OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/KYRGYZSTAN'S LOCAL DEVELOPMENT PROGRAM

AUDIT REPORT NO. 5-116-13-001-P
NOVEMBER 8, 2012

MANILA, PHILIPPINES

Office of Inspector General

November 8, 2012

MEMORANDUM

TO: USAID/Kyrgyzstan Country Representative, Carey N. Gordon

FROM: Regional Inspector General/Manila, William S. Murphy /s/

SUBJECT: Audit of USAID/Kyrgyzstan's Local Development Program (Report No. 5-116-13-001-P)

This memorandum transmits our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft and have included those comments in Appendix II.

This report contains two recommendations to assist the country office in improving the overall efficiency and effectiveness of its Local Development Program. Management decisions were reached on both. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close both recommendations.

I want to thank you and your staff for the cooperation and courtesies extended to us during the course of this audit.

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SUMMARY OF RESULTS

Kyrgyzstan is a landlocked country of 5.5 million people that relies primarily on gold mining, the service sector (including trade), agriculture, and remittances to sustain its economy. However, limited business and job opportunities, poor public services, and harsh living conditions, especially outside the capital, have limited investment and productivity.

As a result, most Kyrgyz businesses are not competitive in regional and international markets. According to *The Global Competitiveness Report 2011-2012*, published by the World Economic Forum, Kyrgyzstan ranks 126 out of 142 countries in terms of competitiveness.[1] As the economy has declined, educated and skilled workers continue to migrate abroad in search of better livelihoods. Expanded and increased economic opportunities are considered top priorities of the Kyrgyz Government, which has expressed both a willingness and a commitment to implement economic reform and support local economic development.

In July 2010, USAID awarded a $27 million task order[2] to Chemonics International Inc. to implement the Local Development Program in Kyrgyzstan. The objective of this 3-year program is "to stimulate rapid, diversified, and sustained economic growth by supporting local economic development." The program has three components: (1) private sector competitiveness, (2) local governance and business environment, and (3) countrywide expansion.

The program was designed to work primarily at the local level to promote economic development through direct support to 24 targeted municipalities. The program focuses on selected economic sectors that have the potential to grow quickly, working through partnerships with local governments, businesses, and investors. To maximize impact, program successes were to be expanded to other municipalities through replication and networking.

The program is managed by the USAID/Kyrgyzstan country office located in Bishkek, with support from the USAID/Central Asian Republics Regional Mission in Almaty, Kazakhstan. As of May 31, 2012, cumulative obligations under the program totaled about $18 million, and disbursements were about $10.8 million. The program is scheduled to end on August 31, 2013.

The purpose of this audit was to determine whether the program was achieving its objective as stated above.

The audit team found that program activities completed or in progress as of May 31, 2012 were generally not producing the economic results envisioned in the target municipalities largely because most of the program's activities started later than planned. As a result, many activities were not expected to achieve their full potential for generating economic growth until the program is over, assuming they are sustainable.

Nevertheless, the program has had some notable achievements, which are discussed below.

[1] Klaus Schwab, *The Competitiveness Report 2011-2012*, World Economic Forum, 2012.
[2] Task Order EEM-I-09-07-00008-00 awarded under Indefinite Quantity Contract EEM-I-00-07-00008-00. See Federal Acquisition Regulations (FAR) 16.504.

Guarantee Fund. The program helped create a guarantee fund in selected municipalities to assist mostly small to medium-size enterprises that are deemed creditworthy but lack sufficient collateral. The fund provides the additional collateral needed, which is held by the disbursing bank until the loan is repaid. To help establish this fund, program staff helped local officials overcome legal hurdles, set up the procedures necessary to operate, and negotiate below-market interest rates with local commercial banks. The municipality then provided the initial capital, allocated from its annual budget, to create and operate the fund. Thanks to these funds, entrepreneurs now have access to larger sums of capital and can invest more in their business to acquire supplies, equipment, or other items needed to expand their operations.

At the time of the audit, guarantee funds were operating in two target municipalities, Kara-Balta and Jalal-Abad. Four other municipalities were in the process of establishing similar funds that were expected to be set up before the end of the program. Although the loan portfolios for the two operating funds were still relatively small, one program staff member said he expected the number of loans to increase as each fund's capitalization level continues to build each year from additional budget allocations. He acknowledged that the full impact from these funds would not be noticeable for several years and definitely after the program has ended.

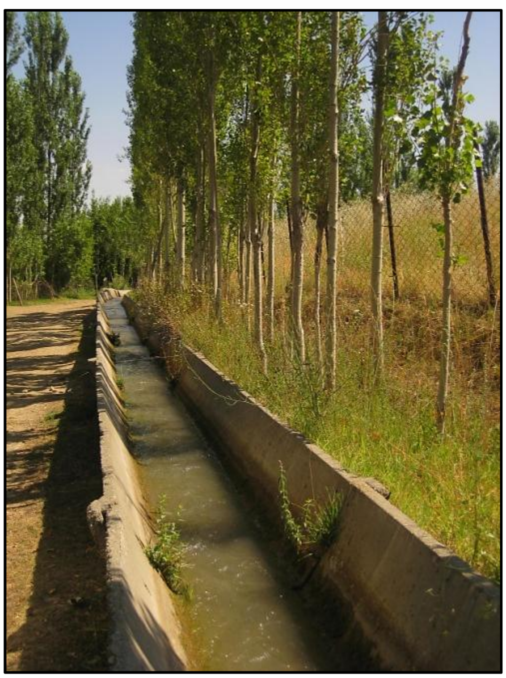
During the audit, the auditors visited several borrowers from the two funds, including a woman who sold shoes at a local bazaar, shown below. She said the loan she got allowed her to purchase additional stock and expand her inventory by about 70 percent. Before the loan, she sold an average of 5 to 6 pairs of shoes per day; now she sells an average of 10 pairs per day.

A vendor at a bazaar in Jalal-Abad displays part of her expanded inventory of women's shoes acquired through a loan from the Guarantee Fund. (Photo by OIG, August 6, 2012)

Flights to Issyk-Kul Region. People from neighboring Kazakhstan make up the majority of the tourists visiting Kyrgyzstan's popular Issyk-Kul Lake region. Before 2011, most tourists had to drive 8 hours to reach the lake because no direct flights went there. The program then worked with several tour operators in Kazakhstan and Kyrgyzstan to initiate air service to the region beginning in June 2011; these flights started on a weekly basis and now go twice a week during the region's brief summer tourism season (June to August). During a visit to the airport near the lake, the auditors observed one flight that arrived nearly full (110 seats). The airport director said this has been the case since the start of the 2012 season and indicated that the operator plans to expand to five flights a week starting next summer.

Irrigation Canal Rehabilitation. To increase agricultural production, the program helped the rural municipality of Zulpuev repair one of its main irrigation canals. The canal serves an area covering 485 hectares of land for 7,032 farmers—roughly a third of Zulpuev's total population. The 30 year-old canal needed repair badly. Cracks in the walls depleted the volume of water running through the system, which in turn led to competition and heated disputes among the farmers. Those who had large tracts of land located farther downstream were the most affected since they did not get any water; most of these farmers eventually abandoned their plots.

In May 2012 the program completed the work, which included rehabilitating 5.1 kilometers of the most critical parts of the canal, installing 17 sluice gates to regulate the flow of water to certain areas, and reconstructing an aqueduct. The area now reportedly receives 50 percent more water, sufficient to irrigate all of the plots in the area—including the large tracts of land (totaling 185 hectares) located downstream, which are now receiving water for the first time in 21 years. One farmer said he could only farm half of his land previously because of the limited water supply. Now that he's receiving twice as much water as before, his land is fully planted, and he is expecting much higher yields. In the past, he used to harvest 1.5 tons of wheat per hectare; he said he expects to harvest as much as 3.5 tons this season.



Water flows through an irrigation canal (left) that the program repaired in Zulpuev. An aqueduct (right) built under the program channels water through the canal to irrigate land that was previously not being used. (Photos by OIG, August 8, 2012)

However, the audit disclosed the following problems:

- The program was experiencing major implementation delays because of management problems, delays in getting staff in place, and decisions about processes that wound up absorbing more time than planned (page 5).

- The data used to show the program's economic impact were not reliable (page 7).

The report recommends that the USAID/Kyrgyzstan country office:

1. Implement a strategy to closely monitor active grant and in-kind assistance activities to ensure that any implementation problems are noted and addressed quickly so that activities are completed as planned, final results are measured and reported, and the grant portion is phased out in an orderly manner (page 7).

2. Review the data for the program's impact indicator (*Return on Investment Ratio*) at least quarterly (page 9). At a minimum, this review should test the amounts recorded under the impact subindicators to verify their validity and determine whether the data being captured are clearly and reasonably attributed to USAID-supported efforts (page 9).

A detailed discussion of the audit findings appears in the following section. The scope and methodology are described in Appendix I. USAID/Kyrgyzstan's written comments on the draft report are included in Appendix II. Our evaluation of these comments is on page 10.

AUDIT FINDINGS

Management and Staffing Problems Delayed Activities

To achieve its objective, the Local Development Program relies largely on activities carried out through grants and in-kind assistance agreements. The program budgeted $6 million for the activities, most of which were originally expected to be under way by the early part of the second year (fall of 2011). This schedule would have allowed sufficient time to complete the planned activities, measure the results, and provide technical support to ensure sustainability, while also allowing time to replicate any successes in other municipalities.

The program, however, was experiencing major delays at the time of the audit in August 2012. Of the $6 million budgeted, only $1.1 million[3] (approximately 18 percent) had been obligated as of May 31, 2012—with the program due to end in only 15 months. Most of the remaining funds were planned for activities focused on the agriculture and textile sectors, which were expected to generate most of the impact under the program's private sector competitiveness component. Activities in the agriculture sector alone were expected to account for an estimated 65 percent of the $6 million. One program team leader said most of these activities should have been initiated in 2011 and were about a year behind schedule.

The program's implementation delays occurred because of (1) management problems associated with the former chief of party (COP), (2) delays in fielding the management team and local technical staff, (3) high turnover, (4) the decision to conduct sector assessments, and (5) the creation of formal working groups.

- **Former COP.** The former COP reportedly had limited experience and had never managed a program as large and complex as the Local Development Program. The program's management staff described him as being "risk-averse and decision-averse" about engaging in activities and a micro manager who was reluctant to allow his staff to manage their respective areas. One senior manager said that because the COP lacked a strategic focus and approach—qualities critical for carrying out a 3-year program—the program "floundered" during most of its first year.

- **Hiring.** From the start, the program had trouble getting staff in place on time. The former COP, for example, arrived on September 22, 2010, 20 days after the program's inception. In addition, two team leaders originally assigned to the governance and private sector competitiveness components never arrived. The new replacement team leader for governance finally arrived in February 2011, 6 months into the program, while the private sector component team leader arrived on April 25, 2011, 8 months into the program.

  As of late February 2011, the program had only 34 local professional staff members on board, still considerably fewer than the ceiling of 48. Ironically, the unit that was the most understaffed was for the private sector competitiveness component, considered the program's main focus.

[3] This cumulative total had increased to $3.2 million, as of July 31, 2012.

- **Turnover.** The program experienced particularly high turnover, which became a chronic problem and further slowed efforts to have a full staff in place. During the first 18 months of operation, the program lost 19 employees, including 9 who submitted their resignations during a 2-week period in November 2011. One of the employees who left was the program's senior agricultural adviser, who was asked to leave in the spring of 2011 because of performance problems. In addition, the COP resigned in December 2011 after the mission had expressed concerns to the Chemonics head office regarding the small number of grants issued to date. The current COP arrived in February 2012.

- **Assessments.** Before initiating grant activities, the former COP elected to have short-term international consultants conduct formal sector assessments to determine which ones to focus on and what activities should be funded. This exercise took 3 to 4 months, during which program staff members claimed little was accomplished. They said the assessments could have been carried out much faster by program staff who had extensive experience in their respective fields and were fully capable of identifying appropriate sectors and activities. In addition, staff members said the assessments—which cost about $354,000—were of limited use since most of the results were too broad for the program's needs and merely confirmed what the staff already knew. By carrying out these formal assessments, the former COP did not determine the program's direction until 9 months after it began.

- **Working groups.** The former COP's decision to create a formal working group in each target municipality and to rely on these groups to identify projects caused more delays. Rather than relying on his technical staff to work with the municipality in identifying appropriate projects, the former COP had each group—composed of municipal officials, business people, and citizens from the municipality—identify projects and submit their list to the program for final approval. While this approach offered a more structured, transparent methodology, it ended up being more time-consuming because some municipalities listed activities that were not consistent with the program's objective, creating differences and, in some cases, friction. These differences took additional time to resolve. In the end, a process that one staff member said should have taken no more than 3 months to complete took more than a year.

Because of the implementation delays, the program—while making a concerted effort to catch up—was about a year behind, a major setback for a 3-year program. As a result, the program now has considerably less time to implement its activities, which will ultimately reduce its overall impact. The delays also make it more difficult to measure the impact of those activities and minimize opportunities for replicating any successes in other municipalities.

The activities most affected by the delays are those in the agriculture sector. At the time of the audit fieldwork in August 2012—2 years into the program—the bulk of these activities were either just starting up or still in the design phase. The program's senior agricultural adviser said the delays meant a number of beneficiaries in the agricultural sector would probably not benefit from the 2012 fall harvest, forcing many to wait until the 2013 harvest begins in July. Since the program is scheduled to end in August 2013, with grant activities expected to end a few months earlier, the impact of these activities might not be evident by the end of the program.

In addition to making it more difficult to measure the results from these activities, the program will be forced to curtail the amount of time spent working with beneficiaries to provide technical support, thereby reducing the program's ability to ensure successful activities are sustainable and to glean any information that would benefit future USAID programs.

Although the program's staff anticipates a large increase in the results generated in its third and final year, the program will not have the impact that USAID originally envisioned. This is reflected partly by the implementer's efforts in June 2012 to redefine the basis for determining progress under the *Return on Investment Ratio* impact indicator. This change lowered the target under this indicator by 28.4 percent, reducing the value of the return on investment that the program is required to generate from $216.0 million to $154.6 million.

To increase monitoring and ensure that the remaining activities are completed before the program ends, we make the following recommendation.

> ***Recommendation 1.*** *We recommend that the USAID/Kyrgyzstan country office and the implementer of the Local Development Program implement a strategy to closely monitor active grant and in-kind assistance activities to ensure that implementation problems are noted and addressed quickly so that activities are completed as planned, final results are measured and reported, and the grant portion is phased out in an orderly manner*.

Data Supporting Key Indicator Were Not Reliable

USAID's Automated Directives System (ADS) 203.3.5.1, "Data Quality Standards," requires that performance data meet quality standards for validity, integrity, precision, and reliability to be useful for measuring performance and managing for results. ADS 203.3.4.2 states that performance data should fairly represent the intended result and measure changes that are clearly and reasonably attributable to USAID efforts. Agency guidance also points out that even a valid indicator is not valuable if the data collected on it are inaccurate or incomplete. Missions (and implementers) must therefore confirm that data quality is maintained so the data can be used for monitoring progress and assessing overall performance.

In tracking progress toward its objective, the program relied heavily on the *Return on Investment Ratio* indicator, which measured the economic impact of program-funded activities reflected under eight impact subindicators. Each one measured a different aspect of economic growth; examples include the value of capital mobilized by each target municipality and increases in sales for the businesses assisted.

By the program's end, the implementer was expected to achieve a target ratio of 8 to 1, meaning that for every dollar of USAID funding, the program was to generate 8 times that amount in economic growth. In computing this ratio, staff members combined results data compiled under the eight subindicators to form an aggregate total that they compared with the program's cumulative expenditures.

In reviewing the data that the program had collected on six of the eight subindicators[4] as of May 31, 2012, the team found several cases in which the data collected were not directly or clearly attributable to USAID-funded efforts. Examples include:

[4] At the time of the audit, data were not yet generated for two of the eight impact subindicators.

- **Impact Subindicator 1.a.** *Value of Capital Mobilized in Target Municipalities and/or Partner Businesses to Achieve Project Goals* (recorded: $1,566,583; questioned: $1,401,649).

  — Investments credited: The auditors questioned $1,213,026 in capital investments recorded, which the monitoring and evaluation staff later decided not to count since the records, submitted by two municipalities, did not describe how program-supported activities were directly involved in facilitating the investments.

  — Guarantee Fund: During interviews with borrowers, most said they intended to obtain loans whether or not the fund provided the additional collateral they needed. The program, however, still took credit for mobilizing the entire value of the loans instead of the portion resulting from the collateral that was guaranteed. The auditors questioned the difference of $188,623.

- **Impact Subindicator 1.e.** *Value of Change in Annual Sales of Partner Businesses and/or Value Chains* (recorded: $1,199,434; questioned: $766,845).

  — Increased revenues for textile companies: Within the textile sector, the program was supporting 17 companies by providing them with training and equipment to help increase productivity. Data recorded under this subindicator included $766,845 in increased sales for 16 of the companies from January 1, 2012, through May 31, 2012. However, the audit could not find an adequate basis for including sales data covering this period since none of the companies had received the equipment, which was to be the primary catalyst for any increase in productivity. Therefore, the program should not be taking credit at this time for any sales increases under this activity.

- **Impact Subindicator 1.f.** *Value of Public-Private Partnerships Formed as a Result of Program Assistance* (recorded: $109,348; questioned: $87,797).

  — Guarantee Fund: Data included $87,797, representing the funds that two target municipalities allocated from their annual budgets to capitalize their guarantee funds. However, because the amounts allocated had already been recorded for another subindicator (*Value of Capital Mobilized*), this data was counted twice.

- **Impact Subindicator 1.g.** *Value of Change in Local Municipal Revenues in Target* Municipalities (recorded: $3,928,004; questioned: $3,928,004).

  — Under this subindicator, the program collected monthly data from all 24 target municipalities on their allocable tax revenues collected and compared the data with baseline data to compute any changes. This methodology was based on the premise that any changes in the amount of taxes and fees collected by each municipality were directly attributed to program-sponsored activities, such as those carried out by the local economic development offices to improve the business and investment environment.

  The auditors questioned this premise. Since municipalities receive revenues from a wide array of taxes and fees, fluctuations could be attributed to a number of variables (e.g., increase in tax rates) and not necessarily to program initiatives. In addition, given the limited local economic development activity thus far in attracting new investments for the municipalities and the limited scope of most program initiatives, the activities could be responsible for only a small portion of any increases in tax revenues.

- **Impact Subindicator 1.h.** *Value of Other Returns Generated by Program in Non-Target Municipalities and Other Sources* (recorded: $1,040,641; questioned: $1,011,423).

  — Guarantee Fund: Data captured under this subindicator included $1,011,423, which was said to represent sales revenue generated by borrowers after receiving their loans from the two funds in operation. In reviewing these sales, the auditors questioned the data since it reflected projected—not actual—monthly sales data, and total sales instead of the incremental increase in sales resulting from the loans.

These data deficiencies were attributed to several problems. First, obtaining data can be difficult, and in some cases unrealistic, due to availability. For example, obtaining actual monthly sales data from Guarantee Fund borrowers to assess the increase in sales resulting from their loans can be a challenge because many of the borrowers either do not maintain records or are reluctant to disclose their sales activity for fear of the potential tax implications. Likewise, the impact of activities in the tourism sector is also difficult to quantify. During the summer of 2011, for instance, the program spent about $37,000 to sponsor a bicycle race and a concert at Issyk-Kul Lake to promote tourism in the region. While the events were well attended, their impact in expanding tourism remains unclear.

Another contributing factor was the late start-up of the program's monitoring and evaluation unit. For example, the unit supervisor did not start until June 2011—10 months into the program—at which time she was assigned to one of the components and spent half of her time on activities there. It was not until February 2012—the program's midpoint—that a separate monitoring and evaluation unit was established and 5 months later in July—almost 2 years into the program—that this unit became fully staffed.

As a result of these data deficiencies, the audit determined that the results data recorded under the impact subindicators were not sufficiently reliable or valid to allow USAID to measure the program's overall performance and progress. Of the $8,151,930 in generated economic growth recorded and reviewed as of May 31, 2012, the audit questioned $7,195,718 (88.3 percent), leaving a balance of $956,212, representing only a tiny fraction of the program's revised target ($154.6 million) under its *Return on Investment Ratio* impact indicator.

Given the large disparity and the mounting pressures on the implementer to bridge the gap as the program nears its end in 2013, we believe the country office must closely monitor the data to confirm the validity and that the final results reported provide a fair representation of the program's overall performance. To help ensure this level of oversight is provided, we make the following recommendation.

> ***Recommendation 2.*** *We recommend that the USAID/Kyrgyzstan country office implement procedures for reviewing the results data supporting the Local Development Program's Return on Investment Ratio impact indicator at least quarterly. At a minimum, this review should check the recorded amounts under selected impact subindicators to verify their validity and determine whether the data being captured are clearly and reasonably attributed to USAID-supported efforts.*

EVALUATION OF MANAGEMENT COMMENTS

The country office provided comments in response to the draft report. Our evaluation of management comments follows.

Recommendation 1. The country office reached a management decision on this recommendation and stated its plans to bring together its project management team, the implementer's monitoring officer, and a monitoring and evaluation specialist from the USAID/Central Asian Republics to implement a strategy for monitoring the program's remaining active grant and in-kind assistance activities. This strategy will be designed to ensure that activities are closed out on time, final results are measured and reported, and the grant portion of the program is phased out in an orderly manner. The country office anticipated it would start implementing this new monitoring strategy no later than November 30, 2012.

Recommendation 2. The country office reached a management decision on this recommendation and stated that as part of its new monitoring strategy, its project management team will be required to conduct a quarterly assessment of the program's economic impact data. This assessment will involve checking the amounts recorded under the program's impact subindicators to verify their validity on a sample basis and determining whether the data being captured are clearly and reasonably attributed to USAID-supported efforts. The first "quarterly assessment" is scheduled to be performed on data as of December 31, 2012, and it should continue each quarter thereafter through the end of the program.

SCOPE AND METHODOLOGY

Scope

RIG/Manila conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/Kyrgyzstan country office's Local Development Program was achieving its overall objective of stimulating rapid, diversified, and sustained economic growth through support of local economic development.

To implement the program, USAID signed a $27 million task order with Chemonics in July 2010, covering the 3-year period from September 1, 2010, to August 31, 2013. As of May 31, 2012, cumulative obligations under the program totaled about $18 million, and disbursements totaled about $10.8 million.

The program has three components: (1) private sector competitiveness; (2) local governance and business environment; and (3) countrywide expansion. The audit covered selected activities under these components, both completed and ongoing, from the program's inception through May 31, 2012. Audit work involved (1) identifying key achievements to date, (2) determining whether the program was making satisfactory progress toward achieving its objective, (3) validating recorded performance results data related to a key impact indicator, and (4) conducting field visits to selected activity sites to interview partners, local officials, and beneficiaries to get their feedback and obtain evidence of any impact the activities had.

In planning the audit, the auditors identified relevant controls used by the USAID/Kyrgyzstan country office to manage the program and oversee its activities. The controls included the review of the implementer's quarterly progress reports, approval of annual work plans, weekly meetings with the implementer to discuss the status of the program, including pending procurement actions and implementation issues that needed to be addressed. In addition, the auditors examined the country office's fiscal year 2011 annual self-assessment of management controls, which it is required to perform to comply with the Federal Managers' Financial Integrity Act of 1982,[5] to determine whether the assessment cited any relevant weaknesses.

During the audit, the team visited selected activity sites based on a judgmental sample of completed and ongoing activities as of May 31, 2012. This sample consisted of 23 activities funded under a variety of small grants and other instruments that had a total value of $770,030, representing 64 percent of the audit universe (about $1.2 million). In addition to the field trips, the auditors validated the performance results data relating to the *Return on Investment Ratio* impact indicator, which entailed 100 percent testing of the cumulative balances recorded under the indicator's eight subindicators as of May 31, 2012.

[5] Public Law 97-255, codified at 31 U.S.C. 3512

Audit fieldwork took place from July 23 to August 23, 2012, at the USAID/Kyrgyzstan country office and at the implementer's main office, both in Bishkek. Auditors visited activity sites in 13 municipalities, including 9 of the 24 targeted municipalities, located in 3 of Kyrgyzstan's 7 provinces (Chui, Osh, and Issyk-Kul). During these trips, the auditors interviewed local officials, partners, loan recipients, farmers, textile vendors, tourism staff, and other beneficiaries.

Methodology

To determine whether the program was achieving its overall objective, the audit team initially examined the implementer's quarterly progress reports to ascertain the status of activities and the accomplishments and key deliverables achieved to date under these activities. The team also interviewed relevant USAID staff, including the program's current and former contracting officer's representative, and the implementer's chief of party and management team. The auditors reviewed relevant background documents, task order modifications, annual work plans, spreadsheets for tracking the status of grants and in-kind assistance, correspondence, and other records to gain an understanding of the program and its activities.

Since the program's activities were to a large extent carried out through grants and in-kind assistance agreements (the majority of these involving awards less than $100,000), the auditors arranged site visits to selected activities funded under these instruments to determine whether the activities were having the desired impact and contributing to the program objective. The team selected a judgmental sample of completed and ongoing activities as of May 31, 2012. Because selection was based on a judgmental sample, results and overall conclusions were limited to the items tested and could not be projected to the entire audit universe. It should also be noted that most of the activities related to the program's two main sectors (agriculture and textile) were just starting up or still in the planning or design phase at the time of the audit, so the auditors were unable to visit any completed activities related to these sectors.

In validating the results data supporting the program's performance indicators, the auditors focused on the program's key impact indicator, *Return on investment ratio,* and tested the entire cumulative balance recorded under each of its eight sub-indicators as of May 31, 2012. This involved comparing the results data with records on file at the implementer's main office to verify that the data were accurate and reliable, as well as determining whether the data met prescribed quality standards. The auditors established a materiality threshold of 15 percent. For example, if the total deficiencies identified exceeded 15 percent of the tested data, the auditors concluded that the reported data for the activity were not reliable.

MANAGEMENT COMMENTS

USAID | KYRGYZ REPUBLIC
FROM THE AMERICAN PEOPLE

MEMORANDUM

DATE: October 22, 2012

TO: Regional Inspector General/Manila, William S. Murphy

FROM: USAID/Kyrgyzstan Country Representative, Carey N. Gordon /s/

SUBJECT: Audit of USAID/Kyrgyzstan's Local Development Program
(Report No. 5-116-13-00X-P)

The purpose of this memorandum is to provide a written response to your correspondence dated October 3, 2012 covering the subject performance audit. USAID/Kyrgyzstan concurs with the two recommendations contained in this audit report and has set forth corrective action plans and related target dates for completion (see below).

I want to thank you and your staff for the insightful recommendations made in your audit that will help our office improve its monitoring of the Local Development Program. Please don't hesitate to contact me should you have any further questions and/or comments concerning our corrective action plan and related target dates.

Please note that USAID/Kyrgyzstan's response is being provided to you in two formats as requested: a signed scanned copy and an electronic version in Microsoft Word with /s/ signifying my signature.

1. Audit Recommendation

Develop and implement a strategy to closely monitor active grant and in-kind assistance activities to ensure that any implementation problems are noted and addressed quickly so that activities are completed as planned, final results are measured and reported, and the grant portion is phased out in an orderly manner (page 7).

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USAID/Kyrgyzstan will bring together the Implementer's Monitoring Specialist, USAID/CAR's Monitoring and Evaluation Specialist, and USAID/Kyrgyzstan's project management to develop and implement a "Monitoring Strategy" that monitors active grant and in-kind assistance activities; therefore, ensuring smooth uninterrupted implementation and that activities are closed out timely, final results are measured and reported, and the grant portion is phased out in an orderly fashion. A "Monitoring Strategy" will be developed and implemented no later than November 30, 2012.

2. Audit Recommendation

Review the data for the program's impact indicator (*Return on Investment Ratio*) at least quarterly (page 9). At a minimum, this review should check the amounts recorded under the impact subindicators to verify their validity on a test basis and determine whether the data being captured are clearly and reasonably attributed to USAID-supported efforts.

As part of the USAID/Kyrgyzstan "Monitoring Strategy", the country office's project management team will be required to conduct a quarterly assessment of the data being used to show the program's economic impact. This assessment will involve checking the amounts recorded under the impact subindicators to verify their validity on a sample basis and determining whether the data being captured are clearly and reasonably attributed to USAID-supported efforts. The first "quarterly assessment" will be performed on data as of December 31, 2012 and each quarter thereafter (March, June, etc.).

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