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Regional Inspector General for Audit
Nairobi, Kenya

Audit of USAID/Mozambique's PVO Support Project

Report No. 3-656-94-009
September 16, 1994

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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INTERNATIONAL
DEVELOPMENT

Regional Inspector General for Audit/Nairobi

September 16, 1994

MEMORANDUM

TO: USAID/Mozambique, Director, Roger Carlson

FROM: RIG/A/Nairobi, Everette B. Orr

SUBJECT: Audit of USAID/Mozambique's PVO Support Project

Enclosed are five copies of our report, "Audit of USAID/Mozambique's PVO Support Project", Report No. 3-656-94-009, dated September 16, 1994. Our audit work and your written representations confirmed that funds for the PVO Support Project were being used to provide basic humanitarian assistance to destitute and needy displaced persons, and to address the social welfare and economic needs of displaced and returning persons—those most vulnerable to absolute poverty. However, improvements are needed in several areas. We reviewed your comments on the draft report and included them as Appendix III to this report.

This report contains five recommendations, some with multiple parts, addressed to you. Based on documentation provided with your comments to the draft report, we consider all five of the recommendations to be closed upon issuance of our report.

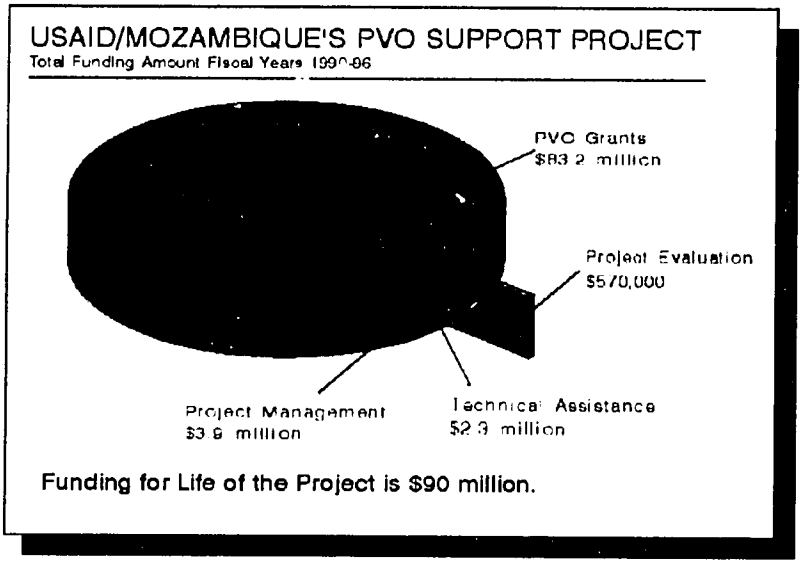
I appreciate the excellent cooperation and courtesies extended to my staff during the audit. I also appreciate your exceptionally prompt action in implementing all the recommendations contained in your report.

P.O. BOX 30261, NAIROBI, KENYA • PHONE: (254) 2-211436 • FAX: (254) 2-213551

EXECUTIVE SUMMARY

Background

The PVO Support Project was originally designed in response to an emergency appeal by the Government of the Republic of Mozambique's (GRM), but now represents USAID's conversion of its assistance from a purely emergency operation to a more developmental role. This approach is in keeping with the GRM's desire to reduce poverty and dependence on external emergency assistance. The approach also supports USAID/Mozambique's strategic objective of reducing, among target population groups, dependence on food aid to meet subsistence requirements. To this end, USAID is providing assistance through Private Voluntary Organizations (PVOs) which are registered with USAID/Washington and which have country agreements with the GRM.



As of Dec. 31, 1993, USAID/Mozambique had executed 21 grant agreements (with 11 PVOs). According to mission records, the 21 agreements had commitments of $34.8 million, of which $21.5 million had been spent.

Audit Objectives

At the request of USAID/Mozambique, the Office of the Regional Inspector General for Audit/Nairobi conducted this audit to assess the Mission's management of the PVO Support Project. The audit was conducted from January 11 to March 24, 1994, (see Appendix I) to answer the following audit objectives:

1. How are the funds for the PVO Support Project being used and what is the Project accomplishing? (See page 5.)

2. Did USAID/Mozambique follow USAID's policies and procedures in monitoring, reporting, and evaluating the PVO Support Project? (See page 8.)

Summary of Audit

The audit found that funds for the PVO Support Project were being used to provide basic humanitarian assistance to destitute and needy displaced persons, and to address the social welfare and economic needs of displaced and returning persons—those most vulnerable to absolute poverty. Only a relatively modest amount of the total grant money has been spent—approximately 24 percent of the project's $90 million life of project funding. Nonetheless, there have been notable accomplishments.

The audit also found that while USAID/Mozambique had established a good framework for managing and controlling the Project, the Mission generally did not follow USAID's policies and procedures in monitoring, reporting, and evaluating the Project, and improvements are needed in the Mission's internal control procedures. The needed improvements are in the following areas:

- procedures for grantee reporting;
- Mission site visit procedures;
- project status reporting;
- evaluation recommendation follow-up procedures; and
- making sure USAID contributions are identified and publicized.

Audit Findings

As discussed above, improvements are needed in areas identified below.

Grantee Progress Reports
Were Not Provided In a Timely Manner

USAID/Mozambique did not always receive grantee progress reports in a timely manner, as required by the grant agreements. Almost half of the ***dated*** PVO reports were received late, some as much as eight months after the deadline. However, 74 percent of the 174 reports reviewed for this audit were ***undated.*** The Mission did not know when these reports were received because the Mission did not have a system to monitor PVO progress

reports to ensure they were received on time. As a result, management may have made decisions without timely information. (See page 9.)

Mission Site Visit
Requirements Need Improvement

USAID/Mozambique's Mission Order 4-3, dated December 18, 1991, specifies the format and content of site visit reports. However, of the 49 reports analyzed, none conformed to the requirements of the Mission Order. In addition, none of the visits included verification of reported progress data as intended by Handbook 3. This occurred because the Mission staff was not aware of Mission Order 4-3 and because the Mission Order did not include guidance for appraising grantee performance. As a result, management did not fully benefit from the field visits made by Project staff. (See page 10.)

Project Status Reporting
Needs to be Improved

Although suggested by USAID Handbook 3, the Mission does not have procedures in place to require reporting on a project's overall status. The Mission did produce status reports prior to 1991, but discontinued the practice when the reports were no longer required by the USAID Africa Bureau. As a result, Mission management is not currently being given Project-wide progress information, and thus cannot ensure that proposed milestones are being met. (See page 11.)

Follow-up on Evaluation
Recommendations Is Not Being Performed

Contrary to the requirements of USAID's Evaluation Handbook, USAID/Mozambique did not follow up to ensure PVOs implemented recommendations from evaluations performed under the grant agreements, because Mission officials believed that was the responsibility of the grantees. Although the recommendations should be implemented by the grantees, it is the Mission's responsibility to ensure all appropriate actions are taken. Without follow-up procedures, USAID/Mozambique does not have assurances the evaluation process was completed as intended by the USAID Evaluation Handbook. (See page 13.)

Project Funded Commodities Were
Not Identified as Provided By USAID

Some activities funded by USAID were not marked to reflect U.S. Government funding. Although markings are required by USAID Handbook 1B, USAID Handbook 13, (which covers grant agreements) is silent on the requirement. However, we believe the Congressional intent, as expressed in the Foreign Assistance Act, is clear: All assistance funded by the U.S. Government should be identified as such. Because the Mission relied

on the Handbook 13 guidance, they took no actions to obtain credit for U.S. Government funding of PVO activities, and thus none was given on those activities. (See page 14.)

Summary of Recommendations

The report contains five recommendations to the Director, USAID/Mozambique to:

- set up a system to monitor PVO progress reports;
- Revise Mission Order 4-3 to include procedures for appraisal of grantee performance, including the verification of progress data and, ensure that all staff members are briefed on the revised Mission Order;
- re-institute project status reports as a standard procedure;
- set up a system to monitor recommendations made to PVOs to ensure that they are fully addressed;
- request voluntary compliance from grantees that USAID-funded activities are identified as U.S. foreign assistance.

Office of the Inspector General

Office of the Inspector General
September 16, 1994

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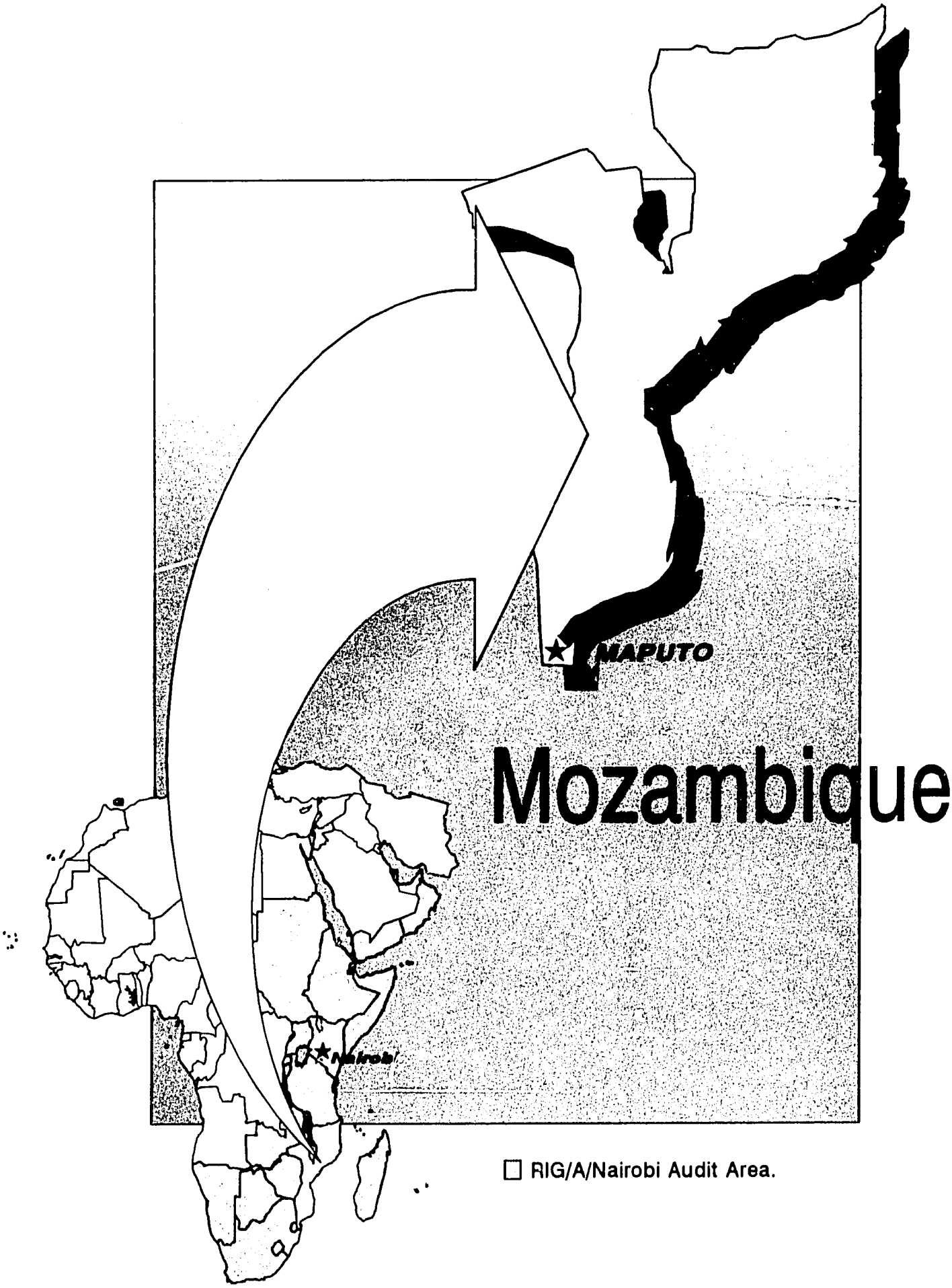
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Nairobi
RIG/A/Nairobi Audit Area.

INTRODUCTION

Background

Mozambique has suffered from the effects of a civil conflict which displaced massive numbers of people and rendered normal life impossible for millions more. The country has also been affected by the lack of human and financial resources in the years following independence, severe drought, and unsuccessful economic policies. As a result, Mozambique is one of the poorest countries in the world, with a large part of the population living in conditions of absolute poverty. Confronted with these problems, the Government of the Republic of Mozambique (GRM) appealed to the world community for financial assistance.

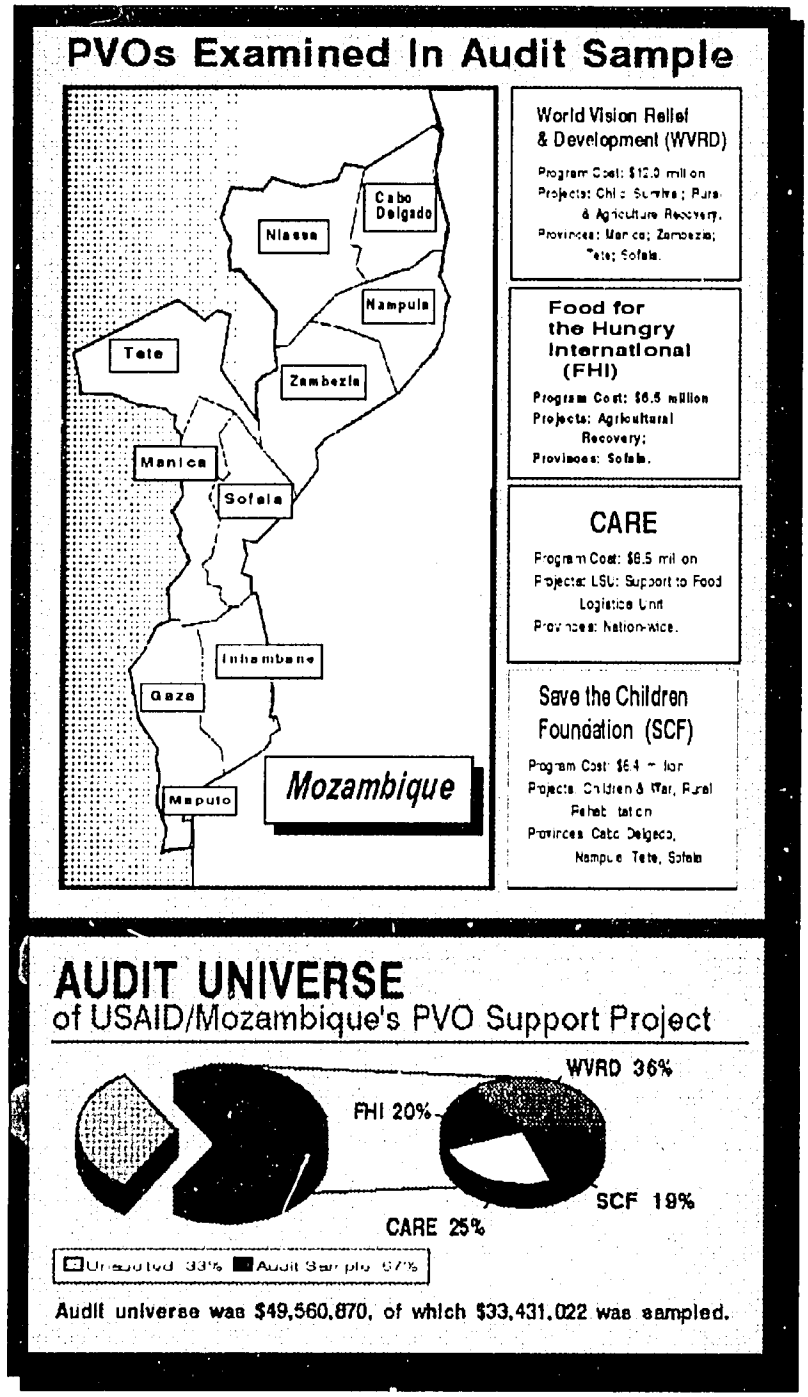
The United States is one of a wide range of donors that responded to this appeal for assistance and is the single largest donor of food assistance. USAID's objectives in Mozambique are to promote food security, improve access to basic health care for those people most at risk, and support efforts of the Southern Africa Development Coordinating Conference to reduce dependence on South Africa for transport and port services. To achieve these objectives, USAID has initiated programs which focus on increasing agricultural production, creating stable food supplies, improving relief distribution and rail transport systems, and promoting child survival.

The PVO Support Project was designed in response to the GRM's Emergency Appeal and represents USAID's conversion of assistance from a purely emergency operation to more developmental activities. This approach is a reflection of the GRM's desire to reduce poverty and dependence on external emergency assistance. The approach also supports USAID/Mozambique's strategic objective of reducing dependence on food aid to meet day-to-day needs among target population groups.

The Project was designed in early 1990 to assist in providing emergency humanitarian assistance to those most seriously affected by the fighting and to help wean them from food aid dependence. Originally, approved funding was $19.8 million with a project completion date of March 31, 1994. The Project was amended in 1991 and 1992 to allow USAID to respond to the effects of continuing fighting, aggravated by two successive years of drought across the country's southern and central provinces. The 1992

amendment increased project funding to $50 million and extended the completion date to September 30, 1996.

However, the signing of the Rome Peace Accord of October 1992 expanded the U.S. Government's foreign policy strategy in Mozambique. Subsequently, USAID agreed to put major emphasis on increasing emergency aid (food and water), supporting demobilization, including help in removing land mines from rural areas, reintegrating and rehabilitating refugees and former combatants, and supporting elections. The Project was again amended in September 1993 and funding increased to the current level of $90 million.



SOURCE: USAID/Mozambique

For its part, USAID/Mozambique decided on a strategy of building upon grassroots knowledge and experience possessed by Private Voluntary Organizations (PVOs) with ongoing programs in Mozambique. The Mission selected PVOs which were registered with USAID/Washington and had Country Agreements with the GRM.

The goal of the Project is to improve the food security and well-being of those most seriously affected by the country's protracted civil conflict. USAID expects the project

to reduce the vulnerability of rural people to absolute poverty, a condition affecting many Mozambicans because of the war.

To achieve the project's purpose, grants are being made to PVOs to finance activities, undertaken as part of ongoing programs, which fall into one of the following priority categories established by USAID for funding:

- Category I: Providing basic humanitarian assistance to destitute and needy displaced persons. Funding was made available for PVOs providing logistical support to the GRM's Department of Emergency (DPCCN) or working with local government entities to strengthen their emergency food delivery programs.

- Category II: Addressing the social welfare needs of displaced and other seriously affected persons. This encompasses primarily basic health care, including family planning, and supplying water and sanitation facilities.

- Category III: Addressing the economic needs of targeted groups vulnerable to absolute poverty. For the most part, these should help restore subsistence agricultural production and generate employment.

As of December 31, 1993, USAID/Mozambique had executed 21 grant agreements with 11 PVOs. According to the Mission records, the 21 agreements had commitments of $34.8 million, of which $21.5 million had been spent.

Audit Objectives

The audit, which was done at the request of the Mission, was to assess USAID/Mozambique's monitoring, reporting, and evaluation of the PVO Support Project. Specifically, the audit program was designed to answer the following audit objectives:

- How are the funds for the PVO Support Project being used and what is the project accomplishing?

- Did USAID/Mozambique follow USAID's policies and procedures in monitoring, reporting, and evaluating the PVO Support Project?

Appendix I discusses the scope and methodology for this audit.

Women learning modern farming methods at a WVRD feeding center in Zambezia Province, Mozambique, March 1994.

Health specialist from WVRD weighs a child at a village in Zambezia Province, Mozambique, March 1994.

Women use a well built with USAID funds at a village in Gaza Province, Mozambique, March 1994.

REPORT OF AUDIT FINDINGS

1. How are the funds for the PVO Support Project being used and what is the Project accomplishing?

The funds for the PVO Support Project are being used to provide basic humanitarian assistance to destitute and needy displaced persons and to address the social welfare and economic needs of displaced and returning persons—those most vulnerable to absolute poverty. In addition, the Project achieved significant accomplishments as discussed below. Specifically, funds are being used to:

- provide technical assistance to strengthen the GRM's ability to handle emergency relief;
- improve community water supplies by digging and rehabilitating wells and water catchment cisterns;
- distribute seeds and tools to farmers and returning refugees;
- provide primary health care to rural populations.

Only a relatively modest amount of the total grant money has been spent—approximately 24 percent of the project's $90 million life of project funding. Nonetheless, there have been notable accomplishments. At least 3,000 more rural families now have access to safe water supplies, thanks to the Project. In addition, four PVOs are using USAID funds to install wells and water catchment cisterns that will eventually benefit an estimated 60,000 more families. In September 1993 alone, Save The Children Federation, one of the four PVOs installing wells reported constructing four wells, and training four women to maintain the wells in the Gaza Province.

In another component of the Project, USAID funds were used by CARE to strengthen the GRM's Department of Emergency (DPCCN) Logistics Planning Unit and enhance its ability to address emergency situations. This support, with assistance from other donors,

enabled DPCCN to deliver over 20,000 tons of emergency food in 1992. A mid-term evaluation found that the Department succeeded in delivering humanitarian assistance on a large scale during a severe drought and hampered by war and insecurity.

Also, USAID has bought the seeds and tools given to farmers and returning refugees to speed their return to self-sufficiency. According to one of its officials, Food For the Hungry Inc. distributed cereal seeds to about 40,000 farmers during the September/October 1993 season alone. Additionally, the Project is financing a number of health-related activities to raise the level of primary health care, which includes immunizing and treating malnourished children. For example, in the Gaza district alone, Save The Children Federation reported immunizing 7,000 children against childhood diseases. (See Appendix II for a complete schedule of on-going grant outputs).

COMPARISON OF SELECTED GRANT TARGETS AND ACTUAL OUTPUTS - COMPLETED GRANTS

PVO	DATES	TARGET	ACTUAL (AS OF 12/93)
Africare	7/30/90-12/31/92	Benefit 3,000 families, rehab 30 wells, drill 20 boreholes	3,000 families 30 wells, 20 boreholes
CARE-LSU	12/01/90 - 3/22/93	Stability of supply of emergency food aid	Supplies stabilized. Private sector involvement increased.
CARE	9/1/93 - 2/28/94	12,000 ag-paks, 12,000 hoes distributed.	12,805 ag-paks 12,529 hoes distributed.
SCF/C&W	9/1/91 - 3/31/93	8,000 volunteers	10,210 children documented, 2,614 reunited, 13,542 volunteers.

Source: USAID/Mozambique. Information provided above is unaudited.

Legend: **Africare** = Africa Cooperative for American Relief Everywhere
Care = Cooperative for American Relief Everywhere
SCF/C&W = Save the Children Foundation/Children & War

Impediments To Progress

At present, the most serious impediment to agricultural development work under the Project is crop damage by pests. These pests include insects in growing crops (mainly weevils), and insects and rodents (mice and rats) in stored food grains, according[1] to a

[1] This is a pre-publication draft report which has not been offically issued at the time of the audit.

USAID-funded Supplemental Environmental Assessment (SEA) of Pest Management and Pesticide Use report dated January 1994. Other pests include the maize stem borer, birds at harvest in sorghum and millet, the long-horned grasshopper in rice, aphids in many vegetable crops, and the cassava mealybug. According to one PVO agronomist, in one season, rice farmers had lost 40-60 percent of their crops to pests in Sofala Province. As a result, some small-holder farmers, on their own initiatives, have resorted to using the most dangerous pesticides (such as DDT) to combat the problem.

USAID/Mozambique has been aware of the pest problem and has consulted with environmental specialists from USAID/Washington (USAID/W). Two PVO officials interviewed for this audit suggested using pesticides. However, the environmental specialists are concerned that improperly used pesticides could harm humans and the environment, create a more resistant strain of insects, and leave farmers without a sustainable means to fight the insects once the project is completed.

However, the SEA report is the Mission's first step towards formulating a pest management plan based on alternative methods of control. The SEA report proposes using alternative, and less harmful chemicals and natural agents (such as peppers, ashes, soap, etc.), training small-holder farmers in the use of nonchemical alternatives and the proper use of pesticides (since some are already being used from the commercial sector), and researching further into the use of some pesticides. In view of the action taken, or to be taken, regarding this problem, we are not making a recommendation to address this issue.

Termite damage to corn plants at a FHI crop trials plot in Sofala Province, Mozambique, March 1994.

2. Did USAID/Mozambique follow USAID policies and procedures in monitoring, reporting, and evaluating the PVO Support Project?

USAID/Mozambique has established a good framework for managing and controlling the PVO Support Project. The Mission has put in place a qualified project team, is conducting financial analysis of grantees, and have been visiting project sites regularly. Improvements are needed in several areas, including grantee reporting, Mission site visit reporting, and Mission follow-up to ensure Project evaluation recommendations are implemented.

Positive Accomplishments

USAID requires missions to establish systems for monitoring, reporting, and evaluating its projects. To assist Missions in doing this, USAID Handbook 3 identifies procedures to be adopted by Mission officials responsible for these functions. These procedures include: periodic visits to project sites to assess progress and identify problems; attendance at meetings and consultations with implementing organizations; review of reports submitted by implementing agencies; preparation of periodic project status reports; and compliance with USAID guidance for implementing evaluation requirements.

USAID/Mozambique has made some good efforts at tracking the various activities under the 21 grant agreements contracted under this Project. In addition to the project officer, the Mission has hired three personal services contractors to assist in overseeing the Project, and recently established a financial analysis section in the Controller's Office to review the PVO's financial and administrative systems. Both project and financial analysis staff make periodic visits to project sites. Reports of these periodic visits are circulated to interested parties within the Mission, including senior management.

In addition, PVO representatives and Mission officials from different sections (Controller, Health, Agriculture, etc.) with an interest in the project meet frequently to discuss project implementation issues. The Mission has also included reporting provisions in the individual PVO grants, and the reports received are reviewed by the project manager responsible for that particular PVO activity.

Because the Project is in a relatively early stage, it has not had an overall evaluation, although evaluations of individual PVO grants have been done. According to Mission officials, in those cases, they participated in the evaluation process by assessing the suitability of evaluation teams and reviewing the proposed scope of work.

While this meets some of USAID requirements, USAID/Mozambique's system for monitoring, reporting, and evaluation needs further improvement to ensure:

- grantee reports are received in a timely manner;

- results of site visits are documented following existing guidance;
- the reported information is reliable;
- evaluation recommendations to grantees are implemented; and
- assistance from USAID is publicized as being from the U.S. Government, not the PVO.

Grantee Progress Reports
Were Not Provided In a Timely Manner

For 4 of the 5 grants selected from the universe of 21, USAID/Mozambique did not receive grantee progress reports in a timely manner as required by the grant agreements. Almost half of the *dated* PVO progress reports were received late, some as late as eight months after the due deadline. However, 74 percent of the 174 reports reviewed for this audit were *undated.* The Mission did not know when these reports were received, nor if all reports required were done, because the Mission did not have a tracking system for PVO reports. As a result, Mission management may have made decisions on Project activities without timely or complete information.

> **Recommendation No. 1: We recommend that USAID/Mozambique set up a system to monitor progress reports received from Private Voluntary Organizations, which ensures:**
> - **reports are logged in and all required reports are submitted;**
> - **PVOs that are more than 30 days late file their reports; and**
> - **formal procedures are specified for dealing with those organizations failing to meet reporting deadlines.**

A good monitoring system, according to USAID's Handbook 3, Chapter 11, Section 11E 2a., requires the timely collection of management information.

Further, the PVO grant agreements require the submission of at least quarterly, in some cases, monthly, progress reports to USAID. The reports are supposed to be received *not later* than 30 days after the end of the reporting period.

Although USAID/Mozambique included this requirement in the PVOs' grant agreements, in 4 of 5 grants selected from a universe of 21, reports were not received promptly. Of the 174 reports examined, 24 (13 percent) were received on time, 22 (12 percent) were late, and 128 (74 percent) were undated and therefore could not be classified as either. Although the grant agreements generally required reports to be filed 15-30 days after the end of the period, some reports were received 60 to 240 days after.

According to an official with one PVO, reports were late because there were not enough people with the PVO to implement the program and conform to USAID's many reporting requirements. Officials with other PVOs said that because of the vast distances in the country, it was just difficult to obtain all of the information and activity reports needed to compile the reports for USAID. Although we recognize Mission officials have other avenues (such as meetings and telephone calls) to obtain project information, we believe formal reporting (as outlined in the grant agreement) is a critical process because it is more permanent and provides far greater detail than less formal methods of obtaining information.

Ultimately, the Mission is responsible for ensuring that it receives the information required to monitor the project. Therefore, USAID/Mozambique should set up a system to monitor report receipt to ensure compliance with this contract provision so management has the information it needs, when needed.

Mission Site Visit
Requirements Need Improvement

USAID/Mozambique's Mission Order 4-3, dated December 18, 1991, requires site visit reports to conform to the Mission's standard format and specifies the information to be included. However, of the 49 reports analyzed for this audit, none conformed to the requirements of the Mission order. In addition, none of the visits included verification of reported progress data as intended by Handbook 3. This occurred because the Mission staff was not aware of Mission Order 4-3. Even if they had been aware of the Mission Order, it did not include guidance requiring appraisals of grantee performance as required by Handbook 3. As a result, management did not fully benefit from the field visits made by Project staff because information supplied in the PVO progress reports was not verified.

Recommendation No. 2: We recommend that USAID/Mozambique should:

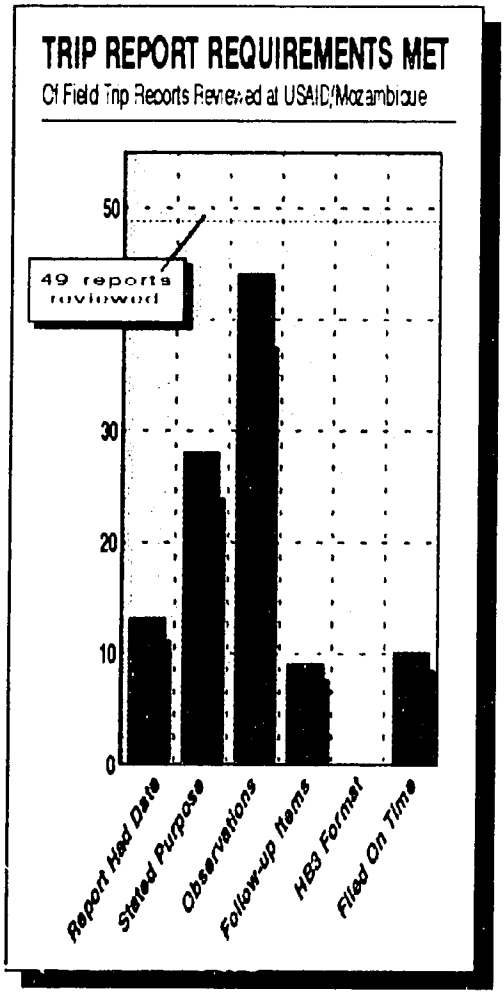
2.1 Revise Mission Order 4-3 to include procedures for appraisal of grantee performance, including verification of progress data; and

2.2 Ensure all project staff are fully briefed on the requirements of Mission Order 4-3.

Mission Order No. 4-3 requires site visit reports be prepared within 10 days of the trip in the Mission's standardized format, state the purpose of the trip, include observations and follow-up items, and be attached to the traveller's voucher when submitted for reimbursement.

The Mission is not following its own reporting requirements for site visits. Of 49 site visit reports reviewed during this audit, only 14 reports (29 percent) included the report date,

11 (22 percent) had been completed within the required time frame, 28 reports (57 percent) stated the purpose of the trip, 44 reports (90 percent) included observations, 9 reports (18 percent) included follow-up items, and, as stated earlier, none of the reports conformed to the prescribed format. This occurred because, according to some Mission staff, they were not aware that Mission Order 4-3 existed, while the Mission Controller believed that the Mission had decided to discontinue following the procedures. The result was that Mission management may have received site visit reports which did not include adequate project progress information. Additionally, the site visit reports reviewed did not include results of any verification of PVO progress report data. Although not specifically required by USAID guidance, Handbook 3 does provide that site visits result in:



SOURCE. USAID/Mozambique

> *" An appraisal of performance based on comparison of the written reports and site visit findings against implementation plans . . ."*

Without this verification of selected data, the Mission must rely solely on information reported by grantees to determine if various Project outputs were accurate. Thus, the Mission can not be reasonably sure of what progress has been made on the overall Project.

Project Status Reporting
Needs to be Improved

Although suggested by USAID Handbook 3, the Mission does not have procedures in place to require reporting on a project's overall status. The Mission did produce status reports prior to 1991, but discontinued doing so when the reports were no longer required by the USAID Africa Bureau. This ocurred, according to a project official, because the requirement fell into disuse because of staff shortages. As a result, Mission management is not currently being given Project progress information on a project-wide basis. Thus, Mission management cannot ensure that proposed milestones are being met.

Recommendation No. 3: We recommend that USAID/Mozambique re-institute project status reports as a standard procedure.

USAID Handbook 3, Chapter 11, Section 11F suggests the project officer prepare periodic project implementation status reports. Such reports should provide, among other information, (1) progress achieved against plans and targets, (2) problems impeding progress and actions taken concerning the activity, (3) major USAID monitoring or support actions, and (4) achievement of noteworthy milestones and successes.

These reports ensure project officers or managers formally assess project status, their achievements and problems, and solutions to such problems. They also provide a formal basis for discussion at project committee meetings and help keep management informed on the progress of project implementation.

We believe that USAID/Mozambique management was not being provided with sufficient progress information on a regular basis by its project officers. Although PVOs sent in progress reports, these reports addressed only segments of each project and did not provide project-wide information on the Project's status. Moreover, grantee-provided reports did not detail actions taken by Project officers or managers.

Current USAID/Mozambique procedures do not include preparation of internal progress reports. While the Semi-Annual Project Implementation Reports were in regular use prior to 1991, according to a project official, the Mission has since stopped requiring them. According to the official, this report requirement fell into disuse due to staff shortage.

Reporting on the overall status is especially important for this particular type of project where 11 different PVOs are involved in diverse activities under the same Project umbrella. Many of the PVOs are involved in similar activities, but in different parts of the country. To successfully assess the progress of each component—be it constructing wells, providing child health care, handing out seeds and farm implements—as well as, the progress of the overall Project, the Mission needs to see a wider view than that provided by an individual PVO's report. This would require project officers to periodically consolidate data from different sources, including the appropriate PVO reports and their own trip reports and meeting notes, into a comprehensive report on an activity. These activity reports then could be consolidated into a global project status report. If done on a regular basis, these reports help make change measurable and relatively easy to track. Without such reports, the Mission is not getting a full picture of its project, nor is it truly benefiting from its monitoring system. It is for this reason USAID/Mozambique should re-institute project status reports as a standard procedure.

Follow-up on Evaluation
Recommendations Is Not Being Performed

Contrary to the requirements of USAID's Evaluation Handbook, USAID/Mozambique did not follow up to ensure PVOs implemented recommendations from evaluations performed under the grant agreements, because Mission officials believed it was the responsibility of the grantees. Although the recommendations should be implemented by the grantees, it is the Mission's responsibility to ensure appropriate actions are taken. Without follow-up procedures, USAID/Mozambique does not have assurances the evaluation process was completed as intended by the USAID Evaluation Handbook.

> **Recommendation No. 4: We recommend that USAID/Mozambique set up and maintain a system to monitor grantees' compliance with evaluation recommendations to ensure recommendations are implemented or, if not implemented, that the Mission concurs with the grantees' written explanation of why an alternative action, or no action, was taken.**

The primary purpose for conducting an evaluation, according to USAID's Evaluation Handbook, is to obtain information that can help managers improve the performance and effectiveness of the activity.

> ***"Therefore, the evaluation process is not complete until action has been taken on the recommendations of the evaluation report."***

Although the PVO Support Project is being implemented through many separate grants, USAID/Mozambique's project managers ensured that activities under every grant would be evaluated. Further, the Mission provided support to grantees to help with the evaluations, such as assisting in compiling the scope of work and selecting evaluators.

However, Mission officials did not require the grantees to implement the recommendations from these evaluations. Mission officials said they believed the actions required by the recommendations were, for the most part, the responsibility of the PVOs, and so did not follow up to see if the recommendations were implemented.

For example, a World Vision evaluation dated April 1993 recommended that World Vision increase the participation of women on the Agricultural Recovery Program (ARP) staff. USAID/Mozambique did not follow up to ensure the recommendation had been implemented. Consequently, the Mission did not know whether women—an identified target group—had received the intended benefit under the ARP project.

While the primary responsibility for acting on recommendations rests with the grantees, the Mission is responsible for making sure evaluation recommendations are implemented or, at the least, a well-documented decision made for alternative action, or no action at all. Thus,

USAID/Mozambique should expand its role in the evaluation process to include resolving evaluation recommendations. Without follow-up procedures, USAID/Mozambique does not have assurances the evaluation process was completed as intended by the USAID Evaluation Handbook.

USAID/Mozambique agreed with this finding and recommendation. However, after implementing the actions recommended, the Mission felt that the finding should be revised to reflect those actions taken. We believe that the finding is an accurate description of the condition existing at the time of our audit fieldwork. Therefore, the finding was not revised, but based on actions taken by USAID/Mozambique (see Appendix III), we consider the recommendation closed upon issuance of this report.

Project Funded Commodities Were
Not Identified as Provided By USAID

USAID-financed activities and commodities under 3 grants selected from a universe of 21 were not identified as being provided by the U.S. Government. Although markings are required by USAID Handbook 1B, USAID Handbook 13, (which covers grant agreements) is silent on the requirement. However, the Congressional intent, as expressed in the Foreign Assistance Act, in our opinion is clear: All assistance funded by the U.S. Government should be identified as such. Because the Mission relied on the Handbook 13 guidance, they took no actions to obtain credit for U.S. Government funding of PVO activities.

> **Recommendation No. 5: We recommend USAID/Mozambique request voluntary compliance from all grantees that USAID-funded activities are identified as U.S. foreign assistance.**

Handbook 1B, Chapter 22 requires USAID financed projects and imported commodities be suitably marked to identify them as U.S. foreign assistance. We believe this requirement, which is based on Section 641 of the Foreign Assistance Act, is intended to foster goodwill between the American people and those receiving assistance.

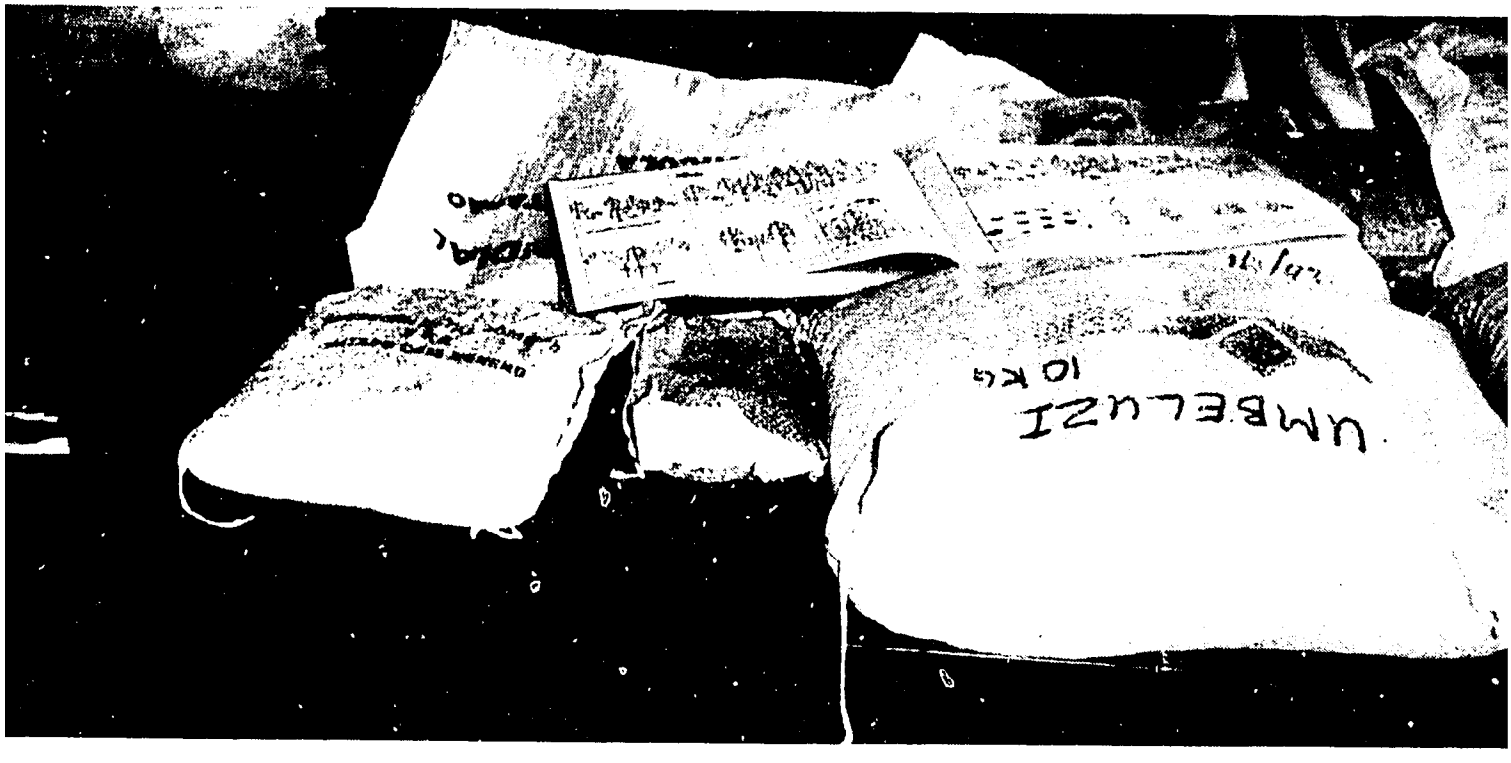
While this requirement does not specifically extend to grants (which fall under USAID Handbook 13), Congress intended that all U.S.-financed assistance be recognized as being provided by the American people.

USAID-financed activities or commodities under 3 grants selected from a universe of 21 were not marked to reflect US Government funding. In one grant, the "Casa Agraria" activity for improving farming and food supplies, Save the Children Federation did not identify USAID financial contribution to finishing a building under the activity. This activity, located in Gaza Province, also included a milling machine funded solely by USAID which did not have markings identifying it as having been financed with U.S. foreign assistance.

In another example, U.S. Government participation was not publicized in the Project's seed and tool distribution done by World Vision Relief and Development (WVRD). All of the Mozambican WVRD beneficiaries interviewed by the auditors said they had not heard of USAID, but were highly complimentary of WVRD. Sacks of USAID-funded seeds were clearly marked "World Vision and the Provincial Director of Agriculture".

To conform with the spirit of the Foreign Assistance Act and Handbook 1B, USAID/Mozambique included a provision in the grant agreement with the Government of Mozambique which said:

> ***"The Grantee will give appropriate publicity for the Grant and the Project as a program to which the United States has contributed . . . "***



Sacks of USAID-funded seeds distributed by WVRD in an agricultural research center near Quelimane (above) were not identified as being provided by the U.S. Government. At right, sacks of food in a Quelimane warehouse, are properly labeled to show American donations, both photos taken March 1994.

USAID/Mozambique also included a provision in the individual PVO grant agreement requiring that:

> ***"In all publicity releases and public notices, the Grantee will acknowledge USAID funding for this Grant . . ."***

The Mission included these provisions, however, in our opinion, these actions alone do not meet the intent of the Foreign Assistance Act and Handbook 1B. Foreign assistance may not by itself build the level of goodwill between our two peoples we desire, but USAID should insist on getting credit for its activities so that the beneficiaries realize they are being helped by the U.S. Government.

USAID/Mozambique agreed that PVOs should identify activites funded by USAID as having been provided by the U.S. government even though it is not required by USAID Handbooks in this case. On June 23, 1994, the Mission sent letters to PVOs requesting voluntary compliance in identifying activities funded by USAID. Therefore, we consider Recommendation No. 5 closed upon issuance of this report.

MANAGEMENT COMMENTS AND OUR EVALUATION

USAID/Mozambique agreed with all our findings and recommendations with the exception of Recommendation No 5. The Mission also stated in its response to our draft audit report that the report contained "a number of substantive factual errors". The Mission gave only one example in its initial response of what it considered an error, that of an auditor's opinion to which it took umbrage and which we subsequently modified. In its response to our request to supply additional information on other errors it claimed were made, the Mission singled out four statements, including the one we agreed to modify from its original comments. The remaining three statements related to their lack of procedures for following up on evaluation recommendations. We consider those statements to be an accurate description of the condition existing at the time of the audit, a condition that, as stated below, subsequently has been sufficiently addressed. Thus, we did not make any changes based on the Mission's second response. The full text of both of the Mission's comments on the draft audit report are included as Appendix III.

We believe the actions taken by the Mission on Recommendation Nos. 1 through 4, as detailed below, to be sufficient and, therefore, consider them closed upon issuance of this report.

In response to Recommendation No. 1, the Mission implemented new procedures for monitoring grantee reporting. The procedures included the use of tracking sheets (both for progress and financial reports) that listed reporting requirements for each grant and on which the project officer marks off a grantee's report when received. Under the new procedures, follow-up letters are to be sent to defaulting grantees, and in case of persistent problems, the project officer is required to report the matter to the Mission's PVO issues Committee for further action.

Regarding Recommendation No. 2, USAID/Mozambique revised Mission Order 4-3 on trip reports to require preparation as outlined in USAID Handbook 3, which includes verification of progress data during site visits. To address the second part of the recommendation, a Mission staff meeting was held and the requirements of the Mission Order discussed in detail.

On Recommendation No. 3, the Mission issued a Mission Order to require Project Implementation Reports be prepared on a semi-annual basis. The Mission Order specifies

the format for the reports and requires these reports to be the basis of discussion during the Semi-annual Project Implementation Reviews, where the entire Mission project and program portfolio are to be reviewed. In regard to this, the Project Implementation Report for the six-month period ending March 1994 had been completed.

Regarding Recommendation No. 4, USAID/Mozambique agreed to add the following statement to all grant agreements:

> ***"The grantee will submit a written report to USAID/Mozambique within 3 months of the midterm and/or final evaluation either detailing the actions taken by the grantee to address the evaluation recommendations or providing detailed rationale why the grantee has elected not to meet the terms of any part of the evaluation recommendations."***

USAID/Mozambique did not agree with Recommendation No. 5, stating that the recommendation did not conform to the recommendation contained in the Record of Audit Finding (RAF) presented at the exit conference. That recommendation required the Mission to seek voluntary compliance with the marking requirement contained in USAID Handbook 1. However, the recommendation contained in the draft audit report required the Mission to modify all grant agreements to require mandatory marking of all USAID-funded activities. USAID/Mozambique acted on the recommendation contained in the RAF, and sent letters to current Grantees requesting voluntary compliance to ensure USAID-funded activities are identified as American aid. We considered the Mission's comments, the action taken, and other criteria, which establishes there is no requirement for the marking of USAID-funded activities under USAID Handbook 13. Consequently, we revised Recommendation No. 5 to seek voluntary compliance in marking USAID-funded activities.

Regarding the action taken above by the Mission, we believe it to be sufficient to close the recommendation. Therefore, Recommendation No. 5 is considered closed upon the issuance of this report.

APPENDICES

SCOPE AND METHODOLOGY

Scope

We audited USAID/Mozambique's PVO Support Project (656-0217) in accordance with generally accepted government auditing standards. The audit was conducted between January 10, 1993 and March 25, 1994. Field work was done at the offices of USAID/Mozambique, the offices and field sites of various PVOs, and appropriate Ministries of the Government of Mozambique in Maputo. Our audit was confined to testing the Mission's implementation of a monitoring, evaluating, and reporting system for the PVO Support Project and did not include auditing of PVO records. In performing the audit, we obtained documentary and testimonial evidence from USAID/Mozambique, various PVOs, and the Government of Mozambique. We examined internal controls related to each audit objective, and verified evidence through testing, corroborative interviews and examination of supporting documentation. We also did not review any prior audit reports as this was the first audit of the PVO Support Project (656-0217)

As of December 31, 1993, USAID/Mozambique had executed 21 grant agreements (with 11 PVOs) valued at $49.5 million. According to Mission records, the 21 agreements, which comprised our audit universe, had commitments of $34.8 million and of which $21.5 million had been spent.

USAID/Mozambique's management provided written representations which we considered essential for answering our audit objectives and for assessing internal controls and compliance.

Methodology

The methodology for each audit objective is described below.

Audit Objective One

The first objective was to determine how the funds for the PVO Support project were being used and determine what the project accomplished. To accomplish this objective, we evaluated the Mission's controls with respect to its monitoring of project expenditures. We also selected four PVO field site locations to observe actual activities financed by the project.

We interviewed USAID/Mozambique officials, various PVO officials, and officials of the GRM Ministries to obtain their views on the Mission's management of the project. Also, we obtained documentation such as project agreements, financial reports, and other documents necessary to identify the systems in place.

Audit Objective Two

The second objective was to determine whether USAID/Mozambique followed USAID's policies and procedures in monitoring, reporting, and evaluating the PVO Support Project. To accomplish this objective, we evaluated the Mission's controls with respect to the procedures set forth in applicable USAID Handbooks.

We also obtained copies of the Project Agreements, and other documents identifying host the Mission's monitoring, reporting, and evaluation requirements. We reviewed these documents to confirm the inclusion of the required requirements and discussed our observations and findings with Mission officials.

COMPARISON OF SELECTED GRANT TARGETS AND ACTUAL OUTPUTS
ON-GOING GRANTS

PVO	DATES	TARGET	ACTUAL (AS OF 12/93)
ADRA	7/31/90-3/31/94	Benefit 13,000 families, distribute 13,000 ag-paks	13,080 ag-paks distributed
ADRA	12/17/93-6/10/94	Reconstruct Pipeline and Pump Station	Data not available.
Africare	7/1/93-6/30/96	210 Wells & Pumps, 80 Latrines	Data not available.
AICF	10/1/93-9/30/94	60,000 Beneficiaries, 55 Wells, Train 110 Caretakers, Build 2 Cholera Wards, Rehab 4 wards.	Data not available.
CARE-LSU	3/26/92-6/30/94	Private Sector trucking and NGOs handle > 70% of imported food aid.	8-Point privatization plan substantially achieved.
CARE-Inhambane Wells	7/1/93-12/31/94	35,000 Beneficiaries, 40 Borehole/wells, 160 Volunteers trained, 320 Latrines.	Baselines for 4 communities, Health education for 15 wells, 1 Latrine.
CARE- Food Security	11/1/93-4/30/95	Beneficiaries from 7 communities, Rehab 7 public buildings and 200 km roads.	Identified 10 buildings & 7 roads for rehabilitation.
CARE-Manica Water	9/1/93-3/31/94	35,000 Beneficiaries, 5,000 Users trained in basic hygiene, 500 Cisterns, 10 Pumps, 1 Hydro survey.	117 Cisterns, 2 Pumps, 117 Users trained.
FHI	7/1/90-6/30/94	100,000 Ag-paks, 6,800 Farmers for Ag-extension.	119,471 Ag-paks distributed, 10,300 Farmers reached by Ag extension.

SOURCE: USAID/Mozambique. Information in table not audited.
Shaded rows identifies activities observed by audit team.

Legend: **ADRA** = Adventist Development and Relief Agency
AICF = Action Internationale Contre la Faim
Africare = Africa Cooperative for American Relief Everywhere
Care = Cooperative for American Relief Everywhere
FHI = Food for the Hungry International

COMPARISON OF SELECTED GRANT TARGETS AND ACTUAL OUTPUTS
ON-GOING GRANTS (continued)

PVO	DATES	TARGET	ACTUAL (AS OF 12/93)
MHC	5/26/92-12/31/94	20% Increase in immunization of children, 40% Increase in use of ORT	58 traditional birth attendants trained, 25 Community Councils formed, 10 latrines constructed.
MCD	4/30/93-4/1/95	50,000 Beneficiaries from 100 communities, 100 Wells/pumps, 75% Latrine coverage, Establish water testing facility.	Rapid Needs Assessment done to select communities.
Salesian Missions	11/22/93-9/30/96	Repair orphanage, Care for 80 orphans, Skills training for 80 orphans and 100 Youths.	Data not available.
SCF/C&W	4/1/93-3/31/95	Register 30,000 children, reunite 25,000, 40,000 Volunteers in network, Help 5,000 child soldiers.	Registered 3,407, Reunited 1,389, 19,506 Volunteers in network, Helped 34 child soldiers.
SCF/Gaza	8/20/90-3/31/94	17,000 Beneficiaries, Increased vaccination coverage.	51,500 Beneficiaries, 3,000 Malnourished children assisted, 7,000 Children vaccinated.
SCF/Gaza II	4/1/94-9/30/96	120 Wells, 30% Latrine coverage.	Data not available.
WRC	10/16/92-9/30/95	96,000 Beneficiaries, 198 Bore-wells. AG: 20,240 Hoes & scythes distributed, Rehab 6 Casa Agrarias, Distribute 6,000 Ag-paks.	30,000 Beneficiaries, 25 Bore-wells. AG: 20,240 Hoes & scythes, 6,000 Ag-paks distributed.
WVRD	7/30/90-9/30/94	156,000 Ag-paks distributed.	60,000 Ag-paks distributed.
WVRD-Child Survival	10/1/93-9/30/96	Install 30 wells, 4 Handpumps, Distribute 10,000 Survival kits, Install 720 latrines, Vaccinate 1,000 per year.	Data not available.

SOURCE: USAID/Mozambique. Information in table not audited.
Shaded rows identifies activities observed by audit team.

Legend: MCD= Medical Care Development MHC= Mozambique Health Committee
SCF/C&W = Save the Children Foundation/Children& War
WRC= World Relief Corporation WVRD= World Vision Relief & Development

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MEMORANDUM

TO : RIG/A/Nairobi, Everette Orr, Regional Inspector General

FROM : USAID/Mozambique, Roger D. Carlson, Mission Director

SUBJECT : Audit of USAID/Mozambique's PVO Support Project

REFERENCE : USAID/735/94/mk

DATE : August 23, 1994

We have reviewed the draft audit report on USAID/Mozambique's PVO Support Project which was received by the Mission on July 25, 1994.

With the exception of Recommendation No. 5, we concur with the recommendations included therein. The Mission does, however, believe there are a number of instances where the negative tone of the report implies a more serious condition than actually exists. In particular we noted the absence of positive statements in the Executive Summary, while numerous negative statements have been included. We believe the Executive Summary would represent a more balanced summary of the audit report if the first two sentences on page 7 of the draft, i.e., "Only a relatively modest amount of the total grant money has been spent -- approximately 24 percent of the project's $90 million life of project funding. Nonetheless, there have been notable accomplishments." were to be inserted at the end of the first paragraph on page iii of the Executive Summary. With this the audit summary would provide the reader with a better perspective of the audit findings. Hopefully you agree and will make this minor editorial change which we feel is important.

In addition, we believe there are a number of substantive factual errors within the body of the report. In particular, we are concerned with the comment made on page 21, that USAID has abdicated its managerial role by not actively participating in directing the project towards its goal. This is a gross misstatement. Our response addresses this error and provides documentation for your review.

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In our response, the Mission is requesting closure of four of the five recommendations contained in the draft report. Documentation to support our request for closure is being forwarded under cover of a separate memorandum. Recommendation 5 remains open pending RIG/A/N's decision to revise the recommendation contained in the draft report.

I welcome the constructive comments included in the audit and recommendations, implementation of which, will result in improving USAID/Mozambique's management over project resources. I believe that with minor editorial changes to the draft report as suggested in our attached response, the report will also represent a fair and balanced picture of USAID/Mozambique management of the PVO Support Project.

I appreciate this opportunity to review and comment on the draft report and would like to thank the visiting audit team for their courtesy and professional approach.

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Recommendation No. 1:

We recommend that USAID/Mozambique set up a system to monitor progress reports received from Private Voluntary Organizations, which ensures:

- *reports are logged in and all required reports submitted;*
- *reports are dated and include the time period covered;*
- *PVOs that are more than 30 days late file their reports; and*
- *formal procedures are specified for dealing with those organizations failing to meet reporting deadlines.*

The Mission has reviewed the reporting requirements of current grantees. Reporting requirements are, with the exception of short-term grants and the grant for Africare, on a quarterly basis and are required to be submitted within 30 days of the end of the reporting period. The Mission has addressed a letter to each individual grantee calling their attention to the reporting requirements as stated in their grant agreements and reminding them to submit quarterly reports in a timely manner. In addition, individual letters are sent, on an as needed basis, reminding grantees of outstanding reports. Copies of these letters are being sent to RIG/A/N under a separate cover memorandum.

In April, 1993, the Mission implemented a system to monitor receipt of PVO Progress reports. The system is controlled by the individual grant managers and consists of a tracking sheet for each grant on which all reporting requirements are noted and marked off each time a report is received. If reports are late or incomplete, letters are sent to the individual grantee addressing the issue of the late and/or incomplete report. The tracking sheet and examples of letters to grantees are being sent to RIG/A/N under a separate cover memorandum.

Since the completion of the audit, this system has been expanded to include a separate and more detailed tracking sheet for financial reporting. This is maintained by the Project Manager. A copy of a financial reporting tracking sheet and an example of a recent follow-up letter on financial reporting is being sent to RIG/A/N under a separate cover memorandum.

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The above mentioned system of receipt and distribution of quarterly progress and financial reports has been documented (being sent to RIG/A/N under a separate cover memorandum) and states:

> "The responsible grant manager monitors receipt of the progress reports through the use of a report tracking sheet for each grant and sends written follow-up requests for delinquent reporting. As most reports are due within 30 days after the end of the reporting period, follow-up requests for missing reports will be sent no later than 45 days after the end of each reporting period."

For reports which are consistently late, or not received at all, the guidance mentioned above states:

> "Chronic problems identified in grantee reporting, including late and/or substandard reporting, will be reported to the Project Officer responsible for the PVO Support Project. Chronic noncompliance by a grantee with reporting requirements will be brought to the attention of the PVO Issues Committee, which will make recommendations for action needed to bring the grantee into compliance."

However, as discussed with the auditors during the audit, formal PVO progress reports are only one mechanism by which Mission management obtains information on grantee progress. Mission staff maintain weekly personal communications with each grantee and undertake site visits several times per year. Grantees also submit letters and other informal reports which contain information useful to Mission management. The Mission makes regular use of all information sources to properly manage the project and ensure USAID resources are utilized in accordance with agreed upon purposes.

As a matter of course, all recent grants (1993 on) include the following provision:

> "Between the required performance reporting dates, events may occur that have significant impact upon the activity. In such instances, the Grantee will inform USAID/Mozambique as soon as the following types of conditions become known:
>
> 1. Problems, delays or adverse conditions that will materially affect the ability to attain activity objectives, prevent the meeting of time schedules and targets, or preclude the attainment of work units within project time periods. This disclosure shall be accompanied by a statement of the action taken, or contemplated, and any USAID assistance needed to resolve the situation.

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2. Favorable developments or events that enable time schedules to be met sooner than anticipated or more work units to be produced than originally projected."

Based on actions taken to date by USAID/Mozambique in establishing a system to improve the monitoring of progress reports received from PVOs, we request that RIG/A/N close this recommendation upon issuance of the final report. As noted, documentation in support of actions taken is being sent to RIG/A/N under a separate cover memorandum.

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Recommendation No. 2:

We recommend that USAID/Mozambique should:

2.1 Revise Mission Order 4-3 to include procedures for appraisal of grantee performance, including verification of progress data; and

2.2 Ensure all project staff are fully briefed on the requirements of Mission Order 4-3.

The Mission has revised the Standard Trip Report Mission Order MO 4-3, dated 12/18/91, which was issued on August 18, 1994. This revised Standard Trip Report Mission Order has been issued under cover of a memorandum addressed to all Mission office chiefs from the Mission Director, instructing rigorous compliance with the Mission Order contents. A general staff meeting of Mission US Direct Hire, US PSCs, TCN and FSN personnel is scheduled for August 31, 1994. The importance of this Mission Order will be discussed with Mission staff at that time, thus ensuring all project staff are fully briefed on the requirements of the Mission Order. The revised Mission Order is being sent to RIG/A/N under cover of a separate memorandum.

Based on actions taken to date in revising Mission Order 4-3 and reissuing the same, we request that RIG/A/N close Recommendation 2.1 upon issuance of the final report. The Mission will request closure of Recommendation 2.2 following the general staff meeting of August 31, 1994.

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Recommendation No. 3:

We recommend that USAID/Mozambique re-institute project status reports as a standard procedure.

With the intention of re-instituting formal project implementation reviews, the Mission has issued Mission Order No. 10-8, dated June 10, 1994, which addresses the issue of formal Project Implementation Reviews. This Mission Order is being sent to RIG/A/N under cover of a separate memorandum to support the Mission request for closure of this recommendation. A Project Implementation Review (PIR) for the PVO Support Project took place on March 29, 1994, and a copy of the PIR is being sent to RIG/A/N under cover of a separate memorandum.

Based on actions taken to date, i.e. issuance of the Mission Order on Project Implementation Reviews and completion of a Mission Project Implementation Review as of March 29, 1994, we request this recommendation be closed on issuance of the final report.

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Recommendation No. 4:

We recommend that USAID/Mozambique set up and maintain a system to monitor grantees' compliance with evaluation recommendations to ensure recommendations are implemented or, if not implemented, that the Mission concurs with the grantees' written explanation of why an alternative action, or no action, was taken.

The draft audit report states "USAID/Mozambique did not follow up to ensure PVOs implemented recommendations from evaluations performed under the grant agreement because Mission officials believed that was the responsibility of the grantees" and thus, "abdicates its managerial role". The Mission strongly objects to any statement which concludes that Mission staff abdicated its managerial role with regard to evaluation of grants funded under the PVO Support Project. This is simply a false statement which is not supported by fact.

The Mission follows HB 13 guidance on grants and does believe that the implementation of evaluation recommendations are the responsibility of the grantees, however this does not mean that the Mission did not participate in the evaluation process or follow-up of evaluation recommendations. As the attached supporting document shows (Attachment 1), Mission and Project staff took an active managerial role in the grantee evaluation process which included: approving the timing for the evaluation, approving the scope of work for the evaluation, approving the consultants for the evaluation, approving the travel of the consultants, having a briefing for the evaluation team before they start the evaluation, when time permitted participating directly in the evaluation, having a Mission wide debriefing of the evaluation, commenting on the evaluation report and following-up the recommendations of the evaluation with the grantees. Based on documentation provided as attachments, USAID/Mozambique requests RIG/A/N review the draft report and delete references to Mission abdication of its managerial responsibilities.

At the time of the audit, only seven grants had required an evaluation and a calendar type of tracking system was used to ensure grant evaluations were performed on time (Attachment 2). As the number of grants requiring evaluations increased significantly in 1994, a tracking system for each grant, which includes tracking of individual recommendations, has been implemented. A copy of the tracking sheet for a recently completed grant is attached (Attachment 3).

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In order to assist with following up on the implementation of the recommendations, and at the suggestion of the auditors, the Mission reviewed its standard provision (boiler plate) language included in all grant agreements. As agreed with the auditors during our March 1994 Exit Briefing, we have revised the standard grant and cooperative agreement clause in the Schedule, Section E.2. entitled "Evaluation", and added the following:

> "The grantee will submit a written report to USAID/Mozambique within 3 months of the midterm and/or final evaluation either detailing the actions taken by the grantee to address the evaluation recommendations or providing detailed rationale why the grantee has elected not to meet the terms of any part of the evaluation recommendations."

In addition, we have formally requested grantees who have recently completed evaluations and whose older grants do not include this new provision, to provide us with this follow-up information.

If a grantee has not responded within three months of the midterm and/or final evaluation detailing the actions taken in regards to the evaluation recommendations, a follow-up letter will be sent. If no response is received within four months of the midterm and/or final evaluation, this will be brought to the attention of the PVO Issues Committee which will make recommendations for action needed to bring the grantee back into compliance.

As discussed with the auditors during their visit, the Mission has developed and installed on the LAN, a Project Evaluation Tracking System (PETS), for monitoring the implementation of evaluation recommendations. While originally intended for project-level evaluations, Mission and Project staff are reviewing its usefulness for grant-level evaluations. While full implementation of this system has been delayed by technical difficulties, the Mission expects to use it for producing the next round of PIR documentation in October/November.

Based on actions taken by the Mission, we request RIG/A/N close this recommendation upon issuance of the final report.

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Recommendation No. 5:

We recommend USAID/Mozambique:

5.1 modify all existing agreements to require grantees to appropriately mark or identify USAID-funded commodities and activities as U.S. foreign assistance; and

5.2 ensure that all future grants include provisions for identifying USAID-funded commodities and activities.

The draft recommendation provided to the Mission in the March 24, 1994, Report of Audit Findings (RAF) has been substantially modified in the draft audit report to require grantees to appropriately mark or identify USAID-funded commodities and activities as U.S. foreign assistance. The original recommendation included by the audit team in the RAF with regards to identifying commodities called for USAID to request voluntary compliance from PVOs in marking USAID-funded commodities and activities. USAID/Mozambique believes that the changed emphasis in the draft report contravenes established agency policy and requests that RIG/A/N reevaluate the recommendation.

While USAID/Mozambique agreed with the recommendation as contained in the RAF, we clearly advised the audit team during the March 1994 Exit Briefing that it was our understanding that it is not USAID Policy to require mandatory marking by grantees of USAID-funded commodities and activities. We agreed, however, to seek their voluntary compliance of PVOs. As agreed with the audit team during the March 1994 exit briefing, the Mission addressed a letter to each of the current Grantees seeking voluntary compliance to ensure that all USAID-funded activities were identified as American aid. Copies of these letters are being sent to RIG/A/N under cover of a separate memorandum. The PVO response to these letters has generally been understanding and we are recording cases of voluntary compliance, as originally recommended.

However, upon receipt of the draft audit report dated July 22, 1994, we noted that Recommendation No. 5 was being issued to require mandatory marking compliance for all PVOs. We immediately sought council from both the Regional Contracting Officer (RCO) and Regional Legal Advisor (RLA). The RLA referred the issue to FA/PPE, USAID Washington. Subsequently we received an e-mail from Diana Esposito, FA/PPE, advising that the agency has no legal marking requirement for commodities purchased with funds provided by a grant in pursuit of a program supported by a grant. She advised that USAID's position regarding marking requirements for grants and

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cooperative agreements was established in a 1982 Policy Statement issued by that office and cleared by General Council, which still remains in effect (Attachment 4). Further, she referred to the following sources to support this policy:

" 1. Under the heading of "USAID's Assistance Policy" [HB 13, Chapter 1, paragraph 1B2a (5)] it states that: "It is appropriate to use assistance instruments when emphasis is placed on promotion of the independent capacity, integrity and quality of the entity or the programs supported, rather than on specific work and the manner in which it is performed or the day-to-day activities of the entity as part of the U.S. Government's foreign assistance program. Insofar as they distribute funds or services or goods, recipients do so as a part of their own programs."

2. USAID Policy Paper on "Private and Voluntary Organizations" of September 1982, as found in HB 1, discusses the duality of PVOs -- on one hand acting as an intermediary in conducting USAID's programs, and on the other hand dealing with them (PVOs) as independent entities "in their own right". The statement is made that "USAID considers support to PVOs in both capacities to be consistent with the dual interests of Congress to facilitate the activities of PVOs which are consonant with USAID's mandate of meeting the basic human needs of the poor majority in developing countries and to protect and preserve the independence and voluntary nature of such organizations."

3. Furthermore, the implementation instructions in HB 1B, Chapter 22 "Marking", at paragraph 22C, do not include HB 13. Not only is the Mission following HB 13 guidance in not including Marking requirements, but also HB 1B instructions and HB 1 Policy Paper Statements." (sic)

As we believe that the recommendation included in the draft audit report is contrary to USAID policy, we request that RIG/A/N review the recommendation and alter it to encourage voluntary compliance as originally stated in the RAF. If RIG/A/N concurs and this recommendation is revised to encourage the Mission seek voluntary compliance from PVOs, we request that the recommendation be closed on issuance of the final report based on actions taken by the Mission to date. As an agency policy matter, it is clearly beyond the scope of USAID/Mozambique to close the recommendation as stated.

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If the recommendation is not revised and continues to recommend mandatory marking compliance by PVOs, USAID/Mozambique will be required to refer to USAID/W for action.

SENT BY: 15- 9-94 : 10:45 : USAID/MOZAMBIQUE- 2254221551;# 2

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID MISSION TO MOZAMBIQUE

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MEMORANDUM

TO : RIG/A/Nairobi, Everette Orr, Regional Inspector General

FROM : USAID/Mozambique, James T. Smith, Jr. Acting Mission Director

SUBJECT : Audit of USAID/Mozambique's PVO Support Project

REFERENCE : USAID/825/94/mk

DATE : September 13, 1994

In response to RIG/A/Nairobi's e-mail request dated September 02, 1994, for additional "substantive factual errors" as stated in the Mission's response to the draft audit report, the following statements contained in the body of the draft report, are in the Mission's opinion, unfounded and inaccurate:

Page 20: "Follow-up on Evaluation Recommendations Is Not Being Performed".

Page 21: "USAID/Mozambique did not follow up to ensure PVOs implemented recommendations from evaluations performed under the grant agreements".

Page 21: "abdicates its managerial role by not actively participating in directing the Project towards its goals".

Page 22: "Mission officials did not require the grantees to implement the recommendations from these evaluations".

We hope the above concerns will be taken into consideration in issuing the final report.

American Ambassador to Mozambique	1
Mission Director, USAID/Mozambique	5
AA/AFR	1
AFR/SA/MBZ	1
AFR/CONT	1
LPA	1
LPA/PA/PR	1
GC	1
AA/M	1
AA/PPC	1
M/FM	1
AA/G	1
PPC/CDIE/DI	1
M/MPI	1
M/FM/FS	2
M/FM/PPC	1
AIG/A	1
D/AIG/A	4
IG/LC	1
IG/RM	12
AIG/I&S	1
IG/A/PSA	1
IG/I/NFO	1
REDSO/ESA	1
REDSO/RFMC	1
REDSO/Library	1
RIG/A/B	1
RIG/A/C	1
RIG/A/D	1
RIG/A/S	1
RIG/A/EUR/W	1
RIG/A/SJ	1

Regional Inspector General for Audit, Nairobi, Kenya

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