

Regional Inspector General for Audit
Nairobi, Kenya

Audit of
USAID/South Africa's Management of the
Support to Tertiary Education Project

Report No. 3-674-95-007
March 17, 1995





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 17, 1995

MEMORANDUM

*Regional
Inspector General
for Audit/Nairobi*

To: Mission Director, USAID/South Africa, Leslie A. Dean

From: RIG/A/Nairobi, Everette B. Orr *Everette B. Orr*

Subject: RIG/A/Nairobi Audit of USAID/South Africa's Management of the Support to Tertiary Education Project

Attached are three copies of our report, "Audit of USAID/South Africa's Management of the Support to Tertiary Education Project". Report No. 3-674-95-007, dated March 17, 1995. We reviewed your comments on a draft of this report and have included them as Appendix II.

Based on actions that you planned or have already taken, Recommendation No. 1.1 is closed and Recommendation Nos. 1.2, 2.1, 2.2, 3, 4, 5, and 6.1 are resolved upon issuance of the report. Recommendation Nos. 6.2 and 6.3 are still unresolved. Please inform me within 30 days of any additional actions planned or taken to implement the outstanding recommendations.

I wish to again express my appreciation for the cooperation and many courtesies extended to the audit team during this audit.

EXECUTIVE SUMMARY

Background

The apartheid system that existed in South Africa until 1994 traditionally denied black South Africans access to quality education, particularly higher education. In recognition of this fact, tertiary education has been a major focus of USAID's program in South Africa. USAID/South Africa's Support for Tertiary Education Project (STEP) is a 10-year, \$110 million project, authorized in 1990 for preparing and empowering black South Africans and selected institutions for positions of leadership and importance in a changing South Africa. The project was designed to finance:

- long-term undergraduate and graduate training at U.S. and South African universities and technical colleges;
- short-term training in the United States, South Africa, and third countries; and
- institutional-strengthening of selected U.S. and South African nongovernmental organizations involved in tertiary education.

The project's training components are administered through contracts and grants to nongovernmental organizations which recruit, screen, select, and support individuals who receive long-term and short-term training in priority areas.

Achievement of STEP's objectives will be shown if, among other things, at project completion:

- long-term trainees have returned to South Africa (if trained outside the country), assumed professional and technical positions, and become actively involved in addressing community based problems and in developing new community structures; and
- short-term trainees have used their new skills on the job and in the community and advanced adequately and hold leadership and management positions.

As of September 30, 1994, approximately \$98 million of the project's authorized budget had been obligated and \$33 million had been expended through contracts, cooperative

agreements, and grants with U.S. and indigenous nongovernmental organizations and U.S. contractors.

Audit Objectives

This audit was designed to answer the following questions:

- (1) Did USAID/South Africa ensure that participant training¹ and in-country training are being provided as planned through activities funded by the Support to Tertiary Education Project?
- (2) Did USAID/South Africa ensure that participant training and in-country training provided through the Support to Tertiary Education Project will achieve the project's purposes?

The audit was conducted from October 12 through December 15, 1994, in the Republic of South Africa. A discussion of the audit's scope and methodology is included as Appendix I.

Summary of Audit Findings

Neither USAID/South Africa, nor the auditors, could state with certainty that participant training and in-country training were being provided as planned. However, best available evidence suggested that, while targets for U.S. training might not be achieved before project completion, targets for training in South Africa should be achieved. The unfavorable prediction for U.S. training was based primarily on the fact that existing contracts and grants did not fund sufficient outputs to meet STEP's end-of-project targets for U.S. training. Also, student intake has been slower than originally planned. Project staff noted that the Mission's revised Mission training strategy currently favors in-country training, which is less-expensive and considered more appropriate to current political and social needs than long-term, U.S. graduate level training.

The audit noted several weaknesses in project oversight and monitoring which lessened the Mission's ability to ensure that contractors and grantees were performing as planned or that funding was allocated and expended efficiently and effectively. Specifically, the

¹"Participant training" is that part of a project which trains foreign nationals outside their host country to fulfill human resources development objectives. It is USAID policy that all participant training, no matter how funded, managed, or implemented is subject to USAID Handbook 10, unless specifically excluded by Handbook provisions or appropriately waived.

Mission had not made sure that progress reports submitted by contractors and grantees were accurate and complete. In addition, it had not required the South African organizations administering STEP's \$33 million undergraduate in-country scholarship programs to prepare budgets or other financial analyses of their actual and projected expenses before adding funds to their grants. As a result, these grants may be over-funded, tying up funds that could have been used for other project purposes.

The audit also noted that data contained in the Mission's automated Participant Training Management System was neither complete nor accurate. The system's weaknesses prevent it from being used by the Mission to readily track and report on active training programs or on the status or location of Mission-funded training graduates and, consequently, all analyses and summary reports must be prepared manually.

With respect to the second objective, the audit found USAID/South Africa is unable to determine whether STEP's training programs are achieving their intended purposes because the Mission had not developed systems to collect the information necessary to measure project impact. Despite recommendations made during another RIG/A/Nairobi audit of the Mission's management of participant training two years ago, the Mission still lacked systems to locate and contact training graduates. Mission staff attributed slow progress in setting up required tracking systems primarily to inadequate staffing and higher Mission priorities, but also noted that post-training follow-up was more difficult and costly than they had originally anticipated.

Without a post-training tracking system, the Mission did not know, and would not be able to know, whether trainees returned to South Africa at the completion of their training, whether training improved job performance or employment prospects, whether internships helped new graduates find better jobs, or whether trainees were becoming the community leaders that the project hoped to develop.

The Mission took immediate action to address most problem areas. As a result, one recommendation was closed, seven were resolved, and only two were still unresolved upon report issuance.

Management Comments and Our Evaluation

USAID/South Africa generally agreed with the contents of the draft report. However, it wished us to delete two statements from the final report because it believed they were no longer relevant or valid. The first statement in dispute was our suggestion that STEP's end-of-project targets for U.S. training might not be reached. Because our opinion was based primarily on the fact that existing contracts and grants did not fund sufficient outputs

to meet STEP's end-of-project targets for U.S. training and the Mission did not provide more recent evidence to refute this condition, we did not make the requested change.

The second statement of concern to the Mission was our finding that three South African organizations, which lacked plans to spend all the funds available under their STEP grants, had a similar problem under another Mission training project. Although grants under the other project were not part of our audit, we mentioned them because they supported our belief that the three organizations had weak budgeting systems and/or appeared unable to absorb all the funds obligated for their programs. The situation suggested additional Mission monitoring and intervention were warranted. In its comments to our draft report, the Mission reported great success in working with these organizations to develop plans to use the unliquidated obligations in the short time remaining before the project expires. We left an abbreviated reference to the situation in the final report because we believed it provided additional support for our recommendation that the Mission should require more timely and relevant financial analyses from these organizations to ensure that funds obligated under STEP are used efficiently.

The remaining Mission comments dealt with plans or actions taken to carry out the report's recommendations. We inserted these comments as appropriate throughout the report. In addition, the Mission's comments are included in full as Appendix II.

Office of the Inspector General

Office of the Inspector General
March 17, 1995

Table of Contents

	Page
EXECUTIVE SUMMARY	i
INTRODUCTION	
Background	1
Audit objectives	2
REPORT OF AUDIT FINDINGS	
The audit could not determine whether participant training and in-country training were being provided as planned through the Support to Tertiary Education Project	3
Some training targets may not be met by project completion	4
Progress reports were inaccurate and/or incomplete	5
Data contained in PTMS were neither complete nor accurate	8
Mission should require interim budget projections for in-country scholarship programs	12
Recipient contributions should be required and tracked, if appropriate	16
Funds remaining in expired contracts and agreements should be reviewed for possible dcobligation	17
Because USAID/South Africa has not tracked training graduates, it could not determine whether graduates were using their training and advancing in their fields as planned	19
APPENDICES	
Appendix I Scope and methodology	25
Appendix II Management comments	28
Appendix III Major contributors to this report	33

MAPS, GRAPHICS, AND TABLES

MAP:	South Africa and RIG/A/Nairobi audit area	viii
TABLE:	Comparison of targets in STEP's project paper and contracts and grants to progress reported by STEP's contractors and grantees	4
TABLE:	Expired commitment documents with unliquidated obligations	18
TABLE:	Selected scholarship organizations and their alumni activities under STEP	21

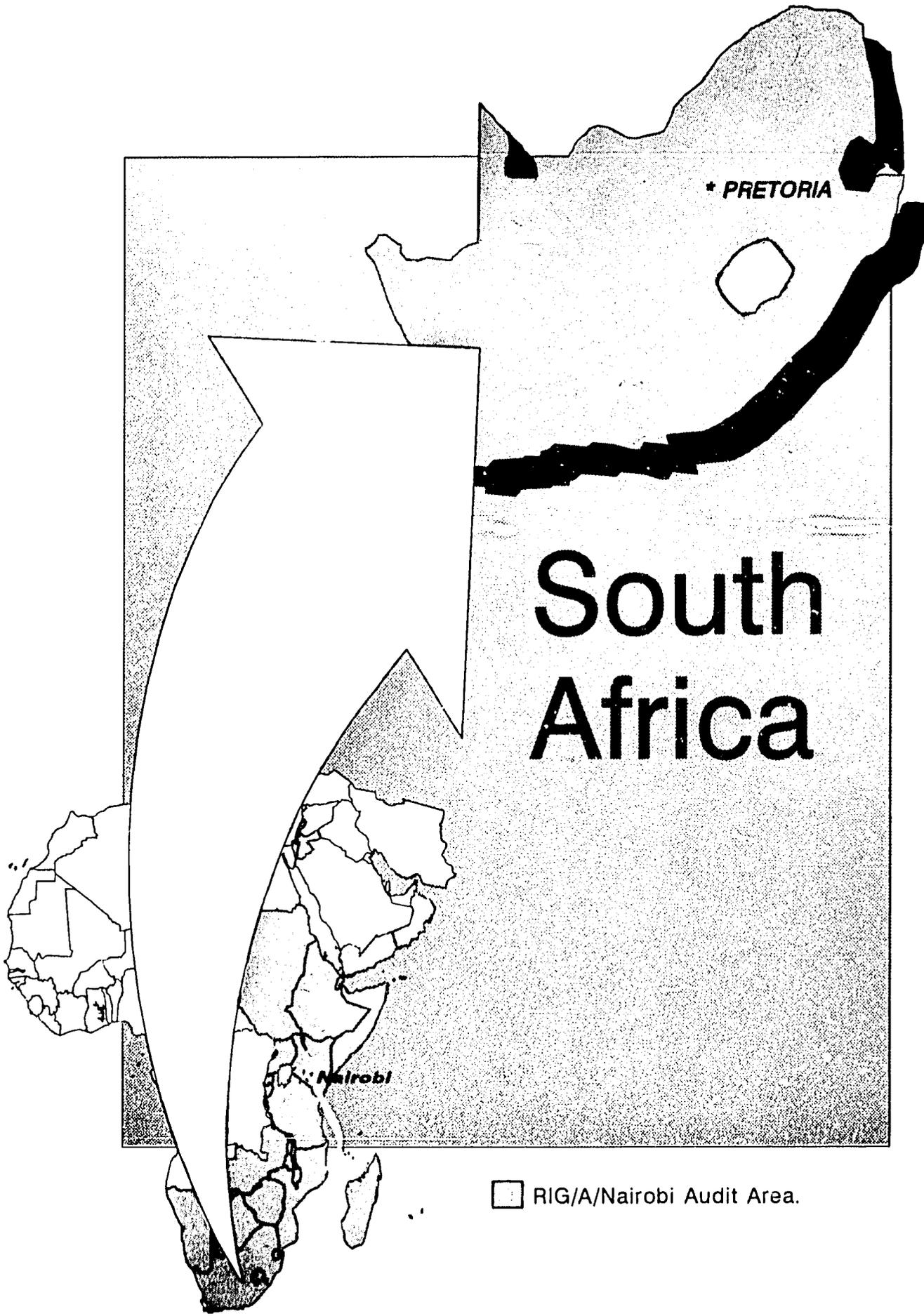
[THIS PAGE INTENTIONALLY LEFT BLANK.]

* PRETORIA

South Africa

Nairobi

 RIG/A/Nairobi Audit Area.



INTRODUCTION

Background

The apartheid system that existed in South Africa until 1994 traditionally denied black South Africans access to quality education, particularly higher education. In recognition of this fact tertiary education has been a major focus of USAID's program in South Africa since 1983. The emphasis on education and training by USAID/South Africa was further reinforced by Section 103(b)(1) of the 1986 Comprehensive Anti-Apartheid Act, which called for providing South African victims of apartheid with "educational opportunities in South Africa and the United States to prepare them for leadership positions in a post-apartheid South Africa".

USAID/South Africa's Support for Tertiary Education Project (STEP) is a 10-year project, authorized in 1990 to prepare and empower black South Africans and selected institutions for positions of leadership in a changing South Africa. In STEP, "tertiary education" is considered to include:

- long-term training in U.S. universities in fields such as business, agricultural, public, health, education, and research and development administration;
- short-term professional and technical training in the United States, South Africa, or third countries;
- long-term undergraduate training in South African universities, technikons, and newly emerging community colleges;
- career counseling, college-preparatory programs, work/study programs, and internships; and
- institutional-strengthening of selected U.S. and South African nongovernmental organizations involved in tertiary education.

The project's training programs are administered through contracts and grants to nongovernmental organizations which recruit, screen, select, and support the USAID-funded trainees.

STEP's end-of-project success will be shown if, among other things:

- trainees who received degrees from U.S. colleges and universities returned to South Africa, assumed appropriate professional and technical positions, and became actively involved in addressing community-based problems; and
- short-term trainees are using their new skills in the community and have assumed leadership and managerial positions.

As of September 30, 1994, approximately \$98 million of STEP's life-of-project budget of \$110 million had been obligated and \$33 million had been expended.

Audit Objectives

The Office of the Regional Inspector General for Audit in Nairobi, Kenya, audited USAID/South Africa's Management of the Support to Tertiary Education Project (STEP) to answer the following questions:

- (1) Did USAID/South Africa ensure that participant training and in-country training are being provided as planned through activities funded by the Support to Tertiary Education Project?
- (2) Did USAID/South Africa ensure that participant training and in-country training provided through the Support to Tertiary Education Project will achieve the project's purposes?

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

REPORT OF AUDIT FINDINGS

Did USAID/South Africa ensure that participant training and in-country training are being provided as planned through activities funded by the Support to Tertiary Education Project (STEP)?

Neither USAID/South Africa, nor the auditors, was able to state with certainty that participant training and in-country training were being provided as planned. The Mission was unable to determine whether contractors and grantees were performing as expected because it did not ensure that these organizations submitted accurate and complete progress reports and because it had not made sure that data entered into its automated Participant Training Management System was accurate and complete. In addition, the Mission could not be certain funds were used efficiently and effectively. This happened because it did not require grantees to submit financial analyses that would have provided the information it needed to ensure that (1) enough, but not excessive, funding was obligated for approved activities, (2) excess funding was jointly programmed to maximize project outputs, and (3) grantees contributed their fair share of project costs. Finally, the Mission had not reviewed excess funds remaining in expired contracts and grants to decide if the funds should be deobligated and reprogrammed, if appropriate. Mission staff attributed these weaknesses primarily to limited staffing, steadily expanding workload, rapidly changing environment, and higher priority responsibilities.

The best available evidence suggested that, while targets for U.S. training might not be achieved before project completion, targets for training in South Africa should be achieved. This unfavorable projection for U.S. training was based primarily on the fact that existing contracts and grants did not fund sufficient outputs to meet STEP's end-of-project targets for U.S. training. Also, student intake has been slower than originally planned. Project staff noted that the Mission's revised Mission training strategy currently favors in-country training, which is less-expensive and considered more appropriate to current political and social needs than long-term, U.S. graduate level training.

Some Training Targets May Not Be Met By Project Completion

Because STEP is carried out by nongovernmental organizations (NGOs), its end-of-project training targets will be met only if contracts and grants awarded to those organizations fund sufficient trainees and if those contracts and grants are successfully implemented. However, at the time of the audit, the Mission had not awarded contracts and grants that, cumulatively, funded sufficient trainees to meet all training targets.

The following table compares the participant training and in-country training targets in STEP's 1990 project paper to the cumulative training targets in STEP's current contracts and grants. For example, it shows that, although STEP's end-of-project target for long-term U.S. training is 600 graduates from U.S. colleges and universities, only 486 training slots had been funded and only 284 students had been enrolled in approved training programs.

COMPARISON OF TARGETS IN STEP'S PROJECT PAPER AND CONTRACTS AND GRANTS TO PROGRESS REPORTED BY STEP'S CONTRACTORS AND GRANTEEES			
Training Targets In STEP's 1990 Project Paper	Training Targets In STEP's Contracts and Grants	Status of Training Targets*	
		* As Reported by STEP's Contractors and Grantees	
		Total Intake	Graduates
1. 600 receive graduate degrees from U.S. colleges and universities.	486	284	62
2. 709 receive short-term executive, management, career development training, and/or study tours in U.S.	608	Could Not Be Determined	368
3. 210 receive short-term management or career training and/or study tours in third countries	380	153	153
4. 1,200 receive degrees or certificates from South African universities or technical schools	1,200	1,323	26
5. 1,995 receive short-term training in South Africa (includes bridging programs)	2,485	1,141	1,111
6. 525 attend conferences in South Africa	375	3 Conferences	3 Conferences

When asked why contract and grant outputs did not meet end-of-project targets, the STEP project manager noted that the project is only at its midpoint and believed U.S. training would meet end-of-project targets by its expiration in 2000. She explained that in-country training has increased in response to the Mission Director's December 1992 mandate for greater use of short-term, in-country training. At that time, he indicated that resources for the new focus would come from long-term training at the university level.

The Mission expected to complete a midterm evaluation of STEP's strategies, implementation methods, and end-of-project targets by April 1995. The findings of this evaluation are expected to be considered in an amendment of STEP's design documentation that is to be completed in June 1995. Because end-of-project targets may be changed during the redesign process, this report does not include a recommendation that the Mission correct current imbalances between contract and grant targets and existing end-of-project targets.

Management Comments and RIG/A/Nairobi Evaluation

In its March 9, 1995, comments to the draft report, USAID/South Africa again noted that STEP is only at its midpoint and restated its belief that end-of-project targets for U.S. training will be achieved. Management believes there is no proportionate relationship between the status of project outputs and the amount of time still available for their achievement. The Mission noted that training cannot begin until contracting actions are completed.

While there is still time to meet existing targets, that time is diminishing, as several years are needed to select and then support students through a graduate-level program. The Mission's projections would be more convincing if it had provided details on how the targets would be met. Without additional information, there remains cause for concern because STEP's existing contracts and grants do not provide for sufficient graduates to meet the project's end-of-project targets.

Progress Reports Were Inaccurate And/Or Incomplete

Contrary to USAID guidance, USAID/South Africa had not ensured that semiannual progress reports submitted by STEP's contractors and grantees were complete and/or accurate. As a result, STEP managers were not able to identify problems needing attention and could not assess whether funds were being expended reasonably. Although the STEP project manager took immediate action to ensure that specific errors noted during the audit were corrected, additional effort is needed to make sure that future reports are consistently accurate, complete, and comply with USAID requirements. In addition, because Mission project officers are called upon to negotiate the terms of grants and grant amendments,

they should receive appropriate training to ensure reporting requirements are included in future agreements and amendments.

Recommendation No. 1: We recommend USAID/South Africa:

- 1.1 develop a plan to ensure that progress reports submitted by contractors and grantees funded through the Support to Tertiary Education Project are accurate and complete; and**
- 1.2 provide training in grant negotiation and administration to appropriate USAID staff involved in the management of the Support to Tertiary Education Project.**

USAID Handbook 13, Chapter 1, requires grantees to submit performance reports comparing actual accomplishments with established goals and providing reasons for not meeting established goals. In addition, according to USAID Handbook 3, Supplement A, Chapter 1, project officers should ensure that grantees submit reports required by grant terms and, upon receipt of reports, should review them and comment upon their adequacy and responsiveness. When reports are deficient, project officers are expected to meet with the grantee promptly to discuss the situation and suggest corrective action. Moreover, project officers are expected to make site visits as frequently as practical to review program accomplishments and management control systems and provide any needed technical assistance.

Progress reports submitted by 10 of 14 contractors and grantees contained mathematical errors, internal inconsistencies, and/or results achieved through other Mission-funded training projects. Furthermore, reports did not always contain information on all targets or subtargets. The following are examples of the reporting weaknesses discovered:

- One South African NGO submitted a progress report that reported two different student intake figures for the same year. When asked which was correct, the organization provided new numbers for all years. The discrepancies were attributed primarily to computer errors and miscoding of donor organizations. The grantee also did not include information on a grant subtarget.
- Another South African NGO submitted a report for the six-month period ending September 1994 which commingled student intake and graduates from another USAID/South Africa training project. Representatives of the organization said it had never been asked to report the results of its USAID-funded grants separately.
- A U.S. NGO submitted a report noting cumulative results between 1989 and September 1994, although its STEP grant was not signed until 1992. The

organization said its program, which is funded by several donors, is not managed in terms of separate grants.

- Another South African NGO, managing a \$6 million grant with multiple subgrants, did not provide start/end dates, funding levels, or numbers of expected beneficiaries for each subgrant. This information would have been useful to STEP managers, but had not been previously requested by USAID/South Africa. However, during a site visit with the auditors in early December, the STEP project manager asked that this information be included in future reports and received a commitment from the organization to do so.

Reporting for an earlier \$3 million grant given to this organization was exceptionally limited, and sometimes, nonexistent. Recently-hired organization staff told us they had tried, but had been unable, to locate information on the activities undertaken and results achieved under that grant.

Another audit conducted by RIG/A/Nairobi two years ago, covering USAID/South Africa's management of eight projects with active participant training components², also reported that contractors and grantees working with the Mission included trainees funded by other donors in their reports, a problem that continues to persist in reports submitted by some STEP contractors and grantees.

Inaccurate reporting is a cause of concern. Contractor and grantee reports are a project's principal method of monitoring ongoing performance, particularly because of the limited funding available to the Mission for site visits by project staff. If progress reports are inaccurate or incomplete, the project officer may not notice problems or act quickly, to the detriment of the project.

Part of the responsibility for the inaccurate and incomplete reporting and commingled results lies with the Mission. USAID/South Africa added STEP funds to grants awarded under earlier projects, but did not instruct the grantees to report the results achieved from the different funding sources separately. In addition, the Mission awarded successive grants to grantees under one or more projects for essentially continuous activities without instructing grantees to report the results achieved under each grant separately. Also, at least some organizations were not fully aware of their reporting responsibilities under this project.

Because of (1) the importance of comprehensive and accurate performance reports and (2) a self-acknowledged need and desire for training among STEP staff who are expected

²"USAID/South Africa's Management of Participant Training", USAID RIG/A/Nairobi Report No. 03-674-93-002, dated February 5, 1993.

to negotiate and administer grants and grant amendments, training in grant negotiation and administration seems appropriate.

Management Comments and RIG/A/Nairobi Evaluation

With respect to Recommendation No. 1.1, the Mission reported it planned and, in some cases, had already started to:

- provide adequate training to Mission, contractor, and grantee staff involved in reporting, reviewing, and recording training data;
- update and revise semiannual reports submitted by contractors and grantees to ensure that accurate data is captured by the Mission's automated training management system; and
- make regular site visits to recipients to discuss the validity of reported data, status of outputs, cost-to-complete estimates, status of recipient-contracted audits, evaluations, and frequency and accuracy of voucher submissions.

Since the completion of the audit, the STEP project manager has visited nearly a dozen grantees and plans to make quarterly visits to all grantees in the future. Because of these actions and plans, Recommendation 1.1 is closed upon issuance of the final report.

With respect to Recommendation No. 1.2, the Mission advised that the Regional Contracting Officer was providing training in grant administration and negotiation to most Mission project officers. Attendance by STEP project staff at these workshops had already resulted in changed implementation procedures. The Mission also noted that the Training Office in USAID/Washington is revising the Agency's project management course. USAID/South Africa will host the revised course, when it is available. All STEP project staff will attend. Recommendation 1.2 is resolved. It will be closed upon receipt of evidence that STEP staff members have attended the revised project management course.

Data Contained In PTMS Were Neither Complete Nor Accurate

Contrary to USAID policy that requires missions to maintain an accurate record of training activities, more than 70 percent of records in the Mission's Participant Training Management System (PTMS) tested by the auditors contained errors or lacked proper supporting documentation. This was primarily the result of Mission staff using inconsistent data management procedures and not giving adequate instructions to grantees and contractors regarding progress report formats and content. Because of the high error

rate, the Mission could not use PTMS to track or accurately report on participant training activities. Also, because information on in-country training was not entered into PTMS, the Mission could not use the automated system to track or report on in-country training activities. Finally, because actual costs were not entered into PTMS, the Mission cannot use the system to monitor or analyze costs.

Recommendation No. 2: We recommend USAID/South Africa:

- 2.1 develop consistent data entry procedures for the Mission's Participant Training Management System; and**
- 2.2 develop policies regarding entry of in-country training data in the Mission's Participant Training Management System.**

USAID/South Africa uses PTMS to help manage STEP's training activities. PTMS is designed to track training activities, costs, and graduates. For the system to be useful, its information must be complete and accurate. However, the auditors found data on STEP trainees to be incomplete, inaccurate, or unsupported. Consequently, PTMS cannot be relied upon to provide accurate and complete reports on STEP activities.

It is USAID policy to maintain current and accurate data on all USAID-sponsored participant trainees. Monitoring is designed to help ensure that all phases of the trainee's training experience are successful and to provide information required by field and Washington offices and for external distribution. Chapter 26 of Handbook 10 states that the status of trainee nominations, placement efforts, ongoing training activities, trainee attendance, performance, and successful completion of the training should be recorded, as appropriate.

USAID missions are responsible for monitoring the progress of trainees through Academic Enrollment and Term Reports and other communication from training contractors and grantees. Missions are also responsible for communicating with the appropriate agents in the host country, the United States, or third country when monitoring information is not provided.

The auditors selected a random sample of 90 of the 1,150 STEP records in the PTMS to determine the integrity of the data in the system. They compared the automated information entered into PTMS with source documentation and data reported by training contractors and grantees. These reviews showed the following.

- More than 70 percent of the PTMS records tested contained one or more erroneous entries or entries not supported by source documentation in one or more data fields. (Significant data entry errors and omissions were noted in training dates, training costs, and training objectives.)

- None of the PTMS records for training activities coded as "completed" were supported by documentation or other evidence showing that trainees had completed training or, when the training occurred outside South Africa, had returned to South Africa.
- Data in some fields were entered inconsistently. For example, the training objective for some conferences was entered correctly as a "conference", while in other cases, it was entered as "on-the-job training". A similar problem was noted with seminars and workshops that were also often classified as "on-the-job training".
- PTMS summary information for individual contractors and grantees did not match summary information in contractor/grantee reports. PTMS generally reported fewer accomplishments than did progress reports submitted by contractors and grantees.
- No information had been entered into PTMS on long-term South Africa training programs.

Before selecting the random sample, the auditors had already noted a series of data entry errors that inflated PTMS's results by 5 percent. These errors were caused by Mission personnel incorrectly identifying training activities funded through other Mission projects as STEP activities and double counting trainees attending group training activities. These errors were corrected before the sample was selected. However, it is highly probable some STEP activities have been incorrectly identified and are not included in STEP's totals.

The inaccurate and unsupported information in PTMS was primarily the result of Mission staff using inconsistent procedures, not fully using PTMS capabilities, and not providing specific instructions to grantees and contractors regarding the format and content of training data to be provided to the Mission. The lack of information on in-country training resulted from the absence of a Mission policy to use PTMS to track in-country as well as participant training.

Errors in PTMS were so pervasive that the Mission cannot use the system to accurately track or report on progress toward achieving specific training targets. More important, neither PTMS nor the supporting files can be used to show that training was completed or that participants returned to South Africa and used their training. Finally, the system cannot be used to provide information on in-country training activities, either for current management purposes or for impact analysis in the future.

In response to the auditors' preliminary findings, the Mission immediately planned or took the following actions.

- The Mission intends to revise its existing Mission Order on participant training to address, among other things, data entry requirements, inclusion of data on all in-country training events, and post-training tracking. The revision will clarify authority and responsibility for follow-on activities.
- To better meet Handbook 10 requirements, the STEP project manager developed new reporting forms which contractors and grantees must submit for all training activities, including in-country training.
- To comply with the new format and data requirements, the two organizations administering the largest training programs have agreed to develop databases compatible with PTMS.
- Representatives of the two largest training organizations and the Mission's PTMS clerk were scheduled to attend special training sessions on the newest version of PTMS to be held in Swaziland.
- Other STEP grantees will be required to modify their present reporting systems to comply with the Mission's data information requirements.
- The Mission assigned responsibility for compliance with USAID Handbook 10 requirements and all recommendations resulting from this audit to a senior manager in the Human Resources Development Division.
- The Human Resources Development Division was developing documentation and justification for the creation of a full-time Training Officer position for the Mission Director's approval. This position will be funded by STEP and another Mission training project. The incumbent would be responsible for the coordination of all inter-sector Mission training and for supervision of Training Assistants and the PTMS clerk. Other duties would be designed to ensure that training is conducted according to Handbook 10 and the Mission's revised training order.

Management Comments and RIG/A/Nairobi Evaluation

The draft audit report presented the individual audit findings in a different order than they are presented in the final report. The revised presentation order caused the numbering of most recommendations to change. For example, Recommendation Nos. 2.1 and 2.2 in the final report were numbered 3.1 and 3.2, respectively, in the draft report. In addition, the page numbers referred to in the Mission's letter of March 9, 1995, do not correspond to the page numbers of the final report.

In its March 9, 1995, comments to the draft report, USAID/South Africa reported that it expects to complete the actions discussed on page 14 of the draft report, by June 15, 1995.

The actions that the Mission is referring to are those listed on page 11 of this report.

Because of the actions taken or planned to correct the problems noted during the audit, Recommendation Nos. 2.1 and 2.2 are resolved. They will be closed upon evidence that the planned actions have taken place.

Mission Should Require Interim Budget Projections For In-Country Scholarship Programs

South African NGOs carrying out STEP's \$33 million, in-country undergraduate bursary (scholarship) program were not preparing cost-to-complete worksheets³ or other financial analyses required by USAID policy. Such analyses would have provided USAID/South Africa the information it needed to obligate only enough funds to cover the costs of mutually-agreed activities and to identify and jointly program any excess funding that might develop. As a result, the Mission may have obligated at least \$3 million more than was needed to accomplish the targets of one grant and missed the opportunity to jointly program excess funding under another grant. Current Mission staff members were unable to explain why the previous project manager did not require grantees to submit regular and complete financial reports and budget projections.

Recommendation No. 3: We recommend USAID/South Africa amend current cooperative agreements and grants with bursary organizations to require that cost-to-complete budgets and work sheets be submitted at least once each year.

USAID Handbook 13, Chapter 1, states that recipients of USAID funding should have financial management systems that provide for:

- accurate, current, and complete disclosure for each USAID-sponsored program, according to the reporting requirements set in the grant or cooperative agreement;
- records that identify adequately the source and application of funds for USAID-sponsored activities;
- effective control over and accountability for all funds, property, and other assets;
- comparison of actual outlays with budget amounts for each grant or cooperative agreement, related to performance and unit-cost data whenever appropriate; and

³In the context of this report, a cost-to-complete worksheet is an analysis of the actual and estimated costs of tuition, housing, and allowances which the grantee must pay for students already in the program. This information allows grantees and USAID to decide whether upward or downward shifts are required in student selection.

- accounting records which are supported by documentation that at a minimum will identify, segregate, accumulate, and record all costs incurred under a grant or cooperative agreement.

USAID/South Africa had not made sure that South African organizations carrying out STEP's in-country undergraduate bursary programs were preparing budgets or other financial analyses which would ensure STEP funds were used as effectively as possible. This was particularly important because the devaluation of the South African currency resulted in opportunities to increase grant outputs without additional cost to the U.S. Government—subject to USAID approval. Problems noted during the audit are highlighted below.

- The financial management system of one South African NGO, which plays a critical role in carrying out STEP's long-term and short-term training activities⁴, was unreliable. During a visit to the organization to discuss actual and anticipated results of a \$16 million cooperative agreement, the auditors learned that, although USAID had recently added \$1.6 million to the agreement's budget to cover the cost of 52 students to be selected in January 1995, the organization was uncertain how many students could be covered with the additional funds. The uncertainty resulted from the organization's failure to keep a record of the disbursements it had already received under the agreement. As a result, it did not know how much carry-over funding was available.

Using student intake and cost data provided by the grantee, the auditors prepared an informal analysis of the organization's potential costs to support previously selected students, and the planned intake of 52 additional students in 1995. This analysis suggested, with the additional \$1.6 million that had just been obligated, the organization would not only have sufficient funding to cover the costs of continuing students and the full intake planned for 1995, but would have more than \$3 million in excess of its needs.

USAID/South Africa had not required the organization to prepare analyses justifying the need for additional funds before obligating the additional funds. However, after the Mission was notified about the potential excess, the grantee was asked to provide an analysis of its expenses and projected costs. The grantee was unable to do so and, at the completion of the audit, the organization still did not

⁴This organization is a multiple-recipient of STEP funds: through the cooperative agreement discussed above, a grant, two subgrants, and a subcontract, in addition to funds received through another USAID/South Africa training project.

know how many students it should select in January for the 1995 school year beginning that month.⁵

- Another South African NGO used the devaluation of the South African rand to provide more bursaries (scholarships) than had been authorized in its grant—without seeking prior approval from USAID/South Africa.

In general, the grant budgets to South African organizations have been expressed both in U.S. dollars and South African rand. Grant terms have limited grantees to the rand-denominated budget or the dollar-denominated budget, whichever is reached first. Because the South African currency has been devalued, grantees have reached the rand budget limit first, providing opportunities to increase grant outputs without additional dollar cost to the U.S. Government. Under the terms of these agreements, recipients are required to submit proposals to the Mission for use of any excess rands that might become available.

However, it appears one South African scholarship management organization usurped USAID's prerogative in this matter by unilaterally deciding how to use the excess dollar budget. This organization awarded scholarships to 573 students in 1994, although its USAID-funded grant provided for only 458 scholarships. The excess funds used by the organization to increase its 1994 student intake might have been used instead to fund future costs not fully funded in the original agreement. As a result, the grantee's decision to increase student intake instead of reserving the excess rand to pay for anticipated, but unfunded costs, may increase the total cost of this program. USAID/South Africa had not decided by the end of the audit fieldwork what action it would take on this matter.

- Although not part of this audit, the auditors found that the major bursary organizations, which had developed excess funds under STEP, also had large unliquidated obligations under another USAID training project—the South African Bursaries Project. As of December 14, 1994, these organizations had unliquidated obligations totaling about \$7.2 million and no plans for using these funds before the project expired in September 1995.

Current Mission staff members were unable to explain why STEP's former project manager did not require grantees to submit regular and complete financial reports and budget projections to ensure that grant obligations were reasonable and advanced funds liquidated in a timely manner. However, when the current Project Manager was made aware of these problem areas by the auditors, she immediately took action to require the

⁵According to Mission project staff, during the last week of audit fieldwork this organization requested, and USAID/South Africa agreed to provide, technical assistance to help it improve its financial and management systems.

bursary organizations to prepare cost-to-complete work sheets and to develop proposals to use excess funds.

The Mission has obligated more than \$33 million for bursary programs administered by local NGOs through STEP. However, these organizations have not shown the capacity to absorb and use these funds effectively. Their weaknesses could result in the deobligation of unused funds which would otherwise have been available for other Mission priorities. Budgets and work sheets such as those recommended would also allow the Mission to make informed decisions about grant modifications that might be necessary to reprogram excess funds.

Management Comments and RIG/A/Nairobi Evaluation

At the conclusion of audit field work, the Mission notified the three largest bursary organizations that they would be required to submit cost-to-complete work sheets as part of their future reporting responsibilities. Because of this action, Recommendation No. 3 is resolved. It will be closed upon evidence that work sheets were submitted with the organizations' next semiannual reports. (Because the final audit report presents the individual audit findings in a different order than they were presented in the draft report, the numbering of most recommendations in the final and draft reports does not match. Recommendation No. 3 in the final report was Recommendation No. 2 in the draft report.)

With respect to the audit's finding that the three bursary organizations also had large balances remaining under the South African Bursaries Project, the Mission reported that it has had great success in developing plans to use the \$7.2 million that must be spent before that project expires in September 1995. It provided the following information.

- One bursary organization submitted a plan to use its remaining funds to fund final-year students at technikons and universities.
- Another bursary organization used some of its remaining funds to get technical assistance from a major accounting firm. The firm will review documentation supporting the organization's expenditures since 1989. This is expected to result in additional claims being submitted to the Mission that would liquidate the remaining balance.
- The third organization will also fund final-year students and support a one-year program at a local community college.

Recipient Contributions Should Be Required and Tracked, If Appropriate

Internal Mission documents showed that the Mission Director was requested to approve, and did approve, proposed grant agreements on the condition that the grant recipients would be required to contribute 25 percent of the cost of activities supported by STEP. However, the resulting grant agreements did not include a requirement that the recipients must contribute toward the cost of the USAID-supported activity. As a result, recipients did not report, and the Mission did not track, whether the intended contributions were made.

Recommendation No. 4: We recommend USAID/South Africa review active STEP-funded grants and cooperative agreements to decide whether recipient contributions should or should not be required. In those cases in which contributions should be required, the grants and cooperative agreements should be amended to show the expected contribution and its use(s) and to require recipients to track and report on their required contributions. In those cases in which waiver of recipient contributions is appropriate, the waiver and justification should be documented.

Mission staff prepared 26 Action Memoranda requesting the USAID/South Africa Mission Director to approve 26 proposed grants to private and voluntary organizations and NGOs. Eleven of the 26 Action Memoranda reviewed included a statement that specifically informed the Mission Director that grantee contributions would be required. The other 15 Action Memoranda did not raise the issue of recipient contributions. In all cases, the Mission Director approved the Action Memoranda as written.

Although the Mission Director approved the 11 proposed grants on the basis that recipient contributions would be required, none of the 11 resulting grant agreements contained provisions detailing the expected contribution or its use(s) or nor did the agreements require recipients to track and report on their required contributions. The value of the recipient contributions expected had the grants required the contributions discussed in the Action Memoranda would have totaled \$2.5 million. Because grantees were not required to track and report on their contributions, the Mission is unable to determine whether the additional funding was provided as planned.

When made aware of this situation, Mission management found that it was a Mission-wide oversight, not restricted to STEP-funded grants.

Management Comments and RIG/A/Nairobi Evaluation

In its comments to the draft report, the Mission advised that for all existing and active grants, for which a grantee contribution had not already been waived, it will prepare the

necessary paper work to seek waivers. The decision was made after consultation with key technical offices and in consideration of the unique political and social scene in South Africa. Because of this decision and plan of action, Recommendation No. 4 is resolved. It will be closed upon receipt of evidence that waivers have been sought and obtained for STEP grants, as appropriate.

(Because the final audit report presents the individual audit findings in a different order than they were presented in the draft report, the numbering of most recommendations in the final and draft reports does not match. Recommendation No. 4 in the final report was Recommendation No. 5 in the draft report.)

Funds Remaining In Expired Contracts And Agreements Should Be Considered For Deobligation

USAID policies require that unliquidated obligations be periodically reviewed to decide if they are still valid and any excess funds should be deobligated promptly. A review of STEP's financial reports showed the potential to deobligate funds remaining under expired STEP-funded contracts and grants. Because the excess funding was not deobligated promptly, it has been unavailable for other approved purposes.

Recommendation No. 5: We recommend USAID/South Africa take actions necessary to review expired STEP-funded grants and contracts to decide whether excess funds can be deobligated and, if so, take action to deobligate those funds.

USAID Handbook 19 and the USAID Controllers Handbook require controllers to periodically review unliquidated obligations to determine if the obligations exceed the requirements for which the funds were obligated. The Handbooks further state that any excess funds should be deobligated promptly. The following table lists STEP-funded commitment documents that expired a year or more before the audit. According to the STEP project manager, none of these documents will be amended to extend their expiration dates or to program new uses for the remaining funds. However, because the excess funding was not deobligated promptly, it has been unavailable for other approved purposes.

Expired Commitment Documents With Unliquidated Obligations		
Commitment Document	Expiration Date	Unliquidated Balance
G-SS-0032	December 31, 1991	\$ 23,660
C-00-1061	September 7, 1992	34,707
CO-DHR-5451	December 31, 1993	231,751
CO-PDC-5832	October 15, 1993	51,335
CO-PDC-5532	November 9, 1993	7,802
TA-93-0187	August 20, 1993	254
PO-00-3918	November 15, 1993	8,194
TOTAL		\$357,703

Mission Comments and RIG/A/Nairobi Evaluation

In its comments to the draft report, the Mission reported that its Controller and the Regional Contracting Officer are working together to decide what funds to deobligate. The Mission will contact each grantee/contractor to find out if there are any outstanding claims to be submitted. When the Mission receives written confirmation, the Controller will move to pay any bills and deobligate any remaining balances. Because of this planned action, Recommendation No. 5 is resolved. It can be closed upon receipt of evidence that remaining balances have been identified and deobligated.

(Because the final audit report presents the individual audit findings in a different order than they were presented in the draft report, the numbering of most recommendations in the final and draft reports does not match. Recommendation No. 5 in the final report was Recommendation No. 6 in the draft report.)

Did USAID/South Africa ensure that participant training and in-country training provided through the Support to Tertiary Education Project will achieve the project's purposes?

USAID/South Africa has not ensured that participant and in-country training provided through the Support to Tertiary Education Project will achieve the project's intended purposes. Contrary to USAID Handbook 10 requirements, the Mission had not set up tracking systems or follow-on programs for training graduates and had not assigned clear lines of authority and responsibility for such tasks within the Mission. Without a complete and centralized database of trainees who have completed their training programs and an active, focused program to locate and contact these graduates, USAID/South Africa cannot determine whether long-term trainees returned to South Africa and assumed appropriate professional and technical positions and whether short-term trainees used their new skills in the community and assumed leadership and managerial positions. Mission staff members attribute slow progress setting up USAID's required post-training tracking systems to limited staff, expanding workloads, higher priority demands on staff time, and the greater than expected difficulty and cost of such systems.

Recommendation No. 6: We recommend USAID/South Africa:

- 6.1 develop and implement a comprehensive system to track participant and in-country trainees that complies with USAID and Mission requirements;**
- 6.2 clarify lines of authority and responsibility for Mission follow-on activities; and**
- 6.3 use excess rand available in bursary program grants to fund the design and implementation of alumni programs or other follow-on activities for bursary program graduates.**

STEP's declared purpose is "to prepare and empower black South African individuals and selected institutions for positions of leadership and importance in order to promote peaceful change and the transition to a non-racial democracy." According to the project paper, achievement of this objective will be shown if, among other things, at the end of the project:

- long-term trainees have returned to South Africa (if trained outside the country), assumed professional and technical positions, and become actively involved in addressing community based problems and in developing new community structures; and

- short-term trainees have used their new skills on the job and in the community, advanced adequately, and hold leadership and management positions.

The project paper states that the status of these post-training impact indicators can be verified by participant tracking systems, contractor and grantee reports, and periodic project evaluations.

To obtain information on the post-training activities and successes of USAID-funded trainees, USAID Handbook 10 instructs missions to maintain, through personal or written contact, up-to-date records on participants who were trained for periods of three months or longer. Records must be kept current for a minimum of three years following the completion of training. Information on returned participants should include current employment, title, and mailing addresses.

Without a post-training tracking system, USAID/South Africa cannot measure the impact of its many participant training and in-country training programs, including STEP. Even though the absence of the required tracking system was noted in RIG/A/Nairobi's earlier audit of Mission participant training programs, USAID/South Africa still had not implemented an active, coordinated system to contact or track individuals who completed USAID-funded training.

In some cases, the Mission attempted, unsuccessfully, to delegate follow-on activities to contractors and grantees. For example:

- Agreements with two South African bursary management organizations required them to maintain files on each student that included "time spent in the job market and job placement. The collection of information through to the end of the program is a new effort by USAID to provide better information on the impact of its training programs." However, only one organization routinely contacted graduates about job placement and it contacted each graduate only once.
- A U.S. contractor was required to maintain follow-up information on participants' use of training through the end of the contract. The contract states further that "collection of information through September 1995 is a new effort by USAID/South Africa to provide better information on the impact of its training programs." However, the contractor told the auditors it had no plans to carry out this requirement and would need guidance, and perhaps additional funding, from the Mission before undertaking any tracking activities. However, the contractor mentioned that surplus rand had developed in its subcontract with a South African NGO because of the devaluation of the local currency and might be available for in-country post-training follow-up.

In some cases, NGOs developed trainee tracking systems without Mission guidance or instruction, but these systems were generally limited and data collection was nonstandard and incompatible with the Mission's PTMS requirements. Although contractors and grantees had asked for copies of PTMS software, until the arrival of a PTMS consultant in November 1994, the Mission mistakenly thought it could not give copies of the software to contractors and grantees.

The auditors visited seven NGOs carrying out STEP-funded training activities. As shown on the following table, only one of the seven NGOs had a reliable, comprehensive, readily accessible, database on current and former trainees. Three carried out some limited follow-on and alumni activities; and three had no routine activities or had done nothing.

SELECTED TRAINING CONTRACTORS AND GRANTEES AND THEIR ALUMNI ACTIVITIES UNDER STEP	
Implementing Organization	Follow-on and Alumni Activities
Africare	Maintains database on current and former trainees, has an active alumni program, and holds alumni and networking conferences.
Educational Opportunities Council	Hired an alumni program coordinator and is improving its database.
South African Student Internship Foundation	No activities.
Catholic Education Aid Program	No routine activities, but conducted one tracer study to locate graduates.
Creative Associates, Inc.	Largest training program but lacks automated database; sponsors follow-up workshops on occasion.
African-American Institute	No activities.
South African Institute of Race Relations	Mails one post-training questionnaire to graduates.

Source: USAID/South Africa and STEP contractors and grantees.

To address the findings in RIG/A/Nairobi's earlier audit, USAID/South Africa contracted for an assessment of follow-on requirements and existing follow-on activities. In response to the evaluator's findings, the Mission held a 10th anniversary reunion for graduates of long-term U.S. training programs. The event served to locate a number of graduates and focus attention on the problems of alumni associations, but because there were no coordinated reinforcing actions, the event's impact has dissipated. In addition, because

the reunion was limited to graduates from U.S. institutions, no action was taken to locate or contact the many graduates from South African universities and technical schools.

It was clear to the auditors that despite the follow-on assessment and anniversary celebration, the Mission still lacked a strategy for designing and carrying out a post-training tracking and follow-on program. Follow-up has simply not been a priority for training office managers. Although the Mission appointed a Training Monitor (in response to another recommendation in the earlier audit report) and assigned her responsibility for follow-up activities, another staff member was subsequently given some responsibility for follow-up. As a result, lines of responsibility and authority were unclear. The second staff member prepared a draft strategy in May 1994, but it had not been discussed or approved by training office management at the time of our audit.

Mission officials said they had been unable to fully develop a strategy for follow-up activities because of staffing limitations, including the absence of a full-time Training Officer, higher priority tasks, and growing recognition that follow-up will be more complex and expensive than originally envisioned.

Although substantial amounts of excess rand had become available under their USAID-funded agreements because of devaluations in the South African rand, three South African bursary management organizations advised the auditors they lacked funds to carry out follow-on activities. One also said it was not interested in establishing an alumni program that would exclude students the organization had recruited and managed for other donors.

The lack of information on graduates not only limited the Mission's future ability to measure project impact but also affected the implementation of a grant designed to provide USAID-funded graduates from South Africa universities with internships in local firms. The grantee was unable to arrange the planned internships because the bursary management organizations could not provide current addresses for their graduates.

Without a complete and centralized database of trainees who have completed their training programs and an active, focused program to locate and contact these graduates, USAID/South Africa will not be able to answer the question "Is the training provided by STEP achieving its intended purpose?"

Mission Comments and RIG/A/Nairobi Evaluation

In its comments to the draft report, the Mission reported it has decided to contract with an organization to develop and carry out a comprehensive system to track all participant and in-country trainees. The Mission is developing a scope of work for this contract and hopes to issue a request for proposals and sign the resulting contract in fiscal year 1996. In addition, the Mission assigned responsibility for providing leadership and technical guidance to Mission training office staff to the deputy chief of the Human Resources

Development Division. These plans are sufficient to resolve Recommendation No. 6.1. Because the Mission did not comment on actions taken or planned to implement Recommendation Nos. 6.2 and 6.3, they remain unresolved.

(Because the final audit report presents the individual audit findings in a different order than they were presented in the draft report, the numbering of most recommendations in the final and draft reports does not match. Recommendation Nos. 6.1, 6.2, and 6.3 were Recommendation Nos. 4.1, 4.2, and 4.3, respectively, in the draft report.)

[THIS PAGE INTENTIONALLY LEFT BLANK.]

APPENDICES

<p style="text-align: center;">SCOPE AND METHODOLOGY</p>

Scope

We audited USAID/South Africa's management of the Support to Tertiary Education Project (STEP) according to generally accepted government auditing standards. As of September 30, 1994, STEP had obligations and expenditures of \$98 million and \$33 million, respectively. The audit was conducted from October 12 to December 15, 1994, in the Republic of South Africa.

We relied on and examined records provided by USAID/South Africa, contractors, and grantees and interviewed Mission, contractor, and grantee officials. The audit evidence gathered included verbal explanations and documentary evidence such as performance reports, evaluations, records maintained by the Mission on individual trainees, STEP's 1990 project paper, STEP-funded contracts and grants, Agency and Mission operating policies and procedures, and correspondence provided by USAID/South Africa, the contractors, and grantees.

Besides the methodology described in the following section, we negotiated for and received a written representation from USAID management confirming information we considered essential for answering our audit objectives and for assessing internal controls and compliance. Our audit also considered the results of two prior RIG/A/Nairobi reports: "Audit of USAID/South Africa's Management of Participant Training", Report No. 3-674-93-02, dated February 5, 1993 and "Audit of USAID/South Africa's Implementation of the Audit Management and Resolution Program", Report No. 3-674-94-004, dated February 28, 1994. We also reviewed financial audits of STEP grantees and contractors. Furthermore, we obtained and reviewed USAID/South Africa's internal control assessment for 1994.

Methodology

The methodology for each objective follows.

Audit Objective One

The purpose of the first objective was to determine whether USAID/South Africa ensured that participant training and in-country training were being provided as planned through the Support to Tertiary Education Project.

To learn whether the Mission had funded contracts and grants with sufficient training targets to meet the project's expected end-of-project training targets, we reviewed STEP-funded contracts and grants and compared their cumulative training outputs to those described in STEP's 1990 project paper. To determine whether these contracts and grants were being carried out as planned, we reviewed, but did not validate, semiannual progress reports submitted by the contractors and grantees.

To find out whether STEP's current strategies and activities corresponded to the project's approved design documentation, we compared current participant and in-country training strategies and activities to those discussed in STEP's Project Paper.

To determine whether the Mission's computer-based Participant Training Management System (PTMS) could be used to monitor and report on STEP training activities and results, we selected a random sample of 90 records of individual training activities from the 1,150 STEP records entered into PTMS and compared the PTMS data entries with source documentation on file in the Mission.

Audit Objective Two

The purpose of the second audit objective was to learn whether USAID/South Africa ensured that participant training and in-country training provided through STEP will achieve the project's purposes. Successful accomplishment of these purposes will be shown if (1) long-term trainees return to South Africa and assume appropriate professional and technical positions and become actively involved in addressing community-based problems and (2) short-term trainees use their new skills in the community and assume leadership and managerial positions.

To answer this objective, we examined Mission systems for locating and contacting graduates and collecting post-training information. We reviewed post-training data

collected by the Mission and maintained in PTMS. We held discussions with USAID/South Africa, contractor, and grantee officials to determine whether they followed USAID policies and procedures for post-training tracking. We examined contracts, cooperative agreements, and grants to learn whether they contained instructions for post-training follow-up. We reviewed Mission policies and procedures and periodic reports provided to USAID/South Africa by contractors and grantees. We also reviewed contractor and grantee tracking systems and alumni programs.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID/SOUTH AFRICA



Tel: (012) 323-8869

P.O. Box 55380
Arcadia, Pretoria 0007

Fax: (012) 323-6443

March 9, 1995

Mr. Everette Orr
Regional Inspector General for Audit, Nairobi
Third Floor, Barclays Plaza
Loita Street
Nairobi
Kenya

Dear Mr. Orr,

SUBJECT: AUDIT OF USAID\ SOUTH AFRICA'S
MANAGEMENT OF THE SUPPORT TO TERTIARY EDUCATION PROJECT (STEP)

As requested in the February 3, 1995, cover memo of your draft audit report, the following are USAID/SA's comments:

In general, we agree with the draft audit report contents; however, we request that the following statements be removed, as our findings indicate that these comments are no longer valid or relevant:

1. MEETING THE TRAINING TARGETS IN THE U.S.

Page 3 second paragraph states "however best available evidence suggested that, while targets for U.S. training might not be achieved before project completion". As stated by the STEP project manager, this project is only at its mid-point, and our latest indications are that project targets for U.S. training will be achieved. There is no proportionate relationship between project outputs and the amount of time still available under the project. The start-up of the project requires contracting actions that take a considerable amount of time. Only after contracting actions are completed can project implementation begin. This was the case during STEP's start-up.

2. UNLIQUIDATED OBLIGATIONS TOTALLING \$7.2 MILLION PAGE 11
SECOND PARAGRAPH.

We are happy to report that tremendous progress has been made towards specific plans to utilize these funds.

South African Institute of Race Relations (SAIRR) submitted a plan to fully utilize in a way that is consistent with the grant agreement the remainder of their funds by giving bursaries to final year disadvantaged students at technikons and universities. These funds will be expended by September 1995.

Educational Opportunities Council (EOC) has acquired technical assistance from The Price Waterhouse (a well known accounting firm). Their scope of work includes reviewing supporting documentation of expenditures since 1989. Once this task has been completed we now expect that EOC will be able to submit necessary documentation to the Controller's Office. We are also reasonably certain that we will be able to process all vouchers and other claims under the Agreement. This is likely to result in liquidating all fund balances.

Catholic Education Aid Program (CEAP) has also provided a detailed plan which will utilize the remaining funds. This plan includes funding for final year students at technikons and universities as well as support to an innovative local community college one-year program.

Since these organizations are the major implementing partners under the South African Bursary Project, we are confident that expenses consistent with the agreements for those activities will be incurred before the PACD. Any remaining funds will be de-obligated.

RECOMMENDATION NO. 1.1:

DEVELOP A PLAN TO ENSURE THAT PROGRESS REPORTS SUBMITTED BY CONTRACTORS AND GRANTEES FUNDED THROUGH STEP ARE ACCURATE AND COMPLETE.

The mission has already developed and in some cases is already implementing plans to:

1. Provide adequate training to Mission training staff, contractors and grantees to enable them to accurately operate the new 6.3 PTMS system. Training began on March 1, 1995 and will run for one week in Swaziland.
2. The semi-annual progress reports have been updated and revised to contain accurate data, which allows for data input and comparison with the PTMS system.
3. Regular site visits by the mission staff is being scheduled with recipients. During these visits discussions will be held on the following topics: the validity of the data contained in progress reports; outputs achieved to date; cost-to-complete

estimates (especially bursary grantees); status of recipient audits; evaluations; and frequency and accuracy of voucher submissions.

The STEP project manager just returned from a one week visit to STEP, African American Institute (AAI), and American Council on Education (ACE) grantees, all located outside the Gauteng Province. The following grantees were visited in the Gauteng Province: Union of Democratic University Staff Association (UDUSA), South African Student Internship Foundation (SASIF), Tertiary Education Program Support (TEPS), National Institute of Community Education (NICE), South African Association for Academic Development (SAAAD), Israeli Center for International Cooperation (ICIC), EOC, SAIRR and FUNDA Community College.

4. Quarterly visits will continue with all grantees to follow up on outstanding recipient audits (we have visited and explained the audit requirements to SAIRR and EOC; we have also reconciled MACS data with SAIRR's records).

RECOMMENDATION NO. 1.2:

PROVIDE TRAINING IN GRANT NEGOTIATION AND ADMINISTRATION TO APPROPRIATE USAID STAFF INVOLVED IN THE MANAGEMENT OF STEP.

Training in grant administration and negotiation is in progress and is being provided to most project officers by the RCO. Attached find the Administrative notice detailing the topics presented by RCO. Some of the STEP project staff attended the workshops and have already changed implementation procedures based on the workshop.

For your information the Project Management course, which is provided by the Training Office of USAID/W, is currently being revised. We have been advised that as soon as this course becomes available USAID/SA will host the course and all STEP project staff will attend.

RECOMMENDATION NO. 2.

WE RECOMMEND USAID/SA AMEND CURRENT COOPERATIVE AGREEMENTS AND GRANTS WITH BURSARY ORGANIZATIONS TO REQUIRE THOSE ORGANIZATIONS TO SUBMIT COST-TO-COMPLETE BUDGETS AND WORK SHEETS AT LEAST ONCE EACH YEAR.

The Mission is now requiring bursary organizations to submit cost-to-complete budgets and work sheets as a component of the semi-annual report. We are expecting the first of these budgets and work sheets to be included in the semi-annual reports for the period ending March 31, 1995 (due in USAID\SA Controller's Office by April 30, 1995).

RECOMMENDATION NO. 3.1.**DEVELOP CONSISTENT DATA ENTRY PROCEDURES FOR THE MISSION'S PARTICIPANT TRAINING MANAGEMENT SYSTEM.**

The Mission is in the process of implementing the planned actions noted on page 14 of the Draft Report, and expects to have them fully implemented by June 15, 1995.

RECOMMENDATION NO. 3.2.**DEVELOP POLICIES REGARDING ENTRY OF IN-COUNTRY TRAINING DATA IN THE MISSION'S PARTICIPANT TRAINING MANAGEMENT SYSTEM.**

The Mission is in the process of implementing the planned actions noted on page 14 of the Draft Report, and expects them to be fully implemented by June 15, 1995.

RECOMMENDATION NO. 4.**DEVELOP AND IMPLEMENT A COMPREHENSIVE SYSTEM TO TRACK PARTICIPANT AND IN-COUNTRY TRAINEES THAT COMPLIES WITH USAID AND MISSION REQUIREMENTS; CLARIFY LINES OF AUTHORITY AND RESPONSIBILITY FOR MISSION FOLLOW ON ACTIVITIES; AND USE EXCESS RANF AVAILABLE IN BURSARY PROGRAM GRANTS TO FUND THE DESIGN AND IMPLEMENTATION OF ALUMNI PROGRAMS OR OTHER FOLLOW-ON ACTIVITIES FOR BURSARY PROGRAM GRADUATES.**

The Mission has decided to contract with an organization to develop and implement a comprehensive system to track all participants and in-country trainees. At present the Mission is developing an appropriate scope of work. We are seeking model scopes of work from Missions that are known to have proven track records in this area. We hope to issue the RFP and sign the contract in FY 96.

The Mission has also assigned Mr. Hector Nava (USDH) and deputy chief HRDD as person responsible to provide leadership and technical guidance to Participant Training Staff.

RECOMMENDATION NO. 5.**WE RECOMMEND USAID/SA REVIEW ACTIVE STEP-FUNDED GRANTS AND COOPERATIVE AGREEMENTS TO DETERMINE WHETHER RECIPIENT CONTRIBUTIONS SHOULD OR SHOULD NOT BE REQUIRED...**

After due consultation and discussion with key technical offices, the Mission has determined that for all existing and active grants, for which a grantee contribution has not already been waived, the Mission will be preparing necessary paper work to seek waivers, considering the unique political and social scene in South Africa.

RECOMMENDATION NO. 6.

WE RECOMMEND USAID/SA TAKE ACTIONS NECESSARY TO REVIEW EXPIRED STEP-FUNDED GRANTS AND CONTRACTS TO DETERMINE WHETHER EXCESS FUNDS CAN BE DE-OBLIGATED AND, IF SO, TAKE ACTION TO DE-OBLIGATE THOSE FUNDS.

The Controller's Office is working with the RCO to determine which funds to de-obligate. We are contacting each grantee to find out if there are any outstanding claims against these grants/contracts.

As soon as we receive written confirmation, the Controller's Office will move forward quickly to pay the bills and then de-obligate any remaining balances.

In conclusion, the Mission appreciates the collegial approach of the audit team and found the audit to be both useful and helpful.

Sincerely,



William R. Ford
Acting Mission Director

Date: 3/10/95

APPENDIX III

Major Contributors to this Report

**Regional Inspector General
for Audit, Nairobi, Kenya**

Robb Parish, Audit Manager
Dianne Rawl, Auditor-in-Charge
Francis Kimali, Auditor
David Karite, Auditor
Nelson Kaburu, Referencer
Derald Everhart, Editor