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AUDIT OF
THE MAHARASHTRA SOCIAL FORESTRY
PROJECT IN INDIA
PROJECT NO. 386-0478

AUDIT REPORT NO. 5-386-88-6
JUNE 15, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
- Singapore -

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June 15, 1988

MEMORANDUM FOR Mr. Robert N. Bakley
Director, USAID/India

FROM: Mr. *Richard E. Derrick* Derrick, RIG/A/Singapore

SUBJECT: Audit of the Maharashtra Social Forestry
Project in India, Project No. 386-0478
(Audit Report No. 5-386-88-6)

The Office of the Regional Inspector General for Audit/Singapore has completed its audit of the USAID/India Maharashtra Social Forestry Project No. 386-0478. Five copies of the audit are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains ten recommendations. Recommendation Nos. 1, 2(a), 8 and 9(b) are considered closed and require no further action. Recommendations Nos. 2(b), 2(c), 3, 4(b), 5, 6, 7, 9(a) and 10 are considered resolved and will not be closed until completion of planned or promised actions. Recommendation No. 4(a) is unresolved. Please advise me within 30 days of any additional actions taken to implement the resolved recommendations, and further information you might want us to consider on Recommendation No. 4(a).

I appreciate the cooperation and courtesy extended to my staff during the audit.

EXECUTIVE SUMMARY

The objective of the Maharashtra Social Forestry Project in India was to develop the institutional ability of one state (Maharashtra) in India to assist villages to manage their communal and private lands for increased and sustained production of forest products. The objective was to be achieved by accomplishing four essential components: establish and sustain community and private plantations in 4,300 villages; establish and sustain district and private nurseries; train extension staff assigned to the project; and prepare research reports.

The project was approved on August 31, 1982 and was to be completed by September 30, 1990. The total estimated cost of the project was \$60 million, with A.I.D. and the Government of India each providing \$30 million. A.I.D. had disbursed \$17.6 million as of December 31, 1987.

The Office of the Regional Inspector General for Audit/Singapore made a program results audit of the project. Audit objectives were to evaluate (1) progress in achieving the project objective, (2) the adequacy of USAID/India management of the project, and (3) Government of India compliance with the terms and conditions of the project agreement.

The project accomplished the target of 4,300 villages participating under the project. However, progress in achieving the overall objective - to develop the institutional capability of the Government of Maharashtra to assist villages to manage their communal and private lands for increased and sustained production of forest products - could not be accurately measured. Some components essential to accomplish the project objective were seriously delayed and may not be achieved. USAID/India needed to improve its management of this project especially to ensure propriety of payments made to the Government of India and to ensure that components essential to achieve the project objective are accomplished and sustained. The Government of India did not fully comply with the terms and conditions of the project agreement.

The audit disclosed four problem areas. First, the project method of payment did not comply with A.I.D. payment policies. Second, USAID/India's monitoring and reporting on project achievements were inadequate. Third, the mid-term evaluation report recommendations were not implemented. Fourth, the Government of India did not fulfill its project commitments.

USAID/India used the "fixed amount reimbursement" method for funding project activities. However, A.I.D.'s prescribed criteria for establishment of reimbursement amounts and inspection of project outputs using this method of funding were not satisfied. The problem was attributed to (1) inadequate project design such as unreasonable cost estimates for each output and (2) failure to implement the project as designed such as failure to hire contract staff to assure required outputs were completed. Failure to comply with the A.I.D. policies resulted in inadequate assurance as to the propriety of about \$17 million which A.I.D. had reimbursed to the Government of India under this project. This report recommends that USAID/India take actions to ensure the propriety of A.I.D. payments. USAID/India generally concurred with the finding and recommendations.

A.I.D. is required by law and U.S. Government management standards to monitor and evaluate the use and results of development assistance to ensure that U.S. Government funds are used as effectively as possible. These requirements were not met on the Maharashtra Social Forestry Project because USAID/India did not have quantifiable indicators (targets and timeframes) to measure achievements and adequate procedures for monitoring and reporting on project accomplishments. As a result, USAID/India did not have sufficient information to (1) measure project achievements, (2) determine what could be accomplished within the remaining time and budget, and (3) make timely decisions on deobligation of funds. The inadequate monitoring also resulted in some essential components which were seriously delayed and may not be achieved. This report recommends that USAID/India take actions to improve its monitoring and reporting on project achievements and its management of project funds. USAID/India concurred with the finding and recommendations except for a recommended action to establish quantifiable indicators.

A.I.D. policy requires that A.I.D. missions ensure that recommendations in project evaluation reports are resolved and appropriately implemented. Most of the recommendations in the mid-term evaluation report for this project were not implemented because USAID/India did not have a follow-up system to ensure that the recommended actions were appropriately resolved and implemented. As a result, problems identified in the evaluation report continued to seriously impair project implementation and preclude measurable achievements two years after corrective actions were recommended. This report recommends that USAID/India establish a system to ensure recommendations in project evaluation reports are resolved and implemented. USAID/India concurred with the finding and recommendation.

The project agreement required the Government of India to perform certain actions which included providing all funds and staff necessary to carry out the project effectively and in a timely manner. The Government did not fulfill all its project commitments in the areas of project funding, training project staff, and establishing a monitoring and evaluation unit. This occurred because USAID/India did not ensure compliance. The failure to meet these commitments impaired project implementation and USAID/India's ability to assess project implementation problems and to take timely corrective actions. This report recommends that USAID/India take actions to ensure the Government fulfills its project commitments. USAID/India concurred with the finding and recommendation.

Office of the Inspector General

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PART I - INTRODUCTION

A. Background

The objective of the Maharashtra Social Forestry Project in India was to develop the institutional ability of one state (Maharashtra) in India to assist villages to manage their communal and private lands for increased and sustained production of forest products. The objective was to be achieved by accomplishing four essential components: establish and sustain community and private plantations in 4,300 villages; establish and sustain district and private nurseries; train extension staff assigned to the project; and prepare research reports.

The Government of India was responsible for providing all funds, in addition to A.I.D. funds, and all other resources, required to carry out the project effectively and in a timely manner. The Government of Maharashtra was responsible for overseeing all aspects of project implementation. Technical assistance contractors were to assist the Government of Maharashtra to achieve the project objective. USAID/India was to monitor project implementation to ensure compliance with the terms and conditions of the project agreement and to ensure the effective and efficient use of A.I.D. funds.

The project was approved on August 31, 1982 and was to be completed by September 30, 1990. The total estimated cost of the project was \$60 million, with A.I.D. and the Government of India each providing \$30 million. A.I.D. funding of \$30 million included \$25 million in loan funds for plantation activities and \$5 million in grant funds for technical assistance, training, research, motivators, and evaluations. A.I.D. had disbursed \$17.6 million as of December 31, 1987. See Exhibit 1 for an analysis of A.I.D. obligations and expenditures by budget categories.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Singapore made a program results audit of the project. Audit objectives were to evaluate (1) the progress in achieving the project objective, (2) the adequacy of USAID/India management of the project, and (3) the Government of India's compliance with the terms and conditions of the project agreement.

Audit work included a review of project records and interviews with USAID/India officials and Indian officials at the state and village levels. Selected tree planting sites were visited in three villages. Review of internal controls, compliance, and host country contributions were limited to the issues raised in this report.

The audit was performed during the period November 1987 through January 1988. The audit covered the period from inception of the project on August 31, 1982 to January 28, 1988 and covered A.I.D. expenditures of \$17.6 million. The audit was made in accordance with generally accepted government auditing standards.

USAID/India's comments to our draft report were received on May 26, 1988. Their comments have been incorporated into this report as appropriate and the full text of the comments is included as Appendix 1.

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PART II - RESULTS OF AUDIT

The project accomplished the target of 4,300 villages participating under the project. However, progress in achieving the overall objective - to develop the institutional capability of the Government of Maharashtra to assist villages to manage their communal and private lands for increased and sustained production of forest products - could not be accurately measured. Some components essential to accomplish the project objective were seriously delayed and may not be achieved. USAID/India needed to improve its management of this project especially to ensure propriety of payments made to the Government of India and to ensure that components essential to achieve the project objective are accomplished and sustained. The Government of India did not fully comply with the terms and conditions of the project agreement.

The audit disclosed four problem areas. First, the project method of payment did not comply with A.I.D. payment policies. Second, USAID/India's monitoring and reporting on project achievements were inadequate. Third, the mid-term evaluation report recommendations were not implemented. Fourth, the Government of India did not fulfill its project commitments.

This report contains ten recommendations directed toward ensuring the propriety of A.I.D. payments, improving project monitoring and reporting on project accomplishments, implementing recommendations in the mid-term project evaluation report, and ensuring the Government of India fulfills its project commitments.

A. Findings and Recommendations

1. The Project's Method of Payment Did Not Comply With A.I.D. Payment Policies.

USAID/India used the "fixed amount reimbursement" method for funding project activities. However, A.I.D.'s prescribed criteria for establishment of reimbursement amounts and inspection of project outputs when using this method of funding were not satisfied. The problem was attributed to (1) inadequate project design such as unreasonable cost estimates for each output and (2) failure to implement the project as designed such as failure to hire contract staff to assure required outputs were completed. Failure to comply with the A.I.D. policies resulted in inadequate assurance as to the propriety of about \$17 million which A.I.D. had reimbursed to the Government of India under this project.

Recommendation No. 1

We recommend that prior to authorizing any additional plantation activities under the project, USAID/India:

- a. ensure that the amount to be reimbursed for each output is fixed in advance based upon reasonable cost estimates, and
- b. develop an inspection program and assign sufficient A.I.D. or contract staff to that program to ensure that project outputs are completed in accordance with plans and specifications.

Recommendation No. 2

We recommend that USAID/India in coordination with the respective A.I.D. Regional Legal Advisor:

- a. ascertain the propriety of the retroactive increase in reimbursement amounts under the fixed amount reimbursement payment method prior to making additional payments established by the revisions;
- b. determine and appropriately perform actions necessary to ascertain if the Government of Maharashtra completed the outputs for which it was reimbursed and, if not completed, determine the related propriety of the \$17 million paid to the Government of India under the fixed amount reimbursement procedures; and

- c. recover any unallowable A.I.D. payments made as determined by actions taken to ascertain the propriety of payments made under the project.

Recommendation No. 3

We recommend that prior to paying the remaining installments totaling \$4.8 million for plantation activities already authorized, USAID/India ensure the required inspections are performed and that the required outputs for those installments are completed in accordance with plans and specifications stipulated in the project agreement.

Discussion

A.I.D. and the Government of India agreed to use modified fixed amount reimbursement (FAR) procedures to finance the establishment of 4,300 village programs. Each program was to be reimbursed for outputs in three installments: approval of the village management plan; completion of planting activities; and issuance of a survival report indicating that an acceptable level of seedlings had survived. The amount to be reimbursed at each of these stages and the minimum conditions to be met at each stage in order to warrant reimbursement was to be established in Project Implementation Letters.

USAID/India had paid the Government of India about \$17 million for the above outputs as of December 31, 1987. This included:

- \$11.8 million for 4,300 village management plans under the first installment;
- \$1.6 million for completion of village block plantation planting activities at 3,240 villages under the second installment; and
- \$3.7 million for submission of 2,160 village survival reports under the third installment.

Total A.I.D. payments for completion of the remaining village activities required for the second and third installments were expected to be \$4.8 million. At the completion of the audit, USAID/India was deciding whether or not to authorize funding for about 570 additional villages at an estimated A.I.D. cost of about \$3.2 million.

A.I.D. Handbook 3, Appendix 3J, prescribes criteria for using the FAR method for funding project activities. The criteria specify that:

- the amount reimbursed for each output is fixed in advance based upon reasonable cost estimates;
- A.I.D. and the host government accept the risk that A.I.D. payments will not be increased or reduced per output if there are unforeseen cost increases or reductions; and
- USAID/India either through its own staff or through contract provides for periodic inspections of the project as well as certification that the outputs have been completed in accordance with plans and specifications.

The audit disclosed that USAID/India practices did not comply with prescribed FAR requirements concerning establishment of reimbursement amounts and inspection of project outputs. The problems of not satisfying these criteria were attributed to both inadequate design and failure to implement the project as designed. The problems are discussed below.

Establishment of Reimbursement Amounts - The A.I.D. project paper stipulated that direct and indirect plantation costs were to be divided equally among the village programs. These costs were estimated to total Rupees 508 million (or about \$54 million at Rupees 9.4 to \$1.00). This worked out to Rupees 117,600 (\$12,500) per plantation, of which A.I.D.'s contribution was to be Rupees 54,500 (\$5,800) per plantation.

The A.I.D. project paper provided that payments to the Government of India were to be made in three installments. The first installment of Rupees 30,080 (\$3,200) was for the acceptance of the village management plan by the Government of Maharashtra and the respective village officials. The second installment of Rupees 5,640 (\$600) was for the completion of all site preparation work and the initial planting of the village block plantation. The third and final installment of Rupees 18,780 (\$2,000) was to be for the submission of a comprehensive survival report indicating the progress of the community and private plantations in the village and that an acceptable level of seedlings had survived within the village two years after planting.

Project Implementation Letter No. 3, dated March 23, 1984, established that the reimbursement amounts provided for in the A.I.D. project paper were expected to remain fixed unless a revision, based on a review of actual costs, was requested in writing by either the Government of India or A.I.D. The agreement stipulated that costs incurred over and above the installment amounts would be considered after mutual discussion and would be specified in subsequent Project Implementation Letters.

On March 31, 1987, USAID/India issued Project Implementation Letter No. 12 which increased A.I.D. reimbursement for each installment. The respective local currency increases and respective dollars based on an exchange rate of Rupees 13.0 to \$1.0 were Rupees 10,240 (\$788) for each management plan, Rupees 1,690 (\$130) for each completion of planting activity, and Rupees 6,880 (\$529) for each survival report. For project activities approved as of December 31, 1987, the additional A.I.D. payments attributed to the increased reimbursement amounts were expected to be about \$2.7 million.

There were several problems concerning the establishment of the reimbursement amounts. One problem was that the amounts originally established for each output were not based on reasonable cost estimates. Although the project paper stated that the Rupees 30,080 (\$3,200) established for the first installment represented the estimated direct and indirect costs to develop each village management plan, available documentation and discussion with USAID/India officials indicated the amount greatly exceeded the actual average cost to develop an approved plan. In addition, USAID/India paid \$ 1.6 million for 540 management plans which Government of Maharashtra officials said were essentially completed prior to March 31, 1983; whereas, the Government reported to USAID/India that total project costs as of that date were about \$1.0 million. USAID/India also did not have documents to support that the reimbursement amounts established for the other two outputs were based on reasonable cost estimates.

In its comments to the draft audit report, USAID/India believed it was pertinent to mention that at the time USAID/India disbursed the \$1.6 million in October 1983, the actual project costs incurred by the Government of Maharashtra were about \$4.6 million. USAID/India also wanted the final report to note that (1) although the individual outputs were not supported with cost estimates, the total amount fixed for the three outputs collectively was based on cost estimates and (2) the project paper stated

that the amounts of \$3,200 established for the first installment reflected the importance placed upon the preparation of carefully developed and fully agreed management plans by both USAID/India and the Government of Maharashtra. In our view, these comments do not refute but support the finding that the amounts fixed for each output were not based upon reasonable cost estimates.

A second problem concerning the establishment of reimbursement amounts was that the revised amounts were not fixed in advance. For example, Project Implementation Letter No. 12, dated March 31, 1987, retroactively increased the reimbursement amounts which were already agreed upon and which covered costs already incurred by the Government of India to produce the outputs. For example, the revised amount for the first installment resulted in additional A.I.D. payments of \$833,000 to the Government of India for 1,060 management plans that the Government of Maharashtra reported were completed and for which USAID/India had already approved payment (based on the original reimbursement amount) prior to March 31, 1987. In another example, an additional \$428,000 was paid for the third installment related to seedlings planted in the summer of 1984. Between March 31, 1987 and December 31, 1987, A.I.D. had paid \$1.4 million and was expected to pay an additional \$1.3 million due to the revised reimbursement amounts.

In addition, USAID/India used actual project costs reported by the Government through the end of March 1986 as part of the total estimated cost which was a basis for the revised reimbursement amounts. Thus, the inclusion of the actual costs as a basis for the reimbursements negated A.I.D.'s policy that A.I.D. and the recipient country accept the risk under the FAR payment method that A.I.D. payments will not be increased or reduced per output if there were unforeseen cost increases or reductions.

Also, some proposed costs used to justify the upward revision of the fixed amount reimbursement rates were not incurred. For example, the estimated total direct plantation project costs for the year ended March 31, 1987 were \$6.5 million, whereas, actual reported costs were only \$4.7 million. USAID/India said the reasons for the lower costs were because the proposed wage hikes were not approved, and the Government of Maharashtra imposed funding constraints on project activities.

USAID/India Inspections and Certifications - USAID/India monitoring and administrative approval of vouchers were not adequate to assure that outputs had been completed in accordance with approved plans and specifications and that A.I.D. payments of \$17 million to the Government of India were efficiently and effectively spent. A.I.D. Handbook 3 specifically states that reimbursement must be refused when the plans and specifications were not met. USAID/India had not refused any reimbursement claims. Examples of inadequate assurances as to the propriety of reimbursements and examples when reimbursements probably should have been refused for the three outputs are noted below.

- USAID/India did not ensure that management plans required for the first installment satisfied important requirements prescribed in the guidelines which USAID/India approved as a condition precedent to A.I.D. disbursements for the plans. Of the 4,300 plans paid for by A.I.D., USAID/India officials reviewed only five plans. This review consisted of reading the one plan that was in English and relying on brief and informal translations given by Government of Maharashtra officials on the other four plans reviewed. The one plan that was in English did not adequately discuss or include several pertinent issues required by the guidelines. Examples of these issues included (1) involvement of women for project implementation, (2) prevalent markets for disposal of surplus forest produce, (3) time schedules and training programs for certain activities such as nursery production and planting operations, and (4) details on the method of tending and protecting the plantations. In December 1987, USAID/India confirmed in a letter to the Government of Maharashtra that USAID/India and the Government agreed that the 4,300 management plans prepared under the project were of little value. Both this letter and the mid-term evaluation report on this project issued in December 1985 identified problems in the above four areas and concluded that the management plans needed to adequately address these issues.
- USAID/India did not monitor nor ensure that the number of acres identified in the Government of Maharashtra's management plans were actually planted as required for the second installment. Some payments were questionable. For example, the Government reported to the auditors that 15 villages for which A.I.D. made reimbursement for planting did not include community block plantations. Payments for these villages were

questionable because the planting on community block plantations was required for this installment according to the project agreement. Furthermore, USAID/India did not require the Government to report and did not have data available to compare and assure the hectares required under the management plan for community block plantations were actually planted.

- USAID/India did not assure a survival report was prepared and acceptable stocking levels had been achieved which were the bases for the third installment. The stocking level was to indicate (1) the percentage of trees that were viable compared with the number of seedlings specified by species given in the village management plan and (2) whether a sufficient number of trees had survived and thus whether the area had become a viable unit of production for the village. USAID/India relied almost completely on the Government of Maharashtra to monitor the survival rate of seedlings planted and to assure the survival reports were prepared. For example, USAID/India reimbursed the Government of India \$1.6 million for 810 village survival reports on seedlings originally planted around July 1985. The payment was based almost entirely on a certification by the Government that the reports were prepared as required. USAID/India officials did not review any of the survival reports to assure they included the required data and only performed a cursory inspection at two of the 810 villages to verify the survival rates reported by the Government. An example of specific questionable payments under this installment was for the 15 villages mentioned previously that did not have any community block plantations. As with the installment for tree planting, a requirement for the third installment was an acceptable stocking rate at community block plantations.

USAID/India officials attributed the inadequate inspections to insufficient A.I.D. staff resources assigned to perform these functions. However, this problem could have been alleviated if USAID/India had contracted for technical assistance as provided for in the A.I.D. project paper and in the initial project agreement. These documents allocated \$3.1 million for technical assistance contractors who were to assist A.I.D. staff in project management and monitoring responsibility. USAID/India, however, never hired the contractors because it decided the Government of Maharashtra could satisfactorily perform the respective monitoring and evaluation functions.

As previously mentioned, one of A.I.D.'s criteria for using the FAR method of payment requires that A.I.D. through its own staff or through contract provide for periodic inspections to assure that project outputs have been completed in accordance with plans and specifications. A.I.D. Handbook 3 adds that since savings from the estimated costs accrue to the recipient country, it is particularly important that attention be given to guaranteeing that projects be implemented in accordance with agreed plans and specifications and that any possible collusion between implementation and inspection personnel concerning modifications in inputs be avoided. Thus, USAID/India's practice of relying almost entirely on Government of Maharashtra personnel to assure the outputs were completed in accordance with prescribed plans and specifications was contrary to A.I.D. payment policies.

Conclusion - USAID/India used the FAR procedures to pay the Government of India even though the A.I.D. criteria for establishment of reimbursement amounts and inspection of project outputs were not satisfied. Failure to comply with these criteria resulted in inadequate assurance as to the propriety of about \$17 million which A.I.D. reimbursed to the Government of India under this project.

Management Comments

USAID/India generally concurred with the three recommendations under this finding. USAID/India stated that no additional plantation activities will be funded under the project. USAID/India also stated that: (1) in coordination with the Regional Legal Advisor, it has ascertained that the retroactive increase in the reimbursement amount was inappropriate -- absent extraordinary circumstances; (2) a Project Implementation Letter was issued rescinding the upward revision of fixed amount reimbursement rates; (3) a random sample survey will be performed to determine whether or not the outputs required for reimbursement were completed as planned; (4) appropriate action would be taken to recover unallowable A.I.D. payments; and (5) additional A.I.D. payments were being withheld until the survey on project outputs is completed.

In addition to its comments on each recommendation, USAID/India strongly objected to the generalization that failure to comply with A.I.D. policies resulted in both inadequate assurance as to the propriety and inefficient use of a substantial portion of about \$17 million paid under the

fixed amount reimbursement procedure. USAID/India stated that payments have been made for work that has actually been done, the project's plantation targets have been achieved, and supporting documentation for the payments are available at field locations which the audit report does not mention. USAID/India, however, agreed that its inspection efforts were less than those required under the fixed amount reimbursement procedures.

USAID/India also suggested changes or provided other comments concerning the establishment of reimbursement amounts and the completion of survival reports.

Office of Inspector General Comments

Based on USAID/India's corrective actions. Recommendation No. 1 and part (a) of Recommendation No. 2 are closed upon issuance of this report. Part (b) of Recommendation No. 2 is considered resolved and will be closed when USAID/India provides evidence that the survey of project outputs is completed, and USAID/India has determined the propriety of payments made to the Government of India under the fixed amount reimbursement procedures. Part (c) of Recommendation No. 2 will be closed upon recovery of any unallowable payments. Recommendation No. 3 is resolved and will be closed when USAID/India provides evidence that required outputs for the remaining installments were completed.

Concerning the additional comments by USAID/India, this audit report supports that there was inadequate assurance as to the propriety and inefficient use of A.I.D. funds. An example would be the \$1.4 million in A.I.D. payments which had been made for the retroactive increase in the fixed amount reimbursement rates. In addition, the fact that USAID/India will perform a random sample to determine whether the outputs required for reimbursement were completed as planned substantiates that USAID/India had inadequate assurance as to the propriety of A.I.D. payments to the Government of India. However, due to corrective actions taken or agreed to by USAID/India, the specific statement on inefficient use of funds is not included in this report.

USAID/India comments concerning the establishment of reimbursement amounts and survival reports have been considered and incorporated into or deleted from the report as appropriate.

2. USAID/India's Monitoring and Reporting On Project Achievements Were Inadequate.

A.I.D. is required by law and U.S. Government management standards to monitor and evaluate the use and results of development assistance to ensure that U.S. Government funds are used as effectively as possible. These requirements were not met on the Maharashtra Social Forestry Project because USAID/India did not have quantifiable indicators (targets and timeframes) to measure achievements and adequate procedures for monitoring and reporting on project accomplishments. As a result, USAID/India did not have sufficient information to (1) measure project achievements, (2) determine what could be accomplished within the remaining time and budget, and (3) make timely decisions on deobligation of funds. The inadequate monitoring also resulted in some essential project components which were seriously delayed and may not be achieved.

Recommendation No. 4

We recommend that USAID/India in coordination with the Government of India:

- a. establish quantifiable indicators to measure project achievements; and
- b. revise the project implementation plans to include as a minimum specific targets and timeframes for extension training of Government of Maharashtra officials, preparation of research reports, and disbursement of grant funds.

Recommendation No. 5

We recommend that USAID/India deobligate any grant funds determined not needed based on the revised project implementation plans.

Recommendation No. 6

We recommend that USAID/India develop a system to monitor and report on progress in achieving the four project components essential to accomplishing the project objective.

Recommendation No. 7

We recommend that USAID/India reassess the need and propriety for funding project motivators with A.I.D. grant funds and, as appropriate, ensure the motivators are used for project implementation or deobligate/recommit the \$500,000 committed for motivators.

Recommendation No. 8

We recommend that prior to authorizing additional village participation under the project, USAID/India assess whether the project objective and essential project components (e.g. nurseries and plantations) will be achieved and sustained.

Discussion

The Foreign Assistance Act requires A.I.D. to establish a management system that includes: (1) the definition of objectives and programs; (2) the development of quantitative indicators of progress toward these objectives; (3) the orderly consideration of alternative means for accomplishing such objectives; and (4) the adoption of methods for comparing actual versus anticipated results. In addition, Office of Management and Budget Circular A-117 requires that A.I.D. assess the effectiveness and efficiency of development programs on a continuing basis. In short, A.I.D. is required by law and U.S. Government management standards to monitor and evaluate the use and results of development assistance to ensure that U.S. Government funds are used as effectively as possible.

A.I.D. Handbook 3 requires that: (1) the project design identify specific quantifiable indicators to measure progress in providing project inputs and achieving expected outputs and related project objectives; (2) the project include detailed implementation plans for achieving project objectives; and (3) project budgets and implementation plans be updated periodically or, at a minimum, whenever significant delays occur. The updating requirement was considered essential for effective project management and monitoring. The Handbook also states that project implementors must have specific measurement and reporting systems which will keep everyone advised on the status of activities and identify deviations from plans and schedules in a timely manner.

The importance of quantitative indicators to improve A.I.D.'s monitoring and evaluation systems was stressed in a

May 1987 cable (State 164240) to all A.I.D. missions. The cable stipulated that the A.I.D. Administrator strongly endorsed the position that improved monitoring and evaluation systems can be instrumental in generating empirical data for measuring the results and accomplishments of A.I.D. programs. The Administrator was especially interested in having A.I.D. work toward the use of targets and indicators in the monitoring and evaluation process. The Administrator also noted that good data on project accomplishments can have a powerful positive effect when presented to host country officials and the United States Congress.

The objective of the Maharashtra Social Forestry Project in India was to develop the institutional ability of one state (Maharashtra) in India to assist villages to manage their communal and private lands for increased and sustained production of forest products. The objective was to be achieved by accomplishing four essential components: establish and sustain community and private forest plantations in 4,300 villages; establish and sustain private and district nurseries; train extension staff assigned to the project; and prepare research reports. At the end of the audit, USAID/India was in the process of deciding whether or not to authorize funding for about 570 additional villages at an estimated A.I.D. cost of about \$3.2 million.

USAID/India did not effectively monitor and evaluate project achievements to ensure that A.I.D. funds were used as effectively as possible. This occurred because USAID/India did not have quantifiable indicators (targets and timeframes) to measure achievements and adequate procedures for monitoring and reporting on project achievements.

The monitoring and reporting problems related with achievements of each of the four essential project components and problems in using A.I.D. grant funds are discussed below.

Establish and Sustain Forestry Plantations - This output was for establishing and sustaining community and private plantations of fuelwood, fodder, fruit and other species. The project design projected the planting of 81,000 hectares of community and private lands in 4,300 villages and established timeframes for incrementally achieving these targets. An important part of this output was to assure an appropriate distribution of project produce. Impoverished groups were to receive priority in the distribution of the produce. However, specific targets and timeframes for the production and distribution of produce under the project had not been established.

USAID/India generally monitored and included in its management reports the achievement of the targets established for the number of villages participating and hectares planted under the project. However, USAID/India did not monitor and report on the sustainability of community and private plantations established under the project. For example, USAID/India did not have a system or the data to ascertain the operating status of plantations established under the project (i.e., how many of the plantations were still operating and what percentage of the seedlings provided under the project had survived). USAID/India also had not established a system to monitor and report on the distribution of project produce. These data and systems were needed by USAID/India to ascertain whether or not the output for establishing and sustaining forestry plantations was being achieved and to take corrective actions on project implementation problems.

Also, the Government of Maharashtra did not have an effective system to (1) monitor achievements of this output, (2) determine if the achievements were sustained, and (3) identify and take actions to resolve project implementation problems. For example, the Government's monitoring of community block plantation activities was generally terminated three years after the planting and before any significant distribution of produce. A Government of Maharashtra official said a system was initiated in July 1987 to monitor the activities after the three year period, but sufficient data had not yet been obtained or compiled at the time of the audit to determine the adequacy of the system. The Government also had not established a system to measure achievements in sustaining private plantations.

Additionally, our audit work disclosed there could be problems in achieving or sustaining achievements under this output. For example, 1,350 villages should have accepted management responsibility for community plantations as of July 31, 1987. The Government of Maharashtra reported to the auditors in November 1987 that 662 of these villages had not yet accepted or the Government did not know if the villages had accepted responsibility. Government officials stated that the major reasons the villages did not accept responsibility were because they did not have funds or experienced people to maintain the plantations.

In addition, at the request of the auditors, the Government of Maharashtra developed data on the operations of 25 villages which were selected based on a random sample. The data indicated a high rate of seedling losses. The A.I.D. project paper and project agreement provided that the end-of-project target was to increase survival rates of seedlings the first year after planting to more than 60

percent and, after replacing casualties at the end of the first year, a stocking level in excess of 80 percent by the end of the second year. Examples of problems concerning the viability of plantations identified for the 25 villages included the following.

- Three of the five villages where planting was done in 1983 reported survival rates in 1986 or 1987 for community block plantations of 3 percent, 4 percent and 29 percent, respectively.
- One village planted 16,155 seedlings for a community block plantation in 1985. Replacement of seedlings due to losses over the next two years were reportedly 10,500 and 5,775 seedlings, respectively. Thus, the project provided 32,430 seedlings for this plantation. The Government reported that 11,496 (35 percent of total planted) had survived as of November 1987. Furthermore, the number of casualty replacements were more than the number of seedlings initially planted under the project.
- A village where planting was done in 1984 had reported survival rates in May 1987 of 40 percent for block plantations and 34 percent for all plantations included under the project.
- The reported survival rate was 15 percent in October 1987 for 40,000 seedlings planted in 1986 for private plantations in one village.

The data provided the auditors did not identify the reasons for the high rate of seedling losses. However, the Government of Maharashtra reported in its reimbursement claims for the third installment under this project that seedling losses were generally attributed to little rain, poor soil conditions, and damage by stray cattle and other animals.

Establish and Sustain Private and District Nurseries - This component was for establishing 54 district nurseries and 4,300 private nurseries by June 30, 1984 and May 31, 1988, respectively. The project design projected that the district nurseries would produce 76 million seedlings annually and the private nurseries would produce 65 million seedlings during the eight-year project period. The project paper did not include incremental timeframes for production by the private nurseries. The project paper stated that the private nurseries were a key element in developing the expertise for continuing the social forestry program after the project was completed.

Data developed during the mid-term project evaluation in October 1985 showed that the projection for establishing private nurseries was far from being achieved. The data showed that only 472 of the 2,160 private nurseries which should have been established by that time had been established. The evaluation report recommended that private nurseries be substantially expanded.

Neither the Government of Maharashtra nor USAID/India knew how many private and district nurseries established under the project had sustained operations. The Government only had reports to identify how many nurseries were established in a given year and the seedlings produced that year. The Government did not monitor or have reports on the nurseries' operations after the first year. USAID/India's management reports did not identify quantified data to measure progress in achieving this output.

The audit attempted to determine the extent private nurseries were established and sustained operations under the project. The auditors requested the Government of Maharashtra to identify the number of such nurseries in the 25 villages which were randomly selected that produced seedlings for the June/July 1987 planting season. The Government of Maharashtra reported that no private nurseries established under the project in these villages produced seedlings for that planting season. Government of Maharashtra officials said the Government of India began a national program in October 1986 to establish private nurseries but the officials did not consider establishing private nurseries as an objective of this A.I.D.-funded project after that date. USAID/India officials were not aware of the Government of Maharashtra decision not to include private nurseries under this A.I.D.-funded project.

Train Extension Staff - This component was to provide for about 700 trained and experienced extension staff. The project design included a yearly in-country training schedule for this staff during the project period. The project paper stipulated that the extension program would be the key element necessary to achieve A.I.D. project goals.

U.S.A.I.D./India did not monitor or include in its management reports either the number of extension staff trained or information on the success of such in-country training. Government of Maharashtra officials also could not provide the auditors with this information when requested in November 1987. The officials said they would develop the information but did not have it available when the auditors followed up on the request in January 1988.

The mid-term evaluation report issued in December 1985 noted that extension training for all staff was severely lacking. In December 1987, USAID/India notified the Government of Maharashtra that the Government's plantation officers and assistant plantation officers, who were expected to do the most extension work, were grossly undertrained in extension methodology. USAID/India also noted that villages had generally not cooperated largely due to the lack of time available to these officers to function in their primary capacity as extension agents.

Prepare Research Reports - The project paper identified the "objectively verifiable indicator" for this component as the preparation of 150 research reports. The paper did not identify the specific timeframes for preparing the reports. The primary purpose of this output was to address technical constraints encountered in project implementation.

USAID/India's management reports did not identify progress in achieving this output or discuss problems in this area. In fact, no research reports had been issued under the project as of December 31, 1987.

The mid-term project evaluation report issued in December 1985 noted that numerous technical problems had surfaced which reduced the Government of Maharashtra staff's ability to effectively discharge their duties. The report concluded that research activities were needed to find solutions to the problems. In December 1987, USAID/India sent a letter to the Government of Maharashtra stating that increased priority and funding for research activities were needed to achieve the project objective.

Grant Funding - Grant funds of \$5 million were approved under the project for such costs as technical assistance, training, research, motivators, and evaluations. The project design and USAID/India officials considered these components essential to achieve the above outputs.

Very little of the grant funds had been used. As shown in Exhibit 1, only about \$550,000 of the \$5 million A.I.D. grant funds had been spent as of December 31, 1987. USAID/India did not revise the original budget to show projected needs over the remaining life of the project.

In our opinion, there is a good chance that a revision of the implementation plan would show the potential to deobligate or reprogram funds. For example, the project agreement allocated grant funds of \$500,000 for payments to motivators. No funds were spent and the Government of Maharashtra decided to discontinue the use of motivators

under the project effective April 1, 1987. Government officials said the motivators were not useful for project purposes. Furthermore, justification for using grant funds to fund motivators was questionable because about \$2.0 million for motivators was already included in the estimated costs used as a basis for A.I.D. loan fund reimbursements to the Government of India for plantation activities. Training would be another example for potential deobligation. Only about \$500,000 of approximately \$2.5 million allocated for training were spent. The project paper projected that essentially all of the training funds would have been spent by December 1987.

Conclusion - USAID/India did not have sufficient information to (1) measure project achievements, (2) determine what could be accomplished within the remaining time and budget, and (3) make timely decisions on deobligation of funds. Some components essential for accomplishing the project objective were seriously delayed and probably will not be achieved. USAID/India needs to establish quantifiable indicators to measure project achievements and adequate procedures for monitoring and reporting on project accomplishments. USAID/India should also have reasonable assurance that the project objective is being achieved and will be sustained prior to authorizing additional village participation under the project.

Management Comments

USAID/India concurred with all recommended actions under this finding, except part (a) of Recommendation No. 4 to establish quantifiable indicators to measure project achievements. They requested closure of part (a) because field implementation of the project was completed in August 1987 and no additional field activities were anticipated.

USAID/India agreed to revise the project implementation plans and were in the process of discussing the plans with the Government of Maharashtra. They further agreed to deobligate any grant funds determined not needed based on the revised plans, and to establish a system to monitor and report on project progress through the establishment of a Monitoring and Evaluation Unit by the Government of Maharashtra. In the event the Government of Maharashtra does not establish the evaluation unit, USAID/India will utilize project funds to monitor the project through contractors. After reassessing the situation and based on the revised implementation plans, USAID/India intends to deobligate/recommitt any unneeded grant funds set aside for motivators. Also USAID/India stated that no additional village plantations will be financed under the project and negotiations were being held to deobligate the remaining unutilized project loan funds.

Office of Inspector General Comments

Based on USAID/India actions as noted in their written response to the draft report, Recommendation No. 8 is closed upon issuance of this report. Part (a) of Recommendation No. 4 is unresolved because we believe that even though no additional field activities were anticipated, quantifiable indicators should be established for the production and distribution of produce under the project. Timeframes should also be established for the preparation of the 150 research reports identified as the "objectively verifiable indicator" for the research component of the project. Part (a) will be closed when USAID/India provides evidence that the recommended targets and timeframes have been established.

The remaining recommended actions in this finding are all resolved. Part (b) of Recommendation No. 4 will be closed when the revised implementation plans have been finalized. Recommendation No. 5 will be closed when USAID/India deobligates any unneeded grant funds. Recommendation No. 6 will be closed upon development of a project monitoring system which includes specific USAID/India actions within the system. Recommendation No. 7 will be closed when USAID/India provides documentary support on the propriety of using A.I.D. grant funds for motivators and evidence that the remaining unutilized grant funds allocated for motivators have been deobligated.

3. Mid-Term Evaluation Report Recommendations Were Not Implemented.

A.I.D. policy requires that A.I.D. missions ensure that recommendations in project evaluation reports are resolved and appropriately implemented. Most of the recommendations in the mid-term evaluation report for this project were not implemented because USAID/India did not have a follow-up system to ensure that the recommended actions were appropriately resolved and implemented. As a result, problems identified in the evaluation report continued to seriously impair project implementation and preclude measurable achievements two years after corrective actions were recommended.

Recommendation No. 9

We recommend that USAID/India:

- a. ensure that the recommendations in the mid-term evaluation report for the Maharashtra Social Forestry Project are resolved and implemented; and
- b. establish a system to assure recommendations in project evaluation reports are resolved and implemented.

Discussion

A.I.D. Handbook 3 and the A.I.D. Evaluation Handbook stipulate that A.I.D. missions should respond to recommendations presented in evaluation reports. The response may be a complete or partial acceptance of a recommendation, a proposed alternative action that accomplishes the same objective, or rejection of a recommendation. The course of action to be followed must be documented and rejections or modification of recommendations must be explained. The missions are also required to establish a system for following-up on the decided course of action in response to evaluation recommendations to ensure that these actions are implemented.

The A.I.D. Evaluation Handbook states that the primary purpose for conducting an evaluation is to obtain information that can help managers improve the performance and effectiveness of the activity. The Handbook further states that the evaluation process is not complete until action is taken on the evaluation report recommendations.

The mid-term project evaluation report issued in December 1985 included 41 recommendations. USAID/India officials met in February 1986 to discuss the report's findings and concluded that each of the report's recommendations should have been implemented by December 31, 1986. Notwithstanding this decision, USAID/India and Government of Maharashtra officials indicated that most of the recommendations in the report still had not been implemented as of December 1987. Exhibit 2 identifies the implementation status for 30 selected recommendations in the report as of December 31, 1987.

USAID/India did not take the appropriate corrective action primarily because they did not have a follow-up system to ensure that the recommended actions were appropriately resolved and implemented. In March 1986, a USAID/India official was assigned responsibility to (1) initiate discussions with the Governments of India and Maharashtra regarding their response to the evaluation recommendations, (2) document actions taken to implement the recommendations, and (3) provide USAID/India management with quarterly reports on the status of implementation. However, these tasks were not performed and mission management did not ensure that they were accomplished.

As a result of the audit, USAID/India sent a letter to the Government of Maharashtra in November 1987 requesting the Government to submit to USAID/India a written report stating the current status of actions being taken or already completed to address the recommendations. This was a good start to resolve this problem. However, the Government had not yet provided its response to USAID/India when the audit field work was completed at the end of January 1988.

USAID/India officials acknowledged that the lack of an effective follow-up system to assure evaluation report recommendations were resolved and implemented was a systemic problem. The auditors noted that USAID/India Orders (i.e., Numbers 650 and 660) issued in 1987 which related to this issue did not assign specific responsibility and establish procedures to follow-up on evaluation report recommendations. At the completion of the audit, USAID/India was revising one of the orders to resolve the problem.

The failure to implement the actions recommended in the evaluation report on the Maharashtra Social Forestry Project resulted in many problems which continued to seriously impair project implementation and preclude measurable achievements two years after corrective actions were recommended. Examples of these problems for three specific project activities are noted below.

Training - The evaluation report identified several problems concerning the training component. One of the problems was the Government of Maharashtra staff fell far short of the training needed and outlined in the A.I.D. project paper. The report noted that training of senior staff and extension training for all staff was severely lacking and that overseas training was virtually non-existent. The evaluation report recommended that (1) bottlenecks impeding the nomination, selection, and approval of individuals associated with overseas training be eliminated, (2) the training program for extension workers be improved, and (3) village motivators be given specialized training.

None of the three recommendations mentioned above were implemented. For example, the training schedule provided that 78 participants should have received overseas training by December 31, 1987 -- only 24 participants had received such training by that time. Government of Maharashtra and USAID/India officials could not identify at the time of the audit how many of the 950 participants scheduled under the project design had actually attended the senior staff extension program and the plantation officers extension course. Concerning the training for motivators, the training was not provided and the Government of Maharashtra discontinued the use of motivators for project purposes effective April 1, 1987.

Transfer of Plantation Management Responsibilities - The report stated that many villages were expressing a reluctance to assume the management responsibility of community plantations. One of the report's recommendations was that the Government of Maharashtra structure activities involving the acceptance of responsibility for management of the community plantation starting with the development of a village management plan and continually increase until three years after tree planting at which time the village was expected to assume management of the plantation. This recommendation was not implemented as of December 31, 1987.

USAID/India did not know how many of the 1,350 villages which should have assumed management responsibility for the plantations at the time of the audit had done so. The Government of Maharashtra provided the auditors a list that showed 662 of the 1,350 villages either had not yet assumed responsibility or the Government did not know if they had assumed responsibility.

USAID/India and Government of Maharashtra officials said many villages were reluctant to accept management responsibility for the community plantations because of inadequate financial resources and training to protect and manage the plantations.

Monitoring and Evaluation - The evaluation report stated that the Government of Maharashtra's information systems on project activities were very limited. The systems did not adequately (1) provide data on productivity, (2) identify problems which constrained project effectiveness, (3) provide information to formulate plans, (4) justify program actions and budgets, and (5) provide information to formulate management alternatives. The report concluded that the rapid implementation of monitoring and evaluation systems was essential to the long-term sustainability of the project objectives.

The report recommended that the Government of Maharashtra needed to implement the plan proposed by the project implementing agency to strengthen the monitoring and evaluation systems. The report also stated that the systems should be computerized so information could be rapidly recorded, summarized, and reported. The need to develop detailed monitoring and evaluation systems were noted for the following activities; nursery and plantation accomplishments, extension work, training, and market conditions.

Very little action had been taken on the recommendations. The Government of Maharashtra had not approved the plan proposed by the project implementing agency even though the plan was consistent with Government of India guidelines for monitoring and evaluating social forestry activities in India. The guidelines provided for a monitoring and evaluation unit consisting of about 27 full time management and technical personnel. Not more than two staff persons had performed this function at any one time for this project. The Government of Maharashtra purchased the required computer but it was not installed because the installation location was not decided upon. Government officials said at the time of the audit that the computer should be installed in February 1988. No action was taken to develop the required monitoring and evaluation systems for the four components identified in the report.

Conclusion - The failure to implement the actions recommended in the mid-term evaluation report resulted in many problems which continued to seriously impair project implementation and preclude measurable achievements two years after corrective actions were recommended. USAID/India needs to establish a follow-up system to ensure that project evaluation report recommendations are appropriately resolved and implemented.

Management Comments

USAID/India concurred with the recommended actions under this finding. USAID/India stated that it has confirmed that the Government of Maharashtra had prepared and was processing the written report requested by USAID/India on the implementation status of recommendations included in the evaluation report on the Maharashtra Social Forestry Project. USAID/India issued a revised USAID Order No. 650 (dated February 24, 1988) which specifically provides procedures for following up on recommendations in project evaluation reports to ensure the recommendations are resolved and implemented. USAID/India also stated that tracking the progress in implementing evaluation report recommendations is now a formal part of the semi-annual project implementation report system.

Office of Inspector General Comments

Part (a) of Recommendation No. 9 is considered resolved and will be closed when the mid-term evaluation report recommendations are resolved and implemented. Part (b) is considered closed upon issuance of this audit report.

4. Government of India Did Not Fulfill Its Project Commitments.

The project agreement required the Government of India to perform certain actions which included providing all funds and staff necessary to carry out the project effectively and in a timely manner. The Government did not fulfill all its project commitments in the areas of project funding, training project staff, and establishing a monitoring and evaluation unit. This occurred because USAID/India did not ensure compliance. The failure to meet these commitments impaired project implementation and USAID/India's ability to assess project implementation problems and to take timely corrective actions.

Recommendation No. 10

We recommend that USAID/India develop timeframes and a plan of action to ensure the Government of India fulfills its funding, training, and evaluation commitments to the project.

Discussion

The project agreement required the Government of India to provide all funds, in addition to A.I.D. funds, and all other resources required to carry out the project effectively and in a timely manner. Government of Maharashtra staff were to receive training and work for a specified time under the project. The agreement also required the Government of India to establish an evaluation program as an integrated part of the project and adequately staff a monitoring and evaluation unit within the implementing agency.

The Government of India did not fulfill all its project commitments. Examples of non-compliance with the project agreement included the following:

- The Government of India did not provide its required financial contributions for specific budget categories and did not approve certain activities to be funded by A.I.D. For example, as of December 31, 1987, the Government provided only \$508,000 of the \$6.7 million required under the project agreement for equipment and buildings. Government of Maharashtra officials said no funds were authorized for these items for the year ending March 31, 1988. A specific example of the Government of India not approving activities to be funded by A.I.D. was technical support. The project

agreement allocated \$800,000 for this support but none of this had been spent as of December 31, 1987. USAID/India sent a letter to the Government of Maharashtra in December 1987 stressing the need for the Government to ensure that increased funding be authorized for training, research and housing construction for project personnel.

- The Government of Maharashtra had approved only 24 candidates for overseas training as of December 31, 1987. The training schedule provided that 78 participants should have received overseas training by that time.
- The Government of Maharashtra did not establish and adequately staff a monitoring and evaluation unit in the implementing agency. Government of India guidelines provide that such a unit should have about 27 full time management and technical staff. Not more than two persons had performed this function at any one time for this project. The evaluation program was to evaluate progress toward attainment of project objectives and identify and resolve problems which inhibit such attainment. The project agreement stipulated that the unit was essential to assist A.I.D. in managing the project and was to be adequately staffed by June 1983. USAID/India notified the Government of Maharashtra in December 1987 that the failure to adequately staff the unit had a negative impact on the way the project had been managed, and that actions should be taken to fully staff the unit as provided for in the Government of India guidelines.

A USAID/India official said he had discussed the inadequate Government of India commitments to the project with Government of Maharashtra staff but had not been successful in getting the Government of India to fulfill its project commitments. USAID/India officials said no timeframes and plan of action have been developed to ensure the Government of India fulfilled its funding, training, and evaluation commitments to the project.

The failure by the Government of India to fulfill its project commitments impaired project implementation and USAID/India's ability to assess project implementation problems and to take timely corrective actions. The mid-term evaluation report issued in December 1985 identified that increased funding for specific project components (i.e., buildings, technical support, training, and research) and an improved evaluation program were essential to the long-term sustainability of the project objective. USAID/India officials said the report's findings on this matter were still valid.

In conclusion, USAID/India needs to develop timeframes and a plan of action to ensure the Government of India fulfills its funding, training, and evaluation commitments to the project.

Management Comments

USAID/India concurred with Recommendation No. 10 to develop timeframes and a plan of action to ensure the Government of India fulfills its funding, training and evaluation commitments to the project.

Office of Inspector General Comments

Recommendation No. 10 is considered resolved and will be closed when USAID/India provides evidence that it has completed the recommended actions.

B. Compliance and Internal Control

Compliance

Findings 1, 2, and 3 identified that USAID/India did not comply with A.I.D. requirements for funding project activities, monitoring and reporting on project achievements, and following up on recommendations made in evaluation reports. Finding 4 discussed cases when the Government of India did not fulfill its project commitments. The audit review of compliance was limited to the findings presented in this report.

Internal Control

All four findings in this report identified inadequate internal controls. Finding 1 discussed the need for better controls to ensure the propriety of A.I.D. payments. Finding 2 identified the need for improved monitoring and reporting on project achievements. Finding 3 addressed the need to establish a follow-up system to ensure evaluation report recommendations are resolved and implemented. Finding 4 discussed the need for controls to ensure the Government of India fulfills its project commitments. The audit review of internal controls was limited to the findings presented in this report.

AUDIT OF
MAHARASHTRA SOCIAL FORESTRY
PROJECT IN INDIA
PROJECT NO. 386-0478

PART III - EXHIBITS AND APPENDICES

Analysis of A.I.D. Obligations
and Expenditures by Budget
Categories as of December 31, 1987 (in \$000)

<u>Budget Category</u> <u>1/</u>	<u>Obligations</u>	<u>Disbursements</u>
Plantation Costs	\$25,000	\$17,033
Technical Support	800	2
Training	2,460	498
Research	1,190	49
Motivators	500	0
Evaluation	<u>50</u>	<u>0</u>
	<u>\$30,000</u>	<u>\$17,582</u>
	=====	=====

1/ Plantation costs are A.I.D.-loan funded and the remaining budget categories are A.I.D.-grant funded.

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Analysis of the Implementation Status
of Selected Recommendations In
The December 1985 Mid-Term
Project Evaluation Report
as of December 31, 1987

<u>Issue Area/Recommendation</u>	<u>Implementation Status</u>
<u>Training</u>	
1. Training should be modified and targeted at specific social/economic groups within each village.	No Action
2. Village motivators be given specialized training.	No Action
3. Bottlenecks impeding the nomination, selection, and approval of individuals associated with overseas training be eliminated.	No Action
4. A reasonably permanent training program which uses professional extension educators should be developed.	No Action
5. Opportunities for staff members within the state to exchange information on successes and failures in both extension and forestry activities.	Partially Implemented
<u>Extension</u>	
6. All villages should be assigned motivators as soon as possible.	No Action
7. Directly recruit Assistant Plantation Officers.	No Action
<u>Seedling Production and Distribution</u>	
8. Private nurseries be substantially expanded.	No Action

<u>Issue Area/Recommendation</u>	<u>Implementation Status</u>
9. Seedling distribution policy be carefully evaluated since the current policy is a disincentive to the establishment and continual operation of village nurseries.	Partially Implemented
<u>Transfer of Plantation Management Responsibilities</u>	
10. The village management plan should identify all tasks related to nursery and plantation maintenance and management. The plan should clearly specify the roles and responsibilities of the participating parties and define when and how the rules and responsibilities will change.	No Action
11. Villages that successfully resume management of their community plantation be used as "demonstration villages" for other communities.	No Action
<u>Distribution of Produce from Community Plantations</u>	
12. Government of Maharashtra should develop three to five alternative models for the distribution of produce from community plantations and allow the villages to select the most appropriate one for their situation.	No Action
13. Production of products from community plantations through time be considered in the distribution scheme.	No Action
14. The question of who should and can enforce the benefit distribution schemes adopted by the villages needs to be addressed.	No Action

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<u>Issue Area/Recommendation</u>	<u>Implementation Status</u>
<u>Research</u>	
15. The research proposal on agro-forestry systems submitted by an agricultural university needs to be initiated immediately.	Partially Implemented
16. Collect and analyze plantation data so trends in production can be quickly made available to extension officers.	No Action
17. A detailed wood marketing study be undertaken so present and future market conditions for forest products can be realistically estimated.	No Action
<u>Monitoring and Evaluation</u>	
18. Monitoring and evaluation of social forestry activities should be strengthened and computerized.	No Action
19. Detailed monitoring and evaluation activities need to be developed for each of the following components: nursery and plantation monitoring; extension monitoring; training monitoring; and market condition monitoring.	No Action
<u>Departmental Organization</u>	
20. State forestry department needs to expand from five to six regional offices so its divisional boundaries are aligned with revenue divisions.	Implemented
21. Complete staffing in all 29 administrative districts.	No Action

<u>Issue Area/Recommendation</u>	<u>Implementation Status</u>
<u>Employment Conditions</u>	
22. Vehicles should be provided to ensure the flexible mobility of extension personnel.	Partially Implemented
23. Provide employee staff incentives such as special pay and residential quarters.	No Action
<u>Women's Participation</u>	
24. Need to emphasize the planting of fodder and fruit trees on private and community plantations.	Partially Implemented
25. School nursery programs should be expanded.	Partially Implemented
26. Women should be encouraged and trained to raise seedlings around their homes.	Partially Implemented
<u>Project Revisions</u>	
27. Certain project targets should be modified.	Implemented
28. Estimated cost and benefit streams developed for community block plantations should be revised.	No Action
29. Funding and expenditures for building, technical support, training and research needs to be increased to at least the proportion specified in the project paper.	No Action
30. The project budget should be revised and a modified fixed amount reimbursed schedule should be developed.	Implemented

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

NEW DELHI, INDIA

May 24, 1988

RECEIVED

MEMORANDUM

26 MAY 88

TO : Mr. Richard Derrick - RIG/A/S

FROM : Gary A. Eidet - CO/USAID, New Delhi *GAE*

SUBJECT : Mission Comments on Draft Audit Report of
Maharashtra Social Forestry Project (386-0478)

RIG/A/S
26 MAY 88

Attached herewith are Mission Comments to the subject draft audit report.

**Mission Comments on the Draft Audit Report on the
Maharashtra Social Forestry Project (MSFP)**

I. BACKGROUND

Mission requested audit of all three of its social forestry projects in 1985 & 1986. However, only MSFP was selected. The project audit was not performed until several months after the end of field activities (i.e. August 1987) and was conducted by two auditors during two, three-week TDYs in India, beginning in November 1987. The team reviewed records in the USAID/New Delhi office for the entire period except for 2-1/2 days during the first trip and two days the second trip. One half day of the first trip was spent on a visit to three adjacent villages in a semi arid zone, about one hour southeast of Pune, the HQ of the Maharashtra Social Forestry Directorate (SFD). One day of the second trip was spent in travel to Bombay and a 2 hour discussion with the Forest Secretary. We feel this extremely limited audit effort at the field level was insufficient to draw realistic conclusions about the project's field operations.

During the period 21-25 February 1988, the project officer and two Mission FSNs, one from the PRJ and the other from the CO made a record search at five sites in Maharashtra outside of Pune. The findings are presented in Attachment III. In all cases records were reviewed which support the aggregate FAR requests of the SFD. This corroborates the Mission's position that the GOI/GOM did keep and retain project records as required. Based on the above, the following presents the Mission response to the audit findings and recommendations.

II. FINDINGS, RECOMMENDATIONS AND THE MISSION RESPONSE

**FINDING #1: Project method of payment did not comply with AID
Payment Policies**

Response -- Mission acknowledges that PII #3 establishing the FAR did not comply with AID FAR policies. To respond to this finding, Mission has already issued a PII #14 dated March 29, 1988 rescinding the increase in FAR amounts and is reverting to the rates established originally. As a consequence, the original FAR amounts will now be fixed and not be subject to revision absent extraordinary circumstances. Set-off(s) will be used as appropriate. FYI: The increase provided in PII #12 reflected significant changes in the wage rate structure throughout the labor market in Maharashtra. The wage change, however, was taken to Court by the GOM and is yet to be ruled on. If approved by the Supreme Court, the new wage rates will be retroactive. :End FYI.

- RECOMMENDATION 1: We recommend that prior to authorizing any additional plantation activities under the project, USAID/India:
 - a. ensure that the amount to be reimbursed for each output is fixed in advance based upon reasonable cost estimates.
 - b. develop an inspection program and assign sufficient AID or contract staff to that program to ensure that project outputs are completed in accordance with plans and specifications

Response -- No additional plantation activities will be funded under the project. Request that recommendation be closed.

- RECOMMENDATION 2: We recommend that USAID/India in coordination with the AID Regional Legal Advisor:

- a. ascertain the propriety of the retroactive increase in reimbursement amounts under the FAR payment method prior to making additional payments established by the revisions;

Response -- Mission, in coordination with the Regional Legal Advisor, has ascertained that the retroactive increase in the reimbursement amount was inappropriate - absent extraordinary circumstances. Accordingly, PIL No. 14 has been issued rescinding the upward revision in FAR rates contained in PIL No. 12. Request recommendation be closed.

- b. determine and appropriately perform actions necessary to ascertain if the GOM completed the outputs for which it was reimbursed and, if not completed, determine the related propriety of the \$17 million paid to the GOI under the fixed amount reimbursement procedures; and

Response -- As discussed above, the Mission has rescinded the upward rate revisions in PIL No. 12 and intends to directly contract for a true random sample survey. The survey will establish whether or not the outputs were completed as planned. Attachment II contains the scope of work for the sample survey.

- c. recover any unallowable AID payments made as determined by actions taken to ascertain the propriety of payments made under the project.

Response -- Action on this part of Recommendation 2 will depend on the findings of the survey described above.

RECOMMENDATION 3: We recommend that prior to paying the remaining installments totaling \$4.8 million for plantation activities already authorized, USAID/India ensure the required inspections are performed and that the required outputs for those instalments are completed in accordance with plans and specifications stipulated in the Project Agreement.

Response -- Mission is withholding a GOI claim for approximately \$2.7 million pending completion of the survey and adjustment of the excess payments of about \$1.4 million made earlier at the higher revised FAR rates. Action on this recommendation will be taken on the basis of the survey results.

FINDING # 2: USAID/India reporting and monitoring of project achievements were not adequate.

- RECOMMENDATION No. 4: We recommend that USAID/India in coordination with the GOI:

- a. establish quantifiable indicators for achieving project objectives, and

Response -- Because field implementation of the project was completed in August 1987 and no additional field activities are anticipated, this recommendation will not be followed. Request recommendation be closed.

- b. revise the project implementation plans to include as a minimum specific targets and timeframes for extension training of GOM officials, preparation of research reports, and disbursement of grant funds.

Response -- Proposed implementation plans for training of GOMP officials, preparation of research reports, and disbursement of grant funds are presented on the following page. These plans are now being reviewed by, and negotiated with, the GOM.

- RECOMMENDATION 5: We recommend that USAID/India de-obligate any grant funds determined not needed based on the revised project implementation plans.

Response -- Mission has started discussions with the GOM and will deobligate unneeded grant funds as soon as reasonable estimates of future requirements of grant funds are available.

- RECOMMENDATION 6: We recommend that USAID/India develop a system to monitor and measure progress in achieving the four project components essential to accomplishing project objective.

Response -- Mission will continue to press GOM staff to establish and fund a Monitoring and Evaluation Unit (MEU), following GOI guidelines in the "Operational Guide to the Monitoring and Evaluation of Social Forestry in India", and ensure that the MEU is institutionalized as an integral unit of the GOM. In the event Mission is unsuccessful in getting the GOM to do this, it will utilize project funds to monitor the project through contractors.

- RECOMMENDATION 7: We recommend that USAID/India reassess the need and propriety for funding project motivators with AID grant funds and, as appropriate ensure they are used for project implementation or deobligate/recommit the \$500,000 committed for motivators.

Response -- After reassessment, Mission has determined that the motivators utilized and paid for through PIL # 8 were necessary and properly utilized. The funds remaining after reimbursement will be deobligated/recommitted in conjunction with the action to be taken pursuant to Recommendation No. 5.

- RECOMMENDATION 8: We recommend that prior to authorizing additional village participation under the project USAID/India assess whether the project objective and essential project components (e.g. nurseries and plantations) will be achieved and sustained.

Response -- No additional village plantations will be financed under the project. Mission is negotiating deobligation of the remaining unutilized project funds. Request recommendation be closed.

FINDING # 3: Mid term evaluation report recommendations were not implemented.

- RECOMMENDATION 9: We recommend that USAID/India:
 - a. ensure that the recommendations in the mid-term evaluation report are resolved and implemented, and

Response -- Mission did not request a written report from the implementing agency on the status and progress of actions to implement the evaluation recommendations. However, USAID had long been addressing those issues at the SFD level and used the evaluation to bring them to the attention of state and central agencies. In response to the auditor's concern, USAID requested a written report on 18 November 1987 (copy of the letter attached see Attachment IV). Although it is yet to be issued, it is confirmed that the report has been prepared and is in the GOM clearance process.

- b. establish a system to assure recommendations in project evaluation reports are resolved and implemented.

Response -- Mission has formalized an evaluation recommendation tracking system (USAID Mission Order No. 650 dtd. 11/29/87) to ensure evaluation recommendations are resolved and implemented. Two persons have been assigned full time to this undertaking. In

addition, progress in evaluation recommendation tracking is now formally a part of the semi-annual PIR system. Copy of USAID Mission Order No. 650 is attached. Request recommendation be closed.

FINDING # 4: Government of India did not Fulfill Its Project Commitments

- RECOMMENDATION 10: We recommend that USAID/India develop timeframes and a plan of action to ensure the Government of India fulfills its funding, training, and evaluation commitments to the project.

Response -- With reference to Recommendation 6, in which monitoring and evaluation are being addressed, and to Recommendation 4b, in which training and evaluation are scheduled, Mission is developing timeframes and a plan of action to ensure the GOI fulfills its funding, training and evaluation commitments to the project. Mission is also urging the GOM to construct residences for field staff as soon as possible.

ATTACHMENT I.

ADDITIONAL COMMENTS ON
MAHARASHTRA SOCIAL FORESTRY PROJECT AUDIT REPORT

- 1) Audit Comment (Pages iii and 6): Failure to comply with A.I.D. policies resulted in both inadequate assurance as to the propriety and inefficient use of a substantial portion of about \$17 million"

Response: We strongly object to this generalization in view of the fact that payments have been made for work that has actually been done, that project's plantation targets have been achieved, and supporting documentation therefor are available at field location which the auditors have not mentioned. We agree that the Mission's inspection efforts were less than those required under FAR, but it does not mean that assurance about work done was not available or that the resources were used inefficiently. We, therefore, suggest that this statement be deleted.

- 2) Audit Comment (Page 12/13): "There were two problems concerning the establishment of the original reimbursement amounts. One problem was that the amounts established for each output were not based on reasonable cost estimates...."

Response: To place the finding in perspective, the report should also mention that although the individual outputs were not supported with cost estimates, the total amount fixed for the three outputs collectively was based on cost estimates (and worksheets therefor were shown to the auditors). In this connection, we would like to reemphasize the Project Paper statement that the amount of \$3200 fixed for the first trigger point, i.e. village management plans, reflected the importance placed upon the preparation of carefully developed and fully agreed plans by both USAID and the GOM.

- 3) Audit Comment (page 13): "USAID/I paid \$1.6 million for 540 management plans which GOM officials said were essentially completed prior to March 31, 1983, whereas the government reported to USAID/I that total project costs as of that date were less than \$900,000..."

Response: The actual project costs as of March 31, 1983 as per GOM/HSFD records were Rs. 10,237,000, or \$1,002,644 (\$1=Rs.10.21 - the rate at which \$1.6 million were disbursed) and not \$900,000 as stated by the auditors. It seems the auditors have either used a different rate of exchange or have excluded certain project costs in their computation. More importantly, it is pertinent to mention that at the time USAID disbursed \$1.6 million in October 1983, the actual project costs incurred by GOM/HSFD were Rs.47,825,831 or \$4,684,215 (\$1=Rs.10.21). Thus, as of the date of disbursement, the USAID contribution was only 34.16% of the actual project cost (as against the fixed amount percentage share of 46.4%).

- 4) Audit Comment (page 13): "The second problem was that revised reimbursement amounts were not fixed in advance".

Response: In this regard, please note that the rates were revised on the basis of an evaluation recommendation and after verifying the supporting cost information available with the GOM/HSFD at that time (please see the following paragraph also). Disbursements at these revised rates were made only after issuance of PIL #12 for reimbursement claims received subsequently. The word "advance" in the audit report gives an impression as if the amounts were disbursed before fixing the revised FAR rates, which is not true.

- 5) Audit Comment (Page 14): "USAID/I also did not review the Government's estimates for future costs to assure the costs were reasonable for project activities. Thus, USAID/I could not say why the estimated total direct plantation project costs for the year ended March 31, 1987 were \$6.5 million, whereas, actual reported costs were only \$4.7 million."

Response: This is not correct. The Mission did review the GOM/HSFD estimates in June 1986 on the basis of the proposed rate structure which, according to the information available at that time, represented reasonable costs of carrying out the plantation activities to meet the project objectives. In establishing the revised rates, we had reviewed the actual expenditures incurred by GOM/HSFD through March 31, 1986 and the projections of costs through the PAB based on the proposed rate structure. However, the GOM subsequently did not approve the proposed rate structure for various reasons, including budgetary constraints, but USAID was not informed of this development.

Nevertheless, it is pertinent to mention that the daily wage rate of an unskilled worker was less than Rs. 4/- when the FAR amount was initially established. This rate was assumed to be Rs. 8/- in the proposed rate structure of June 1986 (not approved by the GOM) and, based on a court case filed by the workers, it has been ordered to be Rs. 14/- per day effective May 15, 1986 by the Aurangabad High Court. However, the GOM/HSFD has decided to go in for an appeal against this order. If the GOM fails then the financial burden on it will be much more than even that envisioned in the proposed rate structure.

As the proposed rates were not approved and because of funding constraints, HSFD, in order to meet its projected targets, had to get the work done through contracts at a lower cost. This was the reason why the actual expenditure on plantation for GOI FY-1987 was \$4.7 million as against the projection of \$6.5 million.

- 6) Audit Comment (Page 17): "USAID Inspections and Certifications - USAID/India monitoring and voucher certification processes"

Response: Please change the words "voucher certification" to administrative approval of vouchers.

- 7) Audit Comment (Page 20): "In November 1987, the auditors requested GOM for copies of 20 survival reports selected as part of a random sample. The officials were unable to provide the reports by the end of audit field work in January 1988."

Response: We were informed by HSFD that all the requested survival reports were given to the auditors. Copies of these reports were also shown to USAID staff during a subsequent visit. When we pointed this out to the auditor in April 1988, he informed us that they were provided with current survival reports whereas they had asked for survival reports for the period covered by the third FAR instalment paid. The GOM officials, however, stated that the auditors had at no time specified that they wanted the reports for the earlier period. They further said that the information on survival for the earlier period was available in the respective blocks as well as the districts. In addition, summary reports of the survival counts were also available at HSFD and were used by them for preparing the reimbursement claims.

Clearly, there appears to have been a communication gap which the auditors should have clarified when they were given the current survival reports instead of survival report after one year of plantation. The written request by the auditors asking for copies of survival reports made no mention of the dates or period of the survival reports.

- 8) Audit Comment (Exhibit 3 page 5): "The validity of stocking level after the first year is also questionable because the GOM continues to replace casualties in subsequent years. Thus, the inflated stocking levels identified in the above example would continue in subsequent years."

Response: In this connection, we wish to draw your attention to the following quote from PIL #3 and the Project Paper: "Most plantations established during the project will be planted on relatively poor sites where soil fertility, water availability, climate, or all three factors are problems. Past experience indicates that survival rates on such sites are frequently as low as 50 to 60 percent. To improve the survival rates, planting stock will be selected from the more vigorous nursery stock. (About 15 percent of the nursery stock will be discarded.) With survival rates of 50-60 percent and replanting in the second year, nominal stocking levels of 80 percent can be expected at the end of the second year. The end of project target is to increase survival rates and achieve stocking levels in excess of 80 percent."

Thus, it is evident from the above that replacement of casualties was anticipated and is also an accepted forestry practice to achieve viable and sustainable units. You will also note from the

underscored lines above that the 80% stocking level was made a benchmark on the premise that replanting will be done in the subsequent years.

Recommendation No. 1

We recommend that prior to authorizing any additional plantation activities under the project, USAID/India:

- a. ensure that the amount to be reimbursed for each output is fixed in advance based upon reasonable cost estimates, and
- b. develop an inspection program and assign sufficient A.I.D. or contract staff to that program to ensure that project outputs are completed in accordance with plans and specifications.

Recommendation No. 2

We recommend that USAID/India in coordination with the respective A.I.D. Regional Legal Advisor:

- a. ascertain the propriety of the retroactive increase in reimbursement amounts under the fixed amount reimbursement payment method prior to making additional payments established by the revisions;
- b. determine and appropriately perform actions necessary to ascertain if the Government of Maharashtra completed the outputs for which it was reimbursed and, if not completed, determine the related propriety of the \$17 million paid to the Government of India under the fixed amount reimbursement procedures; and
- c. recover any allowable A.I.D. payments made as determined by actions taken to ascertain the propriety of payments made under the project.

Recommendation No. 3

We recommend that prior to paying the remaining installments totaling \$4.8 million for plantation activities already authorized, USAID/India ensure the required inspections are performed and that the required outputs for those installments are completed in accordance with plans and specifications stipulated in the project agreement.

Recommendation No. 4

We recommend that USAID/India in coordination with the Government of India:

- a. establish quantifiable indicators to measure project achievements; and
- b. revise the project implementation plans to include as a minimum specific targets and timeframes for extension training of Government of Maharashtra officials, preparation of research reports, and disbursement of grant funds.

Recommendation No. 5

We recommend that USAID/India deobligate any grant funds determined not needed based on the revised project implementation plans.

Recommendation No. 6

We recommend that USAID/India develop a system to monitor and report on progress in achieving the four project components essential to accomplishing the project objective.

Recommendation No. 7

We recommend that USAID/India reassess the need and propriety for funding project motivators with A.I.D. grant funds and, as appropriate, ensure the motivators are used for project implementation or deobligate/recommit the \$500,000 committed for motivators.

Recommendation No. 8

We recommend that prior to authorizing additional village participation under the project, USAID/India assess whether the project objective and essential project components (e.g. nurseries and plantations) will be achieved and sustained.

Recommendation No. 9

We recommend that USAID/India:

- a. ensure that the recommendations in the mid-term evaluation report for the Maharashtra Social Forestry Project are resolved and implemented; and
- b. establish a system to assure recommendations in project evaluation reports are resolved and implemented.

Recommendation No. 10

We recommend that USAID/India develop timeframes and a plan of action to ensure the Government of India fulfills its funding, training, and evaluation commitments to the project.

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