OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/PHILIPPINES' EDUCATION QUALITY AND ACCESS FOR LEARNING AND LIVELIHOOD SKILLS PROGRAM, PHASE II

AUDIT REPORT NO. 5-492-10-013-P
SEPTEMBER 23, 2010

MANILA, PHILIPPINES

Office of Inspector General

September 23, 2010

MEMORANDUM

TO: USAID/Philippines, Mission Director, Gloria D. Steele

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

SUBJECT: Audit of USAID/Philippines' Education Quality and Access for Learning and Livelihood Skills Program, Phase II (Report No. 5-492-10-013-P)

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

This report contains ten recommendations to assist the mission in improving the efficiency and effectiveness of its education program. On the basis of information provided by the mission in its response to the draft report, we deleted one recommendation (previously numbered as Recommendation 9) and renumbered the remaining recommendations accordingly. We determined that final actions have been taken on Recommendations 6 and 10. For Recommendations 1, 2, 3, 4, 5, 7, 8, and 9, we determined that management decisions have been reached. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close these recommendations.

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

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SUMMARY OF RESULTS

The Philippine education system has deteriorated significantly in recent decades in terms of quality and access. The problems include poor teacher training, overcrowded classes and underequipped facilities, a high dropout rate, and insufficient access to education for the poor.

To help address these challenges, USAID/Philippines created the Education Quality and Access for Learning and Livelihood Skills Program (EQuALLS). This program was designed to address the disparities in education access and quality in areas of Mindanao most affected by conflict and poverty. The program focuses on elementary education to strengthen literacy and increase participation and transition rates from one grade to the next.

The first phase of the program (EQuALLS1) began in October 2004. EQuALLS1 was authorized to run through September 30, 2009, with total funding of $30.1 million. Two years into the program, however, the mission recognized that the breadth of activities being implemented diluted the focus on target groups. The mission therefore decided to intensify assistance to out-of-school youth and increase the synergies among the institutions involved in implementing the program.

Thus, the mission ended Phase 1 of the program and in July 2006 awarded a 5-year, $59.3 million[1] cooperative agreement to Education Development Center, Inc. (EDC), to implement the second phase of the program (EQuALLS2). EDC is responsible for providing technical leadership to three partner institutions to implement the program.[2] As of September 30, 2009, USAID/Philippines had obligated $35.6 million and disbursed $26.7 million for EQuALLS2.

EQuALLS2 has three main objectives: (1) increasing learning opportunities for children and youth through community support for education, (2) strengthening teachers' capacity for teaching English, math, and science at the elementary level, and (3) improving the relevance of learning and livelihood skills training for out-of-school children and youth.

The objective of the audit was to determine whether EQuALLS2 was achieving its main goals. The audit found that EQuALLS2 was making progress on increasing access to quality education and improving the livelihood skills of out-of-school children and youth. However, the extent of the progress was uncertain because reported results were unreliable, and key program interventions were not as successful as expected. Additionally, the audit found that the mission and EDC needed to provide more oversight so that the program is implemented as planned and that intended results are achieved.

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[1] The amount was subsequently increased to $60 million.

[2] Throughout this report, we refer to EDC as the implementing partner, and to the three partner institutions that EDC leads as program partners. The program partners received subgrants from EDC to assist in carrying out program activities.

To increase access to quality education, EQuALLS2 constructed new classrooms and made repairs to elementary schools in the targeted areas. As of September 30, 2009, the program had constructed 45 new classrooms and made repairs to 188, achieving 38 percent and 24 percent of its performance targets for those activities. The program had also refurbished 235 community learning centers where out-of-school children and youth attend alternative learning courses, achieving 59 percent of its target.

As the banner on the roof indicates, the program built these classrooms in the Province of Lutayan. (Photo by OIG, February 2010)

The program also successfully reached out to targeted communities and parent-teacher associations to involve them more in the schools. Participation by these groups brought in local contributions matching approximately 97 percent of the funds provided under community incentive grants. These grants funded school improvement projects such as providing potable drinking water and establishing libraries and audiovisual programs in the schools.

To improve the quality of education, the program provided training to teachers to improve their competency in English, math, and science. Partly because of the training, students' scores on national achievement examinations increased. In one of the program's targeted regions, the overall scores increased from 62.43 to 66.08 percent in 2009 in the schools where EQuALLS2 was being implemented. The program also provided math and science kits and thousands of books for the teachers to use in the classrooms to enhance instruction. Additionally, to effect change at a higher level, the program trained school administrators on how to formulate goals and plans, monitor teacher and student achievement, solve problems, negotiate, work with teams, and mobilize resources.

The program provided basic education courses and workforce development courses to prepare out-of-school youth to return to school or to increase their employment potential. For example, the program offered courses in baking and pastry making, installation wiring, arc welding, small engine (motorcycle) servicing, carpentry, automotive servicing, and consumer electronics servicing. These livelihood skills enabled the youth to begin business ventures individually or in guilds, or to obtain wage employment.

An out-of-school youth repairs a cell phone in a training course conducted by the program in South Cotabato. (Photo by OIG, February 2010)

Despite these accomplishments, the audit disclosed problems with data quality. For example, some data were unreliable (page 4), and data collected on a key indicator were not consistent with the definition of the indicator (page 5). In addition, the mission had not clearly defined the targets it expected the implementing partner to achieve by the end of the program (page 7) or fulfilled its monitoring responsibilities by approving key program documents (page 8).

Furthermore, the audit found that improvements in mentoring and oversight were needed to fully realize the program's goals. In particular, the audit found that the teacher-mentoring program lacked structure and support (page 10). Oversight was also lacking (page 11), as the implementing partner was unaware that one program partner had opted to build rather than refurbish community learning centers to train out-of-school youth. The newly built centers were little used and more expensive than renovated centers would have been. Likewise, the implementing partner was unaware that the program partner responsible for constructing and repairing classrooms was subject to extortion, pilferage, and theft—costs of which may have been passed on to the program (page 13).

To assist the mission in improving the efficiency and effectiveness of its education program, this report contains recommendations that USAID/Philippines:

- Develop and implement procedures to validate performance (page 6).
- Require the implementing partner to develop and implement data validation steps in its monitoring visits (page 6).
- Require the implementing partner to validate fiscal year 2009 performance data and certify the accuracy of the data in its management information system (page 6).

- Clarify the definition of the teacher training indicator and require the implementing partner to verify and report accomplishments that meet the indicator definition (page 7).

- Clarify the targets that the implementing partner is responsible for achieving by the end of the program (page 9).

- Require the implementing partner to include a budget in the remaining annual work plans and submit plans for approval before implementation begins (page 11).

- Require the implementing partner to update the monitoring and evaluation plan to reflect the approved targets and new program framework (page 11).

- Require its implementing partner to develop and implement a plan to (1) identify how the mentoring program will be implemented and monitored at schools and (2) assist mentors in completing core training courses in the identified subject areas and document each mentor's completion of the courses (page 12).

- Require the implementing partner to establish written procedures for providing adequate oversight of program partners' activities (page 14).

- Mandate that all agreements and contracts have a clause requiring partners and subpartners to report all suspicion or allegation of waste, fraud, abuse, or corruption through appropriate channels including USAID's Office of Inspector General (page 15).

The Office of Inspector General has reviewed the mission's response to the draft report and determined that final actions have been taken on Recommendations 6 and 10 , and management decisions have been reached on Recommendations 1, 2, 3, 4, 5, 7, 8, and 9 (page 16). The mission's written comments on the draft report are included in their entirety, without attachments, as Appendix II to this report (page 20).

AUDIT FINDINGS

Some Reported Results Were Not Reliable

USAID's Automated Directives System (ADS), Chapter 203, states that the missions and assistance objective teams should be aware of the strengths and weaknesses of their data and the extent to which the data's integrity can be trusted to influence management decisions. Additionally, ADS 203 emphasizes that performance data should meet data quality standards of validity, integrity, precision, reliability, and timeliness and that missions should take steps to ensure that submitted data are adequately supported.

However, the audit identified data quality problems with the program results reported at the end of fiscal year (FY) 2009. As discussed below, data reported for two key program indicators—*number of classrooms constructed or repaired* and *number of teachers trained*—were inaccurate or not timely, thus unreliable. Furthermore, the implementing partner had yet to validate pertinent data reported for its accomplishments in assisting out-of-school youth.

Number of Classrooms Constructed or Repaired – At the end of FY 2009, the implementing partner reported 51 classrooms had been constructed and 226 classrooms had been repaired. However, the audit disclosed that 6 of 12 sampled classroom construction projects and 38 of 61 sampled classroom repairs were not completed at the time of reporting; in fact, the 44 repairs and construction projects reviewed were not completed until well after the fiscal year ended—some up to 4 months after. The accurate tallies, contrary to reported results, were 45 classrooms constructed and 188 classrooms repaired as of September 30, 2009.

Number of Teachers Trained – At the end of FY 2009, the implementing partner reported that 24,738 teachers had been trained. The implementing partner later adjusted this figure to 37,546—a 66-percent increase in the figure originally reported. However, audit evidence showed that only 19,143 teachers had been trained by the end of FY 2009. When asked about the adjustment and the discrepancy, implementing partner officials explained that they had adjusted the figure because it did not include the teachers trained in collaboration with another international organization's education project because, at the time of reporting, those achievements had not been fully validated or entered in the implementing partner's management system. The discrepancy arose because, instead of counting the teachers that were trained, the implementing partner had counted each time a teacher took a training course, thereby misrepresenting the results. Contrary to reported results, only 19,143 teachers had been trained by the end of FY 2009.

Out-of-School Children and Youth Assisted – Additionally, the audit disclosed that the implementing partner had not validated reported data pertaining to the interventions for out-of-school children and youth. Reported performance data through September 30, 2009, included accomplishments during the transition period from EQuALLS1 to EQuALLS2. This transition period covered the first 12 months of EQuALLS2 before the current program partners came on board to avoid disruption of program activities. The implementing partner reported that during this period 12,108 youth enrolled in basic education programs and 1,972 youth participated in workforce development programs. However, the implementing partner merely relied on the completion reports of the program partners without validating the data and had yet to import the data into the management information system for the program.

These inaccuracies in reported results occurred because the mission did not validate data during site visits, concentrating instead on activity implementation, nor did the implementing partner validate data during its monitoring activities, which focused on technical design aspects. The implementing partner also relied on information entered in the program's management information system by program partners without performing validation checks. Similarly, the mission relied on data reported by the implementing partner without properly validating or verifying the data.

To measure performance effectively and make informed management decisions, missions must ensure that quality data are collected and made available. USAID provides its assistance objective teams with extensive guidance to help them manage for improved results. Therefore, we make the following recommendations.

> ***Recommendation 1.*** *We recommend that USAID/Philippines develop and implement procedures that include data validation steps in site visits and document the results.*
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> ***Recommendation 2.*** *We recommend that USAID/Philippines require its implementing partner to develop and implement data validation steps in its monitoring visits and document the results.*
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> ***Recommendation 3.*** *We recommend that USAID/Philippines require the implementing partner to validate the performance data reported in fiscal year 2009 and certify the accuracy of the data in its management information system.*

Data Reported for a Key Indicator Were Not Consistent With the Indicator Definition

According to Agency guidance, ADS 203, operating units and strategic objective teams should select performance indicators that are most appropriate for the result being measured. To assist operating units in selecting appropriate indicators, the guidance identifies seven criteria that operating units can use. One criterion is that the indicator should be direct, which means that it should closely track the results it is intended to measure.

To measure the program's progress, the mission used the standard definition used worldwide by USAID to quantify the indicator *number of teachers/educators trained with U.S. Government support*. This indicator measures the number of individuals who have successfully completed a pre- or in-service training program to teach in schools. Successful completion means that trainees have met the completion requirement of the structured training program as defined by that program. The guidance also prescribes that the training last at least 3 working days (24 hours) and that a trainee, even if he or she received training in more than one area or instance of training that year, should be counted only once.

Most EQuALLS2 teacher training centered on the core training program, with phased instruction in English, math, or science. As shown in the table, to complete the core program in math, a teacher would have to attend three phases totaling approximately 9 days of training. According to the standard definition of the training indicator, only teachers who have completed the core program in one of the subjects should be counted, and counted only once. However, the implementing partner did not use this definition in counting or reporting the numbers.

Requirements of the Core Training Program

Core Training Program	Number of Phases	Duration of Each Phase (Days)	Days Needed to Complete Training
English	2	5	10
Math	3	3	9
Science	3	3	9

Instead, each time an individual teacher attended a phase of the program, the implementing partner counted the teacher for reporting purposes. Using this method, the implementing partner reported training 37,546 teachers and achieving 107 percent of its performance target as of September 30, 2009. However, audit analysis showed that only 19,143 teachers had been trained by the end of FY 2009. The implementing partner, therefore, overstated its achievements.

According to the mission, the differences in counting occurred because two forms of guidance conflicted on how training courses should be counted. In addition to following the guidance that provides the standard definition of the indicator, the mission was also required to comply with a mission order that does not state that participants can be counted only once per year. This difference caused confusion.

Because of the confusion, performance data likely were not consistently collected and reported. Ultimately, if the effectiveness of the program is evaluated on the basis of numbers, any doubt about those numbers impairs their utility to decision makers. Data should reflect stable and consistent data collection processes and analysis methods. USAID missions and offices should be confident that progress toward performance targets reflects real change rather than variation in data collection methods. Therefore, we make the following recommendation.

> ***Recommendation 4.*** *We recommend that USAID/Philippines clarify the definition of the teacher training indicator with the implementing partner, in writing, and require the implementing partner to verify and report the accomplishments that meet the indicator definition.*

Program Targets Were Not Clearly Defined

USAID uses performance indicators to measure actual results compared with expected results and determine whether programs are progressing toward their objectives. Agency guidance, ADS 203, requires setting performance targets for each performance indicator that are ambitious but can be realistically achieved. Performance targets are specific planned levels of results to be achieved within an explicit timeframe and may be set for the end of the agreement period or for each year of the program.

Early in the program, in December 2006, the mission and implementing partner agreed to revise the performance targets originally set in the cooperative agreement by modifying the agreement. This modification was still in effect at the time of our audit. Nonetheless, neither the targets the implementing partner included in its FY 2009 work plan nor some of those reported in the implementing partner's FY 2009 quarterly reports matched the modified targets.

Periodic progress reports are the means by which the implementing partner details progress against results and targets. Progress reports are critical to the mission's ongoing monitoring efforts of the implementing partner's progress. A progress report should compare actual achievements with targets outlined in the award document and the work plan. However, targets were elusive, as illustrated in the following examples:

- **Classrooms constructed or repaired**. The agreement's modification established a program target of 900 classrooms to be constructed or repaired during the program. However, the implementing partner's FY 2009 work plan showed the program target as 600, and the implementing partner planned its yearly activities around meeting this target. By doing this, the implementing partner reduced its responsibility for the end of the program by 300 classrooms. Yet in its report to the mission for the quarter ended September 30, 2009, the implementing partner reverted to identifying 900 classrooms constructed or repaired as the program target.

- **Community learning centers constructed or rehabilitated**. The agreement's modification established a program target of 600 community learning centers to be constructed or rehabilitated by the end of the program. In the implementing partner's FY 2009 work plan, however, the implementing partner listed 400 learning centers as its target and planned its yearly interventions against this program target (reducing its responsibility by 200 centers. The partner reported a program target of 400 learning centers in its September 30, 2009, quarterly report.

- **Teachers trained**. In key documents the implementing partner constantly shifted between 35,000 and 24,000 as the program target. For example, the agreement's modification showed 35,000 as the target for the number of teachers to be trained, whereas the implementing partner used 24,000 as the program target to plan its yearly resources for FY 2009.

- **Number of youth completing skills training program**. The original cooperative agreement indicated a program target of 20,000 youth completing skills-training programs. The agreement modification changed the indicator description to *youth finding employment or starting their own businesses following training* and showed a target of 80 percent, but did not indicate to what total this percentage pertained. Additionally, both the FY 2009 work plan and the September 30, 2009, quarterly report showed a program target of 35,000 for the *number of persons participating in U.S. Government-funded workforce development programs*.

According to the implementing partner, targets had caused confusion since the start of the agreement. Because of the words "cumulative target" in the cooperative agreement, the implementing partner believed from the onset that the program targets would take into account the actual accomplishments from EQuALLS1. For example, in terms of teacher training, the implementing partner considered itself responsible for training 24,000 teachers because 11,000 teachers had been trained in Phase I of the program, and the program target was 35,000.

The implementing partner sought clarification from the mission in December 2006, and the agreement was modified. However, according to the implementing partner, the modification did little to resolve the confusion surrounding the program targets. It was not until February 1, 2010, that the implementing partner again formally requested clarification to revise the targets. As of the end of audit fieldwork, the mission had not approved the request. According to the implementing partner, the need to revise the program description to reflect new strategies and targets necessitated the request.

The implementing partner has been carrying out activities for 3½ years without being clear on the targets it is responsible for achieving by the end of the program. Without clear program targets, the implementing partner may have erroneously and inefficiently budgeted its time and resources during the most significant years of the program. Clearly defined and approved program targets are needed to properly plan interventions and to monitor and evaluate the program's progress. Furthermore, without defined program targets, the mission did not have enough information to properly determine whether the implementing partner's annual work plans represented an acceptable approach to achieving the objectives by the end of the program. As a result, USAID/Philippines risks not achieving end of program targets. Therefore, we make the following recommendation.

> ***Recommendation 5.*** *We recommend that USAID/Philippines take immediate action to clarify the targets that the implementing partner is responsible for achieving by the end of the program. Those targets should be clearly communicated and agreed to by the implementing partner and incorporated in key performance management documents.*

Key Documents Were Not in Order

Under the cooperative agreement, the mission is required to remain substantially involved during the performance of the agreement. Substantial involvement includes approving key program reporting documents such as the annual work plan and the monitoring evaluation plan. The audit found that the submitted FY 2009 annual work plan did not include a summary budget, and the mission had not approved the monitoring and evaluation plan submitted in March 2007. As well, the implementing partner had not updated this monitoring and evaluation plan as required.

Work Plan - The annual work plan describes the activities to be implemented in the coming year, provides the timeline for implementing those activities, and contains the annual budget. Section A.10.1 of the cooperative agreement states that the annual work plan shall include a budget formatted by planned results.

On September 5, 2008, the implementing partner submitted its FY 2009 annual work plan to the mission for review and approval minus a budget. Months later in January 2009, the mission provided its comments on the work plan. One comment was that a summary budget should be submitted with the annual work plan. The implementing partner responded that the budget would be submitted the week of January 5, 2009. Not having received the budget, the mission nonetheless approved the annual work plan on February 18, 2009, with the stipulation that the implementing partner comply with Section A.10.1 of the cooperative agreement. The implementing partner did not submit the budget until March 27, 2009, approximately 1 month after the work plan was approved and 6 months after implementation had begun.

According to implementing partner officials, they did not include the budget in the FY 2009 annual work plan because they were not given a format or any guidance on the budget desired by the mission. Implementing partner officials further stated that they received guidance only after the mission completed a financial review of the implementing partner in December 2008. After receiving clarification from the mission, implementing partner officials claimed that they immediately submitted and received approval of the estimated budget. However, the requirement to present the budget by results forced the implementing partner to reformat the budget, which took additional time in FY 2010. Therefore, neither the FY 2009 nor the FY 2010 annual work plan included a budget. At the time of the audit, implementing partner officials stated they had a budget formatted by results and that the mission would receive both a narrative annual work plan and an estimated budget by results for the FY 2011 work plan.

Without approving the annual budget, the mission cannot determine whether the implementing partner will achieve the program objectives with reasonable economy and efficiency. The mission should be aware of the annual budget for carrying out program activities.

Monitoring and Evaluation Plan - The monitoring and evaluation plan spells out the results to be achieved by the program, the indicators to be used to measure achievement of the results, and the targets for each indicator by year. Section A.10.2 of the cooperative agreement states that USAID will be involved in monitoring progress toward achievement of program objectives during the course of the agreement. Furthermore, the cooperative agreement states that it is the responsibility of the recipient to update the performance monitoring and evaluation plan as necessary based on lessons learned during implementation.

The audit disclosed that the mission had never approved the monitoring and evaluation plan, which the implementing partner had not updated to reflect current implementation plans. The monitoring and evaluation plan needed to be updated to include a strategic framework linking program activities to objectives and indicators, proposed targets (and annual milestones, where appropriate), finalized instruments, and a detailed operational plan for collecting and analyzing data.

The mission's involvement in the cooperative agreement is critical and is mandated by Agency guidance. According to the guidance, USAID is always involved in assistance awards, such as monitoring performance, reviewing reports, and providing approvals. Therefore, we make the following recommendations.

> ***Recommendation 6.*** *We recommend that USAID/Philippines require the implementing partner to include a budget in the remaining annual work plans and submit them for approval before implementation of activities.*

> ***Recommendation 7.*** *We recommend that USAID/Philippines require the implementing partner to update the monitoring and evaluation plan to reflect the approved targets and new program framework.*

Mentoring Program Was Not Working as Envisioned

According to the cooperative agreement, one of the program's main goals is to strengthen teachers' capacity for teaching English, math, and science. To achieve sustained results, the program's strategy is to develop teams of teachers who are subject matter experts, who provide mentoring and other learning opportunities to the other teachers in their schools. The mentoring program is designed to expand the program's reach by training approximately 25 percent of the 7,000 targeted teachers as mentors for the remaining 75 percent.

The implementing partner planned to train 1,773 teachers as mentors in one of the following subjects: English, math, or science. Mentors were expected to complete approximately four courses of core training in their assigned subject, including a capping course to learn how to share their knowledge with others. On completing the courses, mentors were expected to transfer the knowledge, concepts, and strategies learned from the program to the teachers at their schools who did not participate in the training.

However, we learned that the mentoring program was not effective for the following reasons:

- Our site visits disclosed that teachers were not given sufficient time to mentor other teachers as intended by the program. Because school principals and administrators did not regard mentoring as a priority, they did not allow time for mentoring during the school day. Therefore, mentoring could take place only during the teachers' breaks or lunch period.

- No guidelines or standards were available to explain what mentoring involved or how teacher-mentors should record the number of teachers mentored. Furthermore, the implementing partner had not made clear how it planned to monitor, record, or provide technical support during mentoring conducted at schools.

- Many teacher-mentors had not completed the required training courses or developed the needed skills. Although the teacher-mentors tried to carry out the individual mentoring concept at their schools, these teachers were not fully prepared to mentor others. This was evident from the weaknesses that the implementing partner observed in a training session in July 2008. For example, mentors compressed modules designed for 5- or 3-day training courses into 1 day of training, and mentors appeared to lack appropriate knowledge and skills to present the module topics.

- Fully trained teacher-mentors were in short supply. Audit analysis revealed that only 11.3 percent of the target schools had access to at least one fully trained mentor in each of the core subject areas.

Two proficiency assessments by the Department of Education highlighted the problems that the audit identified with the mentoring approach:

- An assessment of English proficiency showed that many teachers were not proficient and therefore not competent to act as mentors. Consequently, a significant number of schools will not be able to use mentoring to train their teachers.

- An assessment of math proficiency concluded that mentoring had not increased proficiency levels of mentees to acceptable levels, although long-term mentoring had produced some benefits. For example, mentees who received one-on-one assistance for 6–10 months on average failed to exhibit any increase in proficiency, whereas those with more than 15 months of mentoring showed an almost 30 percent increase from their pretest proficiency levels. Similarly, teachers who served as mentors for longer periods, 11–15 months, also tended to perform better on the posttest.

The mentoring program envisioned by the implementing partner has not been effective at building the capacity of teachers to teach English, math, and science. Without immediate intervention from the mission, the benefits of this mentoring program may not be realized, and the impact of the training program will be severely stunted. It is critical that the implementing partner properly define the mentoring program and its methodology—including how and when mentoring should take place—to bring structure to this program. Therefore, we make the following recommendation.

> ***Recommendation 8.*** *We recommend that USAID/Philippines require its implementing partner to develop and implement a plan to (1) identify how the mentoring program will be implemented and monitored at schools and (2) assist mentors in completing the core training courses in the identified subject areas and document each mentor's completion of the courses.*

Oversight of Program Partners Was Weak

As the coordinating organization, the implementing partner is responsible for providing the overall technical management of the program in accordance with the agreement's program description. This role includes planning and coordinating the efforts and activities of the program partners, setting program standards, providing program management, monitoring and evaluating the technical performance of all its program partners, and taking the lead on communication and strategic partnership development efforts.

The implementing partner did not provide adequate oversight of its program partners' activities. For example:

- The implementing partner instructed program partners to refurbish or improve existing buildings to use as community learning centers or classrooms for out-of-school children and youth. The implementing partner indicated that although construction of new centers could occur in unique situations, it required approval from the implementing partner. Despite this, one program partner had constructed multiple community learning centers without approval. In fact, the implementing partner was unaware that the centers had been constructed instead of refurbished. The program partner could not provide documentation justifying why it had built the centers instead of refurbishing them, or indicating that the implementing partner had approved the construction before it began. Furthermore, before building the centers, the program partner appeared not to have considered the number of out-of-school children and youth in the area, the accessibility of the centers, or whether qualified instructors were available to teach classes at the centers.

  In addition, according to the program partner's criteria, newly built centers should be used for at least 10 years to maximize gains from the investment in construction. However, the audit disclosed that only 3 of the 37 newly built centers had been used since being constructed, which raised questions about their sustained use. The partner gave several reasons for the centers being inactive, including a shortage of qualified instructors in the area and the interference of local politics.

  As for refurbished centers, the audit found that only 37 percent of the reported total of 235 had hosted recurring alternative learning and workforce development activities. The others had not held any alternative learning activities in over a year, though some sporadically hosted 1- or 2-day courses for parent-teacher associations or teacher-mentoring courses (36 percent), or had not hosted any program activities at all (27 percent).

- One program partner was behind on implementing activities for out-of-school children and youth, and was not apt to complete the activities by the end of the program. Specifically, as of September 30, 2009, one program partner's workforce development interventions had achieved only 15 percent of the target for *number of participants in workforce development programs*, compared with an average of 39 percent achieved by the other program partners. However, the program partner was operating in the poorest and most volatile area of the Mindanao region, where security issues continue to be a major concern.

- One program partner did not fully embrace the core training program concept for teacher-mentors. Instead of training only teachers identified as mentors, the partner trained all teachers in the targeted schools. As of September 30, 2009, the partner reported having trained 4,075 teachers. According to the program partner, this training approach was acceptable because the implementing partner's policy stated that as long as they stayed within budget, program partners could train as many teachers as they wanted. Other reasons given as to why the program partner chose this training methodology were that many teachers in the program partner's implementation area failed the pretest, good teachers did not participate in training, and local government officials who were not happy with the original selection of mentors insisted that other teachers attend the training. According to the implementing partner, the program partner was responsible for training 339 teachers to become mentors. Instead, the program partner provided training in the three subjects to all teachers. Because of the approach chosen, no teachers in the program partner's geographic area were fully trained to become mentors.

Coordination and oversight were inadequate to ensure adequate implementation of the program activities by the program partners. The implementing partner needs to provide sufficient management and adequately monitor the performance of its three program partners and to promptly take corrective actions as needed. Therefore, we make the following recommendation.

> ***Recommendation 9.*** *We recommend that USAID/Philippines require its implementing partner to establish written procedures for providing adequate oversight of program partners' activities.*

Potential Corruption Went Unreported

USAID's Handbook on Fighting Corruption states that improving accountability entails efforts to improve the detection of corrupt acts and strengthen sanctions. The audit disclosed several instances of potential program corruption that were not reported to the mission or to the implementing partner. Specifically, according to the program partner responsible for constructing and repairing classrooms, its subpartner was subjected to illegal checkpoints, theft, and extortion of construction materials. Neither the program partner nor its subpartner maintained adequate documentation of these incidents; therefore, it is unclear how much was incurred in losses and whether those losses were charged to or reimbursed with program funds.

Reported examples included the following:

- Workers removed from the worksite, and claimed as their own, tools and other materials provided during construction.

- Armed individuals set up barriers along various points in the roads and forced passersby to pay a fee. The subpartner usually paid this fee by providing materials such as a bucket of paint, a bag of cement, or cash.

- Local government officials felt they were entitled to materials brought into their communities, and such materials often disappeared from worksites. For example, a missing generator used to supply electricity to the worksite was found at a local government official's residence.

The program partner gave the auditors one incident report, dated December 23, 2009, that showed six separate occurrences of loss, theft, or extortion of materials in 9 days. Even though the total monetary amount of these incidents was marginal, the report highlights the fact that these incidents were occurring regularly. Furthermore, the implementing partner and the mission were unaware of these incidents.

According to the program partner, it had an understanding with the subpartner that the subpartner would absorb any costs incurred through loss, theft, or extortion. Specifically, the subpartner would not pass on those costs for reimbursement from the program's funds. Although the subpartner claimed to absorb the costs resulting from such theft and loss, the subpartner did not document the frequency or materiality of the occurrences to ensure they were not being passed on to the program.

Further, the audit reviewed 21 classroom repair activities and found that only 7 had documented cost estimates of the work to be performed. Eleven activities had no cost estimate documentation, and the remaining three had no documentation at all. Furthermore, of the seven activities that had obtained cost estimates, four had incurred cost escalation of as much as 237 percent with no justification or explanation.

Additionally, the auditors discovered that the average actual cost of a classroom repair with no cost estimate documentation was approximately 20 percent higher than that of a repair with a documented estimate. This discovery leaves little confidence that fraudulent losses were not being passed on to the program.

We referred these incidents to our investigators. Nevertheless, we noted that the mission does not have a policy on addressing and reporting potential corruption and fraud that partners encounter during program implementation. Without a policy to document, report, and address potential corruption and fraud arising in the field, the mission cannot know how material losses are, how often fraud occurs, or how prevalent fraud is throughout the regions targeted by the program or the country as a whole. Therefore, we make the following recommendation.

> ***Recommendation 10.*** *We recommend that USAID/Philippines mandate that all agreements and contracts have a clause requiring partners and subpartners to report all suspicion or allegation of waste, fraud, abuse, or corruption through appropriate channels including USAID's Office of Inspector General.*

EVALUATION OF MANAGEMENT COMMENTS

The Office of Inspector General has reviewed the mission's response to the draft report and determined that final actions have been taken on two recommendations, and management decisions have been reached on eight recommendations. The status of each of the ten recommendations is shown below.

Final action – Recommendations 6 and 10.

Final actions have been granted on the two recommendations noted above. However, for Recommendation 10, although there is no current requirement for grantees, the federal Procurement Fraud Task Force is preparing a regulation that would parallel the existing requirement for contractors to report fraud.

Management decision – Recommendations 1, 2, 3, 4, 5, 7, 8, and 9.

For those recommendations without final action, the mission intends to perform the following actions:

For Recommendation 1, the mission is currently developing a mission order outlining the policies and procedures regarding reporting on site visits. Action is expected to be completed by February 28, 2011.

For Recommendation 2, the mission will require its implementing partner to submit documentation on the data validation steps it performs during its monitoring visits, and the results of such visits. Action is expected to be completed by March 31, 2011.

For Recommendation 3, the mission will require the implementing partner to validate the FY 2009 performance data and certify to the accuracy of the management information system data. Action is expected to be completed by December 15, 2010.

For Recommendation 4, the mission has provided clear guidelines and definitions on how to account for participant training to the implementing partner. Furthermore, the mission will request the implementing partner to submit an accomplishment report on this training component that meets both indicator definitions. Action is expected to be completed by October 29, 2010.

For Recommendation 5, the mission will require its implementing partner to incorporate the revised and synchronized targets as detailed in Modification 16 of the Cooperative Agreement in the revised monitoring and evaluation plan, which the mission expects to be completed by November 15, 2010. In addition, a revised performance management plan will be completed by January 31, 2011.

For Recommendation 7, the mission will require its implementing partner to submit a revised monitoring and evaluation plan to reflect the changes in the targets and new program framework consistent with Modification 16 of the Cooperative Agreement. Action is expected to be completed by November 15, 2010.

For Recommendation 8, a manual was developed to guide the implementers in implementing and monitoring the mentoring program, which will be institutionalized in the schools. In addition, the implementing partner has scheduled catch-up training activities for the next 3 months. Action is expected to be completed by March 31, 2011, for both activities.

For Recommendation 9, the mission will request the implementing partner to submit written procedures that consolidate the different oversight and process documents, including procedures for tracking compliance of partners. Action is expected to be completed by March 31, 2011.

We determined that management decisions have been reached on Recommendations 1, 2, 3, 4, 5, 7, 8, and 9, and determinations of final action will be made by the Audit Performance and Compliance Division on completion of the planned corrective actions.

SCOPE AND METHODOLOGY

Scope

We 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 the Education Quality and Access for Learning and Livelihood Skills (EQuALLS2) program was achieving its main goals in increasing access to quality education and improving the livelihood skills of out-of-school children and youth.

To implement the program, USAID/Philippines signed a 5-year, $59.3 million cooperative agreement with the Education Development Center, Inc. (EDC) on July 28, 2006, which was subsequently modified to increase the authorized funding level to $60 million. As of September 30, 2009, obligations and expenditures under the program totaled approximately $35.6 million and $26.7 million, respectively.

Audit fieldwork was performed from February 8 to May 12, 2010, in Manila, Philippines, as well as in multiple locations in Mindanao in coordination with EDC and its three program partner institutions: Synergeia Foundation; Save the Children Federation, Inc.; and the Education and Livelihood Skills Alliance.[3] The audit covered activities from the inception of the program on July 28, 2006, until September 30, 2009.

In planning and performing the audit, the audit team assessed relevant controls used by the mission to manage the program and ensure that its implementing partner was providing adequate oversight of program activities. These controls included maintaining regular contact with the implementing partner and obtaining and reviewing quarterly progress reports on the status of activities in each of the regions covered under the program, including any significant issues or new developments. The team also performed the same control review regarding the relationship between the implementing partner and its three program partner institutions. Additionally, the auditors examined the mission's FY 2009 annual self-assessment of management controls (which the mission must perform to comply with the Federal Managers' Financial Integrity Act of 1982, Public Law 97-255, as codified in 31 U.S.C. 1105, 1113, 3512) to check whether the assessment cited any relevant weaknesses.

[3] The Education and Livelihood Skills Alliance (ELSA) is composed of five international and Philippine nongovernmental organizations led by the International Youth Foundation in partnership with the Ayala Foundation, the Consuelo Foundation, Philippine Business for Social Progress, and the Petron Foundation. ELSA was established in 2004 to create and expand opportunities for at-risk youth in Mindanao.

Methodology

To determine whether the EQuALLS2 program was achieving its main goals, the audit team interviewed staff at the offices of USAID/Philippines, the implementing partner, and the three program partner institutions. The audit team also held discussions with officials from subpartner organizations. Through these interviews, we gained an understanding of the program, identified the key players and their roles and responsibilities, and learned about the reporting procedures and controls in place for monitoring the program. Further work to answer the audit objective was divided into three parts in keeping with the program's three components: (1) increasing access to education; (2) increasing the quality of education provided; and (3) improving the livelihood skills of out-of-school children and youth.

The audit included the validation of key reported results of the program's activities, including classroom construction and repairs, community learning center refurbishments, teacher training, and enrollment of out-of-school youth into alternative learning services. The audit also included various analytical procedures designed to detect anomalies, inconsistencies, or other problems in the reported data.

In validating the program's reported results, the auditors checked supporting information contained in a database maintained by the implementing partner against documents maintained by the three partner institutions in the field. Auditors made site visits to 25 elementary schools and 12 community learning centers to verify work performed under the program as well as to interview teachers, administrators, and students. During these site visits, audit staff also met with parent-teacher associations, officials from the Autonomous Region of Muslim Mindanao Department of Education, the Technical Education and Skills Development Authority, the Notre Dame of Marbel University, and local government officials to gain a better understanding of the program.

The audit also included a review of applicable procedural guidance, including detailed flowcharts, relating to the management of specific program components. The samples chosen for review cannot be projected to the populations they were drawn from, but in combination with other audit procedures performed, such as discussions with partner officials and the review of relevant documentation, they give us a reasonable basis for our audit conclusions.

MANAGEMENT COMMENTS

USAID | PHILIPPINES
FROM THE AMERICAN PEOPLE

August 31, 2010

MEMORANDUM

TO : William S. Murphy, Acting Regional Inspector General

FROM : Gloria D. Steele, Mission Director /s/

SUBJECT : Audit of USAID/Philippines' Education Quality and Access for Learning and Livelihood Skills Phase 2 (EQuALLS2) Project

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USAID/Philippines wishes to thank the Regional Inspector General for the professional and constructive manner in which this audit was performed. The Mission agrees that the implementation of the audit recommendations will help in improving the efficiency and effectiveness of the Mission's education activities, as well as the Mission's operations.

The actions taken and further actions planned by the Mission to address the audit recommendations are as follows:

Recommendation #1: We recommend that USAID/Philippines develop and implement procedures that include data validation steps in site visits and document the results.

Mission Response: Agreed. The USAID mission is currently developing a Mission Order outlining the policies and procedures regarding reporting on site visits.

Based on the action identified above, the Mission requests RIG/Manila concurrence that a management decision has been reached.

Recommendation #2: We recommend that USAID/Philippines require its implementing partner to develop and implement data validation steps in its monitoring visits and document the results.

Mission Response: Agreed. At the request of USAID, the implementing partner has reviewed, strengthened and is implementing a data validation system, done primarily through its management information system staff, regional project officers, and monitoring and evaluation officer, and counter-checked during field financial monitoring visits by its grant compliance officers.

USAID will require its implementing partner to submit documentation on the data validation steps it performs during its monitoring visits, and the results of such visits.

Based on the action identified above, the Mission requests RIG/Manila concurrence that a management decision has been reached.

Recommendation #3: We recommend that USAID/Philippines require the implementing partner to validate the performance data reported in fiscal year 2009 and certify the accuracy of the data in its management information system.

Mission Response: Agreed. USAID/Philippines will require the implementing partner to validate the FY2009 performance data and certify to the accuracy of the management information system data.

Based on the action identified above, the Mission requests RIG/Manila concurrence that a management decision has been reached.

Recommendation #4: We recommend that USAID/Philippines clarify the indicator definition with the implementing partner, in writing, and require the implementing partner to verify and report the accomplishments that meet the indicator definition.

Mission Response: Agreed. USAID/Philippines has provided clear guidelines and definitions on how to account for participant training to the implementing partner, and will continue to do so (attached are the ADS 253.1 guidelines, FACTS definition, Mission Order 253, and emails providing guidance to the implementing partner on participant/teacher training, as Exhibit No. 1).

Written technical guidelines on the manner and method of counting participant training have been provided to the implementing partner. However there are two definitions for participant training: one from the Foreign Assistance Coordination and Tracking System (FACTS), which the audit utilized. The other definition is from ADS 253.1, which does not indicate a minimum number of hours for participant training to be counted. Mission Order 253 issued on May 18, 2009 follows this definition.

The FACTS definition states that *"training should be at least three working days (24 hours) in duration (based on the ADS standard for in-country training)"*. The FACTS definition should follow, therefore, any change to the ADS standard for in-country training. However, the FACTS definition has not been updated to reflect the ADS standard.

The mission has sought clarification with EGAT/ED on this (see email marked as Exhibit No. 2), but there has been no clear resolution. In order to account for the diverging definitions, the mission has asked the implementing partner to account for both service and training counts. Thus, there are two figures: training counts which refer to the total number of trainings an individual teacher receives regardless of duration (as per ADS guidelines), while service counts refer to the number of individual teachers trained that meet the training definition within a fiscal year (as per FACTS definition). The figure of

37,546 refers to teacher training counts while 19,143 refers to service counts. The mission will request the implementing partner to submit an accomplishment report on this component that meets both indicator definitions.

Based on the actions identified above, the mission requests RIG/Manila concurrence that a management decision has been reached.

Recommendation #5: We recommend that USAID/Philippines take immediate action to clarify the project targets that the implementing partner is responsible for achieving by the end of the program. Those targets should be clearly communicated and agreed to by the implementing partner and incorporated in key performance management documents.

Mission Response: Agreed. USAID/Philippines has worked consistently with the implementing partner in developing program targets and monitoring the progression of meeting program targets in a timely manner. Approved project targets have been present from the start and throughout the duration of the project, although there was some inconsistency among documents.

The audit mentions that it was only in February of 2010 that EDC requested formally to clarify the targets. However, negotiations for clarifying the targets began as early as November of 2008 (please see attached emails marked as Exhibit No. 3). The negotiations culminated in the issuance of Modification No. 16 to the Cooperative Agreement, dated July 9, 2010 (please see attached excerpts from the Cooperative Agreement, pp. 13 and 19, marked as Exhibit No. 4) which addresses the inconsistencies in the documentation for the targets.

The revised and synchronized targets as detailed in Modification 16 to the Cooperative Agreement will be incorporated by the implementing partner in the revised Monitoring and Evaluation Plan. A revised Performance Management Plan will be prepared by USAID. These are the key performance management documents.

Based on the actions identified above, the Mission requests RIG/Manila concurrence that a management decision has been reached.

Recommendation #6: ***We recommend that USAID/Philippines require the implementing partner to include a budget in the remaining annual work plans and submit them for approval before implementation of activities.***

Mission Response: Agreed. The Cooperative Agreement between USAID and EDC states that budgets are required under section A.10.1 (attached as Exhibit No. 5). The approval of the annual work plans and the incremental funding of the implementing partner were withheld pending the submission of budgets (please see attached emails detailing USAID requests for summary budgets as preconditions for approval of annual work plans, marked as Exhibit No. 6).

The Mission will continue to require Mission-approved work plans and budgets as pre-requisites to obligation of funds to the cooperative agreement.

Based on the actions taken, the Mission requests RIG/Manila's concurrence that management has previously addressed this recommendation, and that this audit recommendation be considered closed.

Recommendation #7: We recommend that USAID/Philippines require the implementing partner to update the monitoring and evaluation plan to reflect the approved targets and new program framework.

Mission Response: Agreed. As stated in the Mission's response to Recommendation #5, the implementing partner will submit a revised Monitoring and Evaluation plan to reflect the changes in targets and a new program framework consistent with Modification 16 of the Cooperative Agreement.

Based on the above, the Mission requests RIG/Manila concurrence that a management decision has been reached.

Recommendation #8: We recommend that USAID/Philippines require its implementing partner to develop and implement a plan to (1) identify how the mentoring program will be implemented and monitored at the school level and (2) complete the core training courses for all mentors in the identified subject areas and document each mentor's completion of the courses.

Mission Response: Agreed. For Recommendation 8(1), USAID, the implementing partner, and the Department of Education, initiated the Learning Partnership Program in the first quarter of FY2010 as originally planned. The Learning Partnership Program was created to address mentoring needs and to strengthen the education and training component of the project.

After an assessment of needs, the LPP Manual was developed jointly with DepED and finalized by the second quarter of FY10 to guide implementers (attached as Exhibit No. 7). FY10 also includes regional workshops with local administrators to discuss the specific and concrete steps in the establishment of the LPP in the schools. The third phase for the LPP is the institutionalization of the mentoring program in the schools, targeted for the last two quarters of FY2010.

The Department of Education (DepED) Region XII office has already issued Region Memorandum No. 86 S. 2010 (attached as Exhibit No. 8) that guides the implementation of the LPP in their areas. Discussions are on-going with DepED-ARMM and Region IX for the issuance of their respective guidelines, similar to the Region XII issuance on institutionalizing the LPP in their areas.

For Recommendation 8(2), the implementing partner has already identified mentors that have not completed the full suite of training, and have scheduled catch-up training activities for the next three months.

Based on the action taken for Recommendation 8(1), the Mission requests RIG/Manila's concurrence that action has been taken and requests that Recommendation 8(1) be closed. For Recommendation 8(2), the Mission requests RIG/Manila's concurrence that a management decision has been reached.

Recommendation #9: We recommend that USAID/Philippines require its implementing partner to develop and implement a plan that requires equitable geographic distribution of fully trained mentors in each of the core subjects in the targeted municipalities.

Mission Response: We agree that the mentoring program and the geographic distribution of mentors is a challenge. USAID can work with DepED to encourage an equitable distribution of mentors, but it is beyond the manageable interest of USAID to direct or control the deployment of teachers, or to effect changes in the geographic distribution of teachers.

Equitable distribution of mentors is an important part of the teacher mentoring strategy. However, the selection of mentors done in 2008 was merit-based, in that only those who passed the qualifying examinations administered for mentor identification are trained as such.

There are some schools where no mentors have qualified due to poor teacher capacity, and this need cannot be met by mentors from other schools. In these cases, the implementing partner has deviated from the mentoring strategy by adopting direct teacher training as an alternative to accomplish the project objective of improving instruction quality (Intermediate Result No. 2).

Based on the comments above, the Mission requests RIG/Manila concurrence that this recommendation be considered closed.

Recommendation #10: We recommend that USAID/Philippines require its implementing partner to establish written procedures for providing adequate oversight of program partners' activities.

Mission Response: Agreed. USAID will request the implementing partner to submit written procedures that consolidate the different oversight and process documents, including procedures for tracking compliance of partners.

Currently, the implementing partner has in place the following procedures for providing written oversight guidelines to partner activities. These include:

- Conduct of workshops, and issuance and discussion of annual planning guidelines, and providing written feedback leading to finalization and approval of partner annual work plans;
- Conduct of regular technical working group (TWG) meetings in all program components, and issuance of regular supplemental guidelines and agreements to partners based on these TWG meetings;
- Quarterly review and provision of written feedback on quarterly reports submitted

- Monthly partner update and feedback meetings, with written summaries to partners of agreements and further guidance; and
- Sharing written oversight feedback with partners as a result of EDC or USAID observations during field validation visits of partner activities/programs; and
- Regular email feedback based on emerging concerns

Based on the above, the Mission requests RIG/Manila concurrence that a management decision has been reached.

Recommendation #11: Require that all agreements and contracts require partners and sub-partners to report all suspicion or allegation of waste, fraud, abuse, or corruption through appropriate channels including USAID's Office of Inspector General.

Mission Response: FAR 52.203-13, Contractor Code of Business Ethics and Conduct (June 2007), requiring Contractor disclosure of violations of law and false claims, to the Office of Inspector General (IG) is included in every Mission contract exceeding $5 million and with a performance period exceeding 120 days.

Requiring recipients of grant funding to contact the IG is not a requirement of Part 226 – Administration of Assistance Awards to U.S. Non-Governmental Organizations – and imposing such a disclosure requirement would exceed the authority of the Mission Agreement Officer. Modification of Part 226 to require disclosure of wrong doing should be addressed by RIG to the USAID Procurement Executive for discussion.

As regards compliance, USAID/Philippines relies on the Part 226 requirement of grantees, including the implementing partner, to have "effective control over and accountability for all funds" and "to maintain written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and terms and conditions of the award," in addition to annual audit under the "Single Audit Act Amendments of 1996" and revised OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

Based on these actions, the Mission requests RIG/Manila concurrence that a management decision has been reached and that this audit recommendation be considered closed.

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