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USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Armenia's Activity Monitoring System

Audit Report No. B-111-02-002-P

March 14, 2002

U.S. Agency for International Development
Budapest, Hungary

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U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/Budapest

March 14, 2002

MEMORANDUM

FOR: Keith E. Simmons, Director, USAID/Armenia
Raquel C. Powell, USAID Agreement Officer

FROM: Nathan S. Lokos, Director of Audit Operations/Budapest

SUBJECT: Audit of USAID/Armenia's Activity Monitoring System (Report No. B-111-02-002-P)

This is our final report on the subject audit. In preparing the report, we considered the comments received from USAID/Armenia on the draft report and made changes as appropriate. No comments have been received from the USAID Agreement Officer to date. USAID/Armenia's comments are included in Appendix II.

This report contains eight recommendations. Based on the actions taken by the Mission, we consider that acceptable management decisions have been reached on Recommendation Nos. 1, 3, 4, 6 and 8. Furthermore, we consider these Recommendations closed upon issuance of this report. Please coordinate final action with the Office of Management Planning and Innovation in USAID/Washington and request closure of those recommendations.

No management decision has been reached on Recommendation Numbers 2 and 5 which are addressed to the USAID Agreement Officer, and on Recommendation Number 7 which is addressed to USAID/Armenia.

Please advise within 30 days of actions taken or planned to implement those recommendations without a management decision. We appreciate the cooperation and courtesy extended by the Mission to the auditors during this assignment.

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Summary of Results

While USAID/Armenia has laid a sound foundation for a viable activity monitoring system, certain elements of this system need to be refined and strengthened. Specifically, the Mission should: (1) make more periodic visits to project sites and ensure appropriate documentation of results (page 5); (2) establish objective, unambiguous and verifiable performance indicators (page 8); (3) strengthen the work plan approval process (page 12); and (4) document the results of meetings and discussions with its development partners (page 14).

Additionally, the cognizant USAID/Washington Agreement Officer for a certain cooperative agreement[1] should: (1) require that USAID's development partner follow USAID guidelines in disbursing loans to microenterprises (page 7) and (2) incorporate required USAID standard provisions in a sub-grant (page 10).

Background

Armenia is a small, landlocked, mountainous country situated in the Caucasus region of Eurasia and surrounded by Azerbaijan, Georgia, Iran and Turkey. It was once among the most prosperous of the former republics of the Soviet Union. However, since the break-up of the Soviet Union in 1991, Armenia has endured regional conflicts accompanied by severe economic decline and energy shortages.

Since its independence from the former Soviet Union, Armenia has emerged as a strategically important country, whose progress towards a democratic political order and free market economy is critical to U.S. foreign policy interests. USAID/Armenia's development program, which was initiated in 1992, identifies conflict resolution, democracy and human rights, and economic/social sector development as the U. S. Government's highest priorities in the country.

USAID's development plan for Armenia for fiscal year 2001 identifies the following strategic objectives:

- Accelerated development and growth of private enterprises;
- A more competitive and market-responsive private financial sector;
- A more economically sustainable and environmentally sound energy sector;

[1] Cooperative Agreement No. PCE-A-00-00-00046-00

- Better informed citizens' participation in political and economic decision-making;
- Legal systems that better support democratic processes and market reforms;
- Mitigation of adverse social impacts caused by transition from a communist society; and
- Special initiatives and cross-cutting programs.

To accomplish the above objectives, USAID/Armenia had obligated funds for activities totaling approximately $186 million and accrued expenditures for those activities totaling approximately $141 million as of June 30, 2001.[2] We focused primarily on activities conducted from October 1, 1999 through June 30, 2001.

Audit Objective

In accordance with its Fiscal Year 2001 audit plan, the Office of the Regional Inspector General/Budapest performed this audit to answer the following question:

> Does USAID/Armenia have a monitoring system in place to ensure proper management oversight of USAID-funded activities?

Appendix I describes the scope and methodology of the audit.

Audit Findings

Does USAID/Armenia have a monitoring system to ensure proper management oversight of USAID-funded activities?

The audit showed that USAID/Armenia had established an activity monitoring system that generally facilitated management oversight of USAID-funded activities.

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[2] According to USAID/Armenia's June 30, 2001 Grant/Contract/CA Pipeline Analysis

In accordance with USAID directives, the Mission had developed a performance monitoring plan, defined strategic objectives, and established performance measures and indicators.

In addition, USAID/Armenia had: (1) issued a mission order on program monitoring, reporting and evaluation; (2) held weekly meetings with its development partners to review progress; and (3) designated officials to manage the Mission's portfolio of activities.

While the above actions have laid a sound foundation for a viable activity monitoring system, we believe that certain elements of this system need to be redefined and strengthened. The following paragraphs describe our findings and recommendations.

USAID/Armenia's Mission Order On Program Monitoring And Evaluation Procedures Should Require Periodic Site Visits

Part of the monitoring process involves collecting information concerning activity inputs, outputs and processes (e.g. progress reporting, financial reporting, meetings with development partners, etc.). Site visits are an important component of monitoring, because they provide Mission staff with the opportunity to: 1) personally observe implementation of the activity and 2) verify information being reported by contractors and grantees. This type of first hand observation and verification can provide Mission staff with greater insight into their activities, the opportunities and challenges facing those activities and the relevance and reliability of information being reported by development partners. It can also help them satisfy USAID Automated Directives System (ADS) requirements such as verifying compliance with USAID marking requirements and the performance of end-use checks on USAID-financed commodities.

ADS 203.3.6.6 recognizes the importance of site visits by stating, among other things, that such visits can assist USAID operating units in: (1) determining the reliability of program accomplishments reported by implementing partners, and (2) facilitating assessment of progress by comparing central office records with those kept at field locations.

Despite the importance of site visits, USAID/Armenia's Mission Order addressing program monitoring and evaluation does not require that Mission's Activity Officers conduct periodic site visits of their activities. While we believe that this omission was an oversight, we also believe that this omission increases the risk that periodic site visits will not occur. As a result, the Mission has faced and continues to face heightened risk concerning the success of its $186 million in activities.

RIG/B auditors conducted a site visit of the headquarters of the Association of Accountants and Auditors of Armenian sponsored by USAID/Armenia.

Mission Activity Officers interviewed stated that they had conducted site visits. Some contractors, grantees and sub-recipients did confirm regular visits by Activity Officers, but others indicated that such visits were rare or never took place. A review of the Mission's activity monitoring files showed that documentation of such visits was extremely limited.

We believe a requirement for site visits should be formalized as part of the Mission's management control system. In addition, we also believe that USAID/Armenia's Mission Order should provide guidance to staff concerning the type of information to be gathered and verified during site visits. Finally, we believe it is important to document site visits in order to memorialize the observations, discussions and decisions made during such visits.

In their response to our draft audit report, USAID/Armenia concurred with our finding, and acknowledged that while site visits were made in most cases, there was a need to increase their frequency and provide appropriate documentation. They further stated that USAID/Armenia's Mission Order No.1033 had been revised to: (1) require more site visits, (2) specify the type of information to be gathered and verified, and (3) emphasize the need for proper documentation. Therefore, Recommendation No.1 below is considered resolved upon issuance of this report.

> **<u>Recommendation No. 1</u>: We recommend that the Mission Director, USAID/Armenia, revise its mission order on program monitoring and evaluation to: (1) require that Activity Officers increase the frequency of periodic site visits to mission activities; (2) include**

guidance concerning the type of information to be gathered and verified during site visits; and (3) require that such visits be properly documented and retained in the activity files.

USAID-Financed Loans to Microenterprises Should Comply With USAID Guidelines

ADS Chapter 219 defines microenterprises as firms with ten or fewer employees, including the microentrepreneur and any family workers (including unpaid workers). We noted that in the Mission's Microenterprise Innovation activity implemented by Save the Children (SAVE), the sub-grantee, MDF Kamurj, does collect information concerning the number of workers retained by loan recipients. However, MDF Kamurj has not been using that information as a screening device to ensure that loans are only given to recipients with 10 or fewer workers.

RIG/B auditors visit an orientation and training session for women micro-entrepreneurs, under a USAID-funded program in Vanadzor, Armenia.

Consequently, since the above definition of microenterprise has not been applied in granting loans, neither SAVE, MDF Kamurj, nor the Mission knows whether the $1.2 million in USAID-financed loans disbursed under the program, as of March 31, 2001, have been limited to USAID's target population. We believe that this situation arose because SAVE's Chief of Party and the Executive Director of MDF Kamurj were unaware of USAID's definition of "microenterprise."

In our opinion, USAID-financed loans to microentpreneurs should be limited to businesses that meet USAID's definition of a microenterprise. Accordingly, we are making the following recommendation.

> **<u>Recommendation No. 2</u>: We recommend that the cognizant USAID Agreement Officer require that Save the Children/MDF Kamurj restrict future microenterprise loans to enterprises employing ten or fewer workers.**

Performance Indicators Should Be Objective, Clearly Defined and Verifiable

ADS Chapter 203.3.6.5 states that performance indicators must be direct, objective, unambiguous and adequate. However, in several instances, performance indicators established for USAID/Armenia's development activities did not satisfy those criteria. They were in fact ambiguous and subject to varying interpretations. As a result, we believe those indicators are unlikely to provide realistic measurements of performance. This situation arose because the Mission's monitoring system did not assess the adequacy of activity-level indicators.

Performance indicators are at the heart of a performance monitoring system. They define the data to be collected to measure progress so that actual results achieved over a period of time may be compared with planned results. Thus, the indicators are an indispensable management tool for making performance-based decisions about program activities.

USAID guidance on performance monitoring and evaluation lists several criteria for assessing performance indicators. Among other characteristics, an indicator should be objective, unambiguous and reliable. In other words, the definition should be precise enough to ensure that different people at different times, given the task of collecting data for an indicator, would collect identical types of data.

In several instances, performance indicators established for USAID/Armenia's development activities did not satisfy the above criteria. For example:

- The Agribusiness SME Market Development (Agribusiness) activity was using a performance indicator, *"number of firms assisted"*. However, the term "*assisted*" is ambiguous and has not been clearly defined. For example, USAID's Agribusiness contractor may work continuously with one firm for several months, providing a variety of technical and other assistance. On the other hand, the contractor may

only meet with another firm for a much shorter period of time and offer some general, macro-level ideas. In the absence of a precise definition, each of these entities could be a "firm assisted" and would be (erroneously) considered to be contributing equally towards meeting the required target. Similarly, another indicator for this activity is *"number of trade shows facilitated."* Again, there was no explanation as to what constituted the "*facilitation*" of a trade show.

- In an activity financed under the SME Development Program implemented by the International Executive Service Corps (IESC), performance indicators in respect of sales were: "*increase in sales of* 100%" and "*increased market share of* 50%." However, there were no explanations as to what period of time the sales related to, the total number of firms that were in the market, and whether the market comprised the entire country of Armenia or just the city of Yerevan.

- The Agribusiness Development Project, implemented by ACDI/VOCA, reported that USAID-funded cattle breeding and berry production projects resulted in 240 and 300 replications, respectively. However, according to the ACDI/VOCA Chief of Party, these figures were based on estimates and, therefore, not verifiable.

Because of the ambiguity and lack of verifiability of the above indicators, we believe that they are unlikely to provide realistic measurements of performance for those USAID-financed activities.

The above problems arose primarily because USAID/Armenia's performance monitoring system did not ensure that performance indicators were developed in accordance with the criteria established by USAID guidelines. We therefore believe that the Mission should 1) establish a procedure to review its activity level indicators and, where necessary, make appropriate revisions so that those indicators are objective, unambiguous, operationally precise and verifiable, and 2) conduct such a review on the current performance indicators for its activities.

In their response to our draft audit report, the Mission stated that it has established procedures for periodically reviewing the performance indicators. In addition, it plans to complete a review of its existing performance indicators over the next several months and take action to ensure compliance with USAID guidelines.

The above actions address the recommendations stated below, which are considered resolved upon issuance of this report.

> **<u>Recommendation No. 3</u>: We recommend that the Mission Director, USAID/Armenia, establish procedures to review the performance indicators of the activities in its portfolio which clearly define the criteria to ensure that those indicators are objective, unambiguous and verifiable in accordance with USAID guidelines.**
>
> **<u>Recommendation No. 4</u>: We recommend that Mission Director, USAID/Armenia, 1) conduct a review of the performance indicators of the activities in its portfolio and 2) refine those indicators wherever appropriate so as to make them objective, unambiguous and verifiable in accordance with USAID guidelines.**

Subgrant Standard Provisions Should Conform To USAID Guidelines

USAID's Mandatory Standard Provisions for U.S., Nongovernmental Recipients states that subawards to non-U.S. organizations should include USAID's Standard Provisions for Non-US Nongovernmental Grantees. One subgrant to a Foreign organization that we reviewed included the standard provisions for U.S. organizations, rather than the required provisions for non-U.S. organizations. As a result of this error, the appropriate provisions have not been incorporated in the subgrant. Consequently, future administrative, financial or technical problems may arise for either USAID/Armenia or its U.S. development partner.

One way that USAID implements its assistance is through grants to U.S., non governmental organizations (NGOs). USAID guidance requires that such grants contain USAID's Standard Provisions for U.S., Non governmental Recipients (U.S. Provisions), which specify many of the rules and regulations applicable to the grant.

In some cases, these U.S. grantees, in turn, give sub-grants to non-U.S. NGOs. Many of the rules and regulations applicable to non-U.S. NGOs are codified in USAID's Standard Provisions for non-U.S., Non governmental Recipients (Foreign Provisions).

For example, the requirement for audits—and how that requirement is to be satisfied—is addressed in both the U.S. NGO and non-U.S. NGO

standard provisions. However, those requirements differ depending on whether an NGO is a U.S. or non-U.S. organization.

USAID executed a cooperative agreement with Save the Children (SAVE), a U.S. NGO, to implement USAID/Armenia's Microenterprise Innovation activity. The Agreement Officer appropriately included the U.S. Provisions in SAVE's grant. Since this activity would require sub-grants to non-U.S. NGOs, USAID's agreement with SAVE also appropriately included the requirement that SAVE incorporate the Foreign Provisions in any sub-grants to non-U.S. NGOs. In addition, SAVE's cooperative agreement also included a requirement that sub-grants to non-U.S. NGO's incorporate an audit clause that would help SAVE meet its audit obligations under its agreement with USAID.

However, despite these requirements, our review of SAVE's sub-grant to the non-U.S. NGO (MDF Kamurj) indicated that SAVE had not included the required Foreign Provisions, but had incorporated the U.S. Provisions instead. We believe this omission was an oversight by SAVE.

As a result of this oversight, MDF Kamurj is not bound to comply with the relevant USAID standard provisions (the Foreign Provisions). This may increase the risk of future administrative, financial or technical problems.

We believe that SAVE should modify its sub-grant agreement to include the appropriate standard provisions, including a modified audit requirement. Also, it would be prudent for the Mission to request that its U.S. grantees review their Non-U.S. sub grants and take appropriate actions to ensure that the standard provisions have been incorporated.

In discussing this finding, USAID/Armenia officials noted that the cooperative agreement with SAVE was negotiated by the Office of Procurement in USAID/Washington. They also pointed out that the Mission's oversight responsibility of this sub-award was limited.

We concur with the Mission's comments and recognize that the Mission's monitoring was not at fault. However, we believe that USAID will avoid potential problems by requiring that SAVE ensure its sub-grant incorporates the required audit clause. Moreover, we believe it would be useful for the Mission to confirm the compliance of its other grantees. Accordingly, we are making the following recommendations.

In their response to our draft audit report, the Mission stated that it had issued a letter to its U.S. grantees requesting them to review their grant agreements to ensure that their sub-grants incorporate the required provisions.

Based on the aforementioned actions, Recommendation No. 6 is considered resolved upon issuance of this report.

> **<u>Recommendation No. 5</u>: We recommend that the Agreement Officer require that Save the Children amend its sub-grant to MDF Kamurj to incorporate USAID's Standard Provisions for Non-U.S. Nongovernmental Organizations, including an appropriate provision concerning audit.**
>
> **<u>Recommendation No. 6</u>: We recommend that the Mission Director, USAID/Armenia require the Mission's Contracting Officer to issue a notice requesting that the Mission's U.S. grantees: (1) review their grant agreements to determine which standard provisions must be included in sub-grants; (2) ensure that the sub-grants incorporate the appropriate standard provisions; and (3) make any required revisions to their sub-grants.**

The Work Plan Approval Process Should be Strengthened

USAID contracts and cooperative agreements contain provisions requiring that contractors and development partners submit periodic work plans for USAID's review and approval. Despite this requirement, we found that the Mission did not have approved annual work plans for several of the contracts or cooperative agreements that we reviewed, even though such plans were required by the provisions of those contacts and agreements. This occurred because: 1) Mission activity managers were not all aware of their responsibility to approve activity work plans and 2) the Mission's activity monitoring system did not require that annual work plans be approved. In the absence of approved work plans, USAID/Armenia has less assurance that the proper activities are being implemented and that progress can be realistically assessed.

USAID contracts and cooperative agreements contain provisions requiring that contractors and development partners submit periodic work plans for USAID's review and approval. In addition, Federal Government standards for internal control state that, among other things, internal controls, transactions and other significant events need to be clearly documented and that documentation should be readily available for examination.

Our audit showed that for several contracts or cooperative agreements, processing and documentation of work plans should be strengthened. For example:

- For the SME Finance Program implemented by Shorebank, the annual work plan for fiscal year 2001 was in draft form. However, there was no documentation indicating whether or not the plan was finalized and approved by USAID.

- Price WaterhouseCoopers submitted a work plan for the Capital Markets Development Program, but there was no evidence that that plan was approved by USAID.

- For the Tax/Fiscal Reform Program implemented by KPMG, a work plan was in the file for the tax component—but not for the fiscal component—of the program. According to the Mission's Activity Officer, the fiscal component work plan may have been submitted by KPMG to USAID/Washington, but the Mission's activity monitoring files contained no evidence supporting this assertion.

In our opinion, these conditions occurred because: 1) Mission activity managers were not all aware of their responsibility to approve activity work plans and 2) the Mission's activity monitoring system did not require that annual work plans be formally approved. Additionally, based on our observation and inquiries, we believe that contributing factors included (1) time constraints on USAID activity managers, (2) a lower priority assigned to administrative tasks, and (3) a general lack of attention or realization of the importance of documenting essential actions. Furthermore, Mission officials pointed out that management responsibilities for the activities cited above were vested in Cognizant Technical Officers (CTO), based in USAID/Washington.

In their response to our draft audit report, the Mission did not agree with this finding. They stated that: (1) it was the responsibility of the Washington-based CTOs to approve work plans in the examples cited above, (2) the Mission was not shown to have failed to ensure receipt of work plans where it had cognizance, and (3) appropriate revisions have been made in its Mission Order requiring that activity work plans and changes thereto are processed in a timely manner and approved in writing. They requested that the recommendation made below be deleted.

However, we believe that without approved and timely work plans, USAID/Armenia has less assurance that activities being implemented are those that were approved by USAID and would accomplish the planned results. Moreover, since work plans normally establish interim performance targets, the absence of such plans and targets may hinder the

assessment of contractor/grantee performance for activities in the Mission's portfolio.

USAID/Armenia, therefore, shares responsibility with cognizant Washington-based officials to ensure that all work plans are received and finalized in a timely manner. Accordingly, we are retaining Recommendation No.7.

> **Recommendation No. 7: We recommend that the Mission Director, USAID/Armenia, coordinate with cognizant Mission and Washington-based officials to ensure that all activity work plans and changes thereto be processed in a timely manner and approved in writing.**

Documentation of Meetings Should be Strengthened

We determined from our observation, interviews and inquiries that the Mission's Activity Officers were in regular contact with their development partners to monitor progress of program activities. Also, those officials frequently used E-mails and telephone to contact implementing organizations. However, these Mission officials rarely documented the proceedings of those meetings, essential actions taken or agreements reached.

Internal control standards for the Federal Government, established by the General Accounting Office, require that significant events need to be clearly documented and that that documentation should be readily available for examination. Such documentation, like the documentation of meetings, is an important monitoring tool that helps preserve institutional memory and strengthens the Mission's ability to take timely corrective actions. Any omission by the Mission to document such actions is likely to have an adverse effect on its monitoring of its program activities.

According to Mission staff, meetings were not properly documented because of time constraints on USAID activity managers and a lower priority assigned to administrative tasks. We also believe that a general lack of attention or realization of the importance of documenting essential actions was a contributing factor.

In their response to our draft audit report, the Mission stated that it has incorporated guidance in its Mission Order requiring activity officers to document substantive communications with implementing partners and

specifying the type of documentation to be maintained in the officials files.

The above actions address the recommendation made below, which is considered resolved upon issuance of this report.

> **<u>Recommendation No. 8</u>: We recommend that the Mission Director, USAID/Armenia, require that activity officers document the results of meetings and retain that documentation in the Mission's activity files.**

Management Comments and Our Evaluation

In their response to our draft audit report, USAID/Armenia, with one exception, generally agreed with our findings and recommendations. They stated that the report was fair and balanced and would make a positive contribution to USAID's development efforts in Armenia.

In addition, the Mission provided detailed information and documentation to highlight the various corrective actions they have taken to address our recommendations. USAID/Armenia's comments on the draft report and our assessments of those comments are summarized on pages 5 to 15 of this report. The full text of their comments is included in Appendix II.

Based on the actions taken by the Mission, we consider that acceptable management decisions have been reached on Recommendation Nos. 1, 3, 4, 6 and 8. Furthermore, we consider these recommendations closed upon issuance of this report. We determined that an acceptable management decision has not been reached on Recommendation Number 7 for reasons stated on pages 12 to 14 of this report.

Recommendation Numbers 2 and 5 are addressed to the USAID Agreement Officer whose response has not been received to date. Therefore acceptable management decisions have not been reached on those recommendations.

Scope and Methodology

Scope

The Office of Regional Inspector General/Budapest conducted an audit, in accordance with generally accepted U. S. Government auditing standards to determine whether USAID/Armenia had a monitoring system to ensure proper management oversight of USAID-funded activities.

The audit focused primarily on activities conducted from October 1, 1999 through June 30, 2001. We reviewed 15 activities with obligations and expenditures totaling approximately $74.6 million and $63.7 million, respectively. Those activities related to USAID/Armenia's Strategic Objective Number 1.3, which focuses on growth of the private sector.

The audit was conducted from May 8, 2001 to October 25, 2001 at the offices of USAID/Armenia and its development partners in Yerevan, Armenia, and included site visits to various locations in that country. We also reviewed the Mission's management controls including, but not limited to: (1) USAID/Armenia's FY2000 submission under the Federal Manager's Financial Integrity Act (FMIFA), (2) the mission order on Program Monitoring and Evaluation Procedures, (3) the Performance Monitoring Plan, and (4) the monitoring practices of Mission activity managers.

Methodology

In answering the audit objective, we reviewed pertinent documentation including, but not limited to: (1) USAID/Armenia's strategic planning, program implementation and financial documents; (2) external evaluations and assessments of program activities; and (3) progress and activity reports prepared by Mission and contractor officials.

We also determined the Mission's compliance with applicable criteria contained in: (1) ADS Chapters 201, 202, and 203; (2) contract and grant agreements; and (3) USAID/Armenia Mission Orders.

Furthermore, we interviewed cognizant Mission, host country and contractor officials, as well as some of the intended beneficiaries to assess the impact and effectiveness of USAID/Armenia's monitoring.

Finally, we conducted field trips to selected activity sites to observe project implementation and assess progress towards accomplishment of planned results and strategic objectives.

Because of the nature of this audit and the restricted size of our sample, every deficiency noted was considered to be a reportable condition.

Management Comments

USAID/ARMENIA MEMORANDUM

Office of the Mission Director

TO: Nathan Lokos, RIG/Budapest

FROM: Keith E. Simmons, USAID/Armenia

DATE: March 7, 2002

SUBJECT: Audit of USAID/Armenia's Activity Monitoring System - Mission Comments on the Draft Audit Report

Thank you for the opportunity to review the subject draft report. The Mission generally agrees with the findings and recommendations. In most cases corrective measures have already been established to address these recommendations and we have included documentation with this memo in support of those actions taken or planned to be taken. We understand that the findings and related recommendations No. 2 and No. 5 are to be addressed by the cognizant CO/CTO in Washington.

The mission would like to point out that many of the examples cited by the auditors were cases clearly under the responsibility of Washington based COs/CTOs. In these cases, although the mission does perform some oversight responsibilities, it is the responsibility of Washington to carry out project activities such as approving work plans. In your section entitled: "The Work Plan Approval Process Should be Strengthened", you site three examples. In each of these examples, a Washington-based CTO was responsible for review and approval of work plans.

We have some minor concerns with some of the language and request you consider changes as identified below.

Recommendation No. 1: We recommend that the Mission Director, USAID/Armenia, revise its mission order on program monitoring and evaluation to: (1) require that Activity Officers conduct periodic field site visits to mission activities; (2) include guidance

concerning the type of information to be gathered and verified during site visits; and (3) require that such visits be properly documented and retained in the activity files.

We suggest that the language of the recommendation be changed to read:

...(1) require that activity officers increase the frequency of periodic field site visits to mission activities;..."

The mission believes the auditors found, with limited exceptions, that site visits were being carried out routinely, but in certain cases they felt that more frequent visits were in order. More importantly, we believe the auditors' primary intention was to ensure that more substantive evidence of visits was documented as is covered in section (3) of the recommendation.

Consequently, if you agree to the above-suggested change, we request that the language in the section entitled "Summary of Results" be modified to state:

"...should: (1) increase the instance of periodic site visits and ensure appropriate documentation of results..."

The Mission believes it has fully addressed the auditors' concerns regarding recommendation No. 1 in its revised Mission Order on Program Monitoring and Evaluation (MO No.1003). Section IV of the Mission Order requires more regular site visits, includes guidance on the type of information to be gathered and verified, and requires that site visits be properly documented. Attachment 3 provides a sample format for trip reports.

<u>Recommendation No. 3</u>: We recommend that the Mission Director, USAID/Armenia, establish a procedure to 1) review the performance indicators of the activities in its portfolio and 2) refine those indicators wherever appropriate so as to make them objective, unambiguous and verifiable in accordance with USAID guidelines.

and

<u>Recommendation No. 4</u>: We recommend that Mission Director, USAID/Armenia, 1) conduct a review of the performance indicators of the activities in its portfolio and 2) refine those indicators wherever appropriate so as to make them objective, unambiguous and verifiable in accordance with USAID guidelines.

We would like to suggest that you eliminate section 2) of recommendation No. 3. This section appears to be a duplication of section 2) in recommendation No. 4, with no value added. We suggest recommendation No. 3 read as follows:

<u>Recommendation No. 3</u>: We recommend that the Mission Director, USAID/Armenia, establish a procedure to review the performance indicators of the activities in its portfolio and that the procedure clearly specify criteria to ensure indicators are objective, unambiguous and verifiable in accordance with USAID guidelines.

The Mission agrees with this recommendation and will provide RIG/Budapest with our newly established procedure for periodic review of indicators. Additionally, the mission has established a plan and timeframe for a complete review of existing performance indicators to be conducted over the next several months. The procedure is described in the Attachment 7 of Mission Order No.1003. Attachment 6 provides guidance on performance indicators and data quality. The plan is provided for your review separately.

Recommendation No. 6: We recommend that the Mission Director, USAID/Armenia coordinate with the Regional Contracting Officer to issue a notice requesting that the Mission's U.S. grantees: (1) review their grant agreements to determine which standard provisions must be included in sub-grants; (2) ensure that the sub-grants incorporate the appropriate standard provisions; and (3) make any required revisions to their sub-grants.

The Mission believes this recommendation has been addressed. The USAID/Armenia Contracting Officer has issued a letter to the Mission's U.S. grantees requesting them to review their agreements and ensure that the subgrants incorporate the appropriate standard provisions. The letter is included in our submission to RIG/Budapest. Please, modify the recommendation to indicate the USAID/Armenia Contracting Officer.

Recommendation No. 7: We recommend that the Mission Director, USAID/Armenia, require that all activity work plans and changes thereto be processed in a timely manner and approved in writing.

The Mission does not agree with this finding. As pointed out in paragraph 2 above, it was the responsibility of the Washington-based CTO to approve work plans in the examples cited by the auditors. In regard to the Tax/Fiscal Reform Program implemented by KPMG, the contract only required a work plan for tax administration component of the program which was submitted well before CO/CTO responsibility transferred to the Mission.

The mission certainly agrees that it has responsibility to ensure work plans and other implementation actions are reviewed and approved by the mission staff where it has CTO authority, and when appropriate. To strengthen the work plan approval process, we further revised the Mission Order on Program Monitoring and Evaluation to ensure that all required activity work plans and changes thereto are processed in a timely manner and approved in writing.

However, since the Mission was not shown to have failed to ensure receipt of work plans where it had cognizance, we believe the recommendation should be eliminated in its entirety.

If you proceed with including this recommendation, we suggest you modify your paragraph starting: "In our opinion, these occurred because:...". Please include, as a cause, a section stating "management responsibility for certain of the activities reviewed was vested in Washington-based CO/CTOs".

<u>Recommendation No. 8</u>: We recommend that the Mission Director, USAID/Armenia, require that activity officers document the results of meetings and retain that documentation in the Mission's activity files.

Section IV of Mission Order No.1003 requires that activity officers document substantive communications with implementing partners. Attachment 2 of the Mission Order provides specific guidance on the type of documentation to be maintained in the official files.

Finally, we would like to thank the RIG auditors for their collaborative and supportive approach during execution of this audit. We believe that the draft report is fair and balanced and will provide a positive contribution to our development effort here in Armenia.