursed under the Project at the time of our audit.

We limited the scope of the audit to the local currency component of the $325 million Project, which amounted to $225 million.

In designing this Project, the Mission;

- supported the cost estimates used for local currency;
- addressed all concerns raised by the Review Committees in USAID/Washington and USAID/India;
- included adequate audit provisions to account for local currency;
- budgeted funds to audit local currency disbursements under the Project;
- defined responsibilities for monitoring local currency.

However, USAID/India did not ensure that the Project Agreement contained provisions requiring that the Grantee furnish proof that its implementing agency (The SOCIETY) demonstrate management and financial capability before USAID funds were disbursed to it.

Grantee Needs to Demonstrate Financial and Management Capability

Handbook 13 Chapter 4 requires all recipients of grant funds to demonstrate financial and management capability before receiving USAID funds. However, the Project Agreement did not contain any provisions requiring that the Grantee's implementing agency (The SOCIETY)

demonstrate its financial and management capability before receiving USAID funds. As such USAID/India would not be assured that all parties to the grant have the required systems to account for grant funds.

Recommendation No. 5: We recommend that, for the Innovations In Family Planning Services Project, USAID/India finalize the jointly-signed letter with the Government of India which incorporates performance benchmarks, including one ensuring The Society's management and financial capability.

USAID/India planned that approximately $155.4 million, excluding $3.6 million for contingency and inflation, would be reimbursed to a new, autonomous organization—The SOCIETY—which would be formed to implement the Project. The performance-based disbursement method would be used to reimburse The SOCIETY. According to this method, USAID/India would disburse several tranches of money over a ten-year period after verifying that pre-determined benchmarks have been met. These benchmarks are contained in the Mission's Ten-Year Framework, which also sets out the basis of verification and the amount to be disbursed after each benchmark is accomplished.

Handbook 13 requires that a grant recipient demonstrate its financial and management capability before grant funds are disbursed to it. Section 4.2 of the Project Agreement addressed conditions precedent to disbursement of funds to The SOCIETY, but there was no grant provision requiring the Grantee to furnish proof of The SOCIETY's financial and management capabilities. In the Ten-Year Framework, however, Mission officials established a series of conditions to be met prior to fund releases. One such condition required prior establishment of financial systems for funds accountability, including an audit program. Thus, according to the performance-based disbursement method, funds would not be released to The SOCIETY until it met this benchmark. However, the Ten-Year Framework has not been incorporated into the Project Agreement either.

In addition we also noted that there is no guidance either in the Handbooks or the Federal Acquisition Regulations on the use of performance-based disbursements. However, USAID/Washington had encouraged the Mission to use this disbursement method and the Mission plans to do so. In response to a query from the auditors on using performance-based disbursements, USAID/Washington maintained that this was well within USAID's authority under the Foreign Assistance Act, and that guidance relating to this disbursement method will be included in the upcoming revision to the Handbook.

Potential Problem Area:
Terminal Dates for Conditions
Precedent Are Being Extended

Handbook 3 states that the time needed to take the actions required by the conditions precedent should be realistically assessed jointly with the grantee. It further states that two considerations must be reconciled in doing so: (1) the desirability of beginning implementation as soon as possible after signing the project agreement and (2) the **undesirability** of extending the terminal date for meeting conditions precedent, once or several times, because the parties are unable to complete the required actions.

The Project Agreement required the Government of India to satisfy certain conditions prior to the disbursement of funds to The SOCIETY. It also stated that these conditions must be satisfied within 160 days of the signing of the Agreement, or any other dates that USAID/India may have subsequently agreed to. The Agreement further provides that USAID/India has the option to terminate the Agreement in the event that the Government of India is unable to satisfy these conditions within the agreed-to dates.

In March 1993, more than five months after the agreement was signed, USAID/India notified the Government of India that conditions precedent under section 4.1 of the agreement were satisfied and that project funds were available for first disbursement for eligible expenditures. The letter reiterated that the Government of India must meet the conditions precedent under section 4.2 before disbursement could be made to The SOCIETY; the expiration date for meeting these conditions was extended to June 30, 1993. Still, the Government of India was unable to meet these conditions after more than eight months and USAID/India extended the expiration date a second time—until September 30, 1993, thus providing a full year to satisfy the conditions precedent.

We suggest that before extending the expiration date a **third** time USAID/India examine closely the Government of India's commitment to this project and the reasons why the conditions precedent are not being met.

Management Comments and our Evaluation

USAID/India had no problem with the overall facts as presented, but did not agree that the Project Agreement needed to be amended to address

the two issues covered by Recommendation No. 5.

Mission officials stated that they are in the process of negotiating the benchmarks, including the one on The SOCIETY's management and financial capability, for the first two years with the Government of India. When finalized, the benchmarks will be incorporated in a jointly-signed letter with the Government of India. According to Mission officials, the requirement for the benchmarks to be set forth in such a letter satisfactorily meets the intent of Recommendation No. 5.1.

With respect to Recommendation No. 5.2, Mission officials said that the existing requirement to have the benchmarks formalized in jointly-signed letters provides adequate control over the performance-based disbursement process. In view of the above, USAID/India requested that Recommendation No. 5 be dropped.

We have modified Recommendation No. 5 accordingly. Recommendation No. 5 is resolved and can be closed when USAID/India provides evidence of this finalized letter.

SCOPE AND METHODOLOGY

Scope

We audited USAID/India controls over grants in accordance with generally accepted government auditing standards from March 1 to July 15, 1993. We did our fieldwork in the offices of USAID/India and visited three grantees located in Delhi and Bombay, India. We also visited seven subgrantees in Pune, Secunderabad, and Hyderabad, India, to observe project activities. All photographs appearing in this report were taken during these site visits. At USAID/India we met with the Grants Officer, Division Chiefs, Controller's Office personnel, and Project Officers. At the grantee and subgrantee levels we interviewed project officials, technicians, and accounting managers. Because of staff rotations and turnover, however, individuals who may have been able to provide insights to the cause of some conditions were not available to us, and this situation limited the discussion of problem areas in this report. At all levels, we reviewed project and agreement documents.

The scope of the audit included both bilateral project grants and direct grants and cooperative agreements, active as of December 31, 1992, which were awarded under policies and provisions in Handbooks 3 and 13, respectively. As of December 31, 1992, USAID/India had 16 active project agreements with total obligations of $151.6 million, and we considered 9 with obligations of $105.5 million for possible review in answering audit objectives one and two. We excluded seven projects from our review to answer these objectives because project implementation either had not begun or was in the early stages. Because planned USAID funding of one excluded project—Innovations in Family Planning Services—totaled $325 million (including $100 million funded by USAID/Washington), we formulated audit objective three. The Mission also had 14 direct grants and cooperative agreements totaling $12.5 million.

In addition to the methodology described for each audit objective, we have

requested a letter from USAID/India (upon receipt of the formal draft report) providing written representations which we consider essential for answering our audit objectives and for assessing internal controls and compliance.

Methodology

The methodology for each audit objective is described below. (An earlier objective relating to closeout was not pursued. A survey of the closeout procedures indicated the presence of satisfactory procedures and actions.)

Audit Objective One

The first audit objective was to determine whether USAID/India reviewed grantee/subgrantee proposals and negotiated terms of the grants/ subgrants to ensure that recipients are capable of administering and accounting for grant funds, consistent with USAID policies and procedures. To accomplish this objective for the bilateral grants, we selected three projects ($39.7 million in obligations) which had subgrant components ($38.5 million) and also selected seven of the 76 active subgrants for further testing. For the direct grants and cooperative agreements, we selected 4 of the 14 agreements, totaling about $10 million. These agreements were selected because each had estimated costs in excess of $1 million and, in total, accounted for about 80 percent of the total estimated costs of the 14 agreements.

In answering the audit steps for the bilateral project grant, we held discussions with Project Officers, grantees, and subgrantees and reviewed documentation at each level and applied relevant criteria from Handbook 3 and the basic agreements. For the direct agreements, we held discussions with the Grant Officer and Project Officers and we reviewed agreement and project files, applying relevant criteria from Handbook 13 and the agreements.

We completed audit steps to determine whether USAID/India, directly or indirectly, (1) ensured that the recipient was eligible to receive USAID assistance funds; (2) assessed the prospective recipient's qualification to implement the agreement; (3) evaluated the proposal; (4) assessed the reasonableness of the cost proposal; and (5) included requirement for cost-

sharing contributions in the agreement. For the direct agreements, we also determined whether USAID/India selected the proper assistance instrument.

Audit Objective Two

The second audit objective was to determine whether USAID/India monitored grantees and subgrantees to ensure that these recipients used USAID funds for the purposes intended and achieved the desired results, consistent with policies and procedures. To accomplish this objective for the bilateral grants we used the same sample selected for objective one; for the direct grants and cooperative agreements, we examined three agreements, totaling about $8 million, of the four selected for audit objective one.

Applying relevant criteria from Handbooks 1, 3, 13 and the agreement provisions for each grant or cooperative agreement, we reviewed the applicable agreement and project files including project papers, workplans, progress reports, and site visit reports to determine whether: (1) agreements stated reporting requirements for performance and financial reports; (2) performance and financial reports were submitted and met requirements; (3) site visits were conducted, problems documented, and follow-up action taken to correct any problems as required by Handbook 3; (4) progress was reported accurately in the Project Implementation Review reports; and (5) provisions were made in the agreements requiring audits to be performed.

Audit Objective Three

The third audit objective was to determine whether USAID/India followed policies and procedures in designing the Innovations in Family Planning Services Project. We selected this $325 million project for review because of our concern for the planned use of performance-based disbursement for about $155.4 million of USAID's contribution for local currency financing. In addition, an entirely new organization was to be created to implement the Project.

To accomplish this objective, we attended briefings presented by the Mission's Project Task Force, interviewed the Project Officer and Task Force members, and reviewed applicable files and records relating to project design. The documents we reviewed included basic Project

Documents (e.g., paper, agreement, and identification document), cost estimates and supporting documentation, the Task Force Report, and a report and cable guidance on performance-based disbursement. We also asked USAID's Chief Financial Officer for clarification of the Agency's policy on use of performance-based disbursement.

We performed audit steps to determine whether USAID/India: (1) adequately support cost estimates used for local currency; (2) addressed all concerns in the approved design that the Review Committees in USAID/Washington and the Mission raised; (3) included adequate audit provisions for the accounting of local currency funds; (4) included essential conditions precedent in the Project Agreement; (5) budgeted funds for the audit of local currency disbursements under the Project; and (6) defined responsibilities for monitoring local currency.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

NEW DELHI, INDIA

MEMORANDUM

October 28, 1993

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

FROM : Walter G. Bollinger, Mission Director, USAID/India

SUBJECT : Draft Report on Audit of USAID/India's Controls Over Grants

REF. : Your transmittal memo dated October 1, 1993

We are pleased to note that barring some minor exceptions, the audit concluded that the Mission is following established policies and procedures in administering both Handbook 3 and 13 grants. Overall we find the report positive and balanced but we have made the following comments which we feel will add perspective to the audit findings and enable closure/deletion of some recommendations based on actions already taken or for the reasons explained. In addition, we feel the report should mention that one of the original audit objectives relating to close-out of grants was dropped based on the work done in the early stages of the audit. While the auditors did mention to us verbally that they were satisfied with our close-out procedures and actions, we do not find any statement to that effect in the draft report. We believe the final audit report should contain a reference to this audit objective and mention the reason why it was dropped after the survey.

A. Recommendation No. 1 (benchmarks to measure progress and results): Except for some earlier grants (the four selected for audit were signed between July 1986 and February 1991), program descriptions for recent grants do contain benchmarks to measure progress and results as will be evident from the copy of a grant attached herewith (ATTACHMENT A). Thus it would have helped if the audit had covered some recent grants also to show that the Mission has already taken corrective action. Nevertheless, as required by the recommendation, we will take appropriate action to formalize the procedures and fix responsibilities for their implementation.

B. Recommendation No. 2 (cost-sharing provisions): We agree with the recommendation with a slight modification as suggested in (b) below, and will take appropriate action to implement it. However, we have the following comments for purposes of making the finding internally consistent:

a. The 25% non-federal contribution as referenced in Handbook 3 pertains to U.S. PVO grantees. **Thus, line two of paragraph one on page 9 should read "contribution to US Private and Voluntary Organizations....".**

b. In that the finding is based on a review of grants made to PVOs and the points of the finding pertain to the requirements for PVOs, **Recommendation 2.1 should be clarified to read "2.1 All grant and cooperative agreements to US Private and Voluntary Organizations contain ...."**

c. The reference in the first sentence of paragraph two to "Handbook 13 Chapter 4" is either an incorrect reference or a typographical error. **The correct reference should be "Handbook 3, chapter 4".**

d. With the exception of the points made above, USAID believes that the text under the subject finding is clear and definitive through the first paragraph on page 10, that is, the paragraph which ends ".....to the cost sharing requirement." We believe that the remaining two paragraphs do not necessarily add to or serve the finding for the following reasons : (a) as stated above, the text up to that point is clear and definitive with respect to the finding, (b) the subject matter addressed in the last two paragraphs is complicated in that different types of grants treated by different AID guidance are at issue but that discussion is extraneous in that the finding of this audit is based only on a review of grants to PVOs, (c) if the last two paragraphs of discussion were to be retained, a more detailed, painstaking discussion than is provided presently would have to be added to prevent confusion of what was an already clear and comprehensive treatment (ending with para one on page 10), and (d) USAID accepts the finding and recommendation, notwithstanding the discussion of the last two paragraphs. Given this acceptance and that the acceptance includes USAID agreement that grants to PVOs require matching, the discussion in the last two paragraphs is not needed and does not add productively to the finding and recommendation. **Accordingly, USAID requests that the last two paragraphs on page 10 be deleted.**

C. Recommendation No. 3 (marking requirements): We agree with the recommendation and have already taken appropriate action to ensure recipients are provided emblems to be put on the equipment and they give due publicity to USAID assistance. Our project officers have also been asked to review compliance with the marking requirement during field visits and document this in their trip reports (see copy of memo from the Mission Director, ATTACHMENT B). In addition, we are also reemphasizing this requirement to the recipients of A.I.D. assistance. A copy of the letter written to a recipient is attached for your reference (ATTACHMENT C). **Based on this, we request that Recommendation No. 3 be closed.**

D. Recommendation No. 4 (performance reporting and site visits): We agree with sub-part 4.1 of the recommendation and the Mission Director has already issued the attached memo emphasizing to the project officers the importance of performance reports and the need to receive the prescribed reports in a timely manner (ATTACHMENT D). However, with respect to sub-parts 4.2 and 4.3 relating to performance of periodic site visits and preparation of trip reports, **we feel our current procedures are adequate and therefore these recommendations are not necessary**. The details are provided below.

We already have procedures and controls in place to plan site visits and ensure trip reports are prepared as required. Each office prepares a travel plan at the beginning of a fiscal year based on inputs provided by each project officer. This plan serves as the basis for field monitoring of project activities during the year. Although we would have liked to make more site visits, we are prevented from doing so by the tight OE resource position over which we have no control. Notwithstanding this, however, we feel we have by and large met our field monitoring responsibilities effectively as is borne out by the positive findings in this report itself. The audit finding is based on a couple of instances noted by the auditors where site visits were not made or reports were not prepared for visits made to some implementing organizations located in New Delhi. As we explained to the auditors during the audit, visits to such organizations are often made to discuss operational matters and because of their close proximity, issues are and have been resolved through discussions. We believe it would be an unproductive use of a project officer's time besides adding to the already burdensome paper work if he/she were asked to prepare reports on all such visits even when they are not considered essential. We believe a project officer should have the flexibility to decide whether or not a written report is really necessary for such visits and thus would not like to require that he/she prepare one everytime a visit is made to a local counterpart agency. **We therefore request that sub-parts 4.2 and 4.3 of this recommendation be dropped.**

E. Recommendation No. 5 (financial and management capability, IFPS Project): While we have no problem with the overall facts as presented, we do not feel that the Project Agreement (Proag) needs to be amended to address the two issues covered by this recommendation. **We therefore request that this recommendation be dropped for the reasons discussed below.**

Section 3.2 of the Amplified Project Description (Annex 1 to the Proag) requires preparation of detailed Project implementation plans which will form the basis for developing performance benchmarks. It also stipulates that prior to implementation, these performance benchmarks will be delineated in letters from USAID and countersigned by the GOI. We are in the process of negotiating the benchmarks for the first two years with the GOI. When finalized, the benchmarks, including the one on the Society's management and financial capability, will be incorporated in the jointly signed letter. We believe this requirement for the benchmarks to be set forth in a jointly signed letter satisfactorily meets the intent of Recommendation 5.1 and thus an amendment to the Proag will be redundant. In addition, the Mission has already planned a review of the Society's financial management systems which will be conducted before funds are disbursed to it. Finally, as already advised, the Society has contracted with one of India's leading management consultancy firms to design its financial and other systems and procedures, and this work is underway. Thus we believe adequate safeguards already exist and no further action is necessary. For your information, the GOI has released about $2 million to date for project implementation out of its own resources and the Mission will be reimbursing the GOI, not the Society, a lesser amount as the first tranche.

With respect to Recommendation 5.2, we believe a Proag amendment is not needed for the same reason as discussed above, i.e., the existing requirement to have the benchmarks formalized in jointly signed letters provides us adequate control over the performance-based disbursement process. Besides, the Ten-Year Framework is intended to provide overall guidance and a technical basis for the development of annual benchmarks. It recognizes that conditions will change during the ten-year life of the project and benchmarks must be adapted and adjusted as appropriate based upon progress and other factors. We feel this flexibility is critical to the success of the performance-based disbursement system and will be compromised if the Framework is incorporated in the Proag as any changes will then also have to be made formally which can result in prolonged negotiations and delays. The need for flexibility is further empasized in Handbook 3, Chapter 13, Section A3, which states that "to promote flexibility of actions at lower levels when changes are being effected, detailed specification of requirements and procedures should be minimized in higher order formal documentation (e.g., Project Authorizations and Agreements)---." However, we have already provided the GOI with a copy of the Framework and this has been, and will continue to be , used as guidance in developing the benchmarks.

In view of the above, we request that Recommendation No. 5 be dropped.

Attachment: a/s

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT
AMERICAN EMBASSY, NEW DELHI-110021

PHONE : 6865301 / 600651
CABLE : USAID

FAX : 91-11-6868594 / 6886012
TLX : 031-73380 AID IN

October 28, 1993

Mr. Richard C. Thabet
Regional Inspector General/Audit
Singapore

Dear Mr. Thabet:

You have asked that USAID/India provide a Management Representation Letter in connection with your audit of controls over grants administered by USAID/India. Your staff has informed us that the audit covered the Mission's grants which were active as of December 31, 1992 and was made to answer the following audit objectives:

(A) Did USAID/India review grantee/subgrantee proposals and negotiate the terms of the grants/subgrants to ensure that recipients are capable of administering and accounting for grant funds, consistent with A.I.D. policies and procedures?

(B) Did USAID/India monitor grantees and subgrantees to ensure that these recipients use A.I.D. funds for the purposes intended and achieve the desired results, consistent with A.I.D. policies and procedures?

(C) Did USAID/India design the Innovations in Family Planning Systems Project to ensure that the Mission and the recipients of A.I.D. funds establish adequate controls over and properly account for the use of A.I.D. funds consistent with A.I.D. policies and procedures?

For the activities under audit during the audit period, USAID/India is responsible for the Mission's internal control system, for the Mission compliance with applicable U.S. laws and regulations, and the fairness and accuracy of the Mission's accounting and management information.

I and my staff have made available to you all records in our possession for the purpose of the audit. Your staff included four bilateral projects (numbers 386-0494, 386-0496, 386-0511, and 386-0527) and four Handbook 13 agreements (numbers 386-0485-G-00-6049, 386-0485-G-00-7240, 386-0515-A-00-1058, and 386-0282-G-IN-8334) in the audit. In addition, they included two Handbook 13 grants for purposes of local site visits (numbers 386-0515-G-00-2168 and 386-0515-G-00-1133).

Based on representations made to me by my staff and their written concurrence with the representations made in this letter, I confirm, as a layman and not as a lawyer, the following representations with respect to the subject matter of the audit and the audit objectives:

(1) To the best of my knowledge and belief, USAID/India has made available to your staff all Mission records relating to the audit objectives;

(2) To the best of my knowledge and belief, those records are accurate and complete and give a fair representation as to the status of the matters under audit.

(3) To the best of my knowledge and belief, USAID/India is not aware of any instances (that we consider substantive) where financial or management information on matters directly relating to the grants under audit have not been properly or accurately recorded and reported, other than in the findings in the audit report.

(4) To the best of my knowledge and belief, USAID/India has disclosed all known irregularities related to the grants under audit (that we consider substantive) involving Mission employees with internal control responsibilities or the recipients of such grants. For the purposes of this representation, "irregularities" means instances of intentional noncompliance with applicable laws or regulations and/or intentional misstatements, omissions, or failures to disclose same.

(5) To the best of my knowledge and belief, USAID/India is not aware of any instance (other than what has been included in the draft audit report or reported by the Mission during the course of the audit) of noncompliance (that we consider substantive) with A.I.D. policies and procedures or violations of U.S. laws and regulations.

(6) To the best of my knowledge and belief, USAID/India is not aware of any instance (other than what has been included in the audit report or reported by the Mission during the course of the audit) of noncompliance by the Mission (that we consider substantive) with the terms of the grants under audit.

(7) After review of your draft audit report and further consultations with my staff, to the best of my knowledge and belief, I know of no other facts as of the date of this letter (other than those expressed in our Management Comments to the draft report) which would materially alter the conclusions reached in the draft report.

I request that this Management Representation Letter be considered a part of the official Mission comments on the draft audit report, and be published as an Annex to the final report.

Yours sincerely,

Walter Bollinger
Director, USAID/India

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