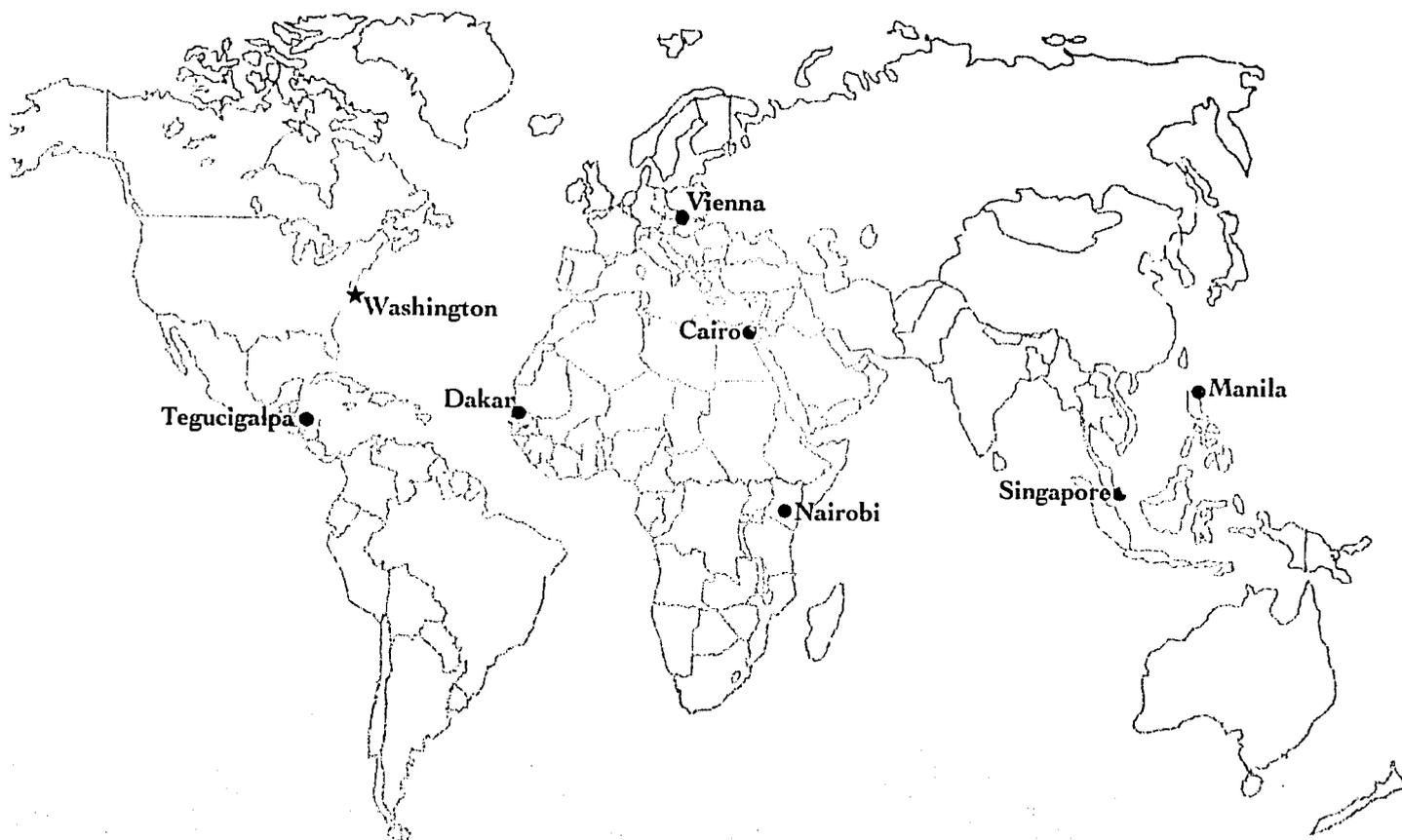


**Regional Inspector General for Audit
Singapore**

**AUDIT OF USAID/NEPAL'S CONTROLS
OVER GRANTS AND
COOPERATIVE AGREEMENTS**

**Audit Report No. 5-367-94-018
September 23, 1994**





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

September 23, 1994

MEMORANDUM

TO: Philip M. Gary, Mission Director, USAID/Nepal

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

SUBJECT: Audit of USAID/Nepal's Controls Over Grants and Cooperative Agreements (Audit Report No. 5-492-94-018)

Enclosed are five copies of the subject audit report. Our audit work and the written representations made by your office confirmed that USAID/Nepal followed most of USAID policies and procedures in reviewing, selecting, negotiating, awarding, monitoring, reporting, and closing out grants and cooperative agreements. However, the Mission needs to ensure that grantees establish better performance indicators and interim benchmarks. Also, the Mission needs to improve the quality of grantees' progress reports and to better document site visits so that they can better assess grantee performance.

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, both recommendations are resolved and can be closed when the planned action is completed.

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

Attachments: a/s

EXECUTIVE SUMMARY

The Office of the Regional Inspector General for Audit/Singapore audited USAID/Nepal's management of grants and cooperative agreements to determine whether the Mission followed USAID policies and procedures in reviewing, selecting, negotiating, awarding, monitoring, reporting, and closing out grants and cooperative agreements (see page 1 and Appendix I).

The audit found that USAID/Nepal followed most of USAID policies and procedures. However, the Mission needs to ensure that grantees establish better performance indicators and interim benchmarks. Also, the Mission needs to improve the quality of grantees' progress reports and to better document site visits so that they can better assess grantee performance (see pages 3 and 12).

We made recommendations to correct the problems identified by our audit. They included recommendations to:

- withhold awarding grants to grantees who do not present good performance indicators (see page 7);
- amend grants which do not contain the required performance indicators and benchmarks (see page 7); and
- review grantees' progress reports to ensure that actual accomplishments are compared against interim targets, and document site visits (see page 14).

In responding to a draft of this report, USAID/Nepal officials generally concurred with the report's findings and recommendations. We carefully considered their comments in preparing this final report. The complete text of the Mission comments to our draft report is provided in Appendix II.

Office of the Inspector General

Office of the Inspector General
September 23, 1994

Nepal

Population: 18.7 million
Area: 54,300 square miles
Capital: Kathmandu



South
& East
Asia

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INTRODUCTION

Audit Objectives

The Office of the Regional Inspector General for Audit, Singapore audited USAID/Nepal's management of grants and cooperative agreements to answer the following objectives:

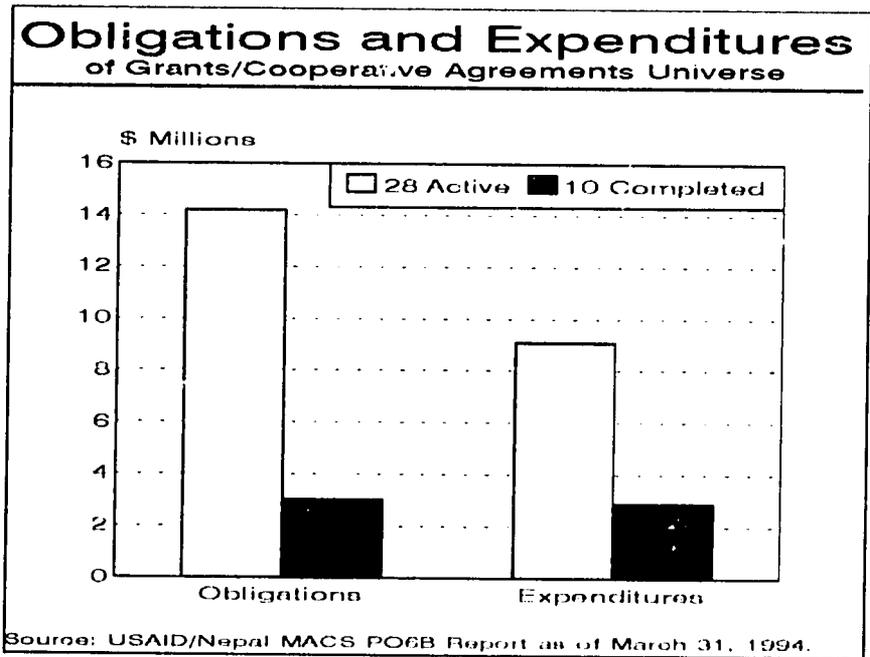
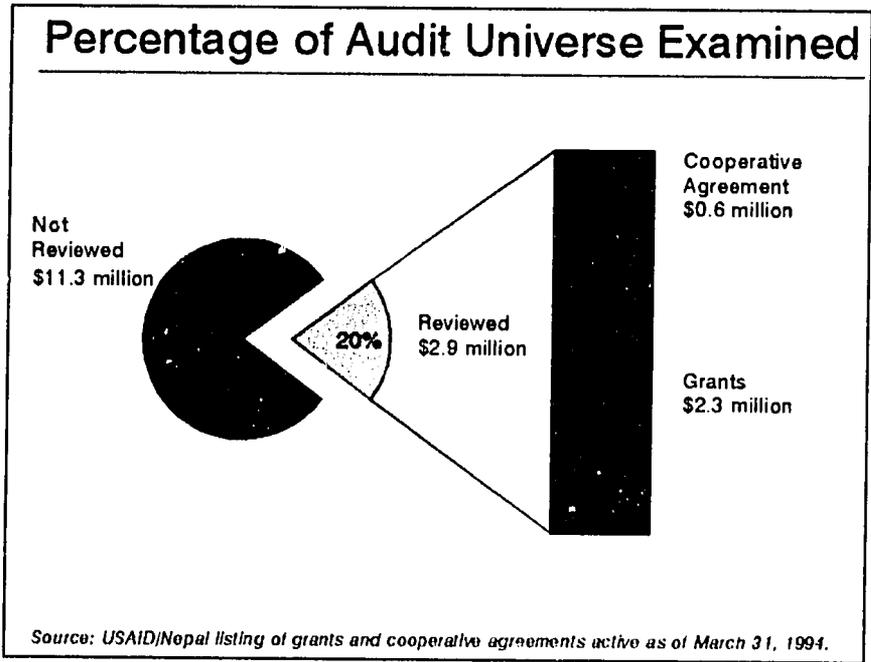
- **Did USAID/Nepal follow USAID policies and procedures in reviewing, selecting, negotiating, and awarding grants and cooperative agreements?**
- **Did USAID/Nepal follow USAID policies and procedures in monitoring, reporting, and closing out grants and cooperative agreements?**

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

Background

A grant or cooperative agreement is in the nature of a gift to support an agreed-upon purpose. As such, the grant or cooperative agreement is awarded to support a nonprofit organization whose program activities are consistent with USAID's own objectives. This program may be designed in response to an USAID request or it may be an unsolicited proposal which USAID finds unique and worth supporting. A cooperative agreement differs from a grant in that it seeks USAID's involvement in the performance of the grantee's program.

As of March 31, 1994 USAID/Nepal was administering 28 active grants and cooperative agreements. Ten completed grants were awaiting close-out. Obligations amounted to \$14.2 million and expenditures totaled \$9.1 million for active grants, and \$3 million and \$2.8 million for completed grants. The charts on page 2 show a profile of the grants administered by the Mission during this period.



REPORT OF AUDIT FINDINGS

Did USAID/Nepal follow USAID policies and procedures in reviewing, selecting, negotiating, and awarding grants and cooperative agreements?

USAID/Nepal followed most USAID policies and procedures in reviewing, selecting, negotiating, and awarding grants and cooperative agreements. However, the Mission needs to ensure that grantees establish better performance indicators and interim benchmarks.

As the following examples illustrate for the four grants reviewed, USAID/Nepal followed most USAID policies and procedures.

Project Papers - The grant proposals were consistent with the objectives contained in the Project Papers. For example, in the PVO Co-Financing II Project Paper Amendment, grants are to be awarded only for activities which work toward the achievement of USAID/Nepal's strategic objectives. The three grants reviewed under this project were consistent with the Mission's strategic objectives, e.g., increased use of family planning services.

Non-Competitive Proposals - Unsolicited proposals were reviewed by an independent committee and properly approved by the USAID/Nepal Mission Director as required by USAID Handbook 13, Chapter 2. The justification for non-competition was properly documented.

Choice of Assistance Instrument - USAID/Nepal obtained the Grant Officer's determination that a grant or cooperative agreement, rather than a contract, was the proper assistance instrument.

Cost-Sharing Provisions - The grants contained the 25 percent cost-sharing provisions as preferred in the PVO Co-Financing II Project Paper. Under another project, the 25 percent cost-sharing provision was waived and approved by the Mission Director. Although no documentation was

provided to support the grantee's basis for requesting this waiver, our review of an audit report supplied by the grantee confirmed this basis.

Registration of Grantees - All grantees were registered in accordance with USAID Handbook 3 and were not listed in the "Lists of Parties Excluded From Federal Procurement or Nonprocurement Programs". However, these facts were not documented in the files of three of the four grants reviewed.

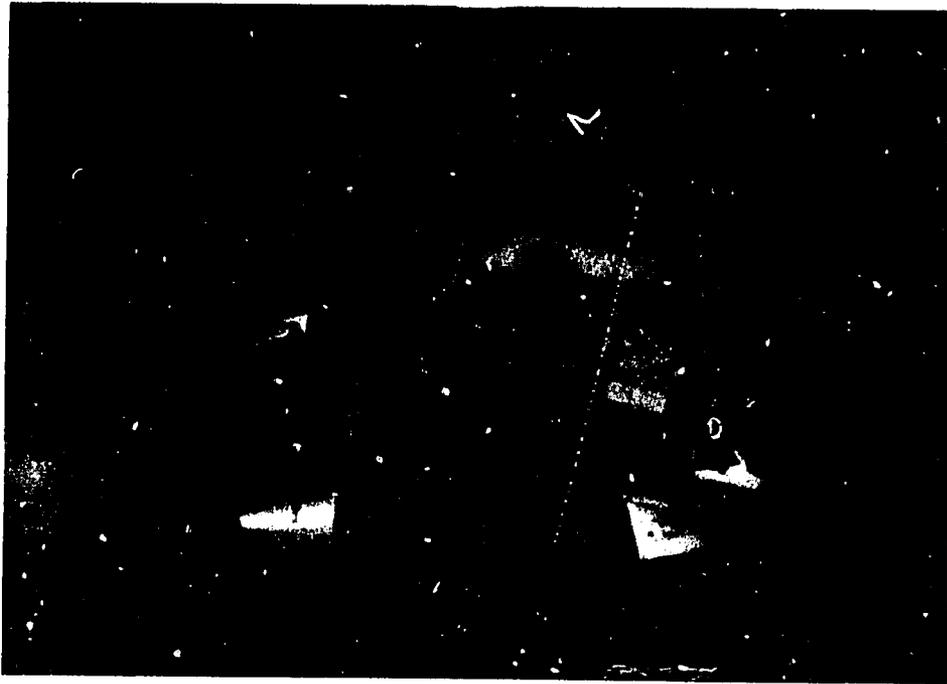
Assessment of Grantee's Capability - None of the four grantees reviewed had disclosed an inability to perform the work. Furthermore, non-federal audits did not disclose any material weaknesses in internal control for which USAID/Nepal should have directed attention. The Mission did not arrange a pre-award evaluation of these grantees in accordance with the provisions of USAID Handbook 13, Chapter 4, because these grantees had received a federal award (USAID or Department of State) within the last five years.

Grant Requirements - The grants included the reporting requirements, standard provisions, and the correct financing method (i.e., Letter-of-Credit) in accordance with USAID Handbook 13, Chapter 1 and Office of Management and Budget Circular A-110.

Memorandum of Negotiation - USAID/Nepal prepared Memorandums of Negotiation for three of the four grants in accordance with USAID Handbook 13, Chapter 1. However, the Mission did not fully document its review of the reasonableness of the grantees' proposed costs.

Certifications - Three of four grantee certifications, required by USAID Handbook 13, Chapter 3, were in the files for two of the four grants reviewed. The fourth certification dealing with suspension and debarment was not in the files but, as noted above, the grantees were not debarred. For the other two grants, the required four certifications were not obtained when the grants were amended.

Below are photographs of grant activities undertaken by the Centre for Development and Population Activities.



Adult literacy class for women.
Picture taken May 22, 1994 in Ratomato Village



Nepali learning basic mathematics to help them in their day-to-day understanding of commercial transactions.
Picture taken May 22, 1994 in Ratomato Village

As shown above, USAID/Nepal followed most USAID policies and procedures. However, as discussed below, the Mission did not fully follow the procedures for ensuring that good performance indicators and interim benchmarks were established to measure grantee performance.

Better Performance Indicators and Interim Benchmarks Are Needed to Measure Performance

Good performance indicators set the stage for good grants. They tell the grantee exactly what is expected of him and when. In the early stages of the grant, they help the Grant Officers to negotiate better for the U.S. government because they have a clearer picture of what the government should expect in terms of cost and performance. And with that information, they can, for example, better select those grantees with the best capabilities to perform. But good performance indicators also provide a valuable service for management. At the Mission level, good performance indicators allow the Director and his management staff to participate more closely in the decision process because good performance indicators convey to them the specifics of what their technical-level employees are negotiating on behalf of management. At the Washington Bureau level, good performance indicators permit top management to better oversee what has been agreed to and what the Missions are attempting to accomplish. In this greatly decentralized Agency, this aspect of performance indicators is vitally important to the Agency's system of internal controls. Good performance indicators tell top management in a very specific way what the Missions hope to accomplish.

Federal regulations and USAID procedures require that performance indicators and benchmarks be established to measure progress towards program objectives. Twenty-seven of the 28 active grants contained inadequate indicators and benchmarks. This occurred because the grants were based on program descriptions developed by the grantees, and USAID/Nepal did not sufficiently review these descriptions to ensure that they contained good indicators and benchmarks. The absence of the required indicators and benchmarks adversely affected USAID/Nepal's ability to thoroughly review the cost proposals, and monitor, evaluate and report on the progress of these programs for which USAID has expended \$9.1 million.

Recommendation No.1: We recommend that USAID/Nepal:

- 1.1 Withhold or stop awarding grants to grantees who do not include the required performance indicators and benchmarks (including targets and time frames) in program descriptions, or do not develop benchmarks within a reasonable period of time after the start of the grant; and**
- 1.2 Review with grantees, those grants which have more than one year's implementation period remaining beyond the date of issuance of this report, and amend those grants which do not contain the required performance indicators and benchmarks.**

Section 621 (A) of the Foreign Assistance Act requires that USAID establish a management system which includes the definition of objectives of programs and projects, the development of quantifiable indicators to measure progress made towards these objectives, and the adoption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken.

The policies and procedures governing the management systems established by USAID to comply with the requirements of Section 621 (A) are in Handbook 3. Among other things, USAID Handbook 3, Supplement A emphasizes the importance of the statement of work.

*"The Statement of Work (or Program Description) is probably the most important single portion of the...resultant grant or cooperative agreement. The attachment needed is a document which clearly spells out USAID's requirements. It should be written with enough specificity so that there will be no doubt of what is required. **It must provide for clear target dates which must be met, goals and objectives for a particular project. Vague descriptions should always be avoided.**"[Emphasis added]*

Also, USAID Handbook 3, Appendix 3k, requires the performance indicators (quantitative or qualitative) to be plausible, independent, objectively verifiable and targeted. Objectively verifiable means that *"the indicator must present evidence which has the same meaning for both a skeptic and an advocate"*. Targeted is defined as *"a magnitude, a*

target audience/area, and a time when the desired change is to be observable". Magnitude is defined by Webster's Dictionary as a measurable quantity.

In addition, USAID Handbook 13, Chapter 4 stipulates that a grantee should develop an application for a grant which, for purposes of good management, provides a clear summary of what is to be accomplished, the resources and steps required to meet the objectives in an identifiable period of time, a realistic financing scheme, and benchmark measures of progress towards the objectives.

The four grants reviewed in detail had many performance indicators which were not always fully developed. For one grant, the implementation plan contained 32 performance indicators. None of them were quantified or otherwise well-defined. The following are some examples of these indicators for a grant dealing with the promotion of democracy in Nepal.

"Leadership development initiatives established through workshops, observation/study tours and multi-country seminar participation"; "Improved legislative drafting services established".

While democracy in Nepal is relatively new, and we recognize USAID/Nepal's desire to remain flexible in its approach, such indicators did not define the leadership development initiatives. Nor did they specify the number of workshops, observation/study tours, multi-country seminars to be held, and the number of persons or the number of legislative drafting workshops to be held. The estimated cost of this program was \$955,000.

Under another grant, the implementation plans included one paragraph as its key indicator which said that,

"the success of the NCO will be measured on the following indicators: number of new and continuing clients, contraceptive prevalence and number of NGO's and women trained."

Although the proposal text had identified: the number of workshops and trainees for the non-governmental organizational (NGO) strengthening activity; they did not set forth the number of workshops and trainees for the Mother's Club (women trained) activity; and the number of new and

continuing clients, or the hoped for increase in the contraceptive prevalence rate for the service delivery subprojects.

Since this grant was awarded, the grantee has established training output indicators which were shared with the Mission. According to Mission officials, the Mission has also been working with the grantee over the past several months to develop measurable goal and output-level indicators for the subproject activity, including the number of Village Development Committees served, the number of distributors, the number of static and mobile clinic sites, and project-generated Couple Year Protection (instead of contraceptive prevalence rate). The estimated cost of this program was \$741,000.

In addition to the problem with performance indicators, none of the four grants contained any benchmarks. For example:

- One grantee had as its indicator, *"150 women's savings groups will be formed through leadership training and group management guidelines, including group funds for small scale income generation activities"*.
- Another grantee had an indicator, *"10 informal community or user groups registered as NGO's"*.

These indicators did not contain any benchmarks, so it was not possible to determine where they were starting from. The first grant did not address when the activity would commence. Benchmarks should have been developed to gauge, for example, the progress in forming a specific number of savings groups by the end of each year. The second grant lacked a benchmark for gauging when these groups should be registered.

Of the remaining 24 active grants, 23 did not have good performance indicators and benchmarks. For example, in one grant, one of the indicators was *"equipped research and resource centers"*. This indicator did not specify the number of centers or define "equipped" center.

These problems occurred because the performance indicators were based on program descriptions developed by the grantees. USAID/Nepal did not sufficiently review these descriptions to ensure that they contained adequate indicators and benchmarks. In one instance, time constraint was a contributing factor.

As a result, the absence of indicators and benchmarks affected USAID/Nepal's ability to thoroughly review the cost proposals, and

monitor, evaluate and report on the progress of these programs under grants for which USAID had expended about \$9.1 million. For example, one grant, awarded in 1988, did establish output goals (e.g., number of workshops by topic and number of trainees, number of subprojects established) and some measurable performance indicators (e.g., percentage of eligible couples reached and contraceptive use continuation rate) to gauge the program's progress. However, interim benchmarks were not established for all activities.

As a result, a November 1992 evaluation could not address whether the activities were effective because indicators were not established to objectively measure program effectiveness. Although USAID/Nepal did not require the evaluation team to explicitly report on planned versus actual accomplishments Mission officials noted that the evaluation's conclusions and recommendations were useful in deciding on whether or not to continue the activity. They helped the grantee to focus its program once the decision was made to award a follow-on grant. Despite the lack of objective information (quantitative) on the effectiveness of the \$196,000 which USAID had provided through May 1993, the Mission extended the grant by four years and awarded an additional \$373,000 in June 1993. This grant amendment again did not establish measurable performance indicators and benchmarks to gauge progress. The lack of indicators and benchmarks also contributed to problems with the grantees' performance reporting as discussed on pages 14 to 19.

In summary, USAID/Nepal needs to implement procedures to ensure that program descriptions contain the required performance indicators and benchmarks. Also, the Mission should review those grants that will remain active for at least a year beyond the date of issuance of this report to ensure that they contain the required performance indicators and benchmarks.

Management Comments and Our Evaluation

USAID/Nepal concurred with the finding and recommendation. For Recommendation No. 1.1, the Mission provided a copy of a recent grant where performance indicators were incorporated. This grant contained the required targets, but did not have interim benchmarks. For example, one program objective was to "Increase the contraceptive prevalence rate (CPR) in the district from 21.4% in July, 1994 to 30% in July, 1997." Interim benchmarks had yet to be established, but they should be prepared within a reasonable period of time after the start of the grant. The Mission will implement Recommendation No. 1.2 after receiving this final report.

Accordingly, this recommendation is resolved. Recommendation No. 1.1 will be closed when the Mission provides evidence that interim benchmarks are either included in the grant agreements or established within a reasonable period of time after the start of the grant. Recommendation No. 1.2 will be closed when the Mission demonstrates that those grants which did not contain the required performance indicators and benchmarks were amended.

Did USAID/Nepal follow USAID policies and procedures in monitoring, reporting, and closing out grants and cooperative agreements?

USAID/Nepal followed most USAID policies and procedures in monitoring, reporting, and closing out grants and cooperative agreements, except for the quality of grantees' progress reports and the documentation of site visits.

As the following examples illustrate for the four grants reviewed, USAID/Nepal followed most USAID policies and procedures in monitoring, reporting, and closing out grants and cooperative agreements:

- USAID/Nepal had established a reporting system which consisted of regular staff meetings, Chief of Section meetings, and Director Implementation Reviews;
- quarterly progress reports were received from grantees when due;
- the grants contained provisions to evaluate the activities during and at the end of the grant; and
- the grantees supplied cost-sharing information. Most of them were also up-to-date in their contributions.

In addition, USAID/Nepal is properly closing out expired grants, although this was not done on a timely basis. This problem was rectified by the hiring of a local national for the Contracting Office. The Mission properly followed up on outstanding obligation balances of \$256,000. Of the \$285,000 in non-expendable property, only \$14,000 (one grantee) was not followed up. The Contracting Office also properly obtained clearance from the appropriate technical officer.

Also, USAID/Nepal personnel attended meetings and maintained informal contact with grantees to ascertain the progress of the activities. With the Democratic Strengthening Institutions Project, for example, most of the activities are located in Kathmandu. This enabled the Project Officer to maintain contact with the grantee and the beneficiaries easily.

Below are photographs of activities managed by Private Agencies Collaborating Together and financed by USAID/Nepal.



Goat Rearing - One of the income-generating activities organized by a grantee.
Picture taken May 22, 1994 in Jurell Village



A child being examined at a USAID-funded family welfare center.
Picture taken May 22, 1994 in Sattisudhc Village

USAID/Nepal, however, did not always follow USAID policies and procedures to ensure the quality of grantees' progress reports and the documentation of site visits for the purpose of assessing grantee performance. This issue is discussed below.

USAID/Nepal Needs to Better Monitor Grantee Activities

USAID/Nepal did not monitor grantees in full accordance with federal and USAID requirements. This occurred because the Mission did not supervise Project Officers to: (1) ensure that they held grantees accountable for complying with reporting requirements, and (2) document periodic site visits for the purpose of assessing grantee performance. As a result, grantee reports have generally contained little objective data for the Mission to measure and report on the effectiveness of its grants, and to identify and help resolve implementation problems.

Recommendation No. 2: We recommend that USAID/Nepal:

- 2.1 Review and document grantees' progress reports to ensure that actual accomplishments are compared against interim targets; and**
- 2.2 Document site visits pertaining to the assessment of the grantees' performance.**

USAID guidance provided in Chapter 3 of USAID Handbook, 3, Supplement A, stipulates that:

"...in the case of assistance instruments, reliance is placed primarily on the recipient organization to carry out its own program as approved by A.I.D. For this reason, the degree of monitoring is expected to be materially less than that exercised where a direct A.I.D. contract is involved.

However, a grant or cooperative agreement is by no means a "hands off" operation, and there are areas where a reasonable degree of oversight must be maintained by A.I.D. to assure that the program is successfully implemented."

The Handbook further says that the Project Officer communicates directly with the nonprofit organization on all program or technical matters related to the grant. The communications may include questions raised by the nonprofit entity on program direction or specific implementation problems. The nature of the relationship between the Project Officer and the nonprofit organization will be governed in large measure by the provisions of the grant.

Furthermore, there are general areas of oversight where involvement with the nonprofit organization is expected, irrespective of the nature of the grant. One such general area pertains to reporting. USAID Handbook 13, Chapter 1, requires grantees to submit performance reports that present comparisons of actual accomplishments with established goals and to provide reasons for non-achievement of established goals. This guidance is also based on the Office of Management and Budget Circular A-110.

In addition, according to USAID Handbook 3, Supplement A, Chapter 1, the Project Officer ensures that the nonprofit organization submits such reports as required by the terms of the grant. Upon receipt of each report, the Project Officer is expected to review the document and comment upon its adequacy and responsiveness. When a nonprofit organization's report is considered deficient, the Project Officer should meet with the organization promptly to discuss the situation. Deficiencies should be frankly reviewed with the nonprofit organization and courses of action to rectify the problems should be suggested by the Project Officer.

Moreover, periodic visits by the Project Officer to the site where work under the grant is being carried out has been identified as an essential monitoring tool by USAID Handbook 3, Chapter 11. Furthermore, Attachment H of Office of Management and Budget Circular A-110 requires the sponsoring agency to make site visits as frequently as is practical to:

- review program accomplishments and management control systems; and
- provide such technical assistance as may be required.

Also, Supplement A, Chapter 2 of USAID Handbook 3 provides that Project Officers and staff should prepare site visit reports as soon as possible to document the purpose and results of the visits and discuss progress in relation to planned efforts. These reports will enable Project Officers to make performance appraisals of projects, assess the status of projects' progress, and identify implementation problems.

Scheduling site visits depends upon a number of factors, such as the size, complexity, and term of the grant, the availability of travel funds, and other priorities of the Project Officer. In many cases, where the grant is of major significance, however, observation at the work site is important to enable the Project Officer to obtain first-hand impressions of the nonprofit organization's progress and to identify incipient problems which may adversely affect its performance unless remedied. Site visits form one of the fundamental bases for the Project Officer's administrative approval of the grantee's vouchers. Such visits should be made with the prior knowledge of the nonprofit organization, and the Project Officer should be accompanied by a representative or representatives of the organization.

As discussed below, USAID/Nepal has not fully followed the monitoring requirements for reporting and documenting site visits.

Reporting

Ten quarterly progress reports for the four grants, from April 1, 1993 to March 31, 1994, did not compare actual results with planned outputs in all instances. For example:

- One grantee reported that a Supreme Court Justice *"attended the LAWASIA Chief Justice's Conference in Sri Lanka since the Chief Justice could not attend due to health reasons."* This activity was not compared against any specific output under the objective *"To open institutional accessibility to the law."*
- Another grantee reported that 263 non-formal education classes had been held for 6,548 students. However, a comparison was not made against the intended target *"Approximately 300-500 non-formal education classes for 10-15,000 illiterate least educated women from lower caste and tribal families with emphasis on females between 15-30 years of age."*

Objective data to measure project progress was not provided because proposals from grantees did not include interim benchmarks and good indicators as previously discussed on pages 6 to 10. Furthermore, USAID/Nepal did not ensure that properly prepared progress reports were submitted by the grantees. Mission officials explained that assessing progress was a continuing process not limited to the evaluation of quarterly progress reports. Furthermore, they also used conversations,

meetings and site visits to assess progress. While such exchanges may supplement the evaluation of progress, informal means of communication do not provide a substitute for progress reports conforming to USAID guidance and grant requirements.

Site Visits

USAID/Nepal officials did not always document the performance of grantees during site visits as required. While we recognize that the Mission should not have to document every visit made for meetings and administrative matters, visits made to assess the performance of the grantee should be documented. Under the four grants reviewed in detail, no site visit reports were prepared from April 1, 1993 to May 31, 1994, although Mission officials explained that site visits were an important monitoring tool. The following are some examples.

- One Project Officer said that the grant was new so visits had not been made. This grant began in October 1993 and was eight months old as of May 31, 1994.
- Another Project Officer explained that the project site was in Kathmandu. Since she made numerous visits, often unscheduled, she did not believe that it was feasible to document all these visits.
- A third Project Officer had yet to formalize the notes made of a site visit in February 1994.

* * * * *

By not requiring grantees to compare actual versus planned accomplishments, Project Officers are limited in their ability to objectively assess and demonstrate the on-going progress of the activities. For example, one grant had as an indicator (see page 8), "the number of new and continuing clients". The grantee's progress reports disclosed only the number of new clients and made no comparisons against any expected results as required by the terms of the grant. USAID/Nepal did not request the grantee to establish expected results for this or other indicators. However, over the past several months, the Mission has been working with the grantee to clarify and revise (if necessary) the indicators, expected results, and the reporting format. The grantee will also report selected key indicators semi-annually. Formal agreement with the

grantee will be made on the reporting of these indicators when the Mission decides whether to use the Contraceptive Prevalence rate or the Couple Years Protection rate as the indicator¹.

On the other hand, the grantee developed indicators with the sub-grantee although USAID/Nepal had not agreed to them formally. One of these indicators pertained to the availability of services to new clients. Based on the information provided on two of the sub-grantees, we estimated that they only provided services for 65 percent (actual new clients) and 74 percent (actual new clients) of what they had planned for the first quarter of 1994. This comparative information was not reported to the Mission with explanations of why the established goals were not being fully met. Mission officials believed that these percentages indicated a relatively successful program. However, the agreements indicated 658 and 88 new clients as the target number to be reached. Since these targets were not reached, the objective of the subgrant is behind schedule.

In another grant, one indicator was that non-formal education classes will be held for least educated women from the lower caste with an emphasis on females between 15-30 years of age. However, the quarterly report noted that males forming ten percent of the total, were also benefiting from these classes. Furthermore, the report does not provide information on the age of the females and their caste. The grantee said that non-lower caste females with ages ranging from 15 to 45 years were also included. The grantee said that it had not yet requested an amendment to the age range, but was in the process of doing so. Also, males and non-lower caste Nepali benefitted from the classes because the grantee did not want to turn anybody away. USAID, however, had emphasized the use of its assistance for lower-caste women between 15-30 years of age. The interim Project Officer is not aware of this situation, and the progress report does not fully indicate these additional beneficiaries either.

Also, USAID/Nepal had little evidence to support the extent of its monitoring efforts due to the lack of documentation of site visits made for the purpose of assessing the grantee's performance.

In conclusion, progress reports submitted by grantees need to compare actual versus planned accomplishments if they are to be used as a management tool. In response to our interim audit results, USAID/Nepal is in the process of informing all grantees that future progress reports must compare actual achievements against established targets as set out

¹ Subsequent to the audit, USAID/Nepal decided to use the Couple Year Protection as the indicator.

in the original proposals. The Mission also needs to ensure that site visits for the purpose of assessing the performance of grantees are documented.

Management Comments and Our Evaluation

USAID/Nepal concurred with the finding and recommendation and said that the grantees will be required to submit their periodic progress reports with the inclusion of actual accomplishments against the targets established in the grant. Any deviations between the actual accomplishments and targets will be analyzed and properly documented. Also, officials said that they will establish a procedure under which site visits made by Mission personnel to assess the performance of the grantee will be more fully documented. Accordingly, this recommendation is resolved and will be closed upon receipt of documentary evidence that the agreed to action has been implemented.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Nepal's management of grants and cooperative agreements in accordance with generally accepted government auditing standards. Our audit tests were designed to provide reasonable assurance that the answers to the audit objectives were valid. The Mission Director provided written representations that we considered essential for confirming our conclusions on the audit objectives and for assessing internal controls and compliance.

We made the audit from May 9 through July 1, 1994 at USAID/Nepal, and covered the systems and procedures related to grants and cooperative agreements awarded under the policies and provisions in USAID Handbook 13. Bilateral grants awarded under the policies and procedures in Handbook 3 were not audited. As of March 31, 1994, USAID obligations and expenditures amounted to \$14.2 million and \$9.1 million respectively for the 28 active grants. Three million dollars was obligated and \$2.8 million was expended for completed grants from April 1, 1992 to March 31, 1994.

We judgmentally selected four grants based on dollar amounts, date awarded, type of project, and availability of USAID/Nepal personnel. Obligations and expenditures for these four grants amounted to about \$2.9 million and \$1 million respectively. They represented 20 percent and 10 percent of the \$14.2 million and \$9.1 million in total obligations and expenditures for the 28 active grants. For completed grants, we reviewed all 10 in the universe. We made interviews, and reviewed Mission records and grantee reports. We also visited grantee offices and observed project activities in Kathmandu and in the Makwanpur district.

To assess controls, we examined the internal controls as they relate to each objective. Furthermore, we considered prior audit findings applicable to the areas under review.

Methodology

The methodology for each audit objective follows.

Audit Objective One

For each of the four grants, we ascertained whether USAID/Nepal determined and documented that the grantee was qualified to undertake the proposed work and that the costs proposed by the grantee were reasonable as required by Agency policies and procedures.

We also reviewed the files and discussed with USAID/Nepal officials whether the Mission: (1) ensured that the grantee was eligible to receive USAID funds; (2) included cost-sharing arrangements in the grant, if appropriate; (3) selected the proper assistance instrument for the proposed work; (4) included specified performance reporting requirements in accordance with Office of Management and Budget Circular A-110; (5) ensured that the grant's program description included benchmarks to measure progress and results; and (6) ensured that the grant was properly authorized.

Audit Objective Two

For the second objective pertaining to monitoring and reporting, we selected four grants, and reviewed the files including the proposals, work plans, progress reports and site visit reports to determine whether, in accordance with Agency policies and procedures: (1) the reports complied with requirements of Office of Management and Budget Circular A-110 and with the grant provisions, (2) the reports contained the information needed to objectively measure the grantee's progress, and (3) site visits were conducted and documented.

Also, we interviewed USAID//Nepal officials and representatives of the four grantees located in Kathmandu. We also visited three project sites.

For close-outs, we reviewed the files and discussed whether action was taken to close-out the grants including the accounting for non-expendable property and the deobligation of unexpended funds as required by Agency policies and procedures with USAID/Nepal officials.

In addition, the methodology included steps to assess internal controls and compliance as they relate to the two audit objectives.



U. S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM

Date: September 07, 1994

TO: Richard Thabet
RIG/A/Singapore

FROM: Philip Michael Gary
Director
USAID/Nepal

A handwritten signature in black ink, appearing to read "Philip Michael Gary", written over the printed name in the "FROM:" field.

SUBJECT: Response to the draft audit report on USAID's control over grants and cooperative agreements.

We received the subject report, which contained 2 recommendations, on August 8, 1994. We appreciate your considering and inclusion of the Mission's previous comments but wish to submit more comments on the subject report. The additional comments are stated in the attached memo dated August 29, 1994, from Ms. Barbara Winkler to Homi Jamshed.

Recommendation No. 1

We recommend that USAID/Nepal:

1.1 "Withhold or stop awarding grants to grantees who do not include the required performance indicators and benchmarks (including targets and time frames) in program descriptions, or do not develop benchmarks within a reasonable period of time after the start of the grant: and"

The Mission accepts this recommendation and has already implemented a process for including performance indicators and benchmarks in all grants. The Mission will not award any new grants without performance indicators and benchmarks being properly indicated in the program description of the grant. For example, currently, the Mission is in the process of awarding several grants to U.S and indigenous grantees. The Mission has made special effort to incorporate proper performance indicators and benchmarks including time frames in the grants. A sample copy of a grant where performance indicators and benchmarks are incorporated is attached.

A small, handwritten mark or signature in the bottom right corner of the page.

Based on the corrective actions taken by the Mission to implement this part of the recommendation, we request you to close this recommendation upon issuance of the final report.

1.2 " Review with grantees, those grants which have more than one year's implementation period remaining beyond the date of issuance of this report, and amend those grants which do not contain the required performance indicators and benchmarks."

The Mission accepts this recommendation and will implement it after receiving the final audit report. The Mission will not have any problem in identifying grants which have more than one year's implementation period from the date of issuance of this audit report since we have an updated inventory of grantees.

Based on the above facts, we request you to resolve this part of the recommendation. We will keep you informed about the progress of its implementation.

Recommendation No.2:

We recommend that USAID/Nepal;

2.1 " Review and document grantees' progress reports to ensure that actual accomplishments are compared against interim targets; and "

The Mission accepts this recommendation and will implement it after receiving the final audit report. The Mission will inform all grantees to submit their periodic progress reports with the inclusion of actual accomplishments against the targets established in the grant. Any deviations between the actual accomplishments and targets will be analyzed and properly documented.

Since the Mission plans to take corrective action, we request you to resolve this part of the recommendation.

2.2 " Document site visits pertaining to the assessment of the grantees' performance."

The Mission accepts this recommendation and will implement after receiving the final report. The Mission will establish a procedure under which site visits made by project personnel to assess the performance of the grantees are more fully documented. We will keep you informed about the progress of the implementation.

Since the Mission plans to establish an improved system for documenting site visits to assess the performance of the grantees, we believe that we have properly addressed the recommendation. Therefore, we request you to resolve this recommendation.

We are also enclosing a signed Mission Representation Letter as required.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

SEP 7 1994

Mr. Richard C. Thabet
Regional Inspector General
RIG/A/Singapore

Dear Mr. Thabet:

You have asked that USAID/Nepal provide a Management Representation Letter in connection with your audit of controls over grants and cooperative agreements at USAID/Nepal. Your staff has informed us that the audit covered these systems for all projects that were active as of March 31, 1994, and accounted for obligations and expenditures of \$14 million and \$9 million. The audit was made to answer the following audit objectives:

Did USAID/Nepal follow USAID policies and procedures in reviewing, selecting, negotiating, and awarding grants and cooperative agreements?

Did USAID/Nepal follow USAID policies and procedures in monitoring, reporting, and closing out grants and cooperative agreements?

I have been assigned as the Mission Director to the Nepal since 1/8/94, and accordingly was not personally involved prior to that time with the implementation of the activities audited. Since my arrival in Nepal, my staff has briefed me on the activities covered by the audit.

Based on the representations made to me by my staff and their written concurrence with the representations made herein, I confirm the following representations with respect to the activities audited:

1. USAID/Nepal is responsible for (a) the mission's internal control system; (b) the mission's compliance with applicable U.S. laws, regulations, project agreements, and contracts; and (c) the fairness and accuracy of the Mission's accounting and management information systems relating thereto.
2. To the best of my knowledge and belief, USAID/Nepal has made available to RIG/A/Singapore auditors all Mission records relating to the activities audited.
3. To the best of my knowledge and belief, Mission records relating to the activities audited are accurate and complete and give a fair representation as to the status of the activities audited.

4. To the best of my knowledge and belief, USAID/Nepal is not aware of any material instances where financial or management information which we consider substantive on matters directly relating to this audit has not been properly and accurately recorded and reported, other than the findings in the draft report.
5. To the best of my knowledge and belief, USAID/Nepal has disclosed any known irregularities related to the controls over grants and cooperative agreements systems which we consider substantive involving Mission employees with internal control responsibilities or other organizations responsible for management of these systems. For the purposes of this representation, "irregularities" means the intentional noncompliance with applicable laws or regulations and/or material misstatements, omissions or failures to disclose irregularities.
6. To the best of my knowledge and belief, acting in my capacity as a layman and not as a lawyer, I confirm that USAID/Nepal has reported to the auditors all known instances (other than what has been included in the draft audit report or reported by the Mission during the course of the audit) in which, in the Mission's judgement, there has been a material noncompliance with USAID policies and procedures or violation of U.S. law or regulation.
7. To the best of my knowledge and belief, USAID/Nepal has reported to the auditors all known instances (other than what has been included in the draft audit report or reported by the Mission during the course of the audit) in which, in the Mission's judgement, there has been a material noncompliance with the terms of the project agreement and contracts relating to the activities audited.
8. After reviewing your draft audit report and further consulting with my staff, 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, to the best of my knowledge and belief, would materially alter the conclusions reached in the draft report.

I request that this representation letter be considered a part of the Mission comments on the draft report, and be published as an annex to the final report.

Director, USAID/Nepal

Clearance:

1. Alex Newton, RLA (cleared in draft)
2. Homi Jamshed, FM
3. James Gingerich, ARD
4. Molly Gingerich, HFP
5. T.W. Stervinou, DD
6. Sally Patton, PPD

APPENDIX III

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