OFFICE OF INSPECTOR GENERAL

AUDIT OF PHASE III OF USAID/INDIA'S INNOVATIONS IN FAMILY PLANNING SERVICES PROJECT

AUDIT REPORT NO. 5-386-11-010-P
AUGUST 25, 2011

MANILA, PHILIPPINES

Office of Inspector General

August 25, 2011

MEMORANDUM

TO: USAID/India Acting Mission Director, Elizabeth Warfield

FROM: Regional Inspector General/Manila, Bruce N. Boyer /s/

SUBJECT: Audit of Phase III of USAID/India's Innovations in Family Planning Services Project (Report Number 5-386-11-010-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft audit report and included the comments (without attachments) in Appendix II.

The audit report contains six recommendations to assist the mission in improving its oversight and management of Phase III of the Innovations in Family Planning Services Project. On the basis of the information provided by the mission in response to the draft report, we determined that management decisions have been reached on Recommendations 1, 2, 3, 4, and 6, and final action has been taken on Recommendation 5. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close the open recommendations.

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

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
IFPS III	Innovations in Family Planning Services Project, Phase III
JHS	Jharkhand Health Society
NGO	nongovernmental organization
NRHM	National Rural Health Mission
SIFPSA	State Innovations in Family Planning Services Project Agency
UKHFWS	Uttarakhand Health and Family Welfare Society

SUMMARY OF RESULTS

India is the second most populous country in the world, inhabited by over 1.2 billion people. Nearly 70,000 children are born daily, leading to some 25 million births yearly.[1] The Government of India has been paying close attention to family planning issues and partnered with USAID in 1992 to help revitalize the country's family planning program.

Specifically, in 1992, USAID and the Government of India signed a bilateral grant agreement to implement the Innovations in Family Planning Services (IFPS) Project through performance-based disbursements involving direct financial assistance to state government entities. The project was originally designed to help the government revitalize family planning services in one of India's most populous states—Uttar Pradesh. The project has since expanded its geographic focus to include two neighboring states, Uttarakhand and Jharkhand, and is currently in its third phase of implementation (IFPS III), which started in April 2009 and is scheduled to end in March 2012. IFPS III works to expand and improve family planning and reproductive and child health services in these three states. The audit focused primarily on achievements under IFPS III.

From the start, IFPS has had three main objectives. First, the project intends to increase access to family planning services by strengthening service delivery by both governmental and nongovernmental providers. Access is to be expanded through hospitals, clinics, and community-based distribution and contraceptive social marketing so that services become available to a large proportion of clients living in hard-to-reach and poor urban areas. Second, the project intends to improve the quality of family planning services by expanding the choice of contraceptive methods, improving the technical capacity of personnel, improving contraceptive logistics, and ensuring informed choices through effective counseling. Third, the project intends to promote family planning by broadening support among leadership groups, increasing the public's understanding of the health and welfare benefits of family planning, creating a better image of the project, and providing information on the availability of services and methods.

The grant agreement for the overall IFPS project specified the contributions of the two partners and the funding mechanism. The agreement called for USAID to contribute $325 million over the life of the project and for the Indian Government to establish an autonomous society in the state of Uttar Pradesh to carry out implementation and management functions. To that end, the Government of India established the State Innovations in Family Planning Services Project Agency (SIFPSA). When the project expanded its geographic focus, the government established two additional state societies, Uttarakhand Health and Family Welfare Society (UKHFWS) in 2004 and the Jharkhand Health Society (JHS) in 2006. USAID/India funds these state societies through a performance-based disbursement mechanism. Under this mechanism, USAID, the Indian Government, the state societies, and the state governments were to establish and agree on verifiable indicators—called benchmarks—for achieving certain project activities. The state societies are responsible for implementing the activities outlined in the benchmarks. A dollar value is then established, representing the amount USAID is to pay to the Indian Government on successful completion of the benchmark activities. Thus, under this mechanism, USAID pays only on achievement of the activities outlined in the benchmarks. IFPS III had an estimated USAID life-of-project contribution of up to $46.2 million for these performance-based disbursement activities.

[1] U.S. Census Bureau, International Database, estimate for 2011.

In addition to the grant agreement with the Government of India, USAID signed a contract with Constella Futures International, LLC (now Futures Group International, LLC), in 2005 to provide technical assistance to the state societies and at the national level. The contract currently runs through December 31, 2011. Table 1 shows funding as of March 31, 2011, for the grant agreement and the technical assistance contract.

Table 1. Financial Status of the Project as of March 31, 2011 ($ million)

Mechanism	Life-of-Project Estimate	Obligated	Expended
Performance-based disbursements	46.2	11.9	5.5
Technical assistance contract	24.0	10.7	5.1
Total	**70.2**	**22.6**	**10.6**

During the course of IFPS implementation, dramatic economic changes have taken place in India. The country's growing economic strength has allowed for the creation in 2005 of the National Rural Health Mission (NRHM), a government program designed to make needed improvements in the basic health-care delivery system. The goal of NRHM—similar to that of IFPS—is to improve the availability of and access to quality health care, especially for those residing in rural areas, the poor, and women and children. NRHM planned to spend $8 billion throughout the country over 7 years beginning in 2005. IFPS III is working in conjunction with NRHM to provide technical assistance to carry on family planning services.

The objective of the audit was to determine whether USAID/India's IFPS III was achieving its main goal of strengthening health systems to allow for the delivery of quality family planning and reproductive health services.

The audit found that the project had made little progress in strengthening health systems to allow for the delivery of quality family planning and reproductive health services. Specifically, the audit disclosed the following problems:

- The project lagged behind in achieving its benchmarks, with over 70 percent of benchmark activities either cancelled (41 percent) or not achieved (31 percent) (page 5). In addition, one benchmark valued at $208,150 to promote a voucher scheme activity in Uttarakhand for below poverty line clients had yet to be achieved because of a similar, competing state initiated program (page 6).

- Significant amounts of project funds remained unused, with only $22.6 million out of $70.2 million obligated and a pipeline of $12 million that may not be spent before the project ends in March 2012 (page 7).

- The methodology used to value benchmarks lacked accuracy, with the result that SIFPSA has accumulated approximately $40.1 million in savings since the project began in 1992. The audit also found an error of $73,860 in a benchmark valuation and various inconsistences in the application of management fees (page 9).

- Although discussions are under way within USAID and the Government of India, the project lacked a transition/sustainability plan for family planning activities agreed to by the state society in Uttar Pradesh, posing a risk that USAID may lose influence over how the $40.1 million in accumulated savings is spent (page 11).

Despite these problems, the project has made some noteworthy contributions to strengthening health systems. For example, the project was successful in helping build the capacity of certain institutions and health providers. For instance, the project trained staff at state resource centers in six districts of Uttarakhand in management concepts and processes, strategic planning, and management information systems. According to staff at one resource center, the training helped the center develop training manuals and monitoring tools. As a result, the center trained approximately 11,000 women community activists between April 2010 and March 2011. The community activists' involvement in building community awareness and bringing women to hospitals for delivery of their babies contributed to the increase in the number of institutional deliveries in Uttarakhand. Because of the success of this activity in the six districts, the state government has taken over and expanded it statewide.

The project has also assisted the Indian Government in making primary health-care services available to people in remote rural areas of Uttarakhand. Mobile health vans like the one pictured below, equipped with professional medical staff trained by the project, began offering medical services such as laboratory tests, ultrasound, x-rays, antenatal checkups, and family planning services. The vans reportedly provided medical services to over 30,000 patients. The state government has also taken over this activity because of its success.

This mobile health van serves the community in Nainital, Uttarakhand. (Photo by Office of Inspector General, February 2011)

Additionally, the project has raised the demand for and increased awareness and use of family planning and reproductive services and products by providing access to modern contraceptives in rural villages of less than 2,000 people in the state of Uttar Pradesh. For example, in Uttar Pradesh, the number of condom sales reportedly increased from 132 million pieces in 2006 to 259 million in 2010. Also, sales of oral contraceptive pills in rural Uttar Pradesh increased from 2.69 million cycles in 2006 to 6.96 million cycles in 2010.

To help USAID/India improve the efficiency and effectiveness of IFPS III, this report recommends that USAID/India:

1. Determine which of the outstanding benchmarks can reasonably be achieved in the time left in the project, and adjust timelines or cancel the benchmarks and deobligate and reprogram associated funds (page 7).

2. Determine the feasibility of continuing the voucher scheme activity in Uttarakhand given that the host government is implementing a similar program. If not feasible, deobligate and reprogram the $208,150 associated with the activity (page 7).

3. Review obligations and needs for IFPS III and deobligate any unneeded funds (page 9).

4. Define procedures to improve USAID/India's valuation of project benchmarks (page 11).

5. Deduct benchmark valuation errors totaling $73,860 identified in the audit report from future performance-based disbursements (page 11).

6. Establish a transition/sustainability plan for family planning activities that includes spending of the $40.1 million on activities consistent with original project purposes (page 13).

Detailed findings follow. Our evaluation of management comments is on page 14. The audit scope and methodology section is in Appendix I, and management comments appear in Appendix II.

AUDIT FINDINGS

Project Lagged Behind in Achieving Benchmark Activities

Under the performance-based disbursement mechanism, USAID/India pays the Indian Government for achieving verifiable performance indicators called benchmarks. To establish benchmarks, USAID/India, the Indian Government and the state government discussed the project's objectives, the needs of each state, and the activities required to fulfill those objectives. Based on those discussions, the parties established desired benchmarks, which outline the activities to be achieved, verification documents required, due dates for achieving the activities, and the value for achieving each benchmark. The value is the dollar amount that USAID/India will pay the Indian Government on achieving the benchmark. Disbursements are made only after 100 percent achievement of the benchmark. Once USAID verifies that the benchmark has been achieved, the funds are released to the state society through the Indian Government.

For example, on October 25, 2010, USAID/India, the Indian Government, and the state government of Uttar Pradesh agreed to establish a benchmark to strengthen eight new divisional training centers in that state to enable the centers to conduct clinical family planning and training activities. To meet this objective, the state society was to identify and assess eight training sites, disburse funds to the sites, and at the end have at least seven centers ready to conduct training. To verify that these activities were accomplished, the mission required that the state society submit certification supported by an assessment report showing that eight training sites were identified and assessed. Additionally, the state society was to provide a funds release letter demonstrating that funds were actually disbursed to the training sites and a certification supported by certificates from district women's hospitals showing that the centers were functional. This benchmark was to be achieved by March 15, 2011, and was valued at $288,530.

As of March 31, 2011, the mission and the Indian Government had agreed on 186 such benchmarks for IFPS III, totaling approximately $11.5 million. Of these, 155 were expected to be completed by March 31, 2011. However, as of March 31, 2011, only 43 (or 28 percent) of these benchmarks had been achieved, with the remainder cancelled or not achieved (Table 2).

Table 2. Status of Benchmarks as of March 31, 2011, by State Society

State Society	Established	Achieved	Cancelled	Not Achieved
Jharkhand	39	4	16	19
Uttarakhand	24	18	2	4
Uttar Pradesh	92	21	45	26
Total	**155**	**43**	**63**	**49**

Benchmarks were not achieved primarily because the mission did not hold the state societies to due dates. If the state society could not achieve a benchmark by the established due dates, it asked USAID/India for an extension. The mission frequently granted such extensions based on the state society's justification. However, after it was determined that the state society could not achieve a benchmark, even after repeated extensions, USAID/India eventually cancelled and dropped the benchmark.

For example, on March 9, 2010, USAID/India cancelled 39 benchmarks totaling $1.5 million in Uttar Pradesh because the state society did not achieve them despite repeated extensions. The benchmarks were originally to be completed by August 31, 2009; however, the state society had requested and received three extensions. According to the state society, it could not achieve the benchmarks by the established dates because the nongovernmental organizations (NGOs) selected to implement the activities were busy carrying out activities under other programs.

Again, on April 29, 2010, USAID/India cancelled four benchmarks totaling $125,264 in Uttar Pradesh because the state society had not achieved them. The earliest original due date for completion of the activities under the benchmarks was February 28, 2009. However, almost 14 months later, the state society still had not completed the activities despite repeated extensions. The state society gave the same reason—i.e., the unavailability of the selected NGOs—for not completing the benchmarks on time, and USAID/India finally cancelled the benchmarks because they were delayed substantially.

In the state of Jharkhand on June 7, 2010, USAID/India cancelled eight more benchmarks totaling $511,623 because, despite repeated requests, the state society could not achieve them. According to the mission, the activities were behind because Jharkhand's state government was unstable. Nevertheless, the mission kept extending the deadlines. The benchmarks were to be completed on September 25, 2009. Finally, the mission cancelled the benchmarks 9 months later.

Another reason benchmarks were not achieved is that several benchmark activities had to compete with a newly established host-government program. For example, one benchmark, valued at $208,150, was to increase the use of reproductive health services by poor family members through private service providers, an initiative known as the voucher scheme activity. Originally, the benchmark was to be achieved by March 31, 2010, but had not been achieved 12 months later. The mission granted several extensions, but the state society complained that the benchmark targets were too high and that, given the similarity of a host-government health insurance program, this target could not be attained. Recently, the host government started a medical program targeting poor families in which poor families could avail themselves of medical services at government hospitals at a nominal cost. Mission officials also stated that many of the poor families and private providers preferred the host-government program because it offered a better package than the voucher scheme activity offered by IFPS III. In fact, the state society asked the Indian Government to revise the costs associated with the IFPS voucher scheme so that it could be more attractive to the targeted community, but the Indian Government rejected the request.

The examples presented above demonstrate that the mission did not hold the state societies to due dates and allowed repeated extensions for completion of activities. In one instance, the mission extended the benchmark deadline for 12 to 14 months, substantially prolonging the time for completion. The repeated extensions suggest that original time frames were not set appropriately, or that they were unrealistic or unachievable with available resources. As a result, the project was behind in achieving its activities and meeting its overall goals.

According to the mission, there were other reasons why benchmarks were not achieved within established time frames. One of the main reasons in their view was that the implementation and management capacity of the state societies established under the IFPS project had weakened over time because of turnover in senior-level positions. Furthermore, in some cases, the state societies' authorizing committees were slow in approving activities or did not approve the activities at all. While these may be contributing factors, USAID/India is responsible for holding the state societies to agreed-upon due dates and ensuring that benchmark activities are achieved within those time frames.

IFPS III will end on March 31, 2012. The mission still plans to establish further benchmarks, but at the pace the project is currently moving, it is unlikely that the mission will be able to realize these plans. Of the $70.2 million originally authorized for IFPS III, $24 million was budgeted for technical assistance, and $46.2 million (approximately 66 percent) was budgeted for performance-based disbursements to achieve such benchmarks. As of March 31, 2011, USAID had obligated $11.9 million and had expended only $5.5 million under this disbursement mechanism. In order for USAID/India to achieve its objectives fully, the mission needs to hold the state societies accountable and exercise more discretion in granting extensions for completion of benchmarks. Additionally, the mission needs to consider whether it is beneficial to continue the voucher scheme program in Uttarakhand given the similarities to the host-government program and the difficulty the state society in Uttarakhand is having in meeting defined targets. In fact, the state society acknowledged that it was time to explore the sustainability of the IFPS voucher scheme activity because of the competing host-government program.

USAID guidance (Automated Directives System [ADS] 203.3.4.5) on setting performance baselines and targets states that the targets should be ambitious but achievable given USAID (and other donor) inputs. It further states that teams should be held accountable for achieving their targets. Likewise, the time frames set for the state societies to reach benchmark targets should be achievable given the state societies' inputs in implementing project benchmarks. Furthermore, the state societies should be held accountable for achieving the benchmarks within the established timeframes. Therefore, we make the following recommendations.

> ***Recommendation 1.*** *We recommend that USAID/India determine which of the outstanding benchmarks can reasonably be achieved in the time left in the project, and adjust timelines or cancel the benchmarks and deobligate and reprogram associated funds*.

> ***Recommendation 2.*** *We recommend that USAID/India determine the feasibility of continuing the voucher scheme activity in Uttarakhand, and If not feasible, deobligate and reprogram the $208,150 associated with the activity.*

Significant Amounts of Project Funds Remained Unused

ADS 202.3.7.1, "Financial Planning, Monitoring, and Budgeting for Results," states that the financial position of a program and its activities are critically important to achieving desired results. The guidance further states that the financial position can be planned and measured by projecting and analyzing trends and relationships of several key sets of budget and financial data, such as authorized program funding level; obligations, subobligations, and deobligations; disbursements; expenditures; unliquidated obligations; and the expenditure pipeline.[2] Furthermore, ADS. 202.3.8.3 states that at least once a year, the USAID mission or office must review the status of all obligated funds and make any necessary adjustments to ensure that these funds are used in a timely manner or are deobligated if no longer needed. Specifically, the mission should identify obligations with (1) unneeded balances (funds remaining after all goods and services have been delivered or completed and paid for) and (2) excessive balances. As stated by the guidance, funds no longer needed should be deobligated, regardless of whether the agreement is completed or active.

A significant amount of IFPS III authorized funds remained unused. First, USAID/India reduced the amount it planned to spend on the project by $47.6 million. Second, as of March 31, 2011, the IFPS III pipeline was $12 million, an amount unlikely to be spent before the project ends in March 2012. Lastly, approximately $40.1[3] million from the project's performance-based disbursements to SIFPSA remained unspent, and the state society had no clear plan on how to use these funds in the future. The first two of these issues are discussed below; the third issue, relating to SIFPSA, is the subject of the next two findings.

Mission Decreased Funding for the Project. According to an amendment to the grant agreement, USAID/India had planned to spend $70.2 million for implementing IFPS III. However, as of March 31, 2011, the mission had obligated only $22.6 million (Table 1). Because the project is due to end March 2012, the mission does not plan to spend the remaining funds on the project. As a result, USAID/India has lost a major opportunity to make a bigger impact, financially, on strengthening India's health systems.

Phase III Has a Large Pipeline. As shown in Table 1, on March 31, 2011, the project's pipeline (the difference between funds obligated and funds spent) was approximately $12 million, meaning that USAID/India had only 1 year to spend the remaining funds for implementing the project. Considering that it took 2 years to spend roughly half the $22.6 million obligated, spending the remainder in less than 1 year is an ambitious plan, especially given the state societies' slow rate of spending.

During the mission's annual portfolio review in November 2010, USAID/India acknowledged that the state societies were slow to spend project funds already obligated to them. For example, if the state society in Uttar Pradesh maintained its spending at present levels, it would take almost 3 years for it to spend the project funds that have already been obligated to it. The state society in Jharkhand was in an even worse situation. Spending as it did in fiscal year 2009, it would take a staggering 287 months to spend the funds already obligated to it (Table 3).

Despite the mission's analysis and identification of the state societies' slowness in spending project funds, the mission did not deobligate funds. The mission plans to deobligate funds only if benchmarks are not met at the end of the project in March 2012. However, this is contrary to ADS 202.3.8.3, which makes it mandatory for missions to review the status of all obligated

[2] As defined by ADS, the pipeline amount is the difference between the total amount obligated and the total amount expended.

[3] This figure is from the state society's audited financial statement as of March 31, 2010. However, according to the state society's March 31, 2011, accounting records (unaudited), this amount has decreased to $35.9 million because the society spent some of the funds implementing family planning activities. Nevertheless, we have used the audited figure of $40.1 million throughout the report.

funds and make any necessary adjustments to ensure that funds are used in a timely manner or are deobligated if no longer needed. Furthermore, according to ADS 202.3.7.4, in general current pipelines and new obligations should be adequate to finance 12 to 24 months of planned expenditures. Two of the three state societies' current pipelines greatly exceed 24 months' worth of planned expenditures.

Table 3. Time Needed by State Societies to Spend Pipeline Amounts as of September 30, 2010

State	State Society	Months
Uttar Pradesh	SIFPSA	35
Uttarakhand	Uttarakhand State Health Society	23
Jharkhand	Jharkhand Health Society	287

According to mission officials, they did not deobligate any funds because the grant agreement is between USAID/India and the Indian Government, and both would have to agree to modify the terms of the agreement. The mission believes that deobligating the funds while the agreement is ongoing would strain its relationship with the Indian Government. Additionally, despite the project's current financial position, the mission says that it plans to spend the $12 million in pipeline funding by the end of the project in March 2012. Regarding the state society in Jharkhand, the mission is not planning to approve any more benchmarks since benchmark activities are already substantially delayed. According to the mission, the activities in Jharkhand are behind because of the constant changes in leadership and the unstable government. Given these reasons, coupled with the state society's current pipeline of 287 months, it is highly unlikely that funds in Jharkhand will be expended in the time remaining in the project. To address these issues, we make the following recommendation.

> ***Recommendation 3.*** *We recommend that USAID/India review its obligations and needs for Phase III of the Innovations in Family Planning Services Project and deobligate any unneeded funds.*

With regard to the $40.1 million in savings accumulated by the state society in Uttar Pradesh, these funds were primarily accumulated because of benchmarks that were overvalued. This issue is discussed in the next two findings, along with a recommendation for establishing a plan to spend those funds on family planning-related activities.

Methodology Used to Value Benchmarks Lacked Accuracy

ADS 202.3.7, "Managing USAID Program Resources and Requesting Funds," states that USAID missions are responsible for managing the resources made available to them so that planned outputs and results are achieved in a cost-effective and timely manner. However, the audit identified a number of errors in the mission's valuation of benchmarks, which led to overvaluing these benchmarks. Additionally, the benchmark valuations included management fees that were not applied consistently, again leading in some cases to overvaluation. As a result, activities may not have been achieved in a cost-effective manner, contributing to the $40.1 million in savings accumulated by the state society in Uttar Pradesh.

To value benchmarks, USAID/India determined the activities that were required and reviewed the history of similar activities, average costs, and other background information to estimate how much it would cost to achieve each benchmark. The mission also reviewed budget estimates for the benchmarks prepared by the state societies. The mission documented its valuation of the benchmarks on detailed costing sheets. However, the audit found that because some costing sheets contained errors, benchmark valuations were not always supported. For example, a benchmark for training community workers in Uttarakhand was miscalculated. Instead of totaling the costs for only that particular benchmark, the mission inadvertently included the costs of two other benchmarks, increasing the value of the benchmark from $52,800 to $126,660—essentially overvaluing the benchmark by $73,860.

The audit also identified an issue involving management fees associated with the benchmarks. For each benchmark valuation, the mission adds a management fee, which varies from 10 to 18 percent of the benchmark cost, once all the costs for the activities under the benchmarks are estimated. Hence, the final value of the benchmark is the total estimated cost of the activities plus the management fee. According to the mission, management fees cover the state society's estimated operational costs associated with the benchmark, such as related salaries and allowances, transportation, and maintenance of equipment.

We noted that USAID/India inexplicably increased the management fee from an approved level of 12 percent to 18 percent for the state society in Uttar Pradesh. The state society in Uttar Pradesh speculated that the management fee was increased because of a presumed increase in operating expenses. Nevertheless, neither party could provide a definitive answer or documentation to support the justification for the increase.

During the initial phases of the project, from 1992 to 2004, mission officials acknowledged that they did not have a good system for determining the cost or value for each benchmark. Additionally, at that time, the mission purposely added to the benchmarks to include a financial incentive or buffer to help the state society in Uttar Pradesh establish and carry out its operations. However, over the years and with more experience, officials claim that their method of valuing the benchmarks has improved but is not exact. Furthermore, USAID/India officials stated that they consulted with the state society on the valuation of benchmarks, particularly the ones in Uttarakhand and Jharkhand. However, since the state society in Uttar Pradesh had more experience in valuing the benchmarks by itself, the mission placed more reliance on the state society's estimates. This situation has led to less scrutiny and less independent verification and analysis by the mission of the value of the benchmarks for this state society.

Regarding the management fee, as stated previously, the state society in Uttar Pradesh had accumulated a substantial amount of unspent funds over the years from implementing IFPS activities, and as of March 31, 2011, these funds totaled approximately $40.1 million (including interest earned). The state society could have used these savings to cover its operating costs, and USAID/India could presumably have eliminated management fees. According to the state society's financial statements, for 2009–2010, the management fees for implementing IFPS III were $1.4 million. Although the mission had discussed reducing the state society's management fees and asking the organization to use the money from its savings to cover the fees, the mission had yet to act on this.

According to the IFPS grant agreement, any "earnings" on grant funds disbursed by USAID to the grantee under the agreement prior to the authorized use of such funds for the project must be returned to USAID in U.S. dollars by the grantee. However, the mission's regional legal advisor and other mission officials have stated that this provision does not apply to performance-based disbursements. They noted that the performance-based disbursement mechanism is similar to a fixed-price contract (in which the price is determined and agreed to in advance), and if the contractor gets the work done below the agreed-upon cost, the contractor retains the excess funds. Likewise, if the contractor pays more to get the work done, the mission is not obligated to pay more than what it agreed to. In short, the mission believes that from a legal standpoint the excess funds belong to the Indian Government. Nevertheless, the Office of Inspector General believes (as discussed in the next finding) that it would be desirable for the parties to the grant agreement to establish a plan for spending these excess funds on family planning-related activities.

Before the project ends, it is imperative that USAID/India make improvements in its procedures to value project benchmarks, correct the error identified in a benchmark valuation, and establish agreed-upon percentages for management fees to be charged. Therefore, we make the following recommendations.

> ***Recommendation 4.*** *We recommend that USAID/India define, in writing, procedures to improve USAID/India's valuation of benchmarks in Phase III of the Innovations in Family Planning Services Project. Procedures should include: (1) reviewing state society estimates for errors, (2) verifying that extraneous management fees are not included in the benchmark valuations, and (3) establishing agreed-upon percentages for management fees, along with a justification for the established percentages.*

> ***Recommendation 5.*** *We recommend that USAID/India deduct the benchmark valuation error of $73,860 identified in this finding from future performance-based disbursements.*

Project Lacked Transition/Sustainability Plan for Family Planning Activities

One of the key goals under IFPS III was to strengthen SIFPSA into a fully sustainable technical assistance agency by the end of the project. Also, SIFPSA was to develop and implement a capacity-building and transition/sustainability plan that would help it become independent of USAID support. However, as of March 31, 2011, such a plan had not been developed. Moreover, since the project began in 1992, SIFPSA had accumulated approximately $40.1 million from excess funds remaining after completion of benchmark activities, including interest earned, and had no clear plan to manage or use these funds. We estimate that since the project began USAID has provided a total of $138.8 million in performance-based disbursements. However, with less than a year remaining in IFPS III and without immediate intervention, USAID/India may lose its influence over the future of SIFPSA and the use of these accumulated savings.

SIFPSA is a quasi-governmental agency created in 1994 to oversee the implementation of IFPS activities in Uttar Pradesh. According to the action plan—which outlines expected results, outputs, and outcomes of IFPS III for Uttar Pradesh—a capacity-building and transition/sustainability plan for SIFPSA was to be developed and implemented to ensure a smooth transition from USAID support to independence. The end goal was to transform SIFPSA into a highly qualified, self-sustaining institution providing technical assistance to the state on family planning and reproductive health issues.

According to both USAID and SIFPSA officials, SIFPSA was to have prepared the plan. However, SIFPSA had not done so, primarily because SIFPSA's continued existence is in question, as discussed below. Although USAID/India has had discussions with government officials regarding SIFPSA's future, no specific plan for SIFPSA's future or the use of the accumulated savings has been developed.

As discussed earlier in this report, SIFPSA had accumulated approximately $40.1 million as of March 31, 2010, in excess funds remaining after completion of benchmarks, from the overvaluation of the benchmarks and, as discussed below, from interest earnings. The mission indicated that, from the initial phases of the project through 2004, it did not have a good system for determining the cost or value for each benchmark, resulting in the overvaluation of benchmarks. Also as discussed earlier, the mission purposely added to the benchmarks to include a financial incentive or buffer to help SIFPSA establish and carry out its operations. In addition, SIFPSA often completed the benchmarks at a lower cost than that established in the benchmark valuation. The reason for this, SIFPSA officials stated, was that they took an economical approach to implementation, which may have led to some of the savings. Furthermore, SIFPSA has also earned a sizeable amount of interest from depositing the annual savings from IFPS over the years into interest-bearing accounts: over the past 5 years alone, SIFPSA has earned approximately $15 million on the savings from IFPS III (Table 5). According to SIFPSA officials, they shop around for the best interest rate available and earn between 9 and 10 percent interest per year.

Table 5. Amount of Interest Earned by the State Society in Uttar Pradesh on Project Funds, 2005–2010

Year	Interest Earned ($ million)
2009–2010	4.0
2008–2009	4.4
2007–2008	3.5
2006–2007	1.9
2005–2006	1.2
Total	**15.0**

However, according to mission officials, including the Regional Legal Advisor, since SIFPSA is funded through performance-based disbursements for activities achieved, SIFPSA is not required to return any interest income to USAID. They also concluded that SIFPSA's accumulated savings no longer belong to the U.S. Government. However, if SIFPSA ceases to exist, the $40.1 million in accumulated savings from the project could be absorbed by the Indian State Government Treasury and not be used for family planning-related activities. Therefore, it is imperative that USAID/India remains engaged with SIFPSA and the Indian Government to influence the use of the funds.

Since SIFPSA is a quasi-governmental agency, its future—whether it will exist after the project ends and in what form—is in the hands of the Indian state government. However, with the emergence of NRHM and its enormous funding, many SIFPSA officials believe that SIFPSA's role has become marginalized, and USAID funding for implementing family planning activities in the state is seen as meager in comparison to the Indian Government's NRHM funding. However, NRHM is suffering from corruption scandals and an inadequate management system. Whatever the future may hold regarding the continued existence of SIFPSA, USAID/India and the Government of India could establish a plan for ensuring that the $40.1 million in savings from the IFPS program would be secured and spent for family planning-related activities.

Currently, the following options are being considered for SIFPSA's future:

1. SIFPSA could become a more independent entity without a government official heading it.
2. SIFPSA could become a state health resource center under the state's NRHM program.
3. SIFPSA could merge with Uttar Pradesh's state NRHM program.
4. SIFPSA could continue as it now exists as a quasi-governmental agency.

A working group on SIFPSA's future, of which USAID is a member, has been convened for which discussions related to SIFPSA's future could be expedited. The mission is currently discussing a transition plan for SIFPSA, but given that the IFPS project ends in March 2012 and considering the issues facing NRHM, we believe that the $40.1 million in savings from the IFPS project is more likely to be spent on family planning activities as part of a transition/sustainability plan for such activities established by the parties to the grant agreement. Therefore, we make the following recommendation.

> ***Recommendation 6.*** While we accept the mission's determination that the $40.1 million in Agency savings belongs to the Government of India, we nevertheless recommend that USAID/India, the Government of India, and the State Innovations in Family Planning Services Agency establish a transition/sustainability plan for family planning activities that includes spending the $40.1 million on such activities.

EVALUATION OF MANAGEMENT COMMENTS

The Office of Inspector General has reviewed the mission's response to the draft report and determined that final action has been achieved on Recommendation 5, and management decisions have been reached on Recommendations 1, 2, 3, 4, and 6. For these five recommendations with only management decisions, we anticipate that final action will be taken by March 31, 2012.

For Recommendation 1, the mission stated that it reviewed all the pending benchmarks and determined that they will be achieved prior to the end of the project (i.e., the remaining 49 benchmarks would be achieved by March 31, 2012). As a result, the mission requested closure of the recommendation. Although we determined that a management decision has been reached on this recommendation, we cannot determine that final action has been achieved because of the lack of supporting documentation. Final action can be achieved only upon the submission of an analysis which lists each benchmark and why the mission believes it can be achieved or the actions to be taken if it cannot be achieved.

For Recommendation 2, the mission stated that the benchmarked activity had been achieved and provided a letter dated July 21, 2011, from UKHFWS attesting to the activity's completion. However, under the mission's own review procedures, members of the project implementation committee must review documentation submitted by the state society to verify completion. Therefore, we determined that only a management decision has been reached. Final action will be achieved after the committee documents approval of the activity's completion or the committee determines that the activity was not accomplished and that the funds should be deobligated and reprogrammed.

For Recommendation 3, the mission stated in Attachment 1 to its summary comments to the audit report that measuring the pipeline in months is not appropriate under a performance-based disbursement mechanism. This is because activities are planned almost a year in advance, and disbursements or accruals are made only after results have been achieved. Although the mission did not provide an alternative mechanism by which to measure the pace of fund expenditures, the mission did prepare an updated pipeline and expenditure plan through March 2012. This plan included a possible deobligation of $2 million in project funds, which the mission stated would be retained to address SIFPSA's transition plan. With SIFPSA's accumulated savings totaling $40.1 million, and interest of over $4 million earned annually, it is unclear why the mission would feel the need to retain $2 million for a SIFPSA transition plan. However, the mission stated that any balance of funds remaining near the project completion date would be deobligated, as required, before project closeout. As a result, we determined that a management decision has been reached on this recommendation, and final action will be achieved when any remaining funds are deobligated before project closeout.

For Recommendation 4, the mission stated that it planned to submit documentation defining procedures to improve valuation of benchmarks for IFPS III. We determined that a management decision has been reached on this recommendation. Final action will be achieved when such documentation is provided.

For Recommendation 5, the mission concluded that a calculation error of $73,860 in benchmark valuation occurred, and therefore de-sub-obligated the amount from Benchmark 37. As a result, we determined that final action has been achieved on this recommendation.

For Recommendation 6, the mission noted that actions are under way to establish a transition plan prior to March 31, 2012, and that such a plan would include joint programming of the savings and interest funds held by SIFPSA. The mission also noted in Attachment 1 of its summary comments on the audit report that a large portion of SIFPSA savings, approximately $15 million, was acquired under IFPS I from 1992 to 2004, and that some of these savings resulted from currency fluctuations between the Indian rupee and the U.S. dollar. Regardless of the time frame or additional means by which these savings were accumulated, SIFPSA now has $40.1 million in savings, which must be carefully monitored to ensure that these resources are used for family planning-related activities. Therefore, the mission's work to establish such a transition plan is essential. As a result, we determined that a management decision has been reached on this recommendation. Final action will be achieved upon the formal establishment of such a plan.

In addition to the responses above, the mission cited what it believed to be a number of inaccuracies and misleading statements in the draft report. These comments were included in Attachment 1 to their summary comments. We made several changes to the report in response to mission concerns. However, in some cases, we held a different perspective than the mission and did not alter the report in response to mission comments as discussed below.

Specifically the mission stated that the objectives of IFPS III were not accurately summarized. According to the mission, the project's "priority focus for the final three years of IFPS" was to strengthen health systems for delivery of quality family planning and reproductive health services. Project officials are concentrating on demonstrating the effectiveness of innovative models and processes so that states will adopt them at the end of the project. We believe that the summary of the overall IFPS project presented in the report, taken directly from the bilateral agreement, conveys a similar idea. Furthermore, the objective of the audit was to determine whether USAID/India's IFPS III was achieving its main goal of strengthening health systems to allow for the delivery of quality family planning and reproductive health services, a goal derived from the bilateral agreement itself.

The mission also objected to the report's labeling of benchmarks as "not achieved," stating that this misrepresents the status of benchmarks at the time of the audit. The mission believes the phrase "in progress" is more accurate. We do not consider the phrase "not achieved" a misrepresentation of benchmark status and believe the report's first finding adequately addresses this concern. As noted in the finding, the benchmarks were labeled as not achieved because they were expected to be completed by March 31, 2011, but were not achieved by that date.

The mission also felt the audit's second finding regarding significant amounts of project funds remaining unused was inaccurate and misleading. The mission believes that a more accurate reflection would be stating that significant amounts of authorized funds for IFPS will not be obligated due to changes in India's health programs resulting in the mission's prudent decision not to obligate the full level of authorized funds. However, the report does mention the decrease in authorized funding for the project, although focusing on the $12 million remaining in the pipeline as of March 31, 2011.

The mission cited as inaccurate the report's statement that several benchmarks were not achieved because they had to compete with a newly established host-government program. As for the $208,150 benchmark discussed specifically in the report, the mission indicated that the benchmark had subsequently been achieved and in its view was not directly competing with any other government scheme. However, as documented by the mission's own trip reports, patients were clearly choosing the newly established host-government program over the similar voucher program funded through IFPS III.

The mission disagreed with the report's statement that "benchmarks were not achieved primarily because the mission did not hold the state societies to due dates." The mission stated that this was inaccurate, and that the complex environment in which IFPS works was the primary reason that benchmarks were not achieved. While the auditors acknowledge the complexities involved in all development work, specific completion dates were established and agreed to by all parties involved, and these dates were routinely not met for various reasons, as discussed in the report.

The mission also disagreed with the audit report's conclusion that the project had made little progress in that the problems cited referred "primarily . . . to administrative aspects of the program rather than programmatic performance." While the audit report did recognize noteworthy contributions made by the project, it was not clear that IFPS III had achieved the progress envisioned at the time the project was authorized. With the reduction in the size of the project by $47.6 million, the cancellation of numerous benchmarks and the delay in the achievement of others, and the lack of certainty regarding the future of the largest government implementing agency, we could not conclude, as the mission did, that "considerable progress" had been made.

SCOPE AND METHODOLOGY

Scope

We conducted this performance audit in accordance with generally accepted government auditing standards.[4] 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 the evidence obtained provides that reasonable basis. The purpose of this audit was to determine whether USAID/India's IFPS III was achieving its main goal of strengthening health systems to allow for the delivery of quality family planning and reproductive health services.

While the overall IFPS project started in 1992, this audit focused on results reported under Phase III, from April 1, 2009, through March 31, 2011. We performed this audit at USAID/India and at the office of the technical assistance contractor, Constella Futures International, LLC, in New Delhi from February 23 through March 9, 2011, and again from March 28 through April 14, 2011. We also conducted site visits throughout the state of Uttarakhand from February 28 to March 4, 2011. We met with officials from the UKHFWS, district governments, NGOs, and private hospitals implementing IFPS III activities. We also conducted site visits in the state of Uttar Pradesh from April 4-7, 2011. We met with officials from SIFPSA, visited two hospitals participating in a franchising scheme in Kanpur, and viewed social marketing activities taking place in the nearby villages.

As part of the audit, we assessed the significant internal controls used by USAID/India to monitor project activities. The assessment included controls related to whether the mission had (1) adequately valued activities for proposed benchmarks, (2) conducted and documented site visits to evaluate progress and monitor quality, (3) reviewed and validated documentation for completed benchmarks, and (4) reviewed progress reports submitted by the technical assistance contractor. We also reviewed the mission's Federal Managers' Financial Integrity Act report for fiscal year 2010, and prior audit reports, for any issues related to the audit objective. Finally, we reviewed internal controls related to the state societies' activities, which included field visit reports, log books, and other financial and project reports.

As of March 31, 2011, the mission had obligated $22.6 million and expended $10.6 million for IFPS III since April 2009.

Methodology

To answer the audit objective, we first identified the project's main goal and significant project risks. We met with key personnel at USAID/India, SIFPSA (the implementing state society in Uttar Pradesh), UKHFWS (the implementing state society in Uttarakhand) and Constella Futures International, LLC (the entity providing technical assistance to the project).

To determine whether IFPS III activities funded through performance-based disbursements were being achieved, we judgmentally selected 26 benchmarks with a total value of $5,297,873

[4] GAO-07-731G (July 2007 Revision).

to test. These benchmarks were selected from the IFPS III benchmarks approved since April 1, 2009, both completed and ongoing, that pertained to differing activities across the states of Uttarakhand, Uttar Pradesh, and Jharkhand. We then reviewed mission documentation pertaining to the original approval and costing of these selected benchmarks, the mission's monitoring of activities through trip reports and meeting minutes, and other documents pertaining to verifying completion and payment approval.

We also interviewed individuals and reviewed supporting documentation at various organizations in Uttarakhand responsible for implementing IFPS activities. We met with UKHFWS officials, and the Chief Medical Officers of the districts of Haridwar and Nainital. We also met with officials from various NGOs and a private hospital implementing benchmarked activities. The NGOs included Shri Bhuvneshwari Mahila Ashram, working on adolescent reproductive health in Dehra Dun District, and the Birla Institute of Scientific Research, operating a mobile health van in the Nainital District. We also met with a doctor working at the privately owned Sanjeevan Hospital participating in voucher scheme activities in the city of Roorkee.

In Uttar Pradesh, we interviewed SIFPSA officials and reviewed their file documentation. We also viewed social marketing activities organized by a subcontractor taking place in the villages of Bijimau and Mal. These activities included a community meeting in Bijimau, attended by local women to learn about the advantages of family planning, and the sale of condoms and oral contraceptive pills in two retail stores. In the village of Mal, we observed a performance by a local theater group that told the story of a couple, interwoven with the message of family planning benefits. We also interviewed officials at two private hospitals in the Kanpur District participating in the MerryGold franchising scheme being implemented by Hindustan Latex Family Planning Promotion Trust.

To determine whether the technical assistance aspect of IFPS III was meeting its intended goals, we interviewed contractor personnel. Interviewees included employees at the Delhi headquarters and the regional offices of Dehra Dun and Lucknow. In Delhi, we reviewed files pertaining to quarterly indicator and activity progress reports, subcontracting documents, and financial records.

MANAGEMENT COMMENTS

MEMORANDUM

TO: Regional Inspector General/Manila, Bruce N. Boyer

FROM: USAID/India Acting Mission Director, Frank Young /s/

SUBJECT: USAID/India Comments on Audit Report No. 5-386-11-XXX-P

DATE: August 1, 2011

As requested in your memorandum of June 23, 2011, this memorandum transmits USAID/India's written comments on the draft Audit Report No. 5-386-11-XXX-P. Comments are provided in two formats: a signed (scanned) copy of this memorandum and an electronic version in Microsoft Word with /s/ signifying my signature.

Although your memo indicates that these comments will be included as an appendix to the report, please note that we are also providing a version of the draft report with our recommended edits in tracked changes mode. The same comments, as well as a set of overarching comments to the entire report, are included below; however, in order to facilitate changes that your team may choose to accept based on our proposed edits, we thought it most useful to also provide an edited "track changes" version of the document.

A summary of the Mission's response to the recommendations is noted below. For all recommendations, we have provided either documentation indicating that corrective action has been taken, with a request that the recommendation be closed, or a proposal for corrective action, as you requested, including a target date for completion.

You will note that we have also provided revised amounts for those cited in recommendations 2 and 5, and note our clarifying point regarding the amount cited in recommendation 6.

We appreciate the thoughtful review and hope our comments will be taken as intended, to ensure the most accurate report given the complexities involved in this important bilateral program.

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Summary of USAID/India Mission Response to Recommendations

> ***Recommendation 1:*** *We recommend that USAID/India determine which of the outstanding benchmarks can reasonably be achieved in the time left in the program, and adjust timelines or cancel the benchmarks and deobligate and reprogram associated funds*.

The Mission recommends that this recommendation be closed. The Mission has reviewed all the pending benchmarks and determined that, based on their current status, to the best of our knowledge they will all be achieved prior to the end of IFPS on March 31, 2012.

> ***Recommendation 2:*** *We recommend that USAID/India determine the feasibility of continuing the voucher scheme activity in Uttarakhand, and If not feasible, deobligate and reprogram the $208,150 associated with the activity.*

The Mission proposes that this recommendation be closed, since this benchmark has been achieved. Documentation demonstrating achievement of the benchmark is included as Attachment 2.

> ***Recommendation 3:*** *We recommend that USAID/India review its obligations and needs for the Innovations in Family Planning Services III program and de-obligate any unneeded funds.*

The Mission proposes that this recommendation be closed. The Mission has reviewed the validity of existing obligations, in accordance with ADS 202.3.8.3, and determined that no de-obligation is currently required. Please see the updated pipeline analysis and plan for expenditure in Attachment 5. The projected balance of un-subobligated funds, approximately $2.0 million, is being retained as a contingency to address the report's Recommendation 6, to develop a transition plan for SIFPSA. If any balance of funds remains near to the project completion date, it will be de-obligated, as required, before project closeout.

> ***Recommendation 4:*** *We recommend that USAID/India define, in writing, procedures to improve USAID/India's valuation of benchmarks in the Innovations in Family Planning Services Program. Procedures should include: (1) reviewing state society estimates for errors, (2) verifying that extraneous management fees are not included in the benchmark valuations, and (3) establishing agreed-upon percentages for management fees, along with a justification for the established percentages.*

The Mission agrees and will submit documentation to closeout this recommendation on issuance of the report.

> ***Recommendation 5:*** *We recommend that USAID/India deduct benchmark valuation errors totaling $100,956 identified in this finding from future performance-based disbursements.*

The Mission recommends that this recommendation be closed. The errors actually totaled $73,860 and have been resolved (see further explanation in Attachment 1, and documentation included in Attachment 3). Please note that the text on page 4 of the report references page 12, but the relevant discussion is on page 10 of the original draft report.

> ***Recommendation 6:*** *We recommend that USAID/India, the Government of India and the State Innovations in Family Planning Services Agency establish a transition/sustainability plan for the Agency. While we recognize that the $40.1 million in Agency savings belongs to the Government of India, the plan should nevertheless include guarantees that those funds be spent as intended on family planning activities.*

The Mission accepts the recommendation and notes that related actions have been underway since October 2010. The Mission and SIFPSA are currently working on a transition plan to be agreed upon with relevant host government entities, including joint programming of the savings and interest to ensure they are used in accordance with original program purposes. Actions will be completed prior to March 31, 2012.

List of Attachments:

1. USAID/India Comments on Audit Report No. 5-386-11-XXX-P
2. Documentation on achievement of Uttarakhand Benchmarks 39 and 50
3. Project Implementation Letter (PIL) #108 to correct calculation error
4. Illustrative Achievements of IFPS
5. IFPS pipeline and expenditure plan until March 2012
6. Articles on political upheavals in Jharkhand
7. Minutes of meetings related to SIFPSA transition plan
8. Audit Report with tracked changes recommended per Mission comments

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